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THE REPUBLIC OF SLOVENIA

U.S.$2,250,000,000
5.500 per cent. Notes Due 2022

The issue price of the U.S.$2,250,000,000 5.500 per cent. Notes due 2022 (the "**Notes**") of the Republic of Slovenia ("**Slovenia**", the "**Republic**" or the "**Issuer**") is 98.491 per cent. of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 26 October 2022. See "*Terms and Conditions of the Notes – Redemption and Purchase*".

The Notes will bear interest from and including 26 October 2012 (the "**Issue Date**") at the rate of 5.500 per cent. per annum payable semi-annually in arrear on 26 April and 26 October in each year, commencing on 26 April 2013. Payments on the Notes will be made in U.S. dollars without deduction for or on account of any Slovenian taxes and the Republic will pay additional amounts if any such taxes are imposed, subject to certain exceptions as described under "*Terms and Conditions of the Notes–Taxation*".

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to admit the Notes to trading on the Luxembourg Stock Exchange's regulated market pursuant to the rules and regulations of the Luxembourg Stock Exchange.

This Offering Circular neither constitutes a prospectus pursuant to Part II of the Luxembourg law on prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) dated 10 July 2005 (the "**Luxembourg Prospectus Law**") which implements Directive 2003/71/EC, as amended (the "**Prospectus Directive**") nor a simplified prospectus pursuant to Part III of the Luxembourg Prospectus Law. 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 implementing the Prospectus Directive, as amended, 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 Supervisory Commission of the Financial Sector (*Commission de Surveillance du Secteur Financier*), in its capacity as competent authority under the Luxembourg Prospectus Law. 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.

The Notes are expected to be rated "A-" by Fitch Ratings Limited ("**Fitch**"), "Baa2" by Moody's Investors Service, Inc. ("**Moody's**") and "A" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**S&P**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As at the date of this Offering Circular, each of Fitch, Moody's and S&P is established in the European Union and is registered under Regulation (EU) No. 1060/2009 on credit rating agencies (the "**CRA Regulations**").

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Notes are being offered, sold or delivered: (a) in the United States only to qualified institutional buyers ("QIBs") (as defined in Rule 144A ("Rule 144A") under the Securities Act) in reliance on, and in compliance with, Rule 144A; and (b) outside the United States in reliance on Regulation S ("Regulation S") under the Securities Act. Each purchaser and prospective purchasers of the Notes will be deemed to have made the representations described in "Subscription and Sale" and is hereby notified that the offer and sale of Notes to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A. In addition, until 40 days after the commencement of the offering, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A. For a description of this and certain further restrictions on offers, sales and transfers of the Notes and distribution of this Offering Memorandum; see "*Subscription and Sale*" and "*Transfer Restrictions*".

The Notes will initially be represented by two or more global certificates in registered form (the "**Global Certificates**"), one or more of which will be issued in respect of the Notes offered and sold in reliance on Rule 144A (the "**Restricted Global Certificate**") and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("**DTC**"), and one of which will be issued in respect of the Notes offered and sold in reliance on Regulation S (the "**Unrestricted Global Certificate**") and will be registered in the name of a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") and/or any other relevant clearing system. It is expected that delivery of the Global Certificates will be made on 26 October 2012 or such later date as may be agreed (the "**Closing Date**") by the Republic and the Joint Lead Managers (as defined under "*Subscription and Sale*").

JOINT LEAD MANAGERS

BNP PARIBAS | **DEUTSCHE BANK** | **J.P. MORGAN**

22 October 2012

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To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), this Offering Circular contains all information with respect to the Issuer and the Notes which is material in the context of the issue and offering of the Notes, the information contained in this Offering Circular is true and accurate in every material respect and is not misleading, the opinions and intentions expressed in this Offering Circular are honestly held and there are no other facts the omission of which makes misleading any statement herein, whether of fact or opinion. The Issuer accepts responsibility for the information contained in this Offering Circular accordingly.

This Offering Circular neither constitutes a prospectus pursuant to Part II of the Luxembourg law on prospectuses for securities (*loi relative aux prospectus pour valeurs mobiliéres*) dated 10 July 2005 (the "**Luxembourg Prospectus Law**") which implements Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (the "**Prospectus Directive**") nor a simplified prospectus pursuant to Chapter 2 of Part III of the Luxembourg Prospectus Law. 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 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 Supervisory Commission of the Financial Sector (*Commission de Surveillance du Secteur Financier*), in its capacity as competent authority under the Luxembourg Prospectus Law.

No person has been authorised in connection with the offering of the Notes to give any information or make any representation regarding the Issuer or the Notes other than as contained in this Offering Circular. Any such representation or information should not be relied upon as having been authorised by the Issuer or any agency thereof or the Joint Lead Managers (as defined in "*Subscription and Sale*"). Effective from the date of commencement of discussions concerning the Issuer or the sale of Notes, prospective purchasers of Notes and each of their employees, representatives or other agents may disclose to any and all persons, without limitation of any kind, the U.S. federal income tax treatment and tax structure of the offering and all materials of any kind, including opinions or other tax analyses that the Issuer has provided to such prospective purchasers relating to such U.S. federal income tax treatment and tax structure. Neither the delivery of this Offering Circular nor any sales made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change in the affairs of the Issuer since the date hereof.

To the fullest extent permitted by law, the Joint Lead Managers do not accept any responsibility for the contents of this Offering Circular or for any other statement made or purported to be made by the Joint Lead Managers in connection with the Issuer or the issue and offering of the Notes. The Joint Lead Managers accordingly disclaim all and any liability whether arising in tort or contract or otherwise which any of them might otherwise have in respect of this Offering Circular or any such statement. Each person receiving this Offering Circular acknowledges that such person has not relied on any Joint Lead Manager or any person affiliated with any Joint Lead Manager in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment.

The Notes have not 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 the 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 has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States, the resale of the Notes in the United States in reliance on Rule 144A and the admission of the Notes for listing on the Luxembourg Stock Exchange. The Issuer and the Joint Lead Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States other than any QIB to whom an offer has been made directly by one of the Joint Lead Managers or its U.S. broker-dealer affiliate. Distribution of this Offering Circular to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB with respect there to, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such person within the United States, other than any QIB and those persons, if any, retained to advise such QIB, is prohibited.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Issuer or any agency thereof or any Joint Lead Manager to subscribe or purchase any of the Notes. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Notes and distribution of this Offering Circular, see "*Subscription and Sale"* and "*Transfer Restrictions*".

In this Offering Circular, unless otherwise specified or unless the context otherwise requires, references to "EUR", "€" or "euro" are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community (as amended from time to time). On 1 January 2007, the euro became legal tender in Slovenia. It replaced the Slovenian tolar ("**SLT**") at the fixed exchange rate of €1 = 239.64. References to "billions" are to thousands of millions.

References to "*Uradni list RS*" are to the official gazette of the Republic of Slovenia.

Information contained herein that is identified as being derived from a publication of the Republic of Slovenia or one of its agencies or instrumentalities is included herein on the authority of such publication as an official public document of the Republic of Slovenia. All other information contained herein is included as an official public statement made on the authority of the Minister of Finance of the Republic of Slovenia.

Statistical data appearing in this Offering Circular has, unless otherwise stated, been obtained from the Statistical Office of the Republic of Slovenia (the "**SORS**") and the Bank of Slovenia. On the basis of these calculations, where appropriate, projections were made by the SORS, the Bank of Slovenia, and the Institute for Macroeconomic Analysis and Development (IMAD/UMAR). Budget data, including pension fund data, and data relating to indebtedness has been obtained from the Ministry of Finance of the Republic of Slovenia (the "**Ministry of Finance**"). The same databases are used for regular reporting. Similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Although every effort has been made to include in this Offering Circular the most reliable and the most consistently presented data, no assurance can be given that such data was compiled or prepared on a basis consistent with international standards and practices. However, as far as the Issuer is aware and is able to ascertain from the information published by these entities, the information has been accurately reproduced and no facts have been omitted which would render the reproduced information inaccurate or misleading in any material respect. In this Offering Circular, the data is presented as having been provided by the relevant responsible source. The relevant interim period in 2012 for which, and/or the relevant date in 2012 as at which, data is presented may differ depending on the most recent information available from the relevant responsible source.

Unless otherwise stated, all annual information, including budgetary information, is based on calendar years. Gross Domestic Product ("**GDP**") is a measure of the total value of final products and services produced in the country. Gross Value Added ("**GVA**") is a measure of the total value of products and services before taking account of taxes and subsidies. Unless otherwise stated, all references to "GDP" or "GVA" are to "real GDP" or "real GVA", which measures the total value in constant prices, thus allowing historical GDP comparisons that exclude the effect of inflation. For the purposes of this Offering Circular, real GDP figures are calculated by reference to previous year prices. Nominal GDP measures the total value in current prices.

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them. Certain statistical information relating to periods in 2012 should be treated as preliminary and any statistical information may be subject to future adjustment.

This Offering Circular is based upon statistics from 2007 to 2011 and certain statistical information for periods in 2012. Statistical information for interim periods shorter than one year may not be directly comparable to full-year data.

Certain revisions of historical data were undertaken by the SORS in 2011 in order to implement the Commission Regulation (EU) No. 715/2010 of 10 August 2010. The aim of these revisions was to bring the statistical methods applied within the Republic of Slovenia in line with the approach adopted throughout the rest of the European Union ("**EU**") in accordance with the applicable Eurostat rules. The Eurostat methodology includes more detailed subclassifications in the general government sector and introduces non-material changes in the classification of some source items, including, for example, certain labour market data.

STABILISATION

In connection with the issue of the Notes, Deutsche Bank AG, London Branch (the "Stabilising Manager") or any person acting on behalf of the Stabilising Manager may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. 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 be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation 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.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a foreign sovereign state outside the United States and the United Kingdom, and a substantial portion of the assets of the Issuer are located outside the United States and the United Kingdom. As a result, it may not be possible for investors to effect service of process within the United States or the United Kingdom upon the Issuer or to enforce against the Issuer in or through courts located in the United States or the United Kingdom judgments obtained in courts located in the United States or the United Kingdom, respectively, or elsewhere, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States.

The Republic of Slovenia reserves the right to plead sovereign immunity under the United States Foreign Sovereign Immunities Act of 1976 (the "**Immunities Act**") with respect to actions brought against it under United States federal securities laws or any state securities laws. In the absence of a waiver of immunity by the Republic of Slovenia with respect to these actions, it would not be possible to obtain a United States judgment in such an action against the Republic of Slovenia unless a court were to determine that the Republic of Slovenia is not entitled under the Immunities Act to sovereign immunity with respect to such action.

It may not be possible to enforce in the courts of the Republic of Slovenia certain foreign court judgments (including a judgment obtained from a United States court) against the Republic of Slovenia that is predicated upon the laws of a foreign jurisdiction in certain circumstances.

There is a risk that, notwithstanding the limited waiver of sovereign immunity by the Republic of Slovenia in connection with the Notes, a foreign court judgment would not be recognised in the Republic of Slovenia or enforced against certain assets of the Republic of Slovenia in certain jurisdictions, including the Republic of Slovenia (including the imposition of any arrest order or the attachment or seizure of such assets and their subsequent sale), without the Republic of Slovenia having specifically consented to such enforcement at the time when the enforcement is sought.

It should be noted that regardless of any waiver of immunity by the Republic of Slovenia, certain assets of the Republic of Slovenia may not be subject to execution under the provisions of Slovenian law, including, but not limited to, mineral and other natural resources; real property, installations, equipment and other property necessary for the performance of the functions of the Republic of Slovenia; real property and other movables designated for use for national defence purposes; real property, installations, equipment and other property necessary for the performance of public services; and receivables of the Republic of Slovenia in respect of taxes and other mandatory duties.

FORWARD-LOOKING STATEMENTS

This Offering Circular includes forward-looking statements. All statements other than statements of historical fact included in this Offering Circular regarding, among other things, Slovenia's economy, fiscal condition, politics, debt or prospects may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "project", "intend", "estimate", "anticipate", "believe", "continue", "could", "should", "would" or the like. Although the Issuer believes that expectations reflected in its forward-looking statements are reasonable as at the date of this Offering Circular, there can be no assurance that such expectations will prove to have been correct. The Issuer undertakes no obligation to update the forward-looking statements contained in this Offering Circular or any other forward-looking statement it may make.

For the Issuer, in addition to the factors described in this Offering Circular, including, but not limited to, those discussed under "Risk Factors", the following factors, among others, could cause future conditions to differ materially from those expressed in any forward-looking statements made herein:

External factors, such as:

- the impact of the international economic environment on the Slovenian economy, including liquidity in the international financial markets and volatility in international equity, debt and foreign exchange markets;
- interest rates in financial markets outside the Republic of Slovenia;
- the impact of any changes in the credit rating of the Republic of Slovenia;
- the impact of changes in the international prices of commodities; and
- economic conditions in the Republic of Slovenia's major export markets.

Internal factors, such as:

- general economic and business conditions in the Republic of Slovenia;
- the level of domestic debt;
- an ageing population and an expansive pension system;
- the level of foreign direct and portfolio investment; and
- the level of Slovenian domestic interest rates.

EXCHANGE RATES

The table below shows the high and low European Central Bank ("**ECB**") rates for the euro versus the U.S. dollar for each respective year and the rate at the end of the year. The average amounts set forth below under "*Average*" are calculated as the average of the ECB rates for the euro versus the U.S. dollar on the last business days of each month for each respective year.

	Low	*High*	*Average*	*End of Year*
		(U.S. dollars per euro)		
2007	1.2893	1.4874	1.3797	1.4721
2008	1.2460	1.5990	1.4726	1.3917
2009	1.2555	1.5120	1.3963	1.4406
2010	1.1959	1.4563	1.3257	1.3262
2011	1.2889	1.4882	1.4000	1.2939

The table below shows the high and low ECB rates for the euro versus the U.S. dollar for each month during the six full months prior to the date of this Offering Circular.

	Low	*High*
	(U.S. dollars per euro)	
April 2012	1.3024	1.3319
May 2012	1.2403	1.3132
June 2012	1.2322	1.2704
July 2012	1.2089	1.2593
August 2012	1.2245	1.2611
September 2012	1.2548	1.3095
October 2012 (through 19 October)	1.2877	1.3120

The euro versus the U.S. dollar ECB exchange rate on 19 October 2012 was U.S.$1.3035 per €1.00.

TABLE OF CONTENTS

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OVERVIEW

The following is an overview of certain information contained in this Offering Circular. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular. Prospective investors should also carefully consider the information set out in the section entitled "Risk Factors" in this Offering Circular prior to making an investment decision. Capitalised terms not otherwise defined in this overview have the same meaning as elsewhere in this Offering Circular. See "The Republic of Slovenia", "The Slovenian Economy", "Public Finance", "Public Debt", "Monetary and Financial System" and "Balance of Payments and Foreign Trade" for a more detailed description of the Issuer.

Overview of the Republic of Slovenia

General

Slovenia is a European country with a total land area of 20,256 square kilometres. It is bordered by the Republic of 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. Slovenia has a population of approximately 2.05 million and its capital, Ljubljana, has a population of approximately 280,600.

On 23 December 1991, Slovenia adopted a constitution (the "**Constitution**") that established it as a parliamentary republic with a National Assembly (*državni zbor*) and a National Council (*državni svet*), a Government (*vlada*) which holds executive power and is elected by the National Assembly, a President as head of state and an independent judicial system. A two-thirds vote of all members of the National Assembly is required to amend the constitution.

Slovenia became a member of the North Atlantic Treaty Organisation ("**NATO**") on 29 March 2004 and the EU on 1 May 2004. In 2005, Slovenia held the presidency of the Organization for Security and Co-operation in Europe. It adopted the euro as its official currency on 1 January 2007. It joined the Schengen Agreement (providing for the removal of systematic border controls between the participating countries) on 21 December 2007 and became a member of the Organisation for Economic Co-operation and Development (the "**OECD**") on 21 July 2010.

Economy

Prior to its independence in June 1991, Slovenia benefited from the high tariffs of the SFRY and a protected internal market within the SFRY. However, the gradual stagnation of the SFRY economy during the 1980s and the subsequent break-up of the SFRY had a marked impact on Slovenian trade with the other republics of the SFRY.

Following independence, Slovenia began a transformation into a modern market economy. After the first two years of coping with a recession resulting from its transition into a market economy and establishing its own sovereignty, the economy experienced positive growth from 1993 until 2008. The main driver of growth in this period was exports, whose share of GDP increased from approximately 50 per cent. in 1993 to almost 70 per cent. in 2008, while investment also recorded notable growth. As measured by "value added" to the Slovenian economy, the main contributor to growth was manufacturing, while market services, such as retail trade, also contributed significantly to growth.

The Slovenian economy is highly export-oriented and has been significantly affected by the global financial crisis. With the sharp fall of the global economy, exports and investment initially decreased substantially, falling 16.7 per cent. and 23.2 per cent., respectively in 2009 GDP fell 7.8 per cent. The decrease in investment was mainly a consequence of falling construction investment, which had recorded substantial growth in the pre-crisis years. Following the sharp decline in 2009, economic activity recovered in 2010 and 2011, although the recovery was slow. The rebound in 2010 was primarily due to a somewhat more favourable international economic environment, with exports increasing 10.1 and 7.0 per cent. year-on-year in 2010 and 2011 respectively, although domestic demand remained weak, largely as a result of reduced activity in the construction sector and related activities. The real economy has declined year-on-year over the first half of 2012, with GDP falling 1.6 per cent., mainly as a result of a continued decrease in investment activity, while government and private consumption also fell due to continued labour market tensions and implementing the first stages of the government's fiscal consolidation plan. Over the past year, Slovenian enterprises have been deleveraging and unemployment levels have been increasing. In addition, risks of recession continue to stem from Slovenia's trade links to the Eurozone, its GDP growth determinants and its integration into global financial markets.

Statistical Data

The following selected economic information is qualified in its entirety by, and should be read in conjunction with, the detailed information appearing elsewhere in this Offering Circular:

	Year ended 31 December				*Six months ended 30 June*
	2008	*2009*	*2010*	*2011*	*2012*(1)
	(€ millions, except for percentages)				
Nominal GDP	37,244	35,556	35,607	36,172	17.701
Real GDP growth (%)	3.4	(7.8)	1.2	0.6	(1.6)
Real exports growth (%)	4.0	(16.7)	10.1	7.0	0.7
Real imports growth (%)	3.7	(19.5)	7.9	5.2	(3.3)
Unemployment (ILO methodology) (%)	4.4	5.9	7.3	8.2	8.4
Consumer prices growth (%)	2.1	1.8	1.9	2.0	2.3
General government balance	(694.8)	(2,145.6)	(2,127.1)	(2,289.1)	N/A(1)
as a % of GDP	(1.9)	(6.0)	(6.0)	(6.3)	N/A(1)
Total revenues	15,796.8	15,257.5	15,670.2	15,859.5	N/A(1)
as a % of GDP	42.4	42.9	44.0	43.8	N/A(1)
Total expenditures	16,491.6	17,403.1	17,797.2	18,148.6	N/A(1)
as a % of GDP	44.3	48.9	50.0	50.2	N/A(1)
General government debt	8,181.1	12,449.5	13,736.7	16,954.4	N/A(1)
as a % of nominal GDP	22.0	35.0	38.6	46.9	N/A(1)

Source: SORS; Ministry of Finance, the Excessive Deficit Procedure, April 2012, First Notification; calculations by the Institute for Macroeconomic Analysis and Development.

Note:

(1) Due to internal accounting procedures, semi-annual comparisons are not possible with regard to budget revenue and expenditure.

Overview of Risk Factors relating to the Issuer and the Notes

Risk Factors Relating to the Republic of Slovenia

- The Republic of Slovenia's economy remains vulnerable to external shocks, including the recent global economic crisis and those that may be caused by future significant economic difficulties of its major regional trading partners or by more general "contagion" effects, which could have a materially negative effect on the Republic of Slovenia's economic growth.
- The Republic of Slovenia's credit rating was recently downgraded and could be downgraded in the future.
- The Slovenian banking system requires further recapitalisation, which may require the government to take on further debt to finance any such recapitalisation.
- The Republic of Slovenia may not succeed in implementing proposed or future fiscal, political and other reforms, which may adversely affect its economy.
- The Republic of Slovenia is a member of the European Monetary Union and, therefore, has limited ability to set monetary policy.
- Official economic data may not be directly comparable with data produced by other sources.

Risk Factors Related to an Investment in the Notes

- The Notes may not be a suitable investment for all investors.
- The conditions of the Notes contain a collective action clause and may be modified, waived or amended without the consent of the Noteholders.
- The conditions of the Notes restrict the ability of an individual holder to declare a default and permit a majority of holders to rescind a declaration of default.
- The EU Savings Directive may result in certain holders not receiving the full amount of interest.
- The law governing the conditions of the Notes may change.
- There may be no active trading market for the Notes.
- A claimant may not be able to enforce a court judgment against certain assets of the Republic in certain jurisdictions.
- Fluctuations in exchange rates and interest rates may adversely affect the value of the Notes.
- Legal investment considerations may restrict certain investments.
- Credit ratings may not reflect all risks.

Overview of the Terms of the Offering

Words and expressions defined in "Terms and Conditions of the Notes" shall have the same meanings in this Overview.

Issuer:	The Republic of Slovenia.
Risk Factors:	There are certain factors that may affect the issuer's ability to fulfil its obligations under the Notes. These are set out under "Risk Factors" below and include, among other risks, certain potential factors which could adversely affect Slovenia's economy and banking sector in the future. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes. These are set out under "Risk Factors" and include the fact that the Notes may not be a suitable investment for all investors.
Description of Notes:	U.S.$2,250,000,000 5.500 per cent. Notes due 2022, to be issued by the Republic on the Issue Date.
Issue Date:	26 October 2012.
Maturity Date:	26 October 2022.
Joint Lead Managers:	BNP Paribas, Deutsche Bank AG, London Branch and J.P. Morgan Securities plc.
Interest:	5.500 per cent. per annum payable semi-annually in arrear on 26 April and 26 October in each year.
Redemption:	The Issuer will redeem the Notes at their respective principal amounts on the Maturity Date.
Events of Default:	Events of default under the Notes are the non-payment of any principal or interest due in respect of the Notes or any of them for a period of 30 days from the due date for payment thereof, or the Republic's breach of other obligations under the Notes (which breach is not remedied within 45 days). Notes may only be declared due and payable, upon an Event of Default, if holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes give notice in writing to the Republic. Furthermore, if the Republic receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the event of default giving rise to a declaration of acceleration is cured and that such holders wish the relevant declaration to be withdrawn, the relevant declaration shall be withdrawn and shall have no further effect.
Negative Pledge:	So long as any of the Notes remains outstanding, the Republic has undertaken that it will not secure any of its present or future Relevant External Indebtedness (as defined in Condition 4) without, at the same time or prior thereto, securing the Notes equally and rateably therewith, except in certain limited circumstances as set out in Condition 4. Prospective Noteholders should, in particular, be aware that the majority of the Republic of Slovenia's outstanding international bond issues are governed by Slovenian law, and would therefore not constitute Relevant External Indebtness for the purposes of Condition 4.

Status of the Notes:	The Notes will constitute direct unconditional, unsecured and unsubordinated obligations of the Republic and will rank *pari passu* and without any preference among themselves and at least equally with all other present and future unsecured and unsubordinated indebtedness of the Republic.
Collective Action:	The Conditions of the Notes contain collective action provisions for agreeing amendments, modifications or waivers in respect of the Notes. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting or Noteholders who voted in a manner contrary to the majority. The Conditions also contain cross series modification provisions.
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.
Taxation:	All payments in respect of the Notes by or on behalf of the Republic shall be made without withholding or deduction for or on account of any Slovenian taxes, subject to certain limited exceptions as provided in Condition 7 (*Taxation*).
Listing and admission to trading:	Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to admit the Notes to trading on the Luxembourg Stock Exchange's regulated market.
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by and shall be construed in accordance with English law; provided, however, that the due authorisation and execution of the Notes by and on behalf of the Republic shall be governed by the laws of the Republic.
Form and Denomination:	The Notes will be issued in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Credit Ratings:	The Notes are expected to be assigned on issue a rating of "A-" by Fitch Ratings Limited, "Baa2" by Moody's Investors Service, Inc. and "A" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Selling Restrictions:	The Notes have not been, and will not be, registered under the Securities Act and are subject to certain restrictions on transfer. See "*Subscription and Sale*" below.
Transfer Restrictions:	The Notes have not been and will not be registered under the Securities Act or any U.S. state securities laws. Consequently, the Notes may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. See "*The Global Certificates*" and "*Transfer Restrictions*".

Use of Proceeds:	The net proceeds of the issue of the Notes will be used for the general budgetary purposes of the Republic.
ISINs:	XS0847086237 and US831594AB23 for the Unrestricted Global Note and Restricted Global Note, respectively.
Common Codes:	084708623 and 084756130 for the Unrestricted Global Note and Restricted Global Note, respectively.
CUSIP Number:	831594AB2 for the Restricted Global Note.

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 of Slovenia'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 of Slovenia's economy and its ability to fulfil its obligations under the Notes. In any such case, investors may lose all or part of their investment in the Notes. Words and expressions defined in "Terms and Conditions of the Notes" or elsewhere in this Offering Circular have the same meanings in this section.

Risk Factors Relating to the Republic of Slovenia

The Republic of Slovenia's economy remains vulnerable to domestic and external shocks, including the recent global economic crisis and those that may be caused by future significant economic difficulties of its major regional trading partners or by more general "contagion" effects, which could have a material adverse effect on the Republic of Slovenia's economic growth

Slovenia's economy is vulnerable to external shocks, including the recent global economic crisis starting in 2007, which had a materially negative impact on the Slovenian economy. The Slovenian economy is small, characterised by a relatively concentrated range of products, and is highly export-oriented. As a result of the slowdown in the global economy, Slovenia suffered a decline in GDP of 7.8 per cent. in 2009. Moreover, from 2008 to 2011, the unemployment rate rose to 8.2 per cent., calculated using the International Labour Organisation methodology (the "**ILO methodology**"), which is a 3.8 per cent. increase over 2008, though it is expected to remain at the same level in 2012. A significant decline in the economic growth of any of Slovenia's major trading partners, in particular Germany, Italy, Austria and the other EU member states, as well as Croatia and Serbia, could have a materially negative impact on Slovenia's balance of trade and adversely affect it's economic growth prospects.

Slovenia's economy is also subject to the risk of further deterioration in domestic demand, which has not fully recovered from the recession in 2009. Tight credit conditions and increasing unemployment could further weaken private and household consumption. Similarly, reduced government consumption as a result of fiscal consolidation and austerity measures may constrain growth. Moreover, Slovenia is vulnerable to the effects of certain natural disasters, such as flooding which has occurred in certain regions in recent years. Deterioration in the investment environment and investment inflows as a result of domestic or external conditions, including adverse tax conditions, natural disasters, increased corruption, or weakened investor sentiment, could also limit future growth prospects.

In addition, because international investors' reactions to the events occurring in one market may cause a "contagion" effect, in which an entire region or class of investment is disfavoured by international investors, Slovenia could be adversely affected by negative economic or financial developments in other European countries or countries with credit ratings similar to those of Slovenia. Concerns over credit risk (including that of sovereigns), the large amount of sovereign debt and the fiscal deficits of several European countries (such as Portugal, Italy, Ireland, Greece, Hungary and Spain) have recently intensified. The default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions, or any EU or Eurozone exits (or threats thereof), could cause severe stress in the financial system generally and could adversely affect the global financial markets in ways that are difficult to predict. 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 recent agreements with certain EU member countries, such as Greece, which have adopted fiscal austerity plans to address concerns over their credit profiles. Despite these efforts, doubts remain over the successful implementation of these measures and the continued stability of the European monetary system and economy. Global markets continue to record high levels of volatility and uncertainty. The impact of these conditions could be detrimental to the Republic of Slovenia, and prospective investors should take into account this considerable uncertainty as to how the Eurozone crisis, the global financial and economic crisis and the wider economic situation will develop over time. Furthermore, 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 target of 3.5 per cent. for this year, which 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 of Slovenia's credit rating was recently downgraded 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, as noted above, several ratings agencies downgraded the credit ratings of a number of EU sovereigns, including Slovenia. Further sovereign downgrades occurred in 2012, with the Republic of Slovenia being downgraded by S&P to A with a negative outlook from A+ with a negative outlook, Moody's, to Baa2 with a negative outlook from A2 with a negative outlook, and Fitch to A- with a negative outlook from A with a negative outlook. The negative outlook on Slovenia's ratings by all three rating agencies indicates that Slovenia's ratings could be lowered further in the event that the banking system suffers greater deterioration than expected, policymakers fail to implement necessary reforms, or debt ratios rise more than expected as a result of higher than anticipated recapitalization needs of the banking sector or fiscal underperformance. In downgrading Slovenia's credit rating, these agencies cited reasons, such as (i) poor growth prospects for export reliant countries such as Slovenia and sluggish growth in the Eurozone, (ii) the rejection of proposed structural reforms in 2011 and (iii) the lack of credible recapitalisation plans for Slovenia's state-owned banks. The resulting higher interest rates for sovereign debt have disrupted national economies and the risk of a more protracted credit crisis and a squeeze on liquidity has risen significantly. A further downgrade of sovereign debt ratings, including those of the Republic of Slovenia, 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 Slovenia or on Slovenia's ability to raise capital from the external debt markets in the future.

The Slovenian banking system requires further recapitalisation, which may require the government to take on further debt to finance any such recapitalisation

The Slovenian banking system is in need of capital support due to the deterioration of the asset quality of its major banks, which support must be provided within a timeframe set out by the bank regulator. As at 31 December 2011, non-performing loans in the Slovenian banking sector were 11.2 per cent. of all outstanding bank loans and as at 31 March 2012, this rose to 11.8 per cent. The majority of non-performing loans in the Slovenian banking sector are concentrated in the non-financial corporate sector, which is the recipient of approximately two-thirds of all loans to the domestic sector. As at 31 July 2012, the proportion of corporate non-performing loans was 22.2 per cent., up from 18.5 per cent. as at 31 December 2011. Non-performing loans may further increase and current provisioning against impaired loans may be insufficient. For more information on non-performing loans, see "*Monetary and Financial System – Coverage, Funding and Non-performing Loans*". Expectations of further asset quality deterioration could prompt banks to reduce their lending activities and this may have an adverse effect on growth prospects for the economy as a whole and the corporate sector in particular. In addition, given the structure of Slovenia's economy, Slovenia's banks could be exposed to on-going concentration risk, primarily in the construction and commercial real estate sectors. In the Slovenian banking system, the total of classified claims with arrears over 90 days in the construction industry amounted to €2.1 billion as at 31 July 2012, an increase of €0.3 billion since 31 December 2011. Furthermore, the banking system could be further strained in the event of additional downgrades of the sovereign, as the sector held €4.0 billion and €3.8 billion in government bonds as at 31 December 2011 and 31 July 2012, respectively.

The Republic of Slovenia is the majority shareholder in Nova Ljubljanska banka d.d., Slovenia's largest bank ("**Nova Ljubljanska banka**") and Nova Kreditna banka Maribor ("**Nova Kreditna banka**"), the two largest banks in the Republic of Slovenia, which together accounted for 37.0 per cent. of total assets of the Slovenian banking sector by the end of 2011. Slovenia recapitalised Nova Ljubljanska banka in the first quarter of 2011 with €243 million, and in June 2012, being unable to find a solution in the private sector, it underwrote €381 million in new capital through the purchase of hybrid instruments and the issue of shares, such shares being purchased by state-owned pension and restitution funds. According to third-party estimates, additional capital support for the banking sector of between 2 and 8 per cent. GDP could be required in the future. There is a risk that foreign investors will be reluctant to inject fresh capital into the banking system in the current market environment and, if so, the Republic of Slovenia may have to step in to further recapitalise Slovenia's largest banks, thus potentially increasing its indebtedness and potentially widening the general government deficit.

In addition, the Republic of Slovenia's ability to take on further debt to finance any further recapitalisation may be constrained. In particular, as a result of recent adverse market conditions, the government has had to shift the composition of its funding mix toward a greater reliance on shorter-term issuance and loans. While government's liquidity position benefits from a significant cash balance deposited with domestic banks due to its prefunding strategy in 2011, significant drawdowns on these deposits to finance its deficit (which amounted to 6.3 per cent. of GDP in 2011 and 6.0 per cent. of GDP in 2010) would likely affect the banks' liquidity position, prompting banks to reduce their lending activities and having an adverse effect on growth prospects for the economy as a whole.

The Republic of Slovenia 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*", "*Public Finance – Taxation and Taxation Policy*" and "*The Slovenian Economy – Pending Reforms Relating to Pensions, Government Privatisation and Bank Recapitalisation",* 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 of Slovenia 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 Slovenia's ageing population and streamlining the stratified labour market. The government may encounter resistance in the implementation of these reforms, potentially including opposition from within the governing coalition, which is held by a narrow majority, or from vested interests such as trade unions, which are deeply entrenched in the political system. In addition, procedural hurdles may support political opposition. For example, only 40,000 signatures are required for a public referenda in Slovenia, and a quorum is not required for the result of the referenda to be binding. In 2011, laws aimed at streamlining the labour code, curbing certain privileged forms of employment and an overhaul of the pension system were rejected by public referendums, and no similar legal proposal is legally allowed to be submitted to the parliament until June 2012. 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 of Slovenia's ability to repay its financial obligations. For more information see "*The Slovenian Economy – Pending Reforms Relating to Pensions, Government Privatisation and Bank Recapitalisation*".

The Republic of Slovenia is a member of the European Monetary Union and, therefore, has limited ability to set monetary policy

The Republic of Slovenia is a member of the European Monetary Union ("**EMU**") and, therefore, has limited ability to set monetary policy. The members of the EMU have transferred the power to set monetary policy to the ECB. The powers of the ECB include the power to manage the monetary policy of the EMU member states, as well as to manage liquidity and stability of the financial system through open market operations, marginal lending facilities, reserve requirements and other policy instruments which may be available to the ECB in accordance with its constitutional documents. The ECB is an independent body. As a result, the Republic of Slovenia 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 of Slovenia or do not affect the Eurozone as a whole, the ECB may not take such actions as may benefit the Republic of Slovenia, in particular, or as might be required to alleviate the effects of a financial crisis in the Republic of Slovenia. 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 of Slovenia and, consequently, on the Republic of Slovenia's ability to meet its obligations under any outstanding indebtedness.

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

Although a range of government ministries, including the Ministry of Finance, along with the Bank of Slovenia and the SORS, produce statistics on Slovenia and its economy, there can be no assurance that these statistics are comparable with those compiled by other bodies, or in other countries, which use different methodologies. Prospective investors in the Notes should be aware that figures relating to Slovenia'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 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 EU Sovereign Debt Markets Group, a sub-committee of the European Council, on 28 March 2012. In accordance with the provisions of the Treaty Establishing the European Stability Mechanism signed on 2 February 2012, this standardised clause will become 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 – Condition 12*").

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 not materially prejudicial 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 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 EU Savings Directive may result in certain holders not receiving the full amount of interest

Under EC Council Directive 2003/48/EC (the "**EU Savings Directive**") on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income (within the meaning of the EU Savings Directive) paid by a paying agent in the meaning of the EU Savings Directive within its jurisdiction to, or collected by such a paying agent for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent., unless in the case of Luxembourg the beneficial owner of the interest payments opts for one of the two information exchange procedures available. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a paying agent within its jurisdiction to, or collected by such a paying agent for, an individual resident in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a member state to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Republic nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Republic is required to maintain a Paying Agent in a member state that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive.

The law governing the conditions of the Notes may change

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

There may be no active trading market for the Notes

Although an application has been made to list on the Official List of the Luxembourg Stock Exchange and to trade the Notes on the Luxembourg Stock Exchange's regulated market, there is no assurance that such application will be accepted or that an active trading market for the Notes will develop or, if one does develop, 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 Slovenia 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

Slovenia is a sovereign state. 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) without the Republic having specifically consented to such enforcement at the time when the enforcement is sought.

The foreign exchange reserves of Slovenia 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. Accordingly, such reserves would not be available to satisfy any claim or judgment in respect of the Notes.

Fluctuations in exchange rates and interest rates may adversely affect the value of the Notes

The Republic will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the U.S. dollar would decrease: (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes, and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal. In addition, investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value 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

Moody's, Standard & Poor's and Fitch have assigned 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 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 whilst 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, S&P and Fitch is established in the European Union and regulated under the CRA Regulation.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, subject to amendment, will be endorsed on each Note Certificate and will be attached and (subject to the provisions thereof) apply to each Global Note:

The U.S.$2,250,000,000 5.500 per cent. Notes due 2022 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 13 (*Further Issues*) and forming a single series therewith) of the Republic of Slovenia (the "**Republic**") are constituted by a deed of covenant dated 26 October 2012 (as amended or supplemented from time to time, the "**Deed of Covenant**") entered into by the Republic and are the subject of a fiscal agency agreement dated 26 October 2012 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Republic, Deutsche Bank Luxembourg, S.A. as non-US registrar (the "**Non-US Registrar**") and Deutsche Bank Trust Company Americas as US Registrar (the "**US Registrar**" and together with the non-US Registrar, the "**Registrars**"), which expression includes any successor registrar appointed from time to time in connection with the Notes), Deutsche Bank AG, London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). References herein to the "**Agents**" are to the Registrar, the Fiscal Agent, the Transfer Agents and the Paying Agents and any reference to an "**Agent**" is to any one of them. Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Covenant and subject to their detailed provisions. The Noteholders (as defined below) are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination and Status

(a) *Form and denomination*: The Notes are in registered form, without interest coupons. The Notes (i) sold in offshore transactions in reliance on Regulation S ("**Regulation S**") under the United States Securities Act of 1933 (the "**Securities Act**") will be issued in minimum denominations of U.S.$200,000 and in integral multiples of U.S.$1,000 in excess thereof and (ii) sold in reliance on Rule 144A under the Securities Act ("**Rule 144A**") will be issued in minimum denominations of U.S.$200,000 and in integral multiples of U.S.$1,000 in excess thereof (each denomination of Notes referred to in (i) and (ii), an "**Authorised Denomination**").

(b) *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.

2. Register, Title and Transfers

(a) *Register*: Each Registrar will maintain a register (each a "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the relevant Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the relevant Register.

(b) *Title*: The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers*: Title to the Notes shall pass by registration in the relevant Register. Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the relevant Registrar or any Transfer Agent, together with such evidence as the relevant Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor. In the case of a transfer of Notes to a person who is already a holder of Notes, a new Note Certificate representing the enlarged holding will only be issued against surrender of the Note Certificate representing the existing holding.

(d) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the relevant Registrar will register the transfer in question and deliver each new Note Certificate to be issued pursuant to Condition 2(c) each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder unless such relevant Holder requests otherwise and pays in advance to the relevant Agent the costs of such other method of delivery and/or such insurance as it may specify. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the relevant Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Republic, the relevant Registrar or any Transfer Agent but upon payment of, or against such indemnity as the relevant Registrar or (as the case may be) such Transfer Agent may require in respect of, any tax, governmental charge or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*: Noteholders may not require transfers to be registered during the period of (i) 15 days ending on the due date for any payment of principal or interest in respect of the Notes and (ii) seven days ending on (and including) any Record Date.

(g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the relevant Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Republic with the prior written approval of the relevant Registrar. A copy of the current regulations will be mailed (free of charge) by the relevant Registrar to any Noteholder who requests in writing a copy of such regulations.

3. Interest

The Notes bear interest from 26 October 2012 (the "**Issue Date**") at the rate of 5.500 per cent. per annum, (the "**Rate of Interest**") payable in arrear on 26 April and 26 October in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after 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 Noteholder and (b) the day which is five business days (as defined in Condition 6(d) (*Payments on business days*)) after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such fifth business day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be U.S.$5,500 in respect of each Note of U.S.$ 200,000 denomination and U.S.$27.50 in respect of each Note of U.S.$ 1,000 denomination. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Note divided by the Calculation Amount, where "**Calculation Amount**" means U.S.$ 1,000 and "**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

4. Negative Pledge

So long as any Note remains outstanding (as defined in Condition 12(a)), the Republic will not grant or permit (to the extent the Republic has the power to refuse such permission) to be outstanding any mortgage, charge, pledge, lien or other security interest (any of the foregoing a "**Security Interest**"), other than a Permitted Security Interest, upon the whole or any part of its present or future assets or revenues to secure any Relevant External Indebtedness or any guarantee thereof unless the Republic shall (a) at the same time or prior thereto procure that all amounts payable in respect of the Notes are secured equally and rateably, or (b) provide such other security or other arrangement as shall be approved by a resolution of the requisite majority of Noteholders or written resolution of Noteholders, in each case in accordance with Condition 12 (Meetings of Noteholders; Modification).

For this purpose, "**Relevant External Indebtedness**" means any present or future indebtedness (a) in the form of, or represented by, bonds, notes, debentures, loan stock or other securities which are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over the counter or other securities market and (b) which are expressed to be governed by the laws of a jurisdiction other than the Republic of Slovenia.

"**Permitted Security Interest**" means any Security Interest arising by operation of law which has not been foreclosed or otherwise enforced against the assets to which it applies.

5. Redemption and Purchase

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 26 October 2022, subject as provided in Condition 6 (*Payments*).

(b) *No other redemption*: The Republic shall not be entitled to redeem the Notes otherwise than as provided in paragraph (a) (*Scheduled redemption*) above.

(c) *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, for so long as any of the Notes are "restricted securities" as defined in Rule 144A under the Securities Act, such resale is outside the United States, as defined in Regulation S). Any Notes so purchased, while held by or on behalf of the Republic or any Agency, shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Noteholders. Any Notes so cancelled will not be reissued.

In this Condition 5(c) (*Purchase and Cancellation*), "**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.

6. Payments

(a) *Principal*: Payments of principal shall be made by U.S. dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a Holder of a Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) *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 in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days*: Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by U.S. dollar cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph, "**business day**" means any day on which banks are open for general business (including dealings in foreign currencies) in Ljubljana, London, New York City and when the Trans-European Automated Real Time Gross Settlement Express Transfer (TARGET2) System or any successor thereto is open for the settlement of payments in Euro and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, the Republic shall procure that the amount and date of such payment are noted on the relevant Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date*: Each payment in respect of a Note will be made to the person shown as the Holder in the relevant Register at the opening of business in the place of the relevant Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the relevant Register at the opening of business on the relevant Record Date.

7. 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 Noteholders 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; or

(iv) where such withholding or deduction is imposed on a payment to or for an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26 - 27 November 2000 on the taxation of savings income (the "**Directive**"), or any law implementing or complying with, or introduced in order to conform to, the Directive; or

(v) if and to the extent that such withholding or deduction would have been required to be made pursuant to the laws applicable on the Issue Date; or

(vi) to, or to a third party on behalf of, a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union.

In these Conditions, "**Relevant Date**" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the payment in question is improperly withheld or refused, the day on which the Fiscal Agent has notified the Noteholders that the full amount in question has been paid in accordance with Condition 6 (*Payments*) (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 7 (*Taxation*).

8. Events of Default

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

(a) *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

(b) *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 written notice addressed to the Fiscal Agent, declare the Notes due and payable, in each case at their principal amount together with accrued interest. On the date that such written notice is received by the Fiscal Agent, the Notes shall become immediately due and payable at their principal amount together with accrued interest, without further formality (unless the Event of Default has been remedied or waived in accordance with the provisions of this Condition 8 (*Events of Default*) prior to the receipt of the notice by the Fiscal Agent). Upon such declaration the Republic shall give notice to the Noteholders in accordance with Condition 14 (*Notice*s).

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 14 (*Notices*), 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.

9. Prescription

Claims against the Republic for payment in respect of the Notes shall be prescribed and become void unless made within five years, in the case of interest, or ten years, in the case of principal, from the appropriate Relevant Date.

10. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the relevant Registrar and the Transfer Agent having its Specified Office in Luxembourg, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Republic may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. Agents

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Republic and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Republic reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar, fiscal agent and additional or successor paying agents and transfer agents; *provided, however, that* the Republic shall at all times maintain (a) a fiscal agent, a registrar and a transfer agent and (b) a paying agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to the Directive.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 14 (*Notices*).

12. Meetings of Noteholders; Modification

(a) ***General***

The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the provisions of the Agency Agreement. The following is a summary of selected provisions contained in the Agency Agreement.

For the purposes of this Condition 12 (*Meetings of Noteholders; Modification*):

(i) "**Debt Security**" means the Notes and any other bills, bonds, 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;

(ii) "**Cross-Series Modification**" means a modification involving (i) the Notes or any agreement governing the issuance or administration of the Notes (including the Agency Agreement), and (ii) the Debt Securities of one or more other series or any agreement governing the issuance or administration of such other Debt Securities;

(iii) "**outstanding**" in relation to any Note means a Note that is outstanding for the purposes of Condition 12(j) (*Outstanding Notes; Notes Controlled by the Republic*), and in relation to the Debt Securities of any other series will be determined in accordance with the applicable terms and conditions of that Debt Security;

(iv) "**Reserved Matter**" in relation to the Notes means any modification of the terms and conditions of the Notes or of any agreement governing the issuance or administration of the Notes (including the Agency Agreement) that would:

A. change the date on which any amount is payable on the Notes;

B. reduce any amount, including any overdue amount, payable on the Notes;

C. change the method used to calculate any amount payable on the Notes;

D. change the currency or place of payment of any amount payable on the Notes;

E. impose any condition on or otherwise modify the Republic's obligation to make payments on the Notes;

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

G. change the seniority or ranking of the Notes;

H. change the law governing the Notes;

I. change any court to whose jurisdiction the Republic has submitted or any immunity waived by the Republic in relation to any Proceedings (as defined below);

J. 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

K. 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 or any agreement governing the issuance or administration of the Notes (including the Agency Agreement) shall be read as references to such other Debt Securities or any agreement governing the issuance or administration of such other Debt Securities; and

(v) "**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 issuance of Notes;

(b) ***Convening Meetings of Noteholders***

A meeting of Noteholders:

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

(ii) will be convened by the Republic if an Event of Default in relation to the Notes 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; and

(iii) will be convened by the Republic or the Fiscal Agent if 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 or, if the Republic or the Fiscal Agent fails to convene a meeting within seven days of the request, the same may be convened by the Noteholders that requisitioned the meeting.

(c) ***Quorum***

(i) The quorum at any meeting at which Noteholders will vote on a proposed modification to, or a proposed modification of:

A. a Reserved Matter will be one or more persons present or represented at the meeting 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 or represented at the meeting and holding not less than 50 per cent., of the aggregate principal amount of the Notes then outstanding.

(ii) The quorum for any adjourned meeting will be one or more persons present or represented at the meeting 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 or a proposal relating to a Reserved Matter; 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 or any proposal relating to a matter other than a Reserved Matter.

(d) ***Non-Reserved Matters***

The terms and conditions of the Notes and any agreement governing the issuance or administration of the Notes (including the Agency Agreement) may be modified in relation to any matter other than a Reserved Matter with the consent of the Republic and:

(i) the affirmative vote of a Holder or Holders of more than 50 per cent., of the aggregate principal amount of the outstanding Notes represented at a duly called and quorate meeting of Noteholders; or

(ii) a written resolution signed by or on behalf of a Holder or Holders of more than 50 per cent., of the aggregate principal amount of the outstanding Notes.

(e) ***Reserved Matters***

Except as provided by Condition 12(f) (*Cross – Series Modifications*) below, the terms and conditions of the Notes and any agreement governing the issuance or administration of the Notes (including the Agency Agreement) may be modified in relation to a Reserved Matter with the consent of the Republic and:

(i) the affirmative vote of a Holder or Holders of not less than 75 per cent., of the aggregate principal amount of the outstanding Notes represented at a duly called and quorate meeting of Noteholders; or

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

(f) ***Cross – Series Modifications***

In the case of a Cross-Series Modification (and/or a proposal in respect of a Cross-Series Modification), the terms and conditions of the Notes and Debt Securities of any other series, and any agreement (including the Agency Agreement) governing the issuance or administration of the Notes or Debt Securities of such other series, may be modified in relation to a Reserved Matter with the consent of the Republic and:

(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 and quorate meetings of the holders of the Debt Securities of all the series (taken in the aggregate) that would be affected by the proposal and/or proposed modification; or

(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 proposal and/or proposed modification;

and

(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 and quorate meetings of the holders of each series of Debt Securities (taken individually) that would be affected by the proposal and/or proposed modification; or

(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 proposal and/or proposed modification.

(g) ***Written Resolutions***

A "**written resolution**" is a resolution in writing signed by or on behalf of Holders of the requisite majority of the Notes and will be valid for all purposes as if it was a resolution passed at a quorate 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.

(h) ***Binding Effect***

A resolution duly passed at a quorate meeting of Holders duly 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 Noteholder was present at the meeting, voted for or against the resolution or signed the written resolution.

(i) ***Manifest Error, Technical Amendments, etc.***

Notwithstanding anything to the contrary herein, the terms and conditions of the Notes and any agreement governing the issuance or administration of the Notes (including the Agency Agreement) may be modified by the Republic without the consent of Noteholders:

(i) to correct a manifest error or cure an ambiguity; or

(ii) if the modification is of a formal or technical nature or for the benefit of Noteholders.

The Republic will publish the details of any modification of the Notes made pursuant to this Condition 12(i) (*Manifest Error, Technical Amendments, etc*). within ten days of the modification becoming legally effective.

(j) ***Outstanding Notes; Notes Controlled by the Republic***

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:

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

(ii) the Note has previously 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

(iii) 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:

A. 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 Noteholder to vote the Note for or against a proposed modification;

B. 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

C. 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 Noteholder may have in relation to the Republic: (x) the Noteholder may not, directly or indirectly, take instruction from the Republic on how to vote on a proposed modification; or (y) the Noteholder, 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 Noteholder's own interest; or (z) the Noteholder 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 12(j) (*Outstanding Notes; Notes Controlled by the Republic*).

13. 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 form a single series with the Notes *provided however that* the Notes are (i) not issued with original issue discount; (ii) issued with a *de minimis* amount of original issue discount, or (iii) issued in a "qualified reopening" for U.S. federal income tax purposes.

14. Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the relevant Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as Notes are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, notices to Noteholders will be published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a daily newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe.

Notices to the Republic shall be given in the English language and sent by letter or fax to:

The Ministry of Finance, Central Government Debt Management Department
Župančičeva 3
1502 Ljubljana
Slovenia

Telephone:	+386 1 369 6440
Fax:	+ 386 1 369 6599
Attention:	Head of Department

or 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 the Fiscal Agent 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.

15. Currency Indemnity

If any sum due from the Republic in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Republic, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Republic shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Republic and delivered to the Republic or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Republic and shall give rise to a separate and independent cause of action.

16. Governing Law and Jurisdiction

(a) *Governing law*: The Notes any non-contractual obligations arising out of or in connection with the Notes are governed by English law.

(b) *English courts*: The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes).

(c) *Appropriate forum*: The Republic agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) *Rights of the Noteholders to take proceedings outside England*: Condition 16(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 16 (*Governing Law and jurisdiction*) prevents any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) *Process agent*: The Republic agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to the Embassy of the Republic of Slovenia at 10 Little College Street, London SW1P 3SH or, if different, its registered office for the time being or at any address of the Republic in Great Britain at which process may be served on it in accordance with the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Republic, the Republic shall, on the written demand of any Noteholder addressed to the Republic and delivered to the Republic or to the Specified Office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Republic and delivered to the Republic or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

(f) *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 is made or given in such Proceedings.

(g) *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) 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. Notwithstanding the foregoing, immunity is not waived with respect to (i) present or future "**premises of the mission**" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, (ii) present or future "**consular premises**" as defined in the Vienna Convention on Consular Relations signed in 1963, or (iii) any assets, rights and property of military character controlled by a military or defence agency or other public authority of the Republic which serve for the purposes of defence of the Republic. The Republic reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976 with respect to actions brought against it in any court of, or in, the United States of America under any United States federal or state securities law.

THE GLOBAL CERTIFICATES

The Global Certificates contain the following provisions which apply to the Notes in respect of which they are issued whilst they are represented by the Global Certificates, some of which modify the effect of the Conditions. Terms defined in the Conditions have the same meaning in paragraphs 1 to 7 below.

1. Form of the Notes

The Notes sold in reliance on Regulation S under the Securities Act will be represented on issue by the Unrestricted Global Certificate, which will be registered in the name of the Common Safekeeper (or its nominee) and the relevant Unrestricted Global Note Certificate will be deposited on or about the issue date with the Common Safekeeper. Depositing the Unrestricted Global Note Certificate with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria. Beneficial interests in an Unrestricted Global Certificate may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. By acquisition of a beneficial interest in the Unrestricted Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it acquired such beneficial interest in accordance with Regulation S and that it will only offer, sell, pledge or otherwise transfer such beneficial interest in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See "*Subscription and Sale*" and "*Transfer Restrictions*".

The Notes sold in reliance on Rule 144A will be represented on issue by the Restricted Global Certificate, which will be deposited with a custodian for, and registered in the name of a nominee of, DTC. Beneficial interests in a Restricted Global Certificate may only be held through DTC or its participants at any time. Beneficial interests in a Restricted Global Certificate may only be held by persons who are QIBs, holding their interests for their own account or for the account of one or more QIBs. By acquisition of a beneficial interest in a Restricted Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Restricted Global Certificate. See "*Subscription and Sale*".

Beneficial interests in Global Certificates will be subject to certain restrictions on transfer set out therein and under "*Transfer Restrictions*" and in the Agency Agreement and such Global Certificates will bear a legend as set out under "*Subscription and Sale*". On or prior to the 40th day after the later of the commencement of the offering and the Issue Date, ownership of interests in an Unrestricted Global Certificate will be limited to persons who have accounts with Euroclear or Clearstream, Luxembourg, or persons who hold interests through Euroclear or Clearstream, Luxembourg, and any sale or transfer of such interests to persons inside the United States shall not be permitted during such period unless such resale or transfer is made pursuant to Rule 144A as provided below.

No beneficial interest in an Unrestricted Global Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in a Restricted Global Certificate unless: (i) the transfer is to a person that is a QIB, (ii) such transfer is made in reliance on Rule 144A, and (iii) the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transferee is a QIB, that the transfer is being made in a transaction meeting the requirements of Rule 144A and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. No beneficial interest in the Restricted Global Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in an Unrestricted Global Certificate unless the transfer is to a person outside the United States in an offshore transaction in reliance on Regulation S and the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made to a person who is outside the United States in accordance with Regulation S.

Any beneficial interest in an Unrestricted Global Certificate that is transferred to a person who takes delivery in the form of an interest in a Restricted Global Certificate will, upon transfer, cease to be an interest in such

Unrestricted Global Certificate and become an interest in the Restricted Global Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Restricted Global Certificate for as long as it remains such an interest. Any beneficial interest in a Restricted Global Certificate that is transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Certificate will, upon transfer, cease to be an interest in each Restricted Global Certificate and become an interest in the Unrestricted Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in an Unrestricted Global Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Republic may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in the Global Certificates will not be entitled to receive physical delivery of Notes.

2. Accountholders

For so long as any of the Notes are represented by the Global Certificates, each person (other than another clearing system) who is for the time being shown in the records of DTC or Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each, an "**Accountholder**") (in which regard any certificate or other document issued by DTC or Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression "Noteholders" and references to "holding of Notes" and to "holder of Notes" shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Republic, solely in the name of the relevant Common Safekeeper or the nominee for the relevant clearing system (the "**Relevant Nominee**") in accordance with and subject to the terms of the Global Certificates. Each Accountholder must look solely to DTC or Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

3. Cancellation

Cancellation of any Note following its redemption or purchase by the Republic will be affected by reduction in the aggregate principal amount of the Notes in the Register and by the annotation of the appropriate schedule to the relevant Global Certificate.

4. Payments

Payments of principal and interest in respect of Notes represented by a Global Certificate will be made upon presentation or, if no further payment fails to be made in respect of the Notes, against presentation and surrender of such Global Certificate to or to the order of the Fiscal Agent or such other Agent as shall have been notified to the holders of the Global Certificates for such purpose.

Distributions of amounts with respect to book-entry interests in the Unrestricted Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Fiscal Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

Holders of book-entry interests in the Restricted Notes holding through DTC will receive, to the extent received by the Fiscal Agent, all distribution of amounts with respect to book-entry interests in such Notes from the Fiscal Agent through DTC. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

A record of each payment made will be endorsed on the appropriate schedule to the relevant Global Certificate by or on behalf of the Fiscal Agent and shall be *prima facie* evidence that payment has been made.

In the case of all payments in respect of the Global Certificates, "**business day**" shall mean any day on which dealings in foreign currencies may be carried on in New York City.

5. Notices

So long as the Notes are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by Condition 14 (*Notices*) except that, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, notices shall also be published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Certificate, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Fiscal Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

6. Registration of Title

The Registrar will not register title to the Notes in a name other than that of the Relevant Nominee after close of business on the Clearing System Business Day preceding the due date for any payment of principal, or interest in respect of the Notes, where "**Clearing System Business Day**" means a day on which each clearing system for which a Global Certificate is being held is open for business.

7. Exchange for Certificates

(a) ***Exchange***

Each Restricted Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Restricted Certificates and each Unrestricted Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Unrestricted Certificates upon the occurrence of an Exchange Event.

For these purposes, an "**Exchange Event**" means that:

(i) any of the circumstances described in Condition 8 (*Events of Default*) have occurred;

(ii) in the case of an Unrestricted Global Certificate only, Euroclear and/or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces that it is permanently to cease business or does in fact do so and no successor or alternative clearing system is available; or

(iii) in the case of a Restricted Global Certificate only, DTC notifies the Republic that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the relevant Global Certificate or DTC ceases to be a "clearing agency" registered under the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**") or is at any time no longer eligible to act as such and no qualified successor clearing system has been identified within 90 days of receipt of such notice from DTC,

provided that, in the case of any exchange pursuant to (ii) or (iii) above, the holder has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such exchange.

In exchange for the relevant Global Certificate, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of an equal aggregate principal amount of duly executed Certificates in or substantially in the form set out in the Agency Agreement.

(b) ***Delivery***

In such circumstances, the relevant Global Certificate shall be exchanged in full for Certificates and the Republic will, at the cost of the Republic (but against such indemnity as the Registrar or Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Certificates to be executed and delivered to the Registrar for completion and dispatch to the relevant Noteholders. A person having an interest in a Global Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Republic and the Registrar may require to complete, execute and deliver such Certificates and (b) in the case of the Restricted Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB. Certificates issued in exchange for a beneficial interest in the Restricted Global Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Subscription and Sale*".

(c) ***Legends and transfers***

The holder of a Certificate may transfer the Notes represented thereby, in whole or in part, in the applicable denomination by surrendering it at the specified office of any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Certificate bearing the legend referred to under "*Subscription and Sale*", or upon specific request for removal of the legend on a Certificate, the Republic will deliver only Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Republic and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Republic that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act. Restricted Certificates will bear the same legend as the legend for the Restricted Global Certificates set out under "*Subscription and Sale*". The Restricted Certificates may not, at any time, be held by or on behalf of U.S. persons that are not QIBs. Before any Unrestricted Certificate may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of a Restricted Certificate, the transferor and/or transferee, as applicable, will be required to provide the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transfer is (i) to a person that is a QIB and (ii) such transfer is made in reliance on Rule 144A. Unrestricted Certificates will bear the same legend as the legend for the Unrestricted Global Certificates set out under "*Subscription and Sale*". Before any Restricted Certificates may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of an Unrestricted Certificate, the transferor and/or transferee, as applicable, will be required to provide the relevant Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made to a person outside the United States in accordance with Regulation S.

USE OF PROCEEDS

The net proceeds of each issue of the Notes will be used for the general budget purposes of the Republic of Slovenia.

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, Slovenia 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.

Slovenia has a population of 2,055,527 as at 1 April 2012. The capital of Slovenia is Ljubljana, which has a population of approximately 280,600. According to the results of Slovenia's most recent census (carried out in 2002), approximately 83.1 per cent. of the population is ethnically Slovene, 2.0 per cent. is ethnically Serb, 1.8 per cent. is ethnically Croat and 1.1 per cent. is ethnically Bosniak. The remainder of the population is comprised of groups from a variety of ethnic backgrounds. The Roman Catholic religion is the predominant religion in Slovenia.

Slovenia'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. Slovenia'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 Slovenian Parliament ("**Parliament**") 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 Parliament. 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, which established it as a democratic republic with a parliament consisting of a National Assembly and a National Council, a government (*vlada*) which holds executive power and is elected by the National Assembly, a President as head of state and an independent judicial system.

Slovenia joined the EU and NATO in 2004, and adopted the euro in 2007. In 2010, Slovenia joined the OECD.

Political System

President

Slovenia is a parliamentary republic with a president 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 Slovenia's defence forces.

The current president, Mr. Danilo Türk, was first elected in November 2007, and the next presidential election is scheduled to be held on 11 November 2012.

The National Assembly and the National Council

The National Assembly is the legislative authority in Slovenia. It consists of 90 members of Parliament, each selected by general election for a four-year term of office. Eighty-eight members of Parliament 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 Slovenia's Italian and Hungarian minorities, respectively. A two-thirds vote of all members of the National Assembly is required to amend the Constitution.

The National Council is made up of 40 elected members, each serving a five-year term. The National Council may propose to the National Assembly the passing of laws, convey to the National Assembly its opinion on all matters within the competence of the National Assembly, require the National Assembly to decide again on a given law prior to its promulgation, require the calling of a referendum and call for inquiries on matters of public importance.

Executive Power

The executive power is vested in the government of Slovenia which comprises: (i) a Prime Minister who is nominated by the President and elected by the National Assembly; and (ii) Ministers who are appointed to and dismissed 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 Slovenia. Lower courts, comprising county courts (*okrožna sodišča*) and district courts (*okrajna 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 Slovenia of violations of rights and liberties guaranteed by the Constitution, following exhaustion of all other remedies.

Local Authority

As at 30 June 2012, there were 210 cities, towns and villages ("**municipalities**") in Slovenia. Municipalities are financed by local taxes and transfers from the central government and are not a significant part of the central government's budget. Among other things, municipalities have the authority to manage the municipality's 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 the municipalities is currently handled by directly elected representatives, who are elected for four-year terms.

Recent Political Developments

A parliamentary election for all 90 positions in the National Assembly was last held on 4 December 2011. These were early elections (originally scheduled to be held in the third quarter of 2012) which followed from political turmoil centred around pension reform that caused the previous government to fail to secure the passage of a vote of confidence in September 2011. The vote of no-confidence consisted of 51 of 90 votes against the government and 36 for the government (with the remainder absent or abstaining) and was supported by the opposition right-wing party and two centre parties. In the parliamentary elections that followed, voter participation was 65.6 per cent. of those eligible to vote. As a result of these elections, seven political parties representing views across the political spectrum were voted into the Parliament. On 10 February 2012, the Parliament formally elected the present government, which is led by the Slovenian Democratic Party and Prime Minister Janez Jansa. As has been the case in all governments of Slovenia to date, the present government is a coalition government, comprised of five centre-right parties. As of the date of this Offering Circular, the governing coalition holds 48 out of the 90 seats in Parliament, with the opposition holding 38 seats and an additional two unaffiliated members of Parliament and two members representing Slovenia's Italian and Hungarian minorities comprising the rest of Parliament.

The results of the December 2011 elections are set out below:

Parties	*Votes*	*%*	*Seats*
Zoran Janković's List – Positive Slovenia	314,273	28.51	28
Slovenian Democratic Party(1)	288,719	26.19	26
Social Democrats	115,952	10.52	10
Gregor Virant's Civic List(1)	92,282	8.37	8(2)
Democratic Party of Pensioners of Slovenia(1)	76,853	6.97	6(2)
Slovenian People's Party(1)	75,311	6.83	6
New Slovenia – Christian People's Party(1)	53,758	4.88	4
Slovenian National Party	19,786	1.80	–
Liberal Democracy of Slovenia	16,268	1.48	–
Party for Sustainable Development of Slovenia	13,477	1.22	–
Other	25,469	2.31	–
Valid votes	1,102,256	100.00	88(3)
Total votes (turnout 65.6 per cent.)	1,121,573		

Source: Electoral Commission of the Republic of Slovenia.

Notes:

(1) Indicates member of the current governing coalition.

(2) After the December elections, two members of Parliament, from the political parties Gregor Virant's Civic List and the Democratic Party of Pensioners of Slovenia, each left their respective party to become unaffiliated. As of the date of this Offering Circular, the governing coalition holds 48 out of 90 seats in Parliament.

(3) Separate voting for representatives of Slovenia's Hungarian and Italian minorities, which have one reserved seat each, are not included in the above table.

International Relations

Slovenia was formally recognised by the international community as an independent international state in the first half of 1992. Slovenia has gradually attained membership of most major international organisations. In 1992, it became a member of the United Nations and the European Bank for Reconstruction and Development. In 1993, it became a member of the International Monetary Fund, the International Bank for Reconstruction and Development and 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 European Economic and Monetary Union at the beginning of 2007, making it the first of the EU 2004 accession states to have done so. Likewise, Slovenia was the first member of the EU 2004 accession states to hold the Presidency of the Council of the EU in the first semester of 2008. In June 2010, Slovenia became a member of the OECD.

EU Accession

Slovenia became a full member of the EU on 1 May 2004 and was allocated seven seats in the European Parliament. While it did not seek any significant derogation from the implementation of the *acquis communautaire* during accession negotiations, it did seek the establishment of transition periods, justified in light of the need to ensure stability in the economy. The following transition periods were negotiated by Slovenia:

- a transitional period for the application of capital adequacy and prudent management requirements for savings and loans;
- a transitional period for protecting the level and scope of the domestic deposit-guarantee scheme;
- a safeguard clause temporarily restricting real estate trade;
- a derogation concerning the application of a reduced value-added tax ("**VAT**") rate in relation to meal preparation, housing construction and passenger transport; minor transitional periods in the area of food production and pharmaceuticals; and

- a transitional period in the area of the environment (including waste, wastewater treatment and industrial emissions).

The last of these transition periods expired on 1 October 2011.

Slovenia adopted the euro as its official currency on 1 January 2007, and it joined the Schengen Agreement on 21 December 2007, enabling a higher degree of free movement of individuals among the participating states and regulating the protection of common external borders. It also ratified the EU's Lisbon Treaty in April 2008.

Central European Initiative

Slovenia is a member of the Central European Initiative, which also includes Austria, Italy, Slovakia, Croatia, Hungary, Poland and the Czech Republic. This initiative mainly addresses issues related to regional infrastructure development.

Double Taxation Agreements and Foreign Investment Treaties

To date, Slovenia has concluded bilateral agreements on the avoidance of double taxation with 51 countries (of which 47 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 States, the United Kingdom, Germany, China, Russia, Switzerland and each of Slovenia's neighbouring countries.

Legal and Arbitration Proceedings

Slovenia 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 Slovenia in all proceedings before domestic courts and administrative authorities, the European Court of Human Rights, 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, Slovenia is represented by attorneys qualified to practise law in the relevant jurisdiction.

As at 1 January 2011, the State Attorney's office was representing Slovenia in 2,943 open civil proceedings. During 2011, 1,206 civil proceedings involving Slovenia were commenced, and by year-end 1,507 civil proceedings involving Slovenia had been concluded. The total value of all claims in the proceedings concluded in 2011 was €4.0 billion. Slovenia paid €5.7 million in compensation in respect of all cases lost in 2011.

As at 1 January 2012, the State Attorney's office was representing Slovenia in 2,642 open civil proceedings. Slovenia was a defendant in 1,717 of these proceedings, and the compensation sought in respect of these proceedings amounted to approximately €2.2 billion. The government believes that Slovenia will ultimately only be liable for a relatively small portion of this amount.

The open proceedings in which Slovenia is a defendant where the likelihood that the claimant prevails is more than remote and compensation sought is more than €100 million are as follows:

- a claim by a Slovenian legal entity over the alleged wrongful award of a public military vehicle tender for which the claimant is seeking damages of €524 million;

- a claim by two mobile operators, both Slovenian entities and one owned by a German company, that were not awarded requested frequencies for which the claimants are seeking damages of €315 million and €210 million, respectively; and

- a claim by a Slovenian corporation that its shareholding in a number of privatised entities on behalf of employees was diluted for which the claimant is seeking damages of €112 million.

In foreign and international courts, the highest claim against Slovenia, which relates to proceedings resulting from the dissolution of the SFRY, is for the amount of €15 million.

In addition to the disputes noted above, Slovenia is currently involved in two disputes with Croatia, which both date back to the break-up of the SFRY.

The first of these is a maritime border dispute revolving around access to the Gulf of Piran and certain other waterways. After a number of attempts, the two countries signed an arbitration agreement on 4 November 2009 and, in January 2012, they consensually appointed a president and four members to a tribunal. The task of the tribunal is to determine the maritime and land boundaries between the two states and the regime for the use of the relevant maritime areas. It is expected that the process will take several years before a resolution is reached.

The second dispute with Croatia centres on foreign currency deposits of individuals in a Croatian bank, Ljubljanska banka Zagreb. The issue stems from the 2001 Agreement on Succession Issues, signed by all the successor states to the former SFRY. Slovenia and Croatia are working to resolve this issue and each country has appointed an expert to propose a solution. The two experts meet on a regular basis. Slovenia does not have a direct, legal obligation to compensate any depositors; however, Slovenia is a significant Shareholder in Nova Ljubljanska banka, which may be found liable to creditors, though it is not possible to estimate the amount of any liability at this time.

As of the date of this Offering Circular, Prime Minister Janez Jansa is on trial for allegedly receiving a prohibited benefit in connection with the procurement, during his prior term of office as prime minister, of armoured vehicles for use by the Slovenian army. The Republic of Slovenia is not involved in the proceedings.

THE SLOVENIAN ECONOMY

Macroeconomic Developments

Prior to its independence in June 1991, Slovenia benefited from the SFRY's high tariffs and its protected internal market. However, the gradual stagnation of the SFRY economy during the 1980s and its subsequent break-up had a marked impact on Slovenian trade with the other republics of the SFRY.

Following independence, Slovenia began a transformation into a market economy. At the time of independence, Slovenia inherited substantial economic difficulties such as hyperinflation and foreign debt, but it succeeded in gaining growth momentum and cutting inflation. In addition, throughout the transition period Slovenia retained a favourable position in its fiscal and external accounts. Macroeconomic policy aimed at stabilisation and liberalisation was generally successful. The Slovenian economy experienced positive growth from 1993 until 2008. In this period, annual GDP growth averaged 4.5 per cent. and GDP per capita on a purchasing power parity ("**PPP**") basis also increased in a sustained manner. In 2008, the latter was at 91 per cent. of the average of the 27 EU member states (according to Eurostat), making it the highest among the new central European members. In 2009 (according to Eurostat), GDP per capita was at 87 per cent. of the average of the 27 EU member states, decreasing to 85 per cent. in 2010 and 84 per cent. in 2011 (according to Eurostat).

Economic growth accelerated in particular after EU accession in 2004, averaging 5.1 per cent. annually in the period from 2005 to 2008. The two main factors underpinning strong GDP growth from 2004 to 2008 were an increase in exports to Slovenia's European trading partners, with export growth averaging 10.7 per cent. over this period, and a significant acceleration of investment activity. In addition to these developments, historical GDP growth was supported by the effects of adopted government reforms (particularly in the field of taxation; see "*Public Finance – Taxation and Taxation Policy*"), along with the positive effects of Slovenia's membership in the EU and Eurozone, which especially benefited external trade.

As a small open economy fundamentally dependent on exports, which represented more than 70 per cent. of GDP in 2011, Slovenia was strongly affected by the economic and financial crisis as GDP dropped 7.8 per cent. in 2009 with half of this decrease caused by a fall in exports. Exports fell in 2009 by 16.7 per cent. due to weaker external demand. This period of weaker external demand coincided with a fall in investment activity, primarily caused by the completion of Slovenia's highway network during the period, as well as a period of destocking, mainly in the manufacturing and retail sectors. Exports recovered in 2010 and 2011, growing by 10.1 per cent. and 7.0 per cent. respectively, although economic conditions remained unfavourable in the Eurozone and the former SFRY countries, which represent a relatively large share of Slovenia's total exports. Domestic demand was weaker largely as a result of the absence of large infrastructure projects and reduced activity in the construction sector, a deleveraging process underway among Slovenian enterprises and increased unemployment rates (8.2 per cent. in 2011). In addition, government austerity measures enacted in 2011 led to a decline in government consumption, while private consumption remained subdued due to the deterioration in the labour market.

Prevailing adverse international economic conditions within the international banking and financial markets led Slovenia 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. These measures were in conformity with relevant decisions adopted by the Council of the EU. The government has also introduced schemes for subsidising or restructuring enterprises, shortening the hours worked by employees, and fostering the development of small and medium sized enterprises. It has 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. See "*Public Finance – Fiscal Policy and Reform*".

The objective of this policy package was to limit the negative impact of lower external demand on existing production capacity and jobs. The 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 also "*Public Finance – Taxation and Taxation Policy*".

Additionally, the government is planning further fiscal consolidation and streamlining of the public sector, is putting bank recapitalisation plans into place and is implementing other structural reforms relating to pensions, labour and health, all of which are discussed elsewhere herein. See "*The Slovenian Economy – Pending Reforms Relating to Pensions, Government Privatisation and Bank Recapitalisation*".

The following table sets out certain macroeconomic data regarding the Slovenian economy for the years ended 31 December 2007 to 2011 and the six months ended 30 June 2011 and 2012:

	Year ended 31 December					*Six months ended 30 June*	
	2007	*2008*	*2009*	*2010*	*2011*	*2011*	*2012*
Nominal GDP (€ millions)	34,594	37,244	35,556	35,607	36,172	17,822	17,701
Real GDP growth (%)	7.0	3.4	(7.8)	1.2	0.6	2.0	(1.6)
GDP per capit (current prices)	23,484	27,092	24,291	23,040	24,528	N/A	N/A
Current account balance (% of GDP)	(4.8)	(6.2)	(0.7)	(0.6)	0.0	0.7	1.4
Unemployment rate (ILO methodology) (%)	4.9	4.4	5.9	7.3	8.2	7.8	8.2
Consumer price growth – year-end (%)	5.6	2.1	1.8	1.9	2.0	1.3	2.3
General government balance (% of GDP)[(1)]	0.0	(1.9)	(6.1)	(6.0)	(6.4)	N/A	N/A

Source: SORS, Institute for Macroeconomic Analysis and Development.

Note:

(1) Due to internal accounting procedures, semi-annual comparisons are not possible with regard the general government balance.

Summary of balance of payments

The current account deficit, which increased during Slovenia's period of rapid economic growth, saw a strong contraction in 2009. In 2008, it reached an all-time peak of €2,294.9 million or 6.2 per cent. of GDP. In 2011, the current account was balanced. Changes during this period were related to general economic activity. With domestic consumption continuing to shrink, the improvement in current transactions was mainly a consequence of the drop in the trade deficit. The trade surplus with respect to services increased and absorption of EU funds improved, while deficits in the factor-income balance (earnings on foreign investments less payments made on foreign investments) declined.

The following table sets out a summary of the balance of payments for the years ended 31 December 2007 to 2011. For a more detailed discussion of Slovenia's balance of payment, see *"Balance of Payments and Foreign Trade"*.

	As at 31 December				
	2007	*2008*	*2009*	*2010*	*2011*
			(€ millions)		
Current Account	(1,646)	(2,295)	(246)	(209)	2
Goods	(1,666)	(2,385)	(498)	(997)	(1,043)
Exports of goods	19,798	20,295	16,410	18,762	21,265
Imports of goods	21,464	22,680	16,908	19,759	22,308
Services	1,047	1,424	1,165	1,285	1,443
Exports	4,145	4,957	4,347	4,616	4,839
Imports	3,098	3,533	3,182	3,331	3,396

	As at 31 December				
	2007	*2008*	*2009*	*2010*	*2011*
			(€ millions)		
Balance of Goods and Services	(619)	(962)	667	288	400
Exports of goods and services	23,944	25,252	20,757	23,378	26,104
Imports of goods and services	24,562	26,213	20,090	23,090	25,704
Income	(789)	(1,030)	(754)	(599)	(550)
Receipts	1,169	1,262	666	574	918
Expenditures	1,957	2,292	1,420	1,173	1,469
Current Transfers	(239)	(303)	(159)	102	153
In Slovenia	941	871	959	1,203	1,373
Abroad	1,180	1,174	1,119	1,100	1,220
Capital and Financial Account	1,920	2,597	175	535	(452)
Capital Account	(52)	(25)	14	53	(102)
Capital transfers	(51)	(26)	19	61	(98)
Non-produced non-financial assets	(1)	1	(5)	(8)	(4)
Financial Account	1,972	2,622	161	482	(350)
Direct investment	(256)	327	(657)	431	638
Abroad	(1,362)	(1,002)	(187)	160	(81)
In Slovenia	(1,106)	1,329	(470)	271	19
Portfolio investment	(2,255)	572	4,628	1,956	1,838
Financial derivatives	(15)	46	(2)	(117)	(136)
Other investment	4,358	1,656	(3,976)	(1,806)	(2,762)
Assets	(4,696)	(322)	(267)	783	(1,461)
Liabilities	9,054	1,978	(3,708)	(2,589)	(1,301)
Reserve assets	140	21	167	19	72
Net Errors and Omissions	(273)	(302)	71	(326)	450

Source: 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 2007 to 2011:

	Year ended 31 December				
	2007	*2008*	*2009*	*2010*	*2011*
			(€ millions, current prices)		
GDP	34,594	37,244	35,556	35,607	36,172
Exports of goods and services	24,041	25,293	20,861	23,500	26,202
Imports of goods and services	24,636	26,231	20,149	23,137	25,762
Private consumption	18,147	19,583	19,817	20,374	20,918
Government consumption	5,990	6,758	7,152	7,369	7,533
Gross fixed capital formation	9,604	10,663	8,225	7,169	6,694
Changes in inventories and valuables	1,449	1,178	(350)	332	587

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 GVA. 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 2007 to 2011 and the six months ended 30 June 2011 and 2012:

	Year ended 31 December										Six months ended 30 June			
	2007		*2008*		*2009*		*2010*		*2011*		*2011*		*2012*	
	(€ billions)	*(%)*	*(€ billions)*	*(%)*	*(€ billions)*	*(%)*	*(€ billions)*	*(%)*	*(€ billions)*	*(%)*	*(€ billions)*	*(%)*	*(€ billions)*	*(%)*
Services	19.07	62.8	20.89	63.9	20.72	66.8	20.96	67.7	21.06	66.9	10.32	66.4	10.23	66.4
of which:														
Wholesale and retail trade, transportation and storage, accommodation and food services	6.23	20.5	6.85	21.0	6.34	20.4	6.30	20.3	6.46	20.5	3.12	20.1	3.14	20.4
Public administration(1)	4.60	15.1	5.06	15.5	5.36	17.3	5.48	17.7	5.55	17.6	2.76	17.8	2.77	18.0
Professional, scientific and technical, administrative and support service activities(2)	2.61	8.6	2.90	8.9	2.75	8.9	2.84	9.2	2.80	8.9	1.32	8.5	1.30	8.4
Real estate activities	2.15	7.1	2.39	7.3	2.61	8.4	2.51	8.1	2.45	7.8	1.20	7.7	1.18	7.7
Financial and insurance activities	1.46	4.8	1.54	4.7	1.58	5.1	1.73	5.6	1.66	5.3	0.86	5.5	0.82	5.4
Information and commu-nications	1.22	4.0	1.29	4.0	1.21	3.9	1.26	4.1	1.28	4.1	0.63	4.0	0.60	3.9
Other services(3)	0.80	2.6	0.85	2.6	0.86	2.8	0.86	2.8	0.86	2.7	0.42	2.7	0.41	2.7
Industry(4)	8.07	26.6	8.26	25.3	7.11	22.9	7.24	23.4	7.72	24.5	3.89	25.1	3.95	25.6
of which:														
Manufacturing	6.88	22.7	6.98	21.4	5.84	18.8	5.95	19.2	6.38	20.3	3.21	20.7	3.21	20.9
Construction	2.45	8.1	2.76	8.5	2.46	7.9	2.02	6.5	1.89	6.0	0.93	6.0	0.84	5.4
Agriculture, forestry and fishing	0.77	2.6	0.76	2.3	0.73	2.4	0.76	2.5	0.83	2.6	0.40	2.6	0.39	2.5
Gross value added	30.37	100.0	32.68	100.0	31.02	100.0	30.99	100.0	31.50	100.0	15.54	100.0	15.40	100.0

Source: SORS, Institute for Macroeconomic Analysis and Development.

Notes:

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

(2) Includes architectural and engineering activities.

(3) Includes other non-specified services.

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

As global macroeconomic conditions deteriorated, Slovenia experienced a relatively large contraction in the manufacturing sub-sector of the economy at the end of 2008 and in 2009, with a decrease in GVA from €6.98 billion in 2008 to €5.84 billion in 2009, and in the construction sector in 2009, with a decrease in GVA from €2.76 billion in 2008 to €2.46 billion in 2009. A decrease in GVA was reflected in services in 2010; however, certain sub-sectors of services recorded growth in 2010 and 2011. The main factors underlying these trends were: (i) reduced foreign demand, which negatively affected services (particularly transport services and services related to tourism) and the manufacturing sector, as it is dependent on exports; and (ii) the completion of significant public investment in infrastructure construction during the pre-crisis period. The effects of the economic crisis on the manufacturing and construction sectors, in turn, negatively impacted market services, especially goods transport, wholesale trade, provision of labour force and architectural and engineering services. More recent trends in the main sectors of Slovenia's economy are discussed below.

Services

In 2011, the services sector (including information and communications, financial and insurance activities, real estate activities, and other business services) accounted for 66.9 per cent. of Slovenia's total GVA. Wholesale and retail trade, transportation and storage, and accommodation and food services represented the largest segment of the services sector in 2011(20.5 per cent. of GVA), of which wholesale and retail trade amounted to 12.3 per cent., transportation and storage amounted to 5.9 per cent., and accommodation and food services amounted to 2.3 per cent. Public services represented 17.6 per cent. of GVA for the year.

Positive trends in the international environmental and manufacturing sectors spurred growth in several services sub-sectors in 2010 and 2011. In particular, an increase in foreign demand led to positive growth in the GVA of transport services (specifically goods via land transport)to €1.76 billion and €1.87 billion in2010 and 2011, respectively. Services related to tourism (specifically accommodation and food service) recorded positive growth, increasing from €0.69 billion in 2010 to €0.72 billion in 2011, due to higher demand from foreign tourists. In 2011, increases were also recorded in accounting services, employment related services, wholesale trade and information/communications technologies services. The GVA of architectural and engineering services declined from €0.64 billion in 2009 to €0.63 billion and €0.54 billion in 2010 and 2011, respectively, due to a continuing downturn in the construction sector. Similarly, real estate services recorded a decrease from €2.61 billion in 2009 to €2.51 billion and €2.45 billion in 2010 and 2011, respectively (but were up from €2.39 billion in 2008). The GVA of retail trade of motor vehicles increased marginally in 2011, whereas retail trade as a whole remained at approximately the same level as in 2010.

Industry

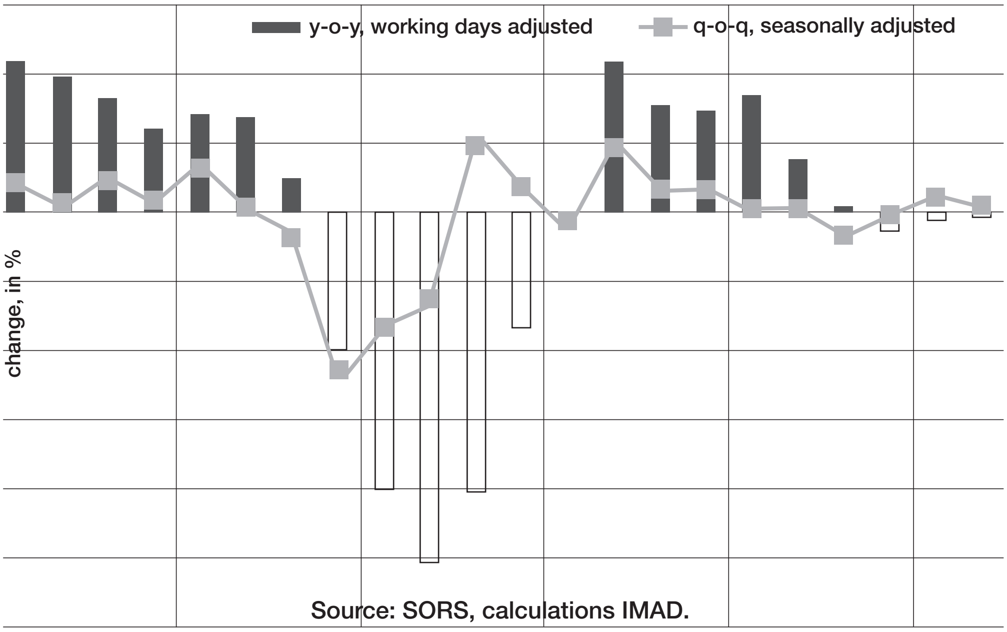
The industry sector represented approximately 24.5 per cent. of GVA in 2011, most of which was contributed by the manufacturing sub-sector (20.3 per cent. of GVA in 2011).

Manufacturing

Manufacturing, which represents over 90 per cent. of Slovenia's exports of goods, comprised 20.3 per cent. of GVA in 2011, of which metal production comprised 18.4 per cent., chemicals and pharmaceuticals 16.0 per cent., electrical and optical equipment 12.4 per cent., motor vehicles and other transport equipment 8.6 per cent., and machinery and equipment 7.0 per cent.

Following a deterioration in manufacturing output in the second half of 2008 and in 2009, which affected low-tech industries (specifically the textile, leather and furniture industries), medium low-tech industries (specifically the metal industry and the production of non-mineral products) and certain medium-high and high-tech industries (with the exception of the motor vehicle and pharmaceutical industries), the GVA of the manufacturing sector increased to €5.96 billion and €6.38 billion in 2010 and 2011, respectively, correlating with a gradual increase in foreign demand. The increase in output in 2010 (6.3 per cent. working days adjusted) was mainly led by medium-high and high-tech industries. Growth in 2010 was also recorded in medium low-tech industries, which mainly produce intermediate goods such as metal, rubber and plastics, while the output of low-tech industries stagnated. In 2011, the output increased, though at a slower pace (2.8 per cent. working days adjusted). Favourable trends in the medium-high and high-tech segments of the manufacturing sub-sector continued in 2011 (though at a reduced pace), while medium low-tech industries experienced negative growth caused by a decease in foreign demand. Low-tech industries, which started rising at the end of 2010, recorded relatively moderate growth in 2011. Foreign direct investments contributed to the positive trend in the medium-high and high-tech segments of the manufacturing sector.

The following chart sets out changes in manufacturing output production from January 2007 through to June 2012:



Construction

The construction sector experienced a further contraction of GVA in 2010 and in 2011. The GVA of this sector decreased from €2.46 billion in 2009 to €2.02 billion and €1.89 billion in 2010 and 2011, respectively, primarily due to a decrease in highway construction during the period (following a peak in 2008, when the majority of highway projects were completed) resulting in a decrease in civil engineering, a crises in the real estate market due to the contraction of residential construction and lower investment in non-residential construction. The contraction of the construction sector decreased in 2011 and 2012, but the level of output remains low. The number of bankruptcies of construction companies has risen over the last three years and the inventories of unsold housing contributes to low levels of construction activity. Housing construction has almost halved since 2008 and currently housing construction is at its lowest level in 15 years.

Inflation

As part of Slovenia's programme to join the Eurozone in 2007, Slovenia's rate of inflation was reduced to Eurozone inflation levels in 2005. Due to the sudden increases in international commodity and oil prices in 2007 and 2008, Slovenia's rate of inflation temporarily exceeded the average Eurozone rate of inflation. In the second half of 2008, however, Slovenia's rate of inflation fell significantly, from 6.9 per cent. to1.8 per cent., mainly due to a strong decline in oil and food prices in the global markets and, as a consequence, the rate of inflation differential with the Eurozone rate of inflation narrowed, falling below the Eurozone average rate in 2011. Slovenia's rate of inflation was generally low in 2010 and 2011, reaching approximately 2 per cent., driven principally by weak economic activity, and lower energy and food prices and excise duties.

The following table sets out the annual average 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 2007 to 2011 and the six months ended 30 June 2011 and 2012:

	Year ended 31 December					*Six months ended 30 June*	
	2007	*2008*	*2009*	*2010*	*2011*	*2011*	*2012*
				(%)			
Eurozone	2.1	3.3	0.3	1.6	2.7	2.7	2.4
Slovenia	3.8	5.5	0.9	2.1	2.1	1.6	2.4

Source: Eurostat.

Labour Market

Unemployment

At the beginning of the global financial crisis, Slovenia recorded the fifth lowest total unemployment rate among the 27 EU member states (4.4 per cent. in 2008), according to Eurostat.

From 2008 to 2011, the employment rate (of those aged 15–64 years) dropped by 4.2 percentage points. In 2011, the employment rate averaged approximately 64.4 per cent., which is slightly above the EU average. The average number of employees in 2011 was 5.5 per cent. fewer than in 2008. Employment most notably declined in the construction and manufacturing sectors, which is reflected in an above-average decline in the employment rate of young and low-skilled people, particularly men. The unemployment rate increased by 3.8 percentage points from 2008 to 2011. In 2011, the average unemployment rate stood at 8.2 per cent., below the EU average of 9.7 per cent., according to Eurostat. Due to the economic crisis and widespread use of temporary employment among youth, youth unemployment rates (age 15–24 years) increased by 5.3 percentage points in the 2008–2011 period and reached 15.7 per cent. in 2011. Despite the increase, the youth unemployment rate is still lower than the EU average of 21.3 per cent., according to Eurostat.

The government responded to the deteriorating situation in the labour market by enhancing active employment policy programmes and enacting two intervention acts. The Subsidising of Full-Time Work Act and the Partial Reimbursement of Payment Compensation Act, 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 the employees on temporary layoff. The government also provided subsidy schemes for shorter working hours and temporary layoffs. The government believes that these acts, taken together, contributed to Slovenia's relatively modest decline in employment in 2009 compared to the decline in economic activity. Unemployment in Slovenia in 2009 was more moderate relative to output losses compared to other Eurozone countries.

Although the labour market deteriorated during the economic crisis, unemployment continues to be substantially lower than the Eurozone average. In 2011, the unemployment rate was 8.2 per cent., compared to the average Eurozone unemployment rate of 10.1 per cent. The employment rate of those aged 15–64 years also remained above the Eurozone average during the crisis.

Slovenia's labour force is one of the most productive and best educated among the EU member states that joined during or after 2004. Labour productivity, measured as GDP per employee, was the fourth largest among this group of member states in 2010. The share of the population between 25–64 years with tertiary education has grown steadily and was the fifth highest among the new EU member states in 2011 and also higher than in Austria and Italy. Among the adult population, 84.5 per cent. has attained at least secondary-level education.

The following table sets out the average rate of unemployment and certain statistics about education for the years ended 2007 to 2011 and the six months ended 30 June 2011 and 2012:

	2007	*2008*	*2009*	*2010*	*2011*	*Six months ended 30 June* *2011*	*2012*
		Year ended 31 December					
		(amounts in thousands, except for percentages)					
Statistical survey of unemployed persons (ILO methodology) data[(1)]							
Total labour force	1,036	1,042	1,042	1,042	1,020	1,017	1,003
Employed	985	996	981	966	936	938	920
Unemployed	50	46	61	76	84	79	82
Change in the total number of unemployed	(11)	(4)	15	15	8	6.7	3.8
Unemployment rate (%)	4.9	4.4	5.9	7.3	8.2	7.8	8.2
Share of adult population with at least upper-secondary school education (%)	82.3	82	83.3	83.3	84.5	N/A[(2)]	N/A[(2)]
Share of adult population, aged 25-64 years, with tertiary education (%)	22.9	22.6	23.3	23.7	25.1	N/A[(2)]	N/A[(2)]
Labour Office register[(1)]							
Unemployed	71	63	86	101	111	114	107
Change in the total number of unemployed	(16.9)	(8)	23	15	10	5.5	(6.7)
Unemployment rate (%)	7.7	6.7	9.1	10.7	12.3	11.4	11.5

Sources: SORS, Rapid Reports No. 37/2008, 35/2009, 21/2011 and 19/2011. Statistical releases, Labour market 17 August 2011, 6 April 2012 and 17 August 2012, Labour survey results 2nd quarter 2012, 31 August 2012.

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 datacovers 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 is compiled on the last day of the month while Survey data is 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 not yet available.

Wages

The following table sets out average monthly wages and its growth in real terms for the years ended 31 December 2007 to 2011 and the six months ended 30 June 2011 and 2012:

	2007	*2008*	*2009*	*2010*	*2011*	*Six months ended 30 June* *2012*
		Year ended 30 December				
		(€, except for percentages)				
Average gross monthly wages	1,284.79	1,391.43	1,438.96	1,494.88	1,524.65	1,501.40
Real growth rate in %	2.2%	2.5%	2.5%	2.1%	0.2%	(1.5%)[(1)]
Private sector	1,170.26	1,261.17	1,281.52	1,353.41	1,388.65	1,366.71
Real growth rate in %	2.3%	2.0%	0.7%	3.7%	0.8%	(1.5%)[(1)]
Public sector	1,511.45	1,658.26	1,746.24	1,760.91	1,778.45	1,775.81
Real growth rate in %	3.2%	3.8%	4.4%	(0.9%)	(0.8%)	(1.7%)[(1)]

Source: SORS.

Note:

(1) This percentage change reflects the change from the period of January to June 2011 to the period of January to June 2012.

From 2009 to 2011, growth in average gross wages was strongly affected by the global economic crisis, a rise in the minimum wage, a new system of wages in the public sector and government austerity measures. The rise in the average gross wage per employee by 2.1 per cent. in real terms in 2010 and by 0.2 per cent. in 2011 is attributable to growth in private sector wages due to a rise in the minimum wage. In the public sector, growth in wages levelled-off in 2010 and 2011 due to government austerity measures, which have been gradually implemented since 2009, aimed at addressing general economic and public financing conditions. A decrease in wages has continued into 2012, due to declining economic conditions and fiscal austerity measures. In real terms, the average gross monthly wage in the six months ended 30 June 2012 decreased 1.5 per cent. compared to the corresponding period of 2011. As a part of planned austerity measures, public sector wages will be decreased during the remainder of 2012 and in 2013.

In response to these trends, at the end of 2011, the National Assembly passed an Act for Additional Intervention Measures for the Year 2012 (*Zakon o dodatnih interventnih ukrepih za leto 2012*) which froze public sector wages, pensions and subsidies to households until mid-2012. An amendment to this Act was passed by the National Assembly on 17 April 2012, with the aim of stabilising public finances through changes to holiday allowances payable to public sector employees and those in companies where the state or a local government hold a share exceeding 25 per cent. See also "*Public Finance – Consolidated General Government Sector"*.

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*) (the "**Fiscal Balance Act**"). Following three prior agreements on wages between the government and the public sector trade unions between 2006 and 2011, a new agreement on wages (the "**Trade Union Agreement**") was reached in May 2012, together with the Fiscal Balance Act. The Fiscal Balance Act decreased wages in the public sector by 8 per cent. for all public employees, and at the same time implemented limited wage corrections in relation to the elimination of wage disparities agreed as part of the public wage reform in 2008. The total wage bill decreased by 3 per cent. as a result of these measures. The average wage in the public sector is estimated to decrease by 2.3 per cent. over the course of 2012.

These measures also reduced other remuneration and compensation to civil servants (such as selective disbursement of holiday benefits, reimbursement for transportation to and from work, reimbursement of meals during work hours, jubilee awards, severance pay at retirement, daily allowances for business trips abroad and at home, payments for working abroad and allowances for the use of a private car for business purposes). In addition, regular performance-related bonuses will continue to be suspended and work load-related bonuses for civil servants will be further restricted until the end of 2013. It has also been agreed that in the same period wages will not be adjusted with inflation. See "*Public Finance – Consolidated General Government Sector*" and "*Public Finance – Fiscal Policy and Reform*".

Certain provisions of the Fiscal Balance Act which relate to salaries, benefits and mandatory retirement of public employees are currently being challenged in the Constitutional Court. See "*Public Finance – Central Government Budget*". If any of the measures are reversed by the Constitutional Court, it is expected that the government will propose alternative measures to achieve a similar financial effect.

Currently, the government is negotiating with trade unions and employers' associations to outline a new Labour Relations Act which primarily seeks to reduce segmentation in the labour market by limiting the possibilities for the use of temporary employment contracts and by introducing a progressive increase of notice periods and severance pay throughout the period of employment. Together with measures to simplify the procedures for terminating employment and disciplinary proceedings, to reduce the length of notice periods and amounts of severance pay for long-term permanent contracts and to decrease the difference in rights arising from different forms of employment contracts, this will enable an improved balancing of employee security and flexibility in the labour market. The government aims to present the draft act to parliament in time for it to be enacted in early 2013.

Pending Reforms relating to Pensions, Government Privatisation and Bank Recapitalisation

Pension and Disability Expenditures and Revenues Reforms

In order to cope with the financial consequences of an ageing population, Slovenia introduced a set of reforms for the pay-as-you-go pension system in 1999. These reforms include raising the pension age, stabilising the wages-to-pension proportion at a lower level and providing for the introduction of both second and third pillar funded pension insurance schemes. The reforms of 1999 were upgraded by pension reforms (the "**Pension Law**"), adopted in December 2010, which raised the pension entitlement age from 60 to 65 and streamlined the list of expenditures by paying pensions to certain categories of extraordinary recipients directly from the state budget rather than through the pension fund.

However, the enactment of the Pension Law was challenged in January 2011 by the trade unions, which called for a public referendum. As a result of that referendum, held on 4 June 2011, the Pension Law did not come into force, and Parliament was prohibited from passing amendments to the Pension Law that would be contrary to this referendum decision for a period of 12 months. Nevertheless, the new government has already taken steps towards managing pension expenditure by reducing pension-related payments. These steps are expected to lead to a reduction in the government deficit by 0.2 per cent. of GDP in each of 2012 and 2013. Following the end of the post-referendum moratorium which occurred on 4 June 2012, the government now aims to take further steps towards achieving a sustainable system of financing pensions. The government is in the process of negotiating certain features of the Pension Law with its social partners (i.e. trade unions and employers' associations) in order to decrease the chances of another referendum. It intends to present the law to the Parliament in order for the Pension Law to be in force by January 2013. The implementation of the law is intended to stabilise total pension expenditures at their current level for at least a 10-year period.

The goals of the proposed act are to: (i) ensure greater transparency; (ii) ensure a stronger link between paid-in contributions and paid-out benefits; (iii) extend the pension rating base; (iv) reassess the formula for the valuation of past earnings and reduce the indexation of paid-out benefits pensions; (v) raise the effective retirement age by increasing the required years in employment to 40; (vi) include more flexible forms of retirement such as partial retirement; (vii) modernise the supplementary pension system in order to raise participation as well as funds; and (viii) ensure greater supervision over the operation of pension funds.

The following table sets out revenues, transfers and expenditures of the Pension and Disability Insurance Institute of Slovenia (the "**Pension Institute**") for the years 2007 to 2011 as well as a budgeted figure for 2012:

	Year ended 31 December					
	Actual					*Budget*
	2007	*2008*	*2009*	*2010*	*2011*	*2012*(1)
	(€ millions, except for percentages)					
Revenues from contributions, capital income and sundry	3,006	3,335	3,367	3,469	3,449	3,473
as % of GDP	8.7	8.9	9.5	9.8	9.7	9.7
Transfers from central government budget	1,058	1,145	1,287	1,336	1,500	1,485
as % of GDP	3.1	3.1	3.6	3.8	4.2	4.2
Expenditures	4,064	4,480	4,654	4,805	4,941	4,958
as % of GDP	11.8	12.0	13.2	13.6	13.9	13.9

Source: 2007–2011: Pension Institute Financial Report; 2012: central government budget.

Note:

(1) Certain pensions and supplements are paid through the central government budget as direct obligations of the government but through the Pension Institute. Additionally, the government is obliged by law to cover any gap between regular revenues of the Pension Institute and total expenditures.

Consolidated Government Holdings

On 28 September 2012, the National Assembly adopted the law on Sovereign Holding, which consolidates all assets which are currently under state ownership into a newly established fund under the ownership and control of the government. The purpose of the law is to help maximise the value of and return on these investments. Subsequently, the law was voted on by the National Council and was returned to the National Assembly for another vote which will require 46 affirmative votes to pass. During this time, trade unions representing the energy sector and the government sector requested that the president of the National Assembly allow them to begin procedures necessary to pass the law through referendum.

Under the terms of the law, state owned assets will be divided into three categories, being strategic, portfolio and distressed. Strategic assets will continue to be held and managed by the newly established fund on behalf of the government, although the government may reduce its ownership share. Portfolio assets will be treated as freely tradable, where the government will look to dispose of the asset for a reasonable return. Distressed assets will undergo a restructuring prior to their being disposed of.

Bank Recapitalisation

On 3 October 2012, the National Assembly adopted a law to strengthen the stability of the banking sector. Subsequently, the law was voted on by the National Council and returned to the National Assembly for another vote which will require 46 affirmative votes to pass. A trade union representing employees in the chemical industry requested that the president of the National Assembly allow them to begin procedures necessary to pass the law through referendum.

The purpose of the law is to deal with non-performing loans and distressed assets on the banks' balance sheets. Under this new law, Bank Assets Management Company ("**BAMC**"), and a Bank Stabilisation Fund ("**BSF**") were established for the purpose of implementing measures to strengthen the stability of the banking sector in a manner that will ensure the efficient use of public funds and the recovery of the public funds engaged in the operation of the banks, promote lending to the non-financial sector, support the privatisation of banks and assess responsibility for bad assets.

Measures provided for under the law aimed at strengthening the stability of the banks, include: (i) the purchase or amortised acquisition of assets of banks and the management of these assets in BAMC; (ii) government guarantees (limited by law to a maximum of €4 billion) to strengthen the stability of banks, namely for assumed obligations of BAMC, and for obligations of the special purpose vehicles set up by the banks to assume certain of their risks; (iii) increasing the share capital of banks; and (iv) measures to ensure emergency liquidity assistance. The use of measures may be proposed by (a) the BAMC on its own initiative, (b) a bank itself, or (c) the Bank of Slovenia.

As part of these measures, Slovenia will keep, at most, a 25 per cent. and one share in both Nova Ljubljansk banka and Nova Kreditna banka Maribor. Additionally, due diligence and bottom-up stress tests have been performed on both banks by the European Resolution Capital partners.

No significant cash contributions from the central government budget were included in these measures, as any potential purchase of non-performing loans is expected to be paid for by government-guaranteed bonds issued by BAMC.

PUBLIC FINANCE

General Government Sector

According to the Slovenian business registry (the Agency of Slovenia for Public Legal Records and Related Services), there were 2,681 spending units in the general government sector as at 31 December 2011.

The central government, a sub-sector of the general government, comprised 538 spending units – 174 direct central government recipients or providers of budget funds, 10 "State Funds", one "Restitution Fund", 11 public agencies, 11 public companies and 331 other public institutions including hospitals, high schools and universities. The local government, another sub-sector of the general government, comprised 2,140 spending units – 1,096 direct local government recipients or providers of budget funds (211 municipalities and 885 local communities), 10 public funds, 10 public companies and 1,024 other public institutions including primary schools, kindergartens, museums and libraries.

There are also specially allocated "Social Security Funds" which are comprised of three spending units: the Health Insurance Institute of Slovenia (the "**Health Fund**"), which is responsible for collecting and distributing mandatory health insurance funds, the Pension Institute, which is responsible for collecting and distributing mandatory pension and disability insurance funds, and the Slovenian Capital Fund, which is responsible for managing 10 per cent. of "social capital" (i.e. shares in companies), that were privatised in the early 1990s and allocated to the fund in order to support the pension system.

Budgetary Process

The fiscal year in Slovenia is the calendar year. Slovenia's central government budget is prepared for a period of at least two years. 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 Parliament 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 Decree on Strategic Development Documents and on the Bases and Procedures for Preparation of a Proposed Central Government Budget (the "**Decree**") addresses the preparation of the strategic development documents of the state, the formulation and determination of national development priorities, the preparation of the central government budget memorandum and determination of fiscal rules (the framework of public finance expenditures) and the procedures and documents required for the preparation of a proposed central government budget as well as proposed amendments and revisions to the central government budget and other documents connected with these acts.

According to the Decree, the first budget session of the government is to be held before 15 May of each year, at which time the government decides on the budget memorandum presentation; harmonisation and determination of the overall framework of budget expenditures by economic classification for the following four-year period; the target amounts of a deficit or surplus as well as the target level of national debt for the period; and the harmonisation and determination of budget expenditures by policies for the following two years and indicatively for a further two years. After the harmonisation of budget expenditures is addressed in separate government working groups, the second budget session of the government is held before the end of June, at which time the government determines the distribution of budget expenditures by policies down to the level of sub-programmes and the distribution of financial plans by the ministries, government offices and other spending units. The decisions at the second session do not affect the overall level of proposed budget expenditures determined at the first session. Proposed financial plans are then submitted to the Ministry of Finance before 15 August and the central government budget memorandum and proposed central government budget are submitted by the Ministry of Finance to the government before 20 September.

Prior to 1 October of each year the government must submit to Parliament the following documentation: (i) the proposed central government budget, together with explanatory notes, as well as the proposed laws required to implement it; (ii) any disposals of financial and physical assets for budgetary purposes; (iii) the proposed financial plans for the subsequent year of the Health Fund, Pension Institute, public funds and agencies funded by the central government, together with explanatory notes; and (iv) proposed job allocation schedules and plans for capital purchases.

Direct spending units are also required to draft reports on their objectives and previous years results by 28 February and submit them to the Ministry of Finance, which then submits them to the Government. The cabinet must submit these reports to Parliament together with the proposals above before 1 October.

Together with the above, the government must also submit the final report of the Court of Audit of the Republic of Slovenia (the "**Court of Audit**") to Parliament. In accordance with the Constitution, the Court of Audit is the highest body for supervising state accounts, the state budget and all public spending in Slovenia. The Constitution provides that the Court of Audit is independent in the performance of its duties.

The Rules of Procedure of the Parliament govern the adoption of the budget by Parliament and require that the budget come into force by 1 January of the year to which it relates. If the central government budget is not adopted in time, temporary financing must be provided on the basis of the budget for the preceding year. During any period of temporary financing, appropriations may be used in proportion to the level of funds provided in the same period of the preceding year.

The Public Finance Act also regulates the preparation of, and procedures governing, municipalities' budgets and for other entities of the general government in a manner identical to the rules governing the central government budget. See "*The Slovenian Economy – Wages*" for more information.

Consolidated General Government Budget

Since 2004, Slovenia has used the ESA95 methodology for the purposes of consolidating the general government budget in order to comply with its EU accession obligations. ESA95 is an accrual-based methodology that is also used for the evaluation of the fulfilment of the Maastricht Treaty criteria for EMU membership.

The following table sets out the consolidated general government revenues and expenditures for the years 2008 to 2011 and budgeted revenues and expenditures for 2012 (according to ESA95 methodology):

	Year ended 31 December				
	Actual				*Budget*
	2008	*2009*	*2010*	*2011*	*2012*
	(€ millions, except for percentages)				
Total Revenue	15,796.8	15,257.5	15,670.2	15,895.5	15,922,5
Total Expenditure	16,491.6	17,403.1	17,972.2	18,148.6	17.187.5
General government balance	(694.8)	(2,145.6)	(2,127.1)	(2,289.1)	(1,265.0)
as % of GDP	(1.9)	(6.0)	(5.9)	(6.4)	(3.5)

Source: Slovenia Excessive Deficit Procedure ("**EDP**") Report, April 2012.

The key drivers behind the increased budget deficit in 2011 (calculated accordingly to ESA95 methodology) were lower than forecasted economic growth coupled with non-recurring and extraordinary expenditures that amounted to €459 million, or 1.3 per cent. of GDP. These non-recurring payments included capital increases in Nova Ljubljanska Banka (€243 million), Adria Airways (€49 million), Peko, d.d. (€6 million) and Nafra Lendava (€10 million). The increase in the deficit was also caused by the assumption of claims of Slovenian Railways in the amount of €119 million, a payment of €20 million of guarantees due and assumption of debt of a public company for the construction of a power plant on Riva Sava INFRA, d.o.o. in the amount of €10 million.

The deficit target for 2012 may be challenged by lower than expected revenues due to a worse than expected economic environment as well as unforeseen non-recurring expenditures for any bank recapitalisation. Nevertheless, the structural adjustment to the general government deficit was estimated at 1.8 per cent. of GDP.

The following table sets out the sub-sector balances of the general government budget for the years 2008 to 2011 and budgeted values for 2012 (according to ESA95 methodology):

	Year ended 31 December				
	Actual				*Budget*
	2008	*2009*	*2010*	*2011*	*2012*
	(€ millions, except for percentages)				
Central government balance	(470.5)	(1,797.6)	(1,853.4)	(2,280.9)	(1,228.5)
Local government balance	(239.5)	(203.9)	(141.3)	(29.1)	(21.0)
Social security funds balance	(15.2)	(144.1)	(132.4)	(20.9)	(15.5)
General government balance	(694.8)	(2,145.6)	(2,127.1)	(2,289.1)	(1,265.9)
as % of GDP	(1.9)	(6.1)	(6.0)	(6.4)	(3.5)

Source: EDP Report, April 2012.

Slovenia has a wide range of social programmes which is reflected in a relatively high share of government expenditure as a percentage of GDP. These programmes have become increasingly scrutinised as the government is increasing efforts to make the budget more flexible in order to improve long-term sustainability of public finance. General government expenditures as a percentage of total GDP declined in the period from 2004 to 2008, but the percentage has been increasing since 2008. Tax revenues as a percentage of GDP declined in 2008 as a result of certain tax reforms, and in 2009 as a result of the global financial crisis. The trend began to reverse in 2009 due to a lower GDP basis and an increase in the use of EU funds.

Slovenia has reformed its tax system (see "*Fiscal Policy and Reform – Tax system and reform*" *and* "*– Taxation and Taxation Policy*") and introduced measures to reduce government expenditures to improve the competitiveness of its economy in recent years. From 2004 to 2008, general government expenditure as a percentage of GDP steadily declined. As a result of sound fiscal policy and strong economic performance, fiscal consolidation gained momentum in 2007 and the general government budget for the year was balanced. In 2008, the general government budget deficit rose to 1.9 per cent. of GDP, mostly due to the global financial crisis and an increase in investment expenditure at the local level, which is a result of increased investments using EU funds in 2008 and 2009. In 2009, the deficit rose to 6.1 per cent. of GDP. The central government budget contributed 5.5 per cent. to this deficit, of which approximately 2.7 per cent. was caused by revenue shortfalls, particularly in lower corporate income tax receipts primarily due to a drop in economic activity. Additionally, in 2009 the payroll tax was abolished, which resulted in a lower revenue in taxes on the payroll and workforce. 1.6 per cent. of the deficit was caused by the discretionary use of instruments adopted to address the impact of the global financial crisis in Slovenia, which include subsidies for retaining jobs, various guarantee schemes for company crediting, self-employment subsidies and an increase in the minimum wage. A further 1.2 per cent. was due to automatic stabilisers such as unemployment benefits which, due to the global financial crisis, were required in amounts far exceeding those budgeted for in 2009.

In 2010, the general government budget deficit was slightly lower at 6.0 per cent. of GDP. In 2011, the deficit rose to 6.4 per cent. of GDP, with one-off measures accounting for 1.3 per cent. of the deficit, including the €243 million recapitalisation of Nova Ljubljanska banka, and in other Slovenian companies such as Adria Airways, Peko and Nafta Lendava, as well as continued payments of guarantees due for Slovenian railways, and contributions to the first Greek bailout programme of €140 million. In 2012, the newly elected government adopted a comprehensive fiscal consolidation package, which includes structural decreases in public expenditures. As a result, the deficit is projected to decline to 3.5 per cent. of GDP and decline further to 2.5 per cent. of GDP in 2013. See "*The Slovenian Economy – Pending Reforms Relating to Pensions, Government Privatisation and Bank Recapitalisation*" and "*– Fiscal Policy and Reform*" for more information.

In the context of a rapidly changing macroeconomic environment, two supplementary budgets were passed for the fiscal year 2009, one for 2010 and two for 2011. The effects of the global financial crisis, including lower tax revenues and a temporary increase in expenditure, are being partially offset by (i) an increase of excise duties, (ii) public sector wage restraint and (iii) a strict overhaul of general and investment expenditure. The budgets for 2010 and 2011 were heavily affected by the global financial crisis and the consequent slowdown and decrease in GDP growth.

At the end of 2011, the National Assembly passed the Act for Additional Intervention for the Year 2012 (*Zakon o dodatnih interventnih ukrepih za leto 2012*) (the "**Act for Additional Intervention**") which froze public sector wages, pensions and subsidies to households until mid-2012. An amendment to this Act was passed by the National Assembly on 17 April 2012, with the aim of stabilising public finances through changes to holiday allowances payable to public sector employees and those in companies where the state or a local government hold a share exceeding 25 per cent. On 11 May 2012 the National Assembly passed both a supplementary budget as well as the Fiscal Balance Act. The aim of the Fiscal Balance Act is to achieve the levels of budget revenues and expenditures set out in the supplementary budget, as well as achieve a decrease in central government budget expenditure, local government expenditure and the expenditure of the social security funds.

Certain provisions of the Act for Additional Intervention which relate to salaries, benefits and mandatory retirement of public employees were designed to be temporary and are no longer in effect.

On 2 March 2012, Slovenia, 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 (the "**Treaty**") (as stipulated by the November 2011 revised Stability and Growth Pact) which, *inter alia*, requires the signatories to achieve a balanced or surplus budgetary position for the general government. In order to execute this undertaking in a manner consistent with the Treaty, on 11 April 2012, the National Assembly, by a majority exceeding two-thirds of its members, accepted the government's proposal to initiate the procedure required for the amendment of Article 148 of the Constitution in order to introduce a rule on balanced public finances (the "**Fiscal Rule**"). Accordingly, a constitutional committee has been appointed by the National Assembly, which has the responsibility of preparing a proposal regarding amendments to the Constitution to be submitted for a vote by the National Assembly. The Government's proposal also envisages the passing of an act on the implementation of the Fiscal Rule, which will also require a vote of at least two-thirds of all members of the National Assembly.

Prior to the 2011 election, there appeared to be a consensus among political parties to adopt the Fiscal Rule by way of a constitutional amendment. Two main opposition parties, however, opposed the constitutional amendment and suggested a lower-level statutory basis (which required a simple majority vote). During the summer of 2012, a special working group agreed the substance of the law. Despite significant co-operation and compromise, the lack of support for a constitutional amendment on the Fiscal Rule persisted. Nevertheless, public opinion is currently in favour of adopting the Fiscal Rule and the government believes the Fiscal Rule will be adopted by constitutional amendment in the short to medium term.

Central Government Budget

The following table sets out the actual revenues and expenditures of the central government budget[1] for the years 2007 to 2011 and budgeted revenues and expenditures for 2012 (on a cash basis):

	Year ended 31 December					
	Actual					*Budget*
	2007	*2008*	*2009*	*2010*	*2011*	*2012*[2]
	(€ millions)					
Current revenues	7,432.60	8,154.62	6,918.63	6,810.51	7,005.19	7,017.84
Taxes on income and profit	2,032.48	2,514.45	1,782.06	1,353.51	1,581.71	1,473.51
Individual income taxes	919.24	1,257.42	1,069.83	902.10	912.50	853.00
Corporate income tax	1,113.24	1,257.04	712.23	448.60	667.64	618.92
Other taxes on income and profit	0.00	0.00	0.00	2.80	1.57	1.60
Social security contributions	48.38	53.46	55.20	54.92	54.55	54.18
Taxes on payroll and workforce	418.14	258.04	28.49	28.08	29.24	29.07
Domestic taxes on goods and services	4,434.35	4,737.49	4,594.97	4,718.97	4,796.54	4,883.35
Taxes on international trade and transactions	117.08	120.09	90.53	90.70	100.25	100.50
Other taxes	1.98	1.80	2.80	2.80	11.70	12.82
Non-tax revenues	380.19	469.28	364.58	561.33	430.48	458.69
Capital revenues, grants and transfer revenues	20.09	17.22	17.16	15.74	15.96	35.98
Receipts from EU	347.25	363.23	594.93	723.30	812.20	888.61
Total revenues	7,799.94	8,535.07	7,530.72	7,549.56	7,833.34	7,942.42
Current Expenditures						
Wages and contributions	1,030.56	1,155.15	1,228.76	1,237.54	1,227.92	1,136.61
Goods and services	788.36	864.36	838.88	822.73	738.52	668.79
Interest payments	350.85	326.14	326.45	476.69	510.63	668.71
Reserves	67.95	89.20	18.22	25.20	49.54	138.47
Subsidies	403.47	454.52	573.40	551.60	459.37	408.20
Transfers to individuals and households	961.62	1,041.25	1,267.71	1,344.02	1,449.91	1,416.06
Unemployed allowances	96.12	91.54	176.44	216.32	286.25	271.55
Child allowances	488.83	558.85	603.94	617.62	630.7	588.30
Social assistance allowances	143.71	135.95	170.69	178.18	175.47	236.23
Other transfers to individuals and households	232.97	254.90	316.64	331.90	357.72	319.97
Transfers to organisations and institutions	2,941.69	3,130.01	3,470.15	3,494.96	3,699.11	3,434.17
Current transfers to pension fund	383.52	445.50	459.23	444.29	441.04	339.36
Supplementary transfers to pension fund	644.58	666.40	778.53	841.85	1,001.60	1,055.26
Current transfers to public institutions	1,629.49	1,749.46	1,857.14	1,841.56	1,858.71	1,653.84
Other transfers to organisations and institutions	284.10	268.65	375.26	367.27	397.76	385.70
Capital expenditure	539.41	495.47	448.78	370.19	322.50	252.84
Capital transfers	323.07	486.02	647.87	560.45	500.19	486.70
Payments to EU budget	355.90	427.92	439.30	396.78	405.14	403.36
Total expenditure	7,762.89	8,470.05	9,259.52	9,280.17	9,362.82	9,013.91

	Year ended 31 December					
	Actual					Budget
	2007	*2008*	*2009*	*2010*	*2011*	*2012*[(2)]
	(€ millions)					
Budget surplus/deficit	37.05	65.02	(1,728.80)	(1,730.61)	(1,529.48)	(1,071.49)
Primary surplus/deficit	376.81	360.65	(1,417.14)	(1,299.33)	(1,050.23)	(444.78)
Lending minus repayments	460.21	(91.19)	(282.91)	(181.77)	(688.96)	(196.48)
Borrowing	849.64	1,016.16	4,739.49	2,524.96	3,885.90	2,291.51
Amortisation of debt	922.93	1,251.97	848.80	1,730.37	960.39	1,273.55
Changes in cash and deposits	423.96	(261.99)	1,878.98	(1,117.80)	707.07	(250.00)
Net financing	(37.05)	(65.02)	1,728.80	1,730.61	1,529.48	1,071.49

Source: Ministry of Finance, Central Government Budget.

Notes:

(1) The methodology used for compiling the general government budget and debt data within the EU is the ESA95 accrual-based statistical methodology. However, as innumerous other EU member states, annual budgets are presented and approved based on a cash-based methodology.

(2) Supplementary budget passed by the National Assembly on 11 May 2012.

Central government budget revenues in recent years show a significant shift in 2009 due to a decrease in economic activity. Additionally, corporate income tax was lowered considerably and the payroll tax was abolished. On the expenditure side, measures have been taken to contain expenditures on wages and subsidies.

Between 2009 and 2012, Slovenia has been allocated €4.85 billion in funds from various EU programmes. Of this amount, 49 per cent. has been utilised. The majority of funds provided by the EU are through the operational programmes for structural funds (the regional development, social fund and cohesion fund), migration funds, and two structural funds funded by Norway and Switzerland. 29 per cent. of allocated EU funds is dedicated to agricultural programmes, the majority of which have funded and will continue to fund Slovenia's rural development programme between 2007 and 2013.

The approved budget for 2012 (supplemented in May 2012) introduces significant cuts in expenditure, mostly in labour cost in the public sector and various cuts in welfare allowances (such as pensioner allowances, child and parental allowances, and meal and transport allowances for employees). A smaller portion of the measures are aimed at increasing revenues (including, amongst other items, an additional 50 per cent. personal income tax bracket for 2013 and 2014, increased excise duties on oil, tobacco and alcohol, taxation of vessels and motor vehicles and immobile property of higher value).

Budget proposals for 2013 and 2014 were submitted to Parliament for adoption by the government on 4 October. Both budgets are based on the latest macroeconomic assumptions published by the Institute of Macroeconomic Analysis and Development ("**IMAD**") on 21 September 2012. The broad targets remain within the EU recommendations. The central budget deficit is planned at 2.8 per cent. of GDP in 2013 and at 2.5 per cent. of GDP in 2014. The budget already takes into account the implementation of structural reforms, some of which have already been agreed as well as a lower wage bill in the public sector (due to rationalisation, retirements and dismissals). On the revenue side, there are proposals for minor changes in the VAT system (shifting particular items from a lower to a general rate), financial services taxation, increased environmental taxation, increased taxation of rental income, and dismantling of some special allowances in personal income taxation. At the same time, the tax burden on middle income will be reduced by widening the middle bracket in income taxation, corporate income tax rate will be reduced to 17 per cent. in 2013 and 16 per cent. in 2014, and an administrative simplification of taxation of small entrepreneurs' income will be introduced.

Overall, the government strategy for reduction of the deficit in line with the Stability Programme that aimed at reducing it below 3 per cent. of GDP by 2013, is frontloaded and mainly expenditure based. The measures include:

(i) a reduction of public sector administrative costs, primarily by downsizing a number of government institutions and other organisational changes, strengthening control over expenditure and reducing transfers from the central government budget to local governments;

(ii) changes in the scope and quantity of public sector activities, changes in the financing of higher education, and lowering public sector wages and reducing certain benefits and reimbursements to employees;

(iii) a reduction in expenditure for certain programmes and policies (mainly the financing of infrastructure and housing), lower subsidies to the non-financial sector, a temporary reduction to pensioners' benefits (separate from the entitlements based on paid social contributions) and reductions in certain entitlements related to the labour market;

(iv) reforms to current social security measures, which include no-indexation of pensions and a reduction of annual allowance for pensioners; and

(v) parental protection and family benefits cuts including cuts in child benefits for higher income families, no adjustment of child benefits, abolishment of no-charge nursery for second child, lower nursery school co-financing, lower school meals subsidies and a student work concession fee, stricter standards in national scholarships, a national housing saving scheme subsidy, the abolishment of paid sick leave for the unemployed and entitlements for war veterans', and a reduction in co-financing for persons working in churches.

Although it is likely there will be a negative impact on economic growth from some of these measures in the short term, the aim is to achieve positive growth in the medium term, primarily through improved conditions and country reputation encouraging higher foreign investment, better financing conditions and improved credit position.

Fiscal Policy and Reform

The 2012 Stability Programme

Since 2006, Slovenia has had in place a stability programme (the "**Stability Programme**") in accordance with relevant EU Council regulations. The most recent update of the Stability Programme was in April 2012, at which time the government submitted it to the European Commission and the EU Council. At the end of May 2012, the European Commission presented a recommendation for delivering an EU Council opinion on the Stability Programme, which included recommendations in respect of Slovenia's Stability Programme. The European Commission will review Slovenia's progress in meeting the recommendations in autumn through bilateral meetings. The European Commission has noted that Slovenia's deficit reduction programme, which currently runs through 2013, is based on measures which have already been adopted and which would slightly exceed the EU Council's recommendations. In its assessment of the national reform programme, the European Commission noted that no major structural reforms were taken by the government in 2011. The latter part of the year was marked by early elections following which the incumbent (caretaker) government took only temporary measures. Following the early elections of December 2011 and the establishment of a governing coalition in February 2012, Slovenia believes it is now in a position to address necessary structural reforms.

The overall economic policy goal of the 2012 Stability Programme is to achieve a permanent general government structural balance and to create an environment encouraging stable economic growth in 2012 and 2013. The government believes that broad structural balance can be achieved by 2015.

The key fiscal policy objectives for the programme period include:

(i) a reduction of the general government deficit below 3.0 per cent. of GDP by 2013 as required by the Stability and Growth Pact and related EU Council recommendations;

(ii) structural balance by the end of the programme period;

(iii) a strengthening of the financial sector through bank recapitalisation, envisaged without participation of budgetary funds, and a strengthening of banks' balance sheets;

(iv) structural reforms in the labour market, pension and health insurance; and

(v) setting a favourable environment for economic activity and job creation by reducing administrative restrictions for economic activity, actively supporting domestic and foreign investments and reducing a relatively high tax burden on labour and economic activity.

Public reaction to recent reform measures

The implementation of these measures requires the co-operation of social partners (such as employers' associations and trade unions), and the government has already commenced a dialogue with these entities. To ensure that the fiscal consolidation targets are achieved, the proposed measures include additional buffers to absorb the effects of lower than expected economic growth and compromises in negotiations with social partners. The supplementary budget and the Fiscal Balance Act were the first acts aimed at implementing these measures. Despite continued dialogue with social partners, on 18 April 2012 public sector workers held a general strike.

On 10 May 2012, a day before the supplementary budget and the Fiscal Balance Act were passed by the National Assembly, the government and the co-ordination committee of the 33 representative public sector trade unions reached an agreement on the demands of the strike participants. The agreement included an undertaking by trade unions to neither initiate a referendum on the supplementary budget and the Fiscal Balance Act nor to support any similar activities. The government and the trade unions also reached an agreement on the payment of wages for the period of the strike and an agreement amending the provisions of the Fiscal Balance Act which would have an impact on the public sector (including, for example, on wages, benefits and standards). Certain provisions of the Fiscal Balance Act, such as the adjustment of certain types of pensions, holiday benefits, transport remunerations and automatic severance of labour contracts with public employees that fulfil the conditions for full retirement, are currently being challenged in the Constitutional Court.

Although it is likely there will be a negative impact from some or all of the measures described above in the short term, the aim is to achieve positive growth in the medium term, primarily through improved conditions and country reputation encouraging higher foreign investment, improved financing conditions and increased economic growth.

Taxation and Taxation Policy

The following table sets out the main categories of general government revenue as a percentage of GDP in the respective periods from 2007 to 2011 and the budgeted revenue for 2012:

	Year ended 31 December					
	Actual					*Budget*
	2007	*2008*	*2009*	*2010*	*2011*	*2012*
	(€ millions, except for percentages)					
Personal income tax	1,804	2,185	2,093	2,039	2,054	2,006
as a % of GDP	5.2	5.9	5.9	5.8	5.8	5.6
Corporate income tax	1,113	1,257	712	449	668	619
as a % of GDP	3.2	3.4	2	1.3	1.9	1.7
Value Added Tax	2,907	3,145	2,838	2,941	2,992	3,033
as a % of GDP	8.4	8.4	8.0	8.3	8.4	8.5
Excises	1,158	1,213	1,415	1,439	1,462	1,503
as a % of GDP	3.4	3.3	4.0	4.1	4.1	4.2
EU funds	348	365	597	725	815	891
as a % of GDP	1.0	1.0	1.7	2.0	2.3	2.5

Source: Ministry of Finance, Consolidated General Government balances.

In 2006, Slovenia implemented a reform whereby tax on the payroll of companies was phased out gradually on an annual basis, and was completely abolished in 2009. At the same time, corporate and personal income taxes have been simplified and the rates and income brackets changed to help incentivise people to earn more. A dual tax system on personal income was introduced with a flat rate of 20 per cent. on income from capital gains. The corporate income tax rate was gradually reduced from 25 per cent. in 2006 to 20 per cent. in 2010. On 17 April 2012, the National Assembly approved amendments to the existing tax legislation to reduce the tax burden on enterprises, with the aim of increasing the competitiveness of the Slovenian economy. These amendments include: (i) increasing tax incentives for both legal and natural persons carrying on certain business activities (in particular, increasing the investment tax incentive from 30 per cent. to 40 per cent. of the total investment and increasing the research and development tax incentive from 40 per cent. to 100 per cent.); and (ii) a reduction of the nominal corporate tax rate to 18 per cent. for 2012, with subsequent reductions of 1 per cent. each year until a rate of 15 per cent. is reached in 2015. As a result of the structural reforms discussed above and low economic growth in general since 2009, the share of direct taxes is falling and the revenues from these sources are being supplemented by revenues from excise duties (mainly on fuel, alcohol and tobacco) and by increased efforts to implement the projects and programmes financed by EU funds.

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 Slovenia's outstanding general government debt as a percentage of nominal GDP as at 31 December 2007 to 2011 and estimated for 2012:

	As at 31 December					
	Actual					*Estimate*
	2007	*2008*	*2009*	*2010*	*2011*	*2012*[(1)]
	(€ millions, except for percentages)					
Outstanding general government debt	7,980.9	8,180	12,449.5	13,736.7	16,954.4	18,499.6
Nominal GDP	34,562.35	37,279.53	35,310.62	35,415.79	35,638.55	35,641.15
General government debt as % of nominal GDP[(2)]	23.1	21.9	35.3	38.8	47.6	51.9

Source: EDP Report, April 2012.

Notes:

(1) Projected in line with the 2012 annual debt management programme for the central government.

(2) On 31 August 2012, the SORS published revised GDP data for the years 2007 to 2011 which are used in certain sections of this Offering Circular. However, the EDP report is submitted to the EU authorities semi-annually. Revised data will appear in the EDP report for October 2012 published by the EU. As a result, the percentage of debt as nominal GDP may be slightly lower.

In accordance with Article 87 of the Public Finance Act, 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 governance of the entity, and other entities that are not part of the general government but are classified as public entities. On 31 December 2012, there were 558 such entities, 87 of which had debt outstanding, predominantly in the field of transport, communications, finance, insurance, electricity and natural gas.

The following table sets out the debt of these public entities as a percentage of nominal GDP as at 31 December 2007 to 2011:

	As at 31 December				
	2007	*2008*	*2009*	*2010*	*2011*
	(€ millions, except percentages)				
Outstanding debt of other public entities	3,129.4	3,722.0	4,940.9	5,056.0	5,134.3
Nominal GDP	34,562.35	37,279.53	35,310.62	35,415.79	35,638.55
Outstanding debt of other public entities as % of nominal GDP	9.1	10.0	14.0	14.3	14.4

Source: Ministry of Finance.

The following table sets out the expected debt of these public entities by currency as at 31 December 2012:

	As at 31 December 2012 (expected)			
	Short-term	*Long-term*	*Total*	*As % of total*
	(€ millions)			
EUR	270.3	6,210.6	6,480.9	99.0
CHF	0.0	61.8	61.8	0.9
U.S.$	0.0	0.6	0.6	0.0
Total (in € millions)	270.3	6,273.1	6,543.4	100.0

Source: Ministry of Finance.

In 2010, the general government debt-to-GDP ratio was 38.8 per cent., which increased to 47.6 per cent. in 2011. Following budgetary and other developments as outlined in the April 2012 Stabilisation Programme (see "– *Fiscal Policy and Reform*" above), general government debt is estimated to increase to 53.1 per cent. of GDP in 2013 and then fall to 52.6 per cent. of GDP in 2014 and to 50.9 per cent. of GDP in 2015. Central government debt represented approximately 96 per cent. of general government debt as at 31 December 2011. The central government has set legal limits regarding the borrowing capacity of local governments. These include stipulations that debt service not exceed 8 per cent. of the previous year's revenues, decreased for certain categories of transfer revenues, which keeps the local government share of total general government minimal.

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.

In the period from 2000 to 2006, the central government favoured domestic issuance of bonds and treasury bills denominated in Slovenian tolars. Upon Slovenia's adoption of the euro on 1 January 2007, outstanding instruments were converted into euros. As the euro market is ruled by common regulatory principles transferred to the member states through domestic legislation and, in many instances, by common regulation, in 2008 Slovenia decided to issue euro-denominated Slovenian law-governed bonds and treasury bills as domestic instruments listed on the Ljubljana Stock Exchange ("**LjSE**") as soon as the domestic regulations and institutions conformed to the EU regime.

For regulative purposes as well as for budgetary planning, the issuance of these bonds and treasury bills is thus considered domestic. 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 almost exclusively held by domestic entities. As non-residents receive the bonds purchased into their accounts held in various clearing and depositary institutions, further data on bondholders are difficult to ascertain. Slovenian government bonds are regularly traded on the LjSE or, in the case of certain pre-2007 issues, on the Luxembourg Stock Exchange and electronic platforms that are recognised as official bond markets. The securities issued prior to 2007 that are large enough to be traded in electronic platforms have been admitted for such trading.

Although Slovenia's debt-to-GDP ratio increased in the aftermath of the financial crisis, it was the 11th lowest among the 27 EU member states as at 31 December 2011 and was well under the Maastricht criterion of 60 per cent., according to Eurostat.

Government guarantees

The following table sets out Slovenia's government guarantees for the years ended 31 December 2007 to 2011:

	Year ended 31 December				
	2007	*2008*	*2009*	*2010*	*2011*
			(€ millions)		
Guarantees for the general government entities	53.1	70.8	257.0	569.1	571.7
Guarantees for other public entities	3,655.6	4,618.6	4,714.1	4,717.1	4,579.7
Guarantees for commercial banks under financial crisis programme	–	–	2,000.0	2,200.0	1,554.9

	Year ended 31 December				
	2007	2008	2009	2010	2011
			(€ millions)		
Guarantees for debt of privately owned entities	18.5	13.8	166.3	243.1	166.4
Guarantees to EFSF	–	–	–	–	118.5
Other	0	0	4.6	18.4	4.7
Total	3,727.2	4,703.2	7,142.0	7,747.7	6,995.9

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 31 December 2011 was €5,136 million, comprising approximately €5,124 million in respect of the debt of public sector and government controlled entities and approximately €12 million in respect of the debt of private entities. Additionally, €2.2 billion of guarantees were extended to Nova Ljubljanska banka, Ljubljana, Abanka Vipa d.d., Factor banka d.d. and Deûelna banka Slovenije d.d. for the purpose of facilitating borrowing in the markets. This debt has been in large partre paid and as at 31 July 2012 the amount outstanding was €200 million. €276.4 million was committed as government coverage for commercial bank lending to real sector entities of slightly over €750 million under the crisis prevention programme, €18.1 million was extended to households in temporary financial difficulties and €118.5 million to cover Slovenia's portion of bonds issued under the European Financial Stability Facility and Greek bailout programme. Potential liabilities of the general government must be decreased for the guarantees extended to general government entities.

Central Government Debt

Central government debt comprises debt of the central government budget. The following table sets out Slovenia's internal and external state debt structure as at 31 December 2007 to 2011 and as at 30 June 2012:

	As at 31 December					As at 30 June
	2007	2008	2009	2010	2011	2012
			(€ millions)			
Internal	4,884.7	4,712.2	9,039.0	10,354.8	14,090.1	14,066.5
T-bills	148.5	89.3	739.5	25.0	883.4	1,672.2
Long-term Securities	3,990.6	4,356.0	8,153.2	10,236.5	12,824.6	11,739.5
Special Drawing Rights	27.3	28.1	27.7	29.4	30.2	31.0
Loans	718.3	238.7	118.6	64.0	351.9	623.9
External(1)	2,510.8	2,469.4	2,044.3	1,529.7	1,066.6	1,061.9
Long-term Securities	2,350.0	2,350.0	1,950.0	1,450.0	1,000.0	1,000.0
Loans	13.5	6.7	–	–	–	–
International financial institutions and official bilateral creditors	147.3	112.7	94.3	79.7	66.6	61.9
Total	7,395.5	7,181.6	11,083.4	11,884.5	15,156.8	15,128.4

Source: Ministry of Finance.

Note:

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

All central government debt instruments since 2008 have been issued in euro under Slovenian law and entered into a local clearing, settlement and depositary institution. For statistical and legal purposes, they are considered internal debt. External debt has therefore been declining in recent years, as it is comprised only of instruments issued prior to 2008. The Notes issued in the offering contemplated in this Offering Circular, however, will be classified as external debt, and will therefore result in an increase in external debt. The state debt profile includes a yearly refinancing requirement of approximately €1.1 billion and a yearly interest burden of approximately €0.4 billion.

The following table sets out the total nominal value of government T-bills and bonds outstanding as at 31 December 2010 and 2011 and as at 30 June 2012:

	As at 31 December				*As at 30 June*	
	2010		*2011*		*2012*	
	(€ millions)	*(%)*	*(€ millions)*	*(%)*	*(€ millions)*	*(%)*
T-bills (3-month maturity)	25.0	0.2	28.2	0.2	103.4	0.7
T-bills (6-month maturity)	0.0	0.0	0.0	0.0	414.6	2.9
T-bills (12-month maturity)	0.0	0.0	0.0	0.0	298.9	2.1
T-bills (18-month maturity)	0.0	0.0	855.3	5.8	855.3	5.9
Government bonds (3-year maturity)	1,000.0	8.5	1,000.0	6.8	0.0	0.0
Government bonds (5-year maturity)	2,828.9	24.2	2.500.0[1]	17.0	2,500.0	1.73
Government bonds (10-year maturity)	6,021.1	51.4	7,036.2	47.8	6,957.3	48.3
Government bonds (15-year maturity)	1,679.7	14.3	3,175.9	21.6	3,169.7	22.0
Government bonds (20-year maturity)	156.8	1.3	112.5[1]	0.8	112.5	0.8
Total	11,711.4	100.0	14,708.0	100.0	14,411.7	100.0

Source: Ministry of Finance.

Note:

(1) Original maturity.

The following table sets out central government debt by currency as at 31 December 2007to 2011 and as at 30 June 2012:

	As at 31 December										*As at 30 June*	
	2007		*2008*		*2009*		*2010*		*2011*		*2012*	
	(€ millions)	*(%)*	*(€ millions)*	*(%)*	*(€ millions)*	*(%)*	*(€ millions)*	*(%)*	*(€ millions)*	*(%)*	*(€ millions)*	*(%)*
Special Drawing Rights	27.3	0.4	28.1	0.4	27.7	0.2	29.4	0.2	30.2	0.2	31.0	0.2
EUR	7,358.6	99.5	7,152.0	99.6	11,055.7	99.8	11,855.1	99.8	15,126.6	99.8	15,097.4	99.8
USD	9.5	0.1	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	7,395.5	100.0	7,181.6	100.0	11,083.4	100.0	11,884.5	100.0	15,156.8	100.0	15,128.4	100.0

Source: Ministry of Finance.

Debt Service

The average maturity for Slovenia's debt portfolio is 6.2 years and the debt maturity profile is relatively evenly spread in future years.

The following table sets out historic central government debt service payments with respect to principal and interest for the years 2007 to 2011:

	Year ended 31 December				
	2007	*2008*	*2009*	*2010*	*2011*
	(€ millions)				
Debt service					
Principal Payments	922.9	1,251.9	848.8	1,730.4	960.4
Interest Payments	350.9	326.1	326.4	476.7	510.6
Total	1,273.8	1,578.0	1,175.2	2,207.1	1,471.0

Source: Ministry of Finance.

The following table sets out projected state debt service payments[(1)] 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 2012 to 2026:

	Year ended 31 December[(1)]														
	2012	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*
	(€ millions)														
Principal Payments	1,273.5	1,616.1	1,845.0	1,297.1	1,197.0	463.8	1,083.7	1,002.9	1,501.3	1,501.3	29.6	82.9	1,500.0	0.0	1,500.0
Interest Payments	668.7	632.2	550.0	470.8	433.9	387.5	369.8	325.7	281.9	220.0	154.3	147.9	146.3	76.9	76.9
Total	1,942.5	2,239.3	2,395.0	1,767.9	1,630.8	851.4	1,453.5	1,328.6	1,783.2	1,721.3	183.9	230.8	1,646.3	76.9	1,576.9

Source: Ministry of Finance.

Note:

(1) Debt service projections for the central government budget of Slovenia is calculated on the outstanding debt as at 31 July 2012.

See "*Balance of Payments – 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 Slovenia's credit ratings as at 5 October 2012:

Agency	*Long-term domestic currency*	*Long-term foreign currency*	*Country ceiling*	*Outlook*
Standard & Poor's	A	A	–	Negative
Moody's	Baa2	Baa2	–	Negative
Fitch Ratings	A-	A-	AAA	Negative

Source: Respective agency websites.

In the second half of 2011 and into August 2012, the above agencies repeatedly lowered Slovenia'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. Prior to September 2011, when the repeated lowering of the ratings commenced, the ratings were: S&P, AA/Stable; Fitch, AA/Stable; and Moody's Aa2/Stable.

The following table sets out the changes in Slovenia's credit rating in the period from August 2011 to August 2012:

Agency	*August 2011*	*September/ October 2011*	*December 2011/January 2012*	*February 2012*	*August 2012*
Standard & Poor's	AA	AA-	A+	–	A
Moody's	Aa2	Aa3	A1	A2	Baa2
Fitch Ratings	AA	AA-	A	–	A-

Source: Respective agency websites.

MONETARY AND FINANCIAL SYSTEM

Overview

The Bank of Slovenia is the central bank of Slovenia and forms part of the Eurosystem. As such, it participates in the Eurosystem decision-making process including oversight of the financial system within the EU. The Bank of Slovenia's primary objective is to maintain price stability through open market operations. As part of the Eurosystem, the money supply, interest rates, and exchange rate decisions rest with the ECB. At the end of 2011, the Slovenian financial sector's assets stood at €65 billion or 182 per cent. of GDP. Banks are the most important financial intermediaries with around three quarters of total financial sector assets, while the leasing, investment and pension systems also play a large role. The Slovenian banking system was exposed to significant credit risk and income risk in 2011. From 2009 to 2011, various measures were implemented to offset the impact of the prevailing adverse international economic conditions.

Bank of Slovenia

The Bank of Slovenia was established on 25 June 1991 through the adoption of the Bank of Slovenia Act (the "**Bank of Slovenia Act**"). It is a legal entity governed by public law, autonomous in the disposal of its own assets. With the introduction of the euro in Slovenia on 1 January 2007, the Bank of Slovenia became a part of the Eurosystem, which comprises the ECB and the national central banks ("**NCBs**") of the euro area countries. The Eurosystem is responsible for defining and implementing the euro area's single monetary policy.

The Eurosystem, which conducts the monetary policy of the EU, is led by the Governing Council of the ECB, which is in charge of formulating monetary policy. The Governing Council, as the main decision-making body of the ECB, consists of the six members of the Executive Board, plus the governors of the national central banks of the 17 Eurozone countries. Its main responsibility is to adopt the guidelines and take the decisions necessary to ensure the performance of the tasks entrusted to the Eurosystem, as well as to formulate monetary policy for the euro area. This includes decisions relating to monetary objectives, key interest rates, the supply of reserves in the Eurosystem, and the establishment of guidelines for the implementation of those decisions. According to the Statute of the ESCB and of the ECB (the "**Statute**"), each member of the Governing Council has one vote. However, as of the date on which the number of members of the Governing Council exceeds 21, each member of the Executive Board shall have one vote and the number of governors with voting rights shall be 15. The latter voting rights are assigned and rotate according to the detailed rules of the Statute. The Bank of Slovenia has been part of the European System of Central Banks (the "**ESCB**"), which comprises the ECB and national central banks of all EU Member States, since 1 May 2004, when Slovenia joined the EU.

As part of the Eurosystem, the Bank of Slovenia implements Eurosystem monetary policy, manages the ECB's and its own foreign reserves, manages and supervises payment systems, issues euro bank notes in co-operation with the ECB, 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 Bank of Slovenia may also perform tasks which are not part of the Eurosystem. These include tasks pursuant to the Bank of Slovenia Act, such as conducting the supervision of Slovenian banks, 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's main decision-making body, the Governing Council, which defines monetary policy for the euro area, and is thus actively involved in the monetary policy decision-making process. Each member of the Governing Council has one vote and, unless otherwise provided for in the Statute, the Governing Council acts by simple majority. The Governor is also a member of the General Council of the ECB. The General Council comprises the President and the Vice-President of the ECB and the governors of the NCBs of all EU member states.

As the authority responsible for integrated financial market supervision, the Bank of Slovenia participates in activities of the European System of Financial Supervision, the EU supervisory framework that came into operation as of 1 January 2011 with the establishment of new authorities responsible for macro-prudential and micro-prudential oversight. At the macro-prudential level, the Bank of Slovenia is engaged in the work of the European Systemic Risk Board. At the micro-prudential level, the Bank of Slovenia is engaged in the work of the European Securities and Markets Authority ("**ESMA**"), the European Banking Authority and the European Insurance and Occupational Pensions Authority. These European Supervisory Authorities replaced the so-called three Level 3 Committees, CEBS, and CESR as of 1 January 2011.

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. For further information on inflation, see "*The Slovenian Economy – Inflation*".

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 Slovenia.

The role of open market operations is to steer short-term market interest rates, manage 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, 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. Additional non-standard monetary policy measures have been implemented in the form of additional longer-term open market operations, broader scope of eligible collateral as well as a lower required minimum reserve ratio. With the aim of addressing the malfunctioning of securities markets, the Eurosystem has been purchasing outright government and covered bonds in the markets.

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.

In order to stabilise money market interest rates, credit institutions in Slovenia, 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.

Money Supply

Following Slovenia's adoption of the euro, the monetary aggregates and counterparts of monetary aggregate M3 compilation represent the national contribution of Slovenia 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. For further information on credit dynamics see "*– Banking System*".

Exchange Rate Policy

Since joining the EMU, the authority over exchange rate policy has been moved 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, Slovenia 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 Slovenia in January 2007, the ECB key policy rate is the official interest rate of the Bank of Slovenia. The ECB increased its key policy rate three times in the course of 2007 and the first half of 2008 from 3.75 per cent. to 4.25 per cent., and cut it after the financial crisis began to 1.00 per cent. between October 2008 and May 2009. The standing facilities corridor around the key policy rate was temporarily lowered from +/-1.00 per cent. to +/-0.50 per cent. from October 2008 until January 2009. It was lowered again to +/-0.75 per cent. in May 2009. Thereafter, the interest rate was increased on two occasions in 2011 to 1.50 per cent. with the aim of containing inflationary pressures caused by rising commodity prices. However, to address the market tensions with respect to the European sovereign debt crisis, the ECB lowered the key interest rate twice at the end of 2011. In July 2012 the rate was cut again to a record low of 0.75 per cent. Accordingly, in July 2012 the interest rate on the marginal lending facility was decreased to 1.50 per cent. and the deposit facility rate to 0 per cent.

Financial System

At the end of 2011 the Slovenian financial sector's assets stood at €65 billion or 182 per cent. of GDP. Banks are the most important financial intermediaries with around three quarters of total financial sector assets. The largest group among non-monetary financial institutions are insurers with approximately 38 per cent. of total non-monetary financial institutions assets, followed by leasing companies (35 per cent.), and investment and pension funds (22 per cent.). The number of institutions in different segments of the financial sector has not changed recently, except in the investment fund segment, where four new investment funds started to operate in 2011. There are two financial conglomerates operating in Slovenia.

The following table sets out certain statistical information about the Slovenian financial system:

	Total assets		*As % of total assets*		*As % of GDP*		*No. of institutions*	
	2010	*2011*	*2010*	*2011*	*2010*	*2011*	*2010*	*2011*
	(€ millions)		*(%)*		*(%)*			
Monetary financial institutions[(1) (2)]	50,760	49,283	75.9	75.8	143.3	138.3	25	25
Banks	50,319	48,788	75.2	75.1	142.1	136.9	22	22
Private owned	39,506	36,991	59.1	56.9	111.5	103.8	–	–
Domestic	19,953	18,401	29.8	28.3	56.3	51.6	–	–
Foreign	19,554	18,590	29.2	28.6	55.2	52.2	–	–
Government owned	10,813	11,797	16.2	18.2	30.5	33.1	–	–
Savings banks	441	495	0.7	0.8	1.2	1.4	3	3
Non-monetary financial institutions[(1)]	16,143	15,711	24.1	24.2	45.6	44.1	–	–
Insurers[(3)]	6,041	6,108	9.0	9.4	17.1	17.1	17	17
Pension Funds[(4)]	1,538	1,518	2.3	2.3	4.3	4.3	10	10
Investment Funds	2,294	1,816	3.4	2.8	6.5	5.1	135	139
Leasing companies[(5)]	5,731	5,731	8.6	8.8	16.2	16.1	21	21
BHs, MCs and others[(5)]	538	538	0.8	0.8	1.5	1.5	–	–
Total	66,903	64,993	100.0	100.0	188.9	182.4	–	–

Source: Bank of Slovenia (Financial Stability Review, Statistical Appendix; website: http://www.bsi.si/en/publications.asp?MapaId=784).

Notes:

(1) Figures for financial institutions that are not banks, insurers, pension companies or pension and investment funds are obtained from the AJPEs database of annual accounts based on the SKD 2008 classification. The figures for leasing companies include all companies included under financial leasing, activity code K64.91, according to the SKD 2008.

(2) Does not include the central bank.

(3) The figures for the total assets of reinsurance companies are for the end of the third quarter of 2011 (which was the data available at the time of the preparation of the Financial Stability Review, May 2012).

(4) Includes the First Pension Fund.

(5) Total assets in 2011 according to the figures for the end of 2010 (which was the data available at the time of the preparation of the Financial Stability Review, May 2012).

Cross-ownership between domestic financial institutions declined by 3 per cent. in 2011 so that the proportion of the financial sector overall accounted for by the banks, insurers, pension funds and other financial intermediaries at 31 December 2011 was 16 per cent. The ownership proportions accounted for by the government and foreign entities were up as a result of capital increases in 2011. The banks' overall exposure to other financial sectors, including bank investments in debt securities, bank loans granted and bank capital investments, is low. By contrast, the exposure of insurers and pension funds to the banking sector, including investments in bank deposits, bank debt securities and bank capital, is around 23.5 per cent. of their total financial assets.

Banking System

At 31 December 2011, the Slovenian banking system comprised 19 banks (including eight subsidiary banks), three branches of foreign banks and three savings banks. The banks accounted for 99.0 per cent. of the total assets of the Slovenian banking system. In terms of ownership structure, the banking system comprises three banks under 100 per cent. domestic ownership and eight banks under majority foreign ownership. The proportion of the banks' equity held by non-residents increased by 2 percentage points in 2011 to 39 per cent. Recapitalisations raised the government's holding of the banking system's total equity by 2.7 percentage points to 22.7 per cent.

The largest banks by market share are as follows:

	Market Share as at 31 December	
	2010	*2011*
	(%)	
Nova Ljubljanska banka	27.5	26.6
Nova Kreditna banka Maribor	9.6	9.8
Abanka Vipa d.d.	9.0	8.6
Unicredit banka Slovenija d.d.	6.0	6.0
SKB banka d.d. (SocGen group)	5.3	5.4
Banka Celje d.d.	5.2	5.1
Banka Koper d.d. (SanpaoloIMI group)	4.5	4.7

Source: ZBS GIZ (Banking Association of Slovenia, website, Members' data, 31 August 2012).

	Majority Ownership	*Total assets in EUR thousand*	*Return on assets in %*	*Operational cost/Average total assets in %*	*Capital adequacy in %*
Nova Ljubljanska banka	Domestic	12,980,018	(2.0)	1.73	10.1
Nova Kreditna banka	Domestic	4,811,091	(2.15)	1.84	10.83
Abanka Vipa d.d.	Domestic	4,215,263	(3.38)	1.23	9.9
Unicredit banka Slovenija d.d.	Foreign	2,945,636	0.6	1.4	11.0
SKB banka d.d. (SocGen group)	Foreign	2,637,327	1.11	2.14	13.11

Source: ZBS GIZ (Banking Association of Slovenia, website, Members' data, 31 August 2012).

Assets

The banking system's total assets amounted to €48.8 billion as at 31 December of 2011 (not including deposits in savings banks), having declined by €1.6 billion or 3.1 per cent. during the year. The main reasons for this decline were the continuing reduction of external debt, a decline in liabilities from issued debt securities and a decline in equity as a result of losses. The banks compensated for the decline in liabilities from issued securities and liabilities to the rest of the world by means of long-term funding obtained from the Eurosystem (which increased by €1.4 billion) and by re-capitalisations (amounting to €0.4 billion). On the investment side, banks primarily reduced loans to non-banking sectors and investments in securities. This decline was primarily in loans to the corporate sector which was partially offset by a small €190 million increase in loans to households, though the increase was considerably less than in 2010 (€761 million).

There was a decline in year-on-year growth in loans to non-banking sectors in 2011 at all the banks, from 6 per cent. as at 31 December 2010 to 4.6 per cent. as at 31 December 2011. The stock of loans to non-banking sectors had declined by 4.6 per cent. by the end of the year. Lending to non-financial corporations was down by 7.5 per cent. The main factors in the decline in demand for bank loans were the worsening of the European debt crisis, downgrades and higher funding costs, the slowdown in economic growth in Slovenia and its most important trading partners due to the financial crisis, the adverse situation in certain sectors including construction, the relatively high indebtedness of the corporate sector, a lack of payment discipline, on the part of the corporate sector due to liquidity and operational problems, the adverse situation in the labour market, and a decline in the value and liquidity of free eligible loan collateral. On the supply side, lending activity was restricted by a decline in bank funding, high funding costs and a general deterioration in the quality of credit portfolios.

The stock of loans to households increased by €190 million in 2011, mostly attributable to banks under majority foreign ownership. Growth in loans to households stood at 2.3 per cent., but was lower than in 2010. Housing loans accounted for more than half of total loans to households at the beginning of 2010, yet by February 2012 the figure had risen to 55 per cent. Growth in housing loans is currently declining, primarily as a result of lower household demand for these loans brought by a lack of confidence in the real estate market. In addition, the banks slightly tightened their credit standards for the approval of housing loans. The volume of new housing loans approved in 2011 was down a quarter as compared to the previous year. While growth in housing loans is declining, growth in household borrowing in the form of consumer loans has been negative continuously since mid-2010. A similar dynamic has been seen recently in the Eurozone overall, although growth in housing loans is much lower.

While the average maturity of the stock of long-term consumer loans was unchanged last year, the average maturity of housing loans increased to 15.9 years. The average maturity of new housing loans reached 19.2 years in 2011, despite a decline in those with a maturity of more than 20 years. The majority (95 per cent.) of these loans were approved with a variable interest rate, most frequently tied to the EURIBOR. The proportion of consumer loans with a variable interest rate was significantly lower than that of housing loans. It reached 61 per cent. in 2011, a significant increase since the crisis in 2008, when it stood at 47 per cent. This figure is expected to stabilise, as the proportion of new consumer loans with a variable interest rate was down 12 percentage points in 2011. The rise in the proportion of loans with variable interest rates and their average maturities is nevertheless raising the risk of the household sector in the event of a rise in interest rates.

New housing loans to households amounted to €906 million in 2011, which was down a quarter on the previous year and the lowest figure in the last five years. Loans were approved in the domestic currency. A quarter of the stock of housing loans remains denominated in Swiss francs. The movement of the euro/Swiss franc exchange rate will remain important for Slovenian households, as more than two-thirds of these loans have a residual maturity of more than 10 years. A rise in the EURIBOR, to which 72 per cent. of the stock of housing loans is tied, will increase the household debt repayment burden in the coming years.

Average variable interest rates on housing loans rose to 3.9 per cent. in 2011, 0.4 percentage points higher than in the Eurozone at the end of the year. Interest rates on consumer loans rose, but remained below the Eurozone average. The spread over Eurozone interest rates on corporate loans declined slightly in 2011, primarily as a result of a rise in interest rates in the Eurozone overall, and reached around two percentage points. Interest rates on corporate loans stood at approximately 6 per cent. on loans of up to €1 million and at 5 per cent. on loans of more than €1 million at the end of the year.

Refinancing risk has also increased since the middle of 2011, in line with the situation in international financial markets, Slovenia's ratings downgrade and the rising cost of funding on the market. The banks therefore turned to the relatively favourable long-term loans of the Eurosystem. The banking system's liabilities to the Eurosystem increased in 2011 by €1.1 billion to €1.7 billion, representing 3.54 per cent. of total liabilities. The banks partly used the long-term loans raised to reduce external debt. The banks reduced their external debt by €2.14 billion in 2011, bringing their total external debt down to €9.6 billion as at 31 December 2011.

Funding

Deposits by non-banking sectors remain the most important element of bank funding. The proportion of the banking system's total funding that they account for stood at 49.6 per cent. at 31 December 2011, up 2.9 percentage points from the prior year. Year-on-year growth in deposits by non-banking sectors averaged 3.1 per cent. on a monthly basis in 2011, down slightly from 2010. In the sectoral breakdown, the largest increases were recorded by government deposits and household deposits, while deposits by non-financial corporations remained almost unchanged. In the maturity breakdown, the largest increases were recorded by long-term deposits of between one and two years and demand deposits, both in domestic currency. Interest rates on household deposits of up to one year again remained below the euro area average in 2011, and rose at a much slower pace, while household deposits of more than one year increased significantly faster than in the euro area overall as a result of the higher interest rates caused by the banks' need for stable long-term funding.

Credit Risk

The Slovenian banking system was exposed to significant credit risk and income risk in 2011. Net interest in 2011 was down 2.9 per cent. on the previous year, primarily as a result of the increase in interest expenses outpacing that of interest income.

With the number of bankruptcies rising and the environment for non-financial corporations deteriorating, particularly in the commercial real estate and construction sectors, growth in impairment and provisioning costs remained above average in 2011 resulting in a recorded loss to the banking sector of €444 million after taxation. At the end of the year, the share of classified claims with arrears over 90 days was 11.2 per cent. for the whole portfolio and the share of classified corporate claims with arrears of more than 90 days increased by 6.2 percentage points to 18.5 per cent.

Liquidity and Capital Adequacy

The liquidity of the banking system remained at a satisfactory level in 2011 as the first bucket liquidity ratio stood at 1.48 at the end of 2011. The decline in funding via securities issues and international borrowing exposed the banks to refinancing risk, which they partly mitigated by borrowing from the Eurosystem. Interest rate risk increased slightly, with banks' exposure to a rise in interest rates increasing, particularly in respect of obligations with institutes of maturities of between three months and one year.

With respect to regulatory requirements, the banking system maintained satisfactory capital adequacy in 2011, increasing slightly despite the rising credit risk and related capital risk. The capital adequacy ratio stood at 11.6 per cent. as at 31 December 2011, up 0.3 percentage points on a year earlier. The Tier 1 capital ratio increased by 0.6 percentage points over the same period to stand at 9.6 per cent. The ratio of own funds to total assets was also favourable (8.5 per cent. as at 31 December 2011).

Banking Reform and Recapitalisations

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

Slovenia's first round of reform measures concerning the financial sector were of a preventative nature and were adopted by Parliament on 11 November 2008. They consisted of an unlimited government guarantee for retail deposits and an authorisation for the government to take four types of policy measures, subject to the approval of the relevant regulator. These were: (i) loans to credit institutions, insurance companies, reinsurance companies and pension companies; (ii) state guarantees to credit institutions; (iii) capital investments in credit institutions, insurance companies, reinsurance companies and pension companies; and (iv) purchases of receivables from credit institutions. The government was authorised to take individual measures up to 31 December 2010.

To ease the credit conditions for enterprises, the government decided in 2009 to recapitalise SID Bank, the state-owned export and development bank, and the Slovene Entrepreneurship Fund, a public fund assisting new investments, and to open a €1.2 billion guarantee scheme for bank loans to enterprises with up to 10 years maturity.

From 2009 to 2011, various measures were also implemented to offset the impact of the prevailing adverse international economic conditions. Measures taken to protect the Slovenian financial system included the use of treasury deposits in the first quarter of 2009, a time when the financial crisis was most acute, to strengthen the resilience of the banking system. In order to facilitate the normal flow of credit to the economy, borrowing guarantees were granted to four commercial banks, Nova Ljubljanska banka, Abanka Vipa d.d., Factor banka d.d. and Deûelna banka Slovenije d.d., totalling €2.2 billion. Guarantees were also extended to banks in order to reduce the risk of lending to the real estate sector. In 15 auctions, the commercial banks were awarded partial guarantees for €750 million of their loans. The Slovenian Export and Development Bank was capitalised by the government, the €160 million capitalisation increasing the bank's total capital to €300 million.

Following the first round of stress tests conducted by the European Banking Authority and the Bank of Slovenia, Nova Ljubljanska banka launched a €250 million capitalisation, the bulk of which, (€243 million), was provided by the government in 2011.

In light of further recapitalisation needs of Nova Ljubljanska Banka, the government decided to seek a private sector solution and was willing to reduce its stake down to 25 per cent. plus one share. As it became clear that privatisation would not be completed in time to satisfy the regulatory deadline for the capital increase, the government and two state-owned funds (both shareholders of Nova Ljubljanska banka) executed a backstop arrangement to ensure that the criterion of nine per cent. core Tier 1 capital was satisfied.

This back-stop arrangement entailed a number of measures including the buy-back of outstanding lower tier 2 and hybrid instruments, an increase of its share capital through cash contributions by state-owned shareholders (which accounted for €61 million), and the issuance of a contingent convertible debt instrument (the "**CoCo**") funded by the government (which accounted for €320 million). These measures were effected during the period from 29 June to 2 July 2012. The CoCos were issued on terms consistent with European Banking Authority guidelines, with a principal loss absorption trigger when the bank's core tier 1 capital ratio (not including CoCos) falls to less than 7 per cent. The CoCo solution was supported by the Slovenian banking regulator (and hence the European Banking Authority) as well as the European Commission.

The liquidity position of Slovenian banks is currently strong, given the favourable loan-to-deposit ratios, predominantly retail-based financing and low reliance on Eurosystem borrowing. However, the banking system as a whole faces on-going risks due to: (i) its relatively low capitalisation; and (ii) a possible increase in underperforming loans due to a slow recovery of the Slovenian economy. See *"Risk Factors – The Slovenian banking system requires further recapitalisation, which may require the government to take on further debt to finance any such recapitalisation."*

In order to deal with these risks, and to provide for the recapitalisation of banks, following the temporary recapitalisation of Nova Ljubljanska banka described above, the National Assembly has adopted, a law to strengthen the stability of banks by assembling a comprehensive set of measures to deal with non-performing loans and distressed assets on the banks' balance sheets. For a discussion of this new legislation, see *"The Slovenian Economy – Pending Reforms relating to Pensions, Government Privatisation and Bank Recapitalisation."*

Banking Regulation

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, part of which is 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 Financial Instruments Market 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 Slovenian Securities Market Agency.

Bankruptcy Law

The Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (the "**Bankruptcy Act**") serves to transpose into the law of Slovenia the Directive 2001/17/EC of the European Parliament and the Council of 19 March 2001 on the reorganisation and winding-up of insurance undertakings and Directive 2001/24/EC of the European Parliament and the Council of 4 April 2001 on the reorganisation and winding-up of credit institutions, and at the same time regulates in detail the implementation of Council Regulation No. 1346/2000 of 29 May 2000 on insolvency proceedings. It covers all types of insolvency proceedings existing under Slovenian law(compulsory settlement and bankruptcy proceedings) as well as procedures for the compulsory winding-up of corporations which are legal entities (cancellation of the court registration without liquidation and compulsory liquidation). As such it regulates (i) certain financial operations of legal entities, (ii) insolvency proceedings against legal and natural persons, and (iii) the compulsory dissolution proceedings of legal entities. However, the bankruptcy of a bank is regulated by the Banking Act, described below, which empowers the Bank of Slovenia to issue decisions establishing the grounds for initiating bankruptcy proceedings in certain cases (for example, when, on the basis of a special report, it makes an estimation that the bank's financial position has not improved during the period of special administration, and that the bank is not able regularly to meet its matured obligations notwithstanding the special administration or when, in exercising supervision over the bank, it is determined that the bank's assets are insufficient for the payment of all claims by the bank's creditors).

Banking Act

The Banking Act provides 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 stricter requirements for external auditors.

Due to EU accession, the Banking Act had to be amended primarily to transpose the Capital Requirements Directive ("**CRD**") into national legislation in 2006. Since EU accession, Slovenia has been gradually incorporating EU directives into the Banking Act, complementing regulations and other laws that affect the banking sector. Therefore, the Banking Act alone was amended or updated six times between 2006 and 2010, and an additional four times in 2011 to reflect changes necessitated by EU directives or other EU legislation and changes in international best practice.

Bank Deposit Guarantee Scheme

The Deposit Guarantee Scheme is regulated by the Banking Act and the Regulation on the Deposit Guarantee Scheme and has been administered by the Bank of Slovenia since 2001. Slovenian banks and branches of foreign banks are required to contribute to the scheme.

Since the end of2010, deposits placed in credit institutions are protected to the maximum limit of €100,000. The guarantee covers so-called "net deposits" of depositors that are eligible for the guarantee on the basis of law. The net deposit is the sum or total balance of all the deposits of an individual depositor, minus any unpaid and overdue liabilities to the same bank or savings bank. 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.

Under the current law, payout under the deposit insurance scheme is triggered when the institution is placed into bankruptcy. However, this could also be triggered under specific conditions during special administration (conservatorship).

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 (or, exceptionally, 30) working days at another bank, the so-called successor bank, designated by the Bank of Slovenia. It should be noted that there have been no failures in Slovenia leading to a payout under the current framework.

Although the Bank of Slovenia can revokea licence, it cannot place an insolvent institution into bankruptcy. The competent court is mandated to do so solely at the proposal of the Bank of Slovenia. The deposit protection scheme plays no role in bank restructuring and is funded "ex-post" with the explicit guarantee of the government for financing the part of the payout which would not be paid in by the Deposit Guarantee Scheme members, temporarily and under additional conditions to be agreed in a specific case. The Bank of Slovenia, with the co-operation of the Deposit Guarantee Scheme members, has worked out the operational aspects of the pay-out procedure to ensure efficient pay-out procedures of guaranteed deposits within short deadlines.

Prudential Standards

The Slovenian prudential standards for banking supervision are comprised principally of the Banking Act and attendant defining regulations. Other legislation of importance includes the Companies Act, the Conglomerates Act and the Audit Act, 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.

To implement prudential requirements, the Bank of Slovenia employs defining regulations on specific areas, ranging from capital adequacy to risk management practices, including capital requirements for credit, market and operational risk, own funds, credit protection, large exposures, risk management and the internal capital adequacy assessment process ("**ICAAP**"), assessment of credit risk losses, recognition of external credit assessment institutions, supervision on a consolidated basis, liquidity risk, qualifying holdings of banks and savings banks outside the financial sector, disclosures by banks and savings banks and minimum requirements for ensuring an adequate liquidity position.

The Bank of Slovenia has implemented a risk-based approach to supervision. This includes a robust supervisory approach featuring a strong ICAAP-SREP 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.

Capital Adequacy

As measured by applicable regulatory requirements, the banking system maintained satisfactory capital adequacy in 2011 despite increasing credit and capital risk. The ratio of its own funds to total assets was also favourable. The capital adequacy ratio stood at 11.7 per cent. in December 2011, up 0.3 percentage points on a year earlier. The Tier 1 capital ratio increased by 0.6 percentage points over the same period to stand at 9.6 per cent.

The regulatory frame work for capital adequacy is aligned with the amendments to the Base International standards, and the supervisors are proactively preparing for the implementation of Basel III (incorporated in the EU through the Capital Requirements Directive and the Capital Requirements Regulation). It is expected that the Basel III requirements may negatively impact the capital ratios of Slovenian banks mainly due to the exclusion of non-eligible instruments (additional Tier 1 and Tier 2). However, minor positive effects could arise from changes to the deduction regime (particularly the treatment of significant investments and threshold exemptions). Taking into account the requirement of capital conservation buffers, the government believes that some further recapitalisations are expected in order to maintain or increase capital adequacy ratios.

Large Exposures

Banks are required to identify, quantify, control and monitor their credit 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 single counter party).

Rules regarding limits on credit exposures derive from the CRD and are fully compliant with it. Credit 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 general rule, credit 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 CRD). According to it, the bank'sexposure 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'seligible 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 a quarterly basis and submit them to the Bank of Slovenia.

Liquidity

The Bank of Slovenia has set a liquidity risk supervision framework, which comprises qualitative as well as quantitative requirements. The latter encompass daily bank reporting on their liquidity ratios and compliance with a liquidity ratio which compares financial assets to liabilities over 30 days. The indicator is focused on short-term liquidity (similar to the liquidity capital requirement proposed by the Basel Committee), but also monitors liquidity over the period of 180 days and longer, where the ratio is of an informative nature only.

Liquidity regulation was amended several times (most recently in September2011) to reflect upcoming changes (Basel III/CRD IV) and to adequately consider experiences from the last financial crisis in relation to its impact on liquidity.

Classification of Loans

The classification of loans in the Slovenian banking sector is based on IAS/IFRS. The following table sets out the portfolio classification of loans in the period from 31 December 2007 to 30 June 2012.

	As at 31 December								
	2007			*2008*			*2009*		
	Classified assets	*Impairments*	*Coverage claims by impairments*	*Classified assets*	*Impairments*	*Coverage claims by impairments*	*Classified assets*	*Impairments*	*Coverage claims by impairments*
	(€ millions, except percentages)								
Total	40.784	1,315	3.2%	46.664	1,408	3.0%	49.257	1,823	3.7%
Category[1]	*Structure (%)*			*Structure (%)*			*Structure (%)*		
A	74.0	8.6	0.4	74.2	8.9	0.4	70.5	7.1	0.4
B	22.9	33.7	4.8	22.9	34.5	4.6	24.7	30.7	4.6
C	1.3	10.0	23.9	1.1	8.7	24.8	2.6	16.2	23.3
D	0.7	14.3	65.8	1.0	20.8	62.4	1.5	24.8	62.9
E	1.1	33.4	100.0	0.8	27.2	100.0	0.8	21.3	100.00

	As at 31 December						As at 30 June		
	2010			2011			2012		
	Classified assets	Impairments	Coverage claims by impairments	Classified assets	Impairments	Coverage claims by impairments	Classified assets	Impairments	Coverage claims by impairments
	(€ millions, except percentages)								
Total	49,766	2,420	4.9%	49,467	3,249	6.6%	50,290		7.1%
Category[1]	Structure (%)			Structure (%)			Structure (%)		
A	70.6	5.7	0.4	66.0	3.3	0.3	59.50	2.2	0.3
B	21.4	19.8	4.5	22.7	14.6	4.2	28.1	13.9	3.5
C	4.4	22.4	25.0	5.1	20.9	26.8	5.7	21.9	27.2
D	2.9	35.6	60.08	5.5	50.6	60.4	5.9	50.5	61.3
E	0.8	16.3	100.0	0.7	10.6	100.0	0.8	11.6	100.00

Source: Bank of Slovenia, Banking Supervision.

Note:

(1) Categories for the classification of financial assets and contingencies and commitments (including off-balance sheet items) are established on the basis of an assessment of the debtor's ability to discharge its liabilities to the bank when they fall due. Classifications are made according to the percentage of impairments and provisions relative to total classified claims as follows:Group A includes classified claims to debtors with a percentage of impairments and provisions lower than 1 per cent.; Group B includes classified claims to debtors with a percentage of impairments and provisions between 1.01 per cent. and 15 per cent.; Group C includes classified claims to debtors with a percentage of impairments and provisions between 15.01 per cent. and 40 per cent.; Group D includes classified claims to debtors with a percentage of impairments and provisions between 40.01 per cent. and 99.99 per cent.; and Group E includes classified claims to debtors with a percentage of impairments and provisions at 100 per cent.

The deterioration in the quality of the banking system's credit portfolio, which began in 2010, continued in 2011 and through early 2012. Weak economic recovery, which lasted until the second half of 2011, was unable to reverse this trend. Consequently, banks downgraded loans at a faster pace in 2011 than in previous years. The proportion of total classified loans in the highest credit rating categories (A and B, with a percentage of impairments lower than 15 per cent.) stood at 88.7 per cent. as at 31 December 2011, down 8.4 per cent. compared to 31 December 2008. The proportion of loans classified in the lowest credit rating categories (D and E, with a percentage of impairments higher than 40 per cent.) as at 31 December 2011 accounted for 6.2 per cent. (an increase of 1.4 per cent. in 2010 and 0.4 per cent. in 2009). The proportion of loans in this category had risen to 6.7 per cent. by 30 June 2012. Impairment and provisioning costs have risen at an annual rate of just over 30 per cent. during the last two years, and stood at €3.6 billion at 30 June 2012, while the coverage of all classified claims by impairments increased to 7.1 per cent. In addition, the proportion of non-performing bank loans, defined as loans more than 90 days in arrears, is also monitored. In 2011, non-performing loans rose in 2011 by 3.8 per cent. to 11.2 per cent. of total loans at the end of 2011 and 12.6 per cent. at the end of June 2012.

Coverage, Funding and Non-performing Loans

At the end of 2011, the coverage of loans to the non-banking sector by deposits by the non-banking sector stood at 87 per cent. at the large domestic banks, and 93 per cent. at the small domestic banks, while the figure at the banks under majority foreign ownership was lower at 49 per cent. However, coverage improved by 6 per cent. at the banks under majority foreign ownership. The coverage of loans by foreign bank funding was slightly less than 20 per cent. at the large domestic banks, but remains at nearly 50 per cent. at the banks under majority foreign ownership. The coverage of loans by issued securities fell to 17 per cent. at the large domestic banks at the end of 2011, owing to the early repurchase of bonds by certain banks, and stood at 11 per cent. at the small domestic banks.

The banks' average funding costs stood at 3.8 per cent. at the end of February 2012, an increase of 0.9 per cent. compared to 2010 and exceeding the lowest level recorded in June 2010 by 1 per cent. Funding costs rose until October 2012 due to rising market interest rates and, to a lesser degree, a change in the structure of bank funding.

Equity is the most expensive form of funding, the average costs reaching 14.3 per cent. in 2011. The costs of equity have risen since the final months of 2010 to stand at 18 per cent. in February 2012 as the result of a fall in share prices. The average cost of debt financing rose by 0.27 percentage points by the end of February 2012, and by 0.5 percentage points from June 2010, when costs were at their lowest level. At 3.3 per cent., the most expensive form of debt financing remains the issue of securities, followed by funding via deposits by the non-banking sector at 2.3 per cent., and funding raised at foreign banks at 2.0 per cent. The costs of Eurosystem sources remain at 1 per cent. The increase in the costs of funding via deposits by the non-banking sector and liabilities to foreign banks amounted to 0.5 per cent. and 0.8 per cent., respectively, from June 2010 until February 2012. Contributing most to the increase in the former were rising deposit interest rates, while the main factor in the increase in the latter was a rise in the risk premium.

The proportion of non-performing bank claims, defined as claims more than 90 days in arrears, rose last year by 3.8 per cent. to 11.2 per cent. at the end of 2011. Because non-financial corporations accounted for nearly 50 per cent. of the banking system's classified claims, arrears in this portion of the portfolio have a decisive impact on the quality of the banking system's overall portfolio. The rise in non-performing claims against non-financial corporations has slowed slightly since the second half of 2011. Arrears of more than 90 days in this sector had risen to 18.5 per cent. by the end of the 2011 and to 19.7 per cent. by February of 2012. There was a notably rapid deterioration last year in the portion of the banking system's credit portfolio accounted for by non-monetary financial institutions (such as insurers, pension funds, investment funds and leasing companies). Non-performing claims against this client segment nearly tripled last year, primarily as a result of major financial holding companies. The deterioration in this portion of the portfolio has continued this year, with no signs of slowing.

Payment and Settlement Systems

Slovenia 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 (the "**PSS Act**"), which entered into force on 1 November 2009. The PSS Act was amended on 30 April 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 provides a comprehensive legal frame work 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. The PSS Act regulates the field of payment services, issuance and use of electronic money and payment systems more comprehensively than previous legislation, and is fully harmonised with EU regulations.

In addition to the Bank of Slovenia, there are two other financial market supervisors: the Insurance Supervisory Agency (the "**ISA**"), and the Securities Market Agency (the "**SMA**").

The Securities Market Agency

The SMA 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 ("**Market in Financial Instruments Act**"). The SMA 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 SMA'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.

Since 2009 the role and the performance of the SMA has been strengthened due to the strengthened role of the ESMA. The SMA issues authorisations and approvals, conducts supervision and exercises its other powers and responsibilities set out by the Market in Financial Instruments Act, the Investment Trusts and Management Companies Act, the Takeovers Act and the Book Entry Securities Act.

The Insurance Supervisory Agency

The ISA was established pursuant to the Insurance Companies Act and became operational in June 2000 when the Republic of Slovenia appointed the Council of Experts and the director of the ISA. The objective of the central supervisory institution in the insurance area is 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 government 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 (the "**Rules**"). The Rules establish 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 and the Director of the ISA are appointed and dismissed by the National Assembly of the Republic of Slovenia from individuals proposed by the central government. The members of the council and the Director of the ISA are appointed for a period of six years and may be re-appointed.

The Insurance Companies Act establishes that, the ISA is responsible for the supervision of the insurance market. Its main responsibilities include supervising insurance undertakings, insurance agencies, insurance brokerage companies, and insurance agents and brokers.

Relevant securities acts

Market in Financial Instruments Act

Both the Markets in Financial Instruments Directive and the Market in Financial Instruments Act require changes in the operation of capital markets. These new changes allow for several trading venues, while requiring higher market quality and orderliness by introducing new execution principles and obligatory pre- and post-trade transparency for trades in listed shares. In the future, the Slovenian market is expected to integrate into other EU capital markets and complete with foreign stock exchanges and investment firms.

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 SMA issued a package of secondary legislation on the basis of the new act in November 2007.

The Market in Financial Instruments Act establishes regulations for the offering of securities to the public and the admission of securities to tradein 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 Slovenia. The Market in Financial Instruments Act also provides the terms and conditions under which persons with a registered office outside Slovenia 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.

According to recent amendments to the Market in Financial Instruments Act, the SMA must co-operate and share relevant information with the ESMA, competent authorities from other EU member states. These amendments removed certain provisions regarding the use of the General Administrative Procedure Act for the Ljubljana's central integrated securities clearing system ("**Central Securities Corporation**") and the LjSE. It also made it possible for a significant part of the activities in the central register to be transferred to the single European settlement platform. In general, it harmonised certain legal rules governing the operation of integrated settlement systems and strengthened the competitiveness of the General Administrative Procedure Act.

The Act Amending the Market in Financial Instruments Act implemented the EU's Prospectus Directive (2003/71/EC) which aims to improve the rules of the prospectus, reduce administrative burdens for issuers and intermediaries and to improve the level of investor protection by providing sufficient information.

Book Entry Securities Act

The Book Entry Securities Act establishes 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 has been amended twice. the first amendment prohibited any restrictions like depositing shares as a condition to attend a general meeting. The second introduced matching as a new phase in the process of transferring securities between different accounts, changed the legal regime of liability associated with the performance of activities related to the central register. Like the Market in Financial Instruments Act, it harmonised certain legal rules governing the operation of integrated settlement systems, strengthening the competitiveness of the Ljubljana's central securities clearing corporation.

Investment Trusts and Management Companies Act

The Investment Trusts and Management Companies Act implemented the EU's Undertakings for Collective Investment in Transferable Securities Directive (2009/65/EC), which aims to make better use of economies of scale in investment funds. It aims to provide greater flexibility in the organisation and management of funds in order to enable new business opportunities and enhance the competitiveness of European industry funds.

The Ljubljana Central Securities Clearing Corporation

In Slovenia, the Central Securities Corporation is the only available clearing and settlement service. The General Administrative Procedure Act adopt rules of operation, in which it defines in detail the method of maintenance of the Central Securities Corporation 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 SMA.

The Ljubljana Stock Exchange

The core business of the LjSE, the only exchange in Slovenia, is to ensure proper conditions for the matching of supply and demand in the trading in securities and other financial instruments, and for organised, transparent, liquid, and effective trading in securities. Trading in securities are conducted in compliance with applicable laws and the LjSE's articles of association, and in compliance with the rules, instructions and other general acts of the LjSE.

The following table sets out data regarding the Slovenian stock market for the years ended 31 December 2009–2011:

	Year ended 31 December		
	2009	*2010*	*2011*
Market capitalisation (€ billions)	19.28	20.22	19.33
Market capitalisation 1F (€ billions)	0.38	0.27	0.02
Share of market capitalisation in GDP (%)	54.5	57.2	54.67
SBI TOP (the Slovenian blue chip index)	982.67	850.35	589.58
Number of financial instruments	174	158	139
Shares	82	75	68
of which (P) IC shares	4	2	0
Investment coupons MF	7	4	1
Bonds	85	79	70
Turnover (€ billions)	0.90	0.49	0.47
Share of turnover in GDP (%)	2.5	1.4	1.3
Share turnover ratio	0.09	0.05	0.08
Bond turnover ratio	0.01	0.01	0.004
Turnover ratio of shares in PFs/ICs/IFs	0.07	0.09	0.8
Number of authorised participants	26	25	25
Investment firms	11	9	9
Banks	15	16	16

Source: Security Market Agency.

The number of long-term financial instruments traded on the LjSE fell from 174 in 2009 to a total of 139 in 2011.

Trading in financial instruments on the LjSE reached around €470 million in 2011, almost 50 per cent. less than in 2009. Contrary to stock exchange indices on foreign markets in financial instruments, the Slovenian blue-chip index SBI TOP was, in 2011, down by 40 per cent. in nominal terms compared to 2009, equalling 589.58 points.

Due to lower turnover, the share turnover ratio decreased from 0.09 in 2009 to 0.05 in 2010 and increased to 0.08 in 2011, calculated as the ratio of annual volume to market capitalisation at the end of the respective period. The bond turnover ratio decreased from 0.01 in 2010 to 0.004 in 2011, while the turnover ratio for shares in Investment Funds increased from 0.07 to 0.09 in 2010 and to 0.8 in 2011.

Market capitalisation of financial instruments on the LjSE amounted to €19.33 billion at the end of 2011 (Investment Funds excluded), which is a decrease of 4.4 per cent. over December 2010 and a 0.25 per cent. increase compared to December 2009.

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

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

	Year ended 31 December (€ billions)		
	2009	*2010*	*2011*
Shares	0.72	0.36	0.39
Bonds	0.15	0.11	0.06
Investment Funds	0.03	0.02	0.02
Pension coupons	–	–	–
Long-term financial instruments	0.90	0.49	0.47
Short-term financial instruments	–	–	–
Total	0.90	0.49	0.47

Source: Security Market Agency.

The volume of trading in financial instruments on the regulated market has fallen during the last three years. The volume of trading in shares of public companies was down by almost half in 2010 compared to 2009, while the volume of trading in bonds dropped by 30.3 per cent.

The following table sets out the market capitalisation of financial instruments on the LjSE:

	Year ended 31 December (€ millions, except percentages)					
	2009	*Share (%)*	*2010*	*Share (%)*	*2011*	*Share (%)*
Share market	8,462.22	43.03	7,027.89	34.31	4,872.81	25.18
First listing	5,247.54	26.68	4,713.90	23.01	3,696.05	19.10
Standard listing	2,206.92	11.22	1,498.48	7.31	578.19	2.99
Entry market	1,007.76	5.12	815.51	3.98	598.57	3.09
Bond market	10,821.54	55.02	13,192.76	64.40	14,459.25	74.72
Investment fund market	384.33	1.95	265.33	1.30	20.02	0.10
Investment coupon market	132.98	0.68	106.78	0.52	20.02	0.10
IC share market	251.35	1.28	158.55	0.77	–	–
Total	19,668.09	100.00	20,485.98	100.00	19,352.08	100.00

Source: Security Market Agency.

Market capitalisation of financial instruments on the LjSE (including Investment Funds), calculated as the price of a financial instrument multiplied by the number of listed financial instruments, amounted to €19.35 billion at the end of 2011, which is 1.6 per cent. less than in December 2009, when the figure was almost €19.67 billion. Total market capitalisation of all shares on the stock exchange (excluding Investment Funds) stood at €4.87 billion at the end of December 2011, which was 42.4 per cent. less than at the end of December 2009. Total market capitalisation of bonds stood at almost €14.46 billion at the end of December 2011, up 9.6 per cent. from a year earlier, when it amounted to €13.19 billion, primarily because of new of bond issuances.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

The following table sets out Slovenia's balance of payments as at 31 December 2007 to 2011 and as at 30 June 2011 and 2012:

	As at 31 December					*As at 30 June*	
	2007	*2008*	*2009*	*2010*	*2011*	*2011*	*2012*
				(€ millions)			
Current account	(1,646.2)	(2,294.9)	(246.1)	(209.1)	(1.8)	(128.3)	(254.2)
Goods	(1,665.9)	(2,385.4)	(497.9)	(997.3)	(1,043.2)	(446.3)	(285.0)
Export of goods (fob)	19,798.5	20,295.0	16,410.4	18,761.9	21,264.6	10,665.4	10,838.6
Import of goods (fob)	(21,464.4)	(22,680.4)	(16,908.3)	(19,759.2)	(22,307.8)	(11,111.7)	(11,123.6)
Services	1,047.4	1,423.7	1,165.1	1,285.1	1,442.8	714.9	862.3
Export of services	4,145.2	4,956.5	4,347.0	4,616.0	4,839.2	2,238.7	2,351.0
Import of services	(3,097.9)	(3,532.8)	(3,181.9)	(3,330.8)	(1,523.8)	(1,488.7)	
Income	(788.5)	(1,029.9)	(754.1)	(599.4)	(550.4)	(228.5)	(335.0)
Receipts	1,168.9	1,262.0	665.7	573.9	918.2	441.0	364.7
Expenditure	(1,957.4)	(2,291.9)	(1,419.8)	(1,173.3)	(1,468.6)	(669.5)	(699.7)
Current transfers	(239.1)	(303.3)	(159.2)	102.4	152.6	88.2	11.9
In Slovenia	940.6	871.0	959.3	1,202.8	1,372.7	697.8	685.4
Abroad	(1,179.6)	(1,174.3)	(1,118.5)	(1,100.4)	(1,220.1)	(609.7)	(673.5)
Capital and financial account	1,919.7	2,597.1	174.6	534.9	(451.8)	(195.9)	(110.7)
Capital account	(51.9)	(25.4)	14.0	53.0	(102.0)	(12.3)	32.3
Financial account	1,971.5	2,622.5	160.6	481.9	(49.8)	(183.6)	(143.0)
Direct investment	(255.9)	327.4	(656.6)	430.6	638.0	231.3	268.9
Abroad	(1,362.3)	(1,002.1)	(186.9)	159.7	(80.8)	16.6	90.3
In Slovenia	1,106.4	1,329.5	(469.7)	271.0	718.8	214.7	178.6
Portfolio investment	(2,255.4)	572.2	4,627.6	1,955.5	1,837.6	2,292.6	(722.3)
Abroad	(3,310.7)	(40.6)	74.3	(375.5)	14.2	(372.1)	109.6
In Slovenia	1,055.4	612.8	4,553.3	2,331.0	1,823.4	2,664.7	(831.9)
Financial derivatives	(15.2)	46.0	(2.0)	(116.8)	(135.8)	(94.3)	(29.5)
Other investments	4,358.4	1,655.9	(3,975.5)	(1,806.2)	(2,761.6)	(2,634.0)	307.1
Assets	(4,695.5)	(322.1)	(267.3)	782.6	(1,460.5)	(1,683.8)	(1,562.0)
Commercial credits	(399.6)	(142.3)	416.0	(173.8)	(47.0)	(409.6)	(382.4)
Loans	(1,895.1)	(324.6)	(0.7)	202.8	(52.4)	(121.5)	(93.2)
Currency and deposits	(2,408.0)	140.5	(602.9)	672.0	(1,315.4)	(1,157.3)	(1,122.7)
Other assets	7.2	4.3	(79.7)	81.5	(45.7)	4.6	36.3
Liabilities	9,053.9	1,977.9	(3,708.3)	(2,588.8)	(1,301.1)	(950.2)	1,869.2
Commercial credits	499.4	(73.0)	(452.0)	(362.1)	93.8	181.7	303.3
Loans	3,841.1	1,868.6	(2,910.8)	(985.8)	(1,235.0)	(685.7)	(439.7)
Deposits	4,726.7	189.8	(318.0)	(1,953.7)	(169.1)	(452.4)	1,999.2
Other liabilities	(13.2)	(7.5)	(27.1)	(11.4)	9.2	6.3	6.4
Reserve assets	139.6	21.0	167.2	18.8	72.0	20.7	32.9
Net errors and omissions	(273.5)	(302.2)	71.5	(325.8)	450.1	67.6	(143.5)

Source: Bank of Slovenia.

Current Account

In the period from 2007 to 2011, the current account position moved from a deficit of €1,646.2 million (4.87 per cent. of GDP) in 2007 to a surplus of €1.8 million in 2011 (0.01 per cent. of GDP). In 2007 and 2008, Slovenia's current account deficit widened mainly due to an increase in imports of investment goods driven by strong economic activity. In 2008, foreign trade was also affected by external shocks caused by international commodity and oil price increases. In 2009, as a result of decreased investment activity, the current account deficit decreased significantly and, in 2010 and 2011, continued close to balance. This change from deficit to surplus was the result of an increase in the positive balance of services and current transfers and a decrease in the deficit in income. Historically, the services account has positively contributed to the overall current account balance, mainly due to a surplus in tourism activity. The total services surplus continued to grow in 2010 and 2011. The change in current transfers was the result of more extensive usage of EU funds.

Foreign Trade

Foreign trade is the most important item in the Slovenian current account. Its share in all current account credits was 76 per cent. in 2007 and 75 per cent. in 2011 and its share in all debits was 77 per cent. in 2007 and 79 per cent. in 2011. Slovenia's foreign trade is predominantly linked to other EU countries, followed by the countries of the former SFRY. Over the past eight years, Slovenia has steadily increased its market share of exports into other EU countries.

Exports increased in 2011 by 13.3 per cent. compared to 2010, while imports increased by 12.9 per cent. in the same period. This compares to an increase in 2010 compared to 2009 (14.3 per cent. for exports of goods; 16.9 per cent. for imports of goods). Exports of goods declined in 2009 compared to 2008 as a result of the global financial crisis (19.1 per cent. for exports of goods; 25.4 per cent. for imports of goods); Growth was present in 2008 compared to 2007 (2.5 per cent. for exports of goods; 5.7 per cent. for imports of goods). In total, from 2007 to 2011, exports of goods increased by 7.4 per cent. while imports of goods increased by 3.9 per cent.

Imports and Exports of Goods by Region

The geographical breakdown of Slovenian foreign trade has been relatively stable over the last five years. In 2011, EU countries represented 71.1 per cent. of total exports and 76.8 per cent. of total imports. Among EU countries, Germany is Slovenia's most significant trading partner, followed by Italy and Austria. Croatia and Serbia are also important partners due to historical ties. A relatively large share of exports are directed to former SFRY countries (14.0 per cent. in 2011).

The following tables set out the shares of imports and exports of goods by region as at 31 December 2007 to 2011 and as at 30 June 2011 and 2012:

	As at 31 December					*As at 30 June*	
	2007	*2008*	*2009*	*2010*	*2011*	*2011*	*2012*
	(% share of total)						
Exports of goods (fob)							
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
EU	70.7	69.3	69.6	71.2	71.1	72.2	70.8
of which:							
Austria	8.0	8.2	8.1	8.4	8.1	7.9	8.7
Italy	13.2	12.1	11.6	12.1	11.9	12.1	11.7
Germany	18.7	18.8	19.5	19.5	20.9	20.9	21.7
France	6.6	6.4	8.4	8.0	6.7	7.5	5.9
Hungary	3.4	3.3	3.0	3.1	3.1	3.1	2.9
Netherlands	1.6	1.7	1.6	2.0	2.1	2.1	2.1
Czech Republic	2.5	2.4	2.4	2.4	2.5	2.4	2.5
United Kingdom	2.7	2.4	2.3	2.4	2.4	2.4	2.3
Croatia	8.0	8.5	7.7	6.7	6.7	6.5	6.3
Serbia	3.8	3.9	4.0	3.6	3.3	3.2	3.2
Russia	3.5	4.0	3.2	3.2	3.5	3.4	3.8
China	0.3	0.3	0.4	0.5	0.4	0.4	0.4
USA	1.7	1.4	1.3	1.5	1.5	1.4	1.6
Imports of goods (fob)							
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
EU	78.9	77.8	78.5	77.0	76.8	77.1	76.8
of which:							
Austria	12.8	12.4	13.2	12.1	11.5	11.2	11.4
Italy	18.1	18.0	17.6	17.6	17.5	17.2	18.3
Germany	19.3	18.8	18.3	18.5	19.6	19.6	19.2
France	5.5	5.1	5.5	5.6	4.8	5.1	4.9
Hungary	3.4	3.9	3.8	4.0	4.1	4.0	4.3
Netherlands	3.5	3.2	3.3	3.2	3.2	3.5	3.0
Czech Republic	2.3	2.4	2.5	2.5	2.6	2.5	2.5
United Kingdom	1.8	1.5	1.3	1.3	1.6	1.5	1.4
Croatia	4.0	3.7	3.7	3.9	4.0	4.1	3.9
Serbia	1.7	1.7	1.5	1.8	1.9	1.9	1.7
Russia	2.2	1.6	1.2	1.5	1.8	1.4	1.9
China	1.6	1.9	2.1	2.5	2.5	2.4	2.5
USA	1.3	1.9	1.9	1.3	2.2	1.9	1.6

Source: Bank of Slovenia.

The following table sets out the amounts of imports and exports by region as at 31 December 2007 to 2011 and as at 30 June 2011 and 2012:

	As at 31 December					*As at 30 June*	
	2007	*2008*	*2009*	*2010*	*2011*	*2011*	*2012*
				(€ millions)			
Exports of goods (fob)							
Total	19,798.5	20,295.0	16,410.4	18,761.9	21,264.6	10,665.4	10,838.6
EU	13,991.2	14,057.3	11,426.5	13,350.0	15,119.8	7,699.7	7,678.6
of which:							
Austria	1,576.7	1,667.8	1,331.3	1,583.0	1,732.8	844.5	938.0
Italy	2,620.1	2,453.4	1,897.9	2,272.3	2,524.3	1,287.4	1,265.2
Germany	3,700.1	3,816.3	3,199.2	3,659.1	4,450.7	2,230.1	2,355.8
France	1,300.8	1,302.0	1,371.4	1,492.0	1,421.9	799.0	641.0
Hungary	673.2	672.4	495.1	584.0	664.8	326.5	309.0
Netherlands	321.1	345.3	255.2	366.7	440.7	229.2	232.3
Czech Republic	493.8	494.2	393.6	441.0	528.8	259.2	269.8
United Kingdom	540.1	479.1	381.3	453.4	500.6	251.2	250.5
Croatia	1,587.7	1,715.9	1,267.0	1,250.1	1,419.1	691.1	679.4
Serbia	746.0	795.2	650.6	681.2	706.0	340.3	351.8
Russia	697.5	809.1	531.2	597.1	754.6	364.0	414.8
China	61.3	71.0	68.1	90.3	91.5	46.0	46.0
USA	337.2	278.3	212.9	286.9	324.5	147.6	173.5
Imports of goods (fob)							
Total	21,464.4	22,680.4	16,908.3	19,759.2	22,307.8	11,111.7	11,123.6
EU	16,934.6	17,647.1	13,269.0	15,208.0	17,143.2	8,565.8	8,545.3
of which:							
Austria	2,743.8	2,805.7	2,230.3	2,385.1	2,571.5	1,240.2	1,271.8
Italy	3,887.3	4,078.4	2,974.2	3,469.0	3,905.4	1,910.9	2,033.9
Germany	4,141.9	4,268.0	3,099.6	3,654.0	4,362.3	2,177.0	2,138.7
France	1,171.5	1,153.8	928.8	1,099.2	1,074.0	563.6	541.9
Hungary	740.3	875.0	637.0	793.7	922.3	444.1	478.8
Netherlands	744.2	731.8	552.5	640.9	709.7	387.4	336.6
Czech Republic	499.9	548.3	429.7	492.4	570.3	279.4	281.0
United Kingdom	385.3	330.7	216.4	257.8	350.2	171.0	158.3
Croatia	857.1	831.0	633.9	771.1	897.7	459.1	436.1
Serbia	365.4	379.7	261.1	355.9	413.6	208.9	186.4
Russia	482.4	355.8	207.0	298.8	392.2	157.6	214.5
China	336.4	429.0	352.	496.5	557.4	267.0	279.3

Source: Bank of Slovenia.

Composition of Trade

The composition of exports and imports of goods by products was relatively stable in the period from 2007 to 2011. The most significant exports in 2011 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, which are much more important imports.

The following table sets out the composition of imports and exports of goods by Standard International Trade Classification category as at 31 December 2007 to 2011 and as at 30 June 2011 and 2012:

	As at 31 December					As at 30 June	
	2007	*2008*	*2009*	*2010*	*2011*	*2011*	*2012*
	(% share of total)						
Exports of goods (fob)							
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Food and live animals	2.8	3.2	3.7	3.2	3.2	3.1	3.0
Beverages and tobacco	0.3	0.4	0.5	0.4	0.4	0.4	0.4
Crude materials (except fuels)	3.1	3.1	3.1	4.0	3.9	3.9	3.7
Mineral fuels, lubricants and related materials	1.9	3.0	3.2	4.2	5.7	5.4	5.9
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	13.8	14.4	16.6	16.5	16.6	16.7	17.5
Manufactured goods	25.0	23.8	20.7	22.0	23.0	23.2	22.4
Machinery and transport equipment	40.4	39.8	40.2	38.7	36.6	37.3	36.7
Miscellaneous manufactured articles	12.5	12.2	11.9	10.8	10.4	9.9	10.0
Other commodities and products of trade	0.1	0.0	0.1	0.1	0.1	0.1	0.3
Imports of goods (cif)							
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Food and live animals	5.6	5.8	7.6	6.5	6.6	6.5	6.4
Beverages and tobacco	0.6	0.7	1.0	0.8	0.8	0.7	0.8
Crude materials (except fuels)	5.7	5.2	4.8	6.3	6.1	6.4	6.0
Mineral fuels, lubricants and related materials	9.4	12.8	11.3	12.8	15.3	14.7	17.1
Animal and vegetable oils, fats and waxes	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Chemicals and related products	12.0	11.8	13.5	13.7	13.5	14.0	14.5
Manufactured goods	22.6	20.3	18.3	19.2	19.1	19.7	18.6
Machinery and transport equipment	34.3	33.5	32.0	30.1	28.3	28.4	27.1
Miscellaneous manufactured articles	9.5	9.4	11.1	10.0	9.6	9.1	8.7
Other commodities and products of trade	0.1	0.2	0.2	0.3	0.5	0.2	0.4

Source: Bank of Slovenia; SORS.

Capital and Financial Account

For the year ended 31 December 2011, the capital and financial account generated net outflows of €451.8 million. That year, foreign direct investment generated net inflows of €638.0 million and portfolio investment generated net inflows of €1,837.6 million. Conversely, financial derivatives and other investment generated net outflows of €2,761.6 million. The capital financial account generated net inflows in 2010 (€534.9 million), 2009 (€174.6 million), 2008 (€2,597.1 million) and 2007 (€1,919.7 million).

Amounts and Origins of Foreign Direct Investment

The balance of direct investment for 2007 (including equity capital, reinvested earnings and other capital) amounted to a net outflow of €255.9 million, while in 2008 it amounted to a net inflow of €327.4 million. In 2009, the balance of direct investment amounted to a net outflow of €656.6 million compared to net inflows of €430.6 million in 2010 and €638.0 million in 2011.

In the period from 2007 to 2011, foreign direct investment primarily recorded net inflows (2007: €1,106.4 million; 2008: €1,329.5 million; 2010: €271.0 million; 2011: €718.8 million). However, in 2009, foreign direct investment recorded a net outflow of €469.7 million while equity capital and reinvested earnings showed €127.5 million net inflow. In 2007, 2008 and 2011, the majority of foreign direct investment was on account of the net increase of liabilities to foreign parent companies, while in 2010 the major part of inflows represent equity capital.

The following table sets out the net inflow of foreign direct investment (in the form of equity capital and reinvested earnings) in Slovenia by country of origin for the years ended 31 December 2007 to 2011:

	Year ended 31 December									
	2007		2008		2009		2010		2011	
	(€ millions)	(%)	(€ millions)	(%)	(€ millions)	(%)	(€ millions)	(%)	(€ millions)	(%)
Austria	209.7	41.2	285.6	71.8	68.7	53.9	184.1	93.5	113.4	(422.3)
Belgium	7.1	1.4	(3.2)	(0.8)	(2.8)	(2.2)	(52.4)	(26.6)	(55.6)	207.0
Switzerland	(7.0)	(1.4)	(49.6)	(12.5)	20.0	15.7	(32.3)	(16.4)	(158.0)	588.6
Cyprus	24.2	4.8	52.5	13.2	47.1	36.9	(5.8)	(3.0)	(1.5)	5.7
Germany	80.3	15.8	(66.9)	(16.8)	(28.3)	(22.2)	(1.0)	(0.5)	37.5	(139.8)
France	53.3	10.5	38.4	9.6	(17.1)	(13.4)	(1.6)	(0.8)	23.5	(87.5)
United Kingdom	37.0	7.3	18.3	4.6	(41.8)	(32.8)	20.1	10.2	15.4	(57.3)
Croatia	(17.1)	(3.4)	6.3	1.6	0.7	0.5	152.9	77.7	(1.7)	6.2
Italy	31.0	6.1	31.1	7.8	38.6	30.3	23.4	11.9	26.4	(98.4)
Luxembourg	(75.3)	(14.8)	8.6	2.2	87.5	68.6	(71.7)	(36.4)	(28.3)	105.4
Netherlands	76.4	15.0	32.2	8.1	(12.9)	(10.1)	(2.8)	(1.4)	(44.7)	166.4
Other countries	89.0	17.5	44.8	11.3	(32.2)	(25.2)	(16.0)	(8.1)	46.7	(174.1)
Total	508.5	100.0	398.1	100.0	127.5	100.0	196.9	100.0	26.9	100.0

Source: Bank of Slovenia.

Gross External Debt

Measured by gross external debt, Slovenia is one of the least indebted countries among the 27 EU member states, according to Eurostat. As at 31 December 2011, gross external debt amounted to €40.2 billion, which is 112.9 per cent. of GDP, the third lowest ratio of Eurozone countries (the EU average is 210.5 per cent.). The ratio of external debt to GDP has gradually increased since 2007, from 100.6 per cent. of GDP to 112.9 per cent. of GDP in 2011, with the increases largely driven by the government. In addition, 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.

The following table sets out gross external debt by sector as at 31 December 2007 to 2011 and as at 30 June 2012(1):

	As at 31 December										As at 30 June
	2007		2008		2009		2010		2011		2012
	(€ millions)	(% GDP)	(€ millions)	(% GDP)	(€ millions)	(% GDP)	(€ millions)	(% GDP)	(€ millions)	(% GDP)	(€ millions)
General government	3,035.6	8.8	3,735.8	10.1	6,558.8	18.6	8,166.5	23.1	8,714.7	24.5	9,094.3
Monetary Authority	3,587.5	10.4	3,631.4	9.8	3,595.0	10.2	2,374.9	6.7	3,010.5	8.4	5,480.4
Banks	16,216.4	46.9	17,886.5	48.2	16,414.2	46.5	16,013.2	45.2	13,440.5	37.7	11,798.0
Other sectors	7,951.1	23.0	9,161.7	24.7	9,527.8	27.0	9,502.3	26.8	9,679.8	27.2	9,818.5
Direct investment: Intercompany lending	3,991.9	11.5	4,818.1	13.0	4,197.9	11.9	4,665.9	13.2	5,395.8	15.1	5,441.6
Total gross external debt	34,782.5	100.6	39,233.5	105.7	40,293.7	114.1	40,722.8	115.0	40,241.4	112.9	41,633.3

Source: Bank of Slovenia.

Note:

(1) The methodology used to compile these figures is based on the External Debt Statistics: Guide for Compilers and Users, IMF, 2003. This guide is available at: http//www.imf.org/external/pubs/ft/eds/Eng/Guide/index.htm. In order to maintain consistency, the data sources are the same as those for the International Investment Position. The sources for equities, financial derivatives and monetary gold are not used because these types of instruments are not included in the balance of external debt according to the IMF definition.

TAXATION

The following is a general description of certain 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 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 in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Slovenian Taxation

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 of 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 legal persons 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 20 per cent. (the rate will rise to 25 per cent. as of 1 January 2013). There is no withholding tax on such interest; instead, residents are obliged to submit a return declaring such interest by the 15th day in the month for interest received in the previous three-month period. Such tax is the final tax imposed by Slovenia on interest derived by residents from the Notes.

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

The paying agent (as defined in the Slovenian Tax Procedure Act (*Zakon o davčnem postopku, Uradni list RS, No 117/2006, 24/2008, 125/2008, 20/2009, 110/2009, 1/2010, 43/2010, 97/2010, 13/2011 – (uradno prečiščeno besedilo) and 33/2012*) is required to report the payment of interest on the Notes to the tax authorities in accordance with the provisions implementing the European Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments.

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

United States Federal Income Taxation

The following is a description of certain material U.S. federal income tax consequences of the acquisition, ownership, retirement or other taxable disposition of Notes by a U.S. Holder (as defined below). The discussion addresses only U.S. Holders who purchase Notes in the original offering at the original offering price, hold the Notes as capital assets for U.S. federal income tax purposes and, except as set forth below, does not address aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as:

- financial institutions;
- insurance companies;
- real estate investment trusts;
- regulated investment companies;
- grantor trusts;
- tax-exempt organisations;
- persons that will own Notes through partnerships or other pass-through entities;
- dealers or traders in securities or currencies;
- certain former citizens or long-term residents of the United States;
- holders that will hold a Note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes; or
- holders that have a functional currency other than the U.S. dollar.

Moreover, this description does not address the U.S. federal estate and gift tax, the Medicare tax on net investment income, or the alternative minimum tax consequences of the acquisition, ownership, retirement or other taxable disposition of Notes and does not address the U.S. federal income tax treatment of holders that do not acquire Notes as part of this offering. Each prospective purchaser should consult its tax adviser with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding and disposing of Notes.

This description is based on the Internal Revenue Code of 1986 as amended (the "**Code**"), existing and proposed U.S. Treasury Regulations, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing is subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein.

For purposes of this description, a U.S. Holder is a beneficial owner of Notes who, for U.S. federal income tax purposes, is:

- an individual who is a citizen or resident of the United States;
- a corporation (or any other entity that is treated as a corporation for U.S. federal income tax purposes) organised in or under the laws of the United States, any State thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or a trust (a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more U.S. persons have the authority to control.

If an entity treated as a partnership for U.S. federal income tax purposes holds Notes, the tax treatment of the entity and a partner in such entity generally will depend on the status of the partner and the activities of the entity. Such partner or entity should consult its own tax adviser as to the U.S. federal income tax consequences of holding Notes.

IRS Circular 230 Disclosure

The description set out herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the Code. Such description was written in connection with

the promotion or marketing of the Notes. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax adviser.

Payments of Stated Interest

Payments on the Notes, including any additional amounts with respect thereto as described under "*Terms and Conditions of the Notes – Taxation*", generally will be taxable to a U.S. Holder as ordinary income at the time that such payments are received or accrued, in accordance with the U.S. Holder's method of tax accounting for United States federal income tax purposes.

In addition to interest on Notes, a U.S. Holder will be required to include in income the amount of any foreign tax withheld from the interest payments received by such holder. Thus, a U.S. Holder could be required to report income in an amount greater than the cash the holder actually receives in respect of payments on Notes. A U.S. Holder may be entitled to deduct or credit this tax, subject to certain limitations (including that by electing to deduct or credit a particular foreign tax, such election will apply to all of such holder's applicable foreign taxes for a particular tax year).

Interest income (as discussed below) will constitute foreign source "passive category" income, or, in the case of certain U.S. Holders, "general category" income for foreign tax credit purposes. The rules relating to foreign tax credits and the timing thereof are complex and a U.S. Holder should consult its own tax adviser regarding the availability of a foreign tax credit and the application of the foreign tax credit limitations to their particular situation.

Sale, Exchange, Retirement or Other Taxable Disposition

Upon the sale, exchange, retirement or other taxable disposition of Notes, U.S. Holders will recognise taxable gain or loss equal to the difference, if any, between the amount realised on the sale, exchange, retirement or other taxable disposition, other than amounts attributable to accrued but unpaid interest which will be taxable as interest to the extent not previously included in income, and the U.S. Holder's adjusted tax basis in the Notes. A U.S. Holder's adjusted basis in a Note generally will be the amount paid for the Note reduced by any payments other than payments of interest.

Any gain or loss realised on the sale, exchange, retirement or other taxable disposition of Notes generally will be treated as U.S. source gain or loss, as the case may be. Consequently, U.S. Holders may not be able to claim a credit for any foreign tax imposed upon a taxable disposition of Notes unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. The deductibility of capital losses is subject to limitations.

U.S. Backup Withholding Tax and Information Reporting

Backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation and to proceeds of the sale or redemption of an obligation, to certain U.S. Holders or their U.S. paying agents or other intermediaries. Information reporting generally will apply to payments of principal of, and interest on, Notes, and to proceeds from the sale or redemption of Notes within the United States, or by a U.S. payor or U.S. middleman, to a U.S. Holder (other than an exempt recipient, including a corporation, and certain other persons). The payor will be required to backup withhold on payments made within the United States, or by a U.S. payor or U.S. middleman, on a Note to a U.S. Holder (other than an exempt recipient) if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements.

Backup withholding is not an additional tax. U.S. Holders generally will be entitled to credit any amounts withheld under the backup withholding rules against their U.S. federal income tax liability provided the required information is furnished to the IRS in a timely manner.

Foreign Asset Reporting

Certain U.S. Holders who are individuals are required to report information relating to an interest in Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by U.S. financial institutions). U.S. Holders are urged to consult their tax advisers regarding their information reporting obligations, if any, with respect to their ownership and disposition of Notes.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the ownership of Notes. Prospective purchasers of Notes should consult their own tax advisers concerning the tax consequences of their particular situations.

EU Savings Tax Directive

Under the EU Savings Directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a member state to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the EU Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

CLEARING AND SETTLEMENT ARRANGEMENTS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the "Clearing Systems") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Republic believes to be reliable, but the Republic does not take any responsibility for the accuracy of this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Republic and any other party to the Fiscal Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Clearing Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg are each an International Central Securities Depositary ("**ICSD**") and each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

In a press release dated 22 October 2008, "*Evolution of the custody arrangement for international debt securities and their eligibility in Eurosystem credit operations*", the ECB announced that it has assessed the new holding structure and custody arrangements for registered notes which the ICSDs had designed in cooperation with market participants and that Notes to be held under the new structure (the "**New Safekeeping Structure**" or "**NSS**") would be in compliance with the "*Standards for the use of EU securities settlement systems in ESCB credit operations*" of the central banking system for the euro (the "**Eurosystem**"), subject to the conclusion of the necessary legal and contractual arrangements. The press release also stated that the new arrangements for Notes to be held in NSS form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2010 and that registered debt securities in global registered form issued through Euroclear and Clearstream, Luxembourg after 30 September 2010 will only be eligible as collateral in Eurosystem operations if the New Safekeeping Structure is used.

DTC

DTC has advised the Republic that it is a limited purpose trust company organised under the New York Banking Law, a member of the Federal Reserve System, a "banking organisation" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("**Direct Participants**") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing

Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**" and, together with Direct Participants, "**Participants**"). More information about DTC can be found at www.dtcc.com and www.dtc.org.

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**DTC Rules**"), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system ("**DTC Notes**") as described below and receives and transmits distributions of principal and interest on DTC Notes. The DTC Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ("**Owners**") have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the DTC Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorised representative of DTC. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to DTC Notes unless authorised by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Republic as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Republic or the relevant agent (or such other nominee as may be requested by an authorised representative of DTC), on the relevant payment date in accordance with their respective holdings shown in DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, relevant agents or the Republic, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Republic, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Subscription and Sale"* and "*Transfer Restrictions"*.

A Beneficial Owner shall give notice to elect to have its DTC Notes purchased or tendered, through its Participant, to the relevant agent, and shall effect delivery of such DTC Notes by causing the Direct Participant to transfer the Participant's interest in the DTC Notes, on DTC's records, to the relevant agent. The requirement for physical delivery of DTC Notes in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the DTC Notes are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered DTC Notes to the relevant agent's DTC account.

DTC may discontinue providing its services as depositary with respect to the DTC Notes at any time by giving reasonable notice to the Republic or the relevant agent. Under such circumstances, in the event that a successor depositary is not obtained, DTC Note certificates are required to be printed and delivered.

The Republic may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depositary). In that event, DTC Note certificates will be printed and delivered to DTC.

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Republic believes to be reliable, but the Republic takes no responsibility for the accuracy thereof.

Registration and Form

Book-entry interests in the Notes held through Euroclear and Clearstream, Luxembourg will be represented by the Unrestricted Global Certificate registered in the name of, and held by, a Common Safekeeper (or its nominee) for Euroclear and Clearstream, Luxembourg. Book-entry interests in the Notes held through DTC will be represented by the Restricted Global Certificate registered in the name of Cede & Co., as nominee for DTC, and held by a custodian for DTC. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of Euroclear, Clearstream, Luxembourg and DTC to reflect the amounts of Notes held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership of book-entry interests in Notes will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the Notes in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg or DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the Notes will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the Notes. The Registrar will be responsible for maintaining a record of the aggregate holdings of Notes registered in the name of a Common Safekeeper (or its nominee), a nominee for DTC and/or, if individual Certificates are issued in the limited circumstances described under "*The Global Certificates – Registration of Title*", holders of Notes represented by those individual Certificates. The Fiscal Agent will be responsible for ensuring that payments received by it from the Republic for holders of book-entry interests in the Notes holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg, as the case may be, and the Fiscal Agent will also be responsible for ensuring that payments received by the Fiscal Agent from the Republic for holders of book-entry interests in the Notes holding through DTC are credited to DTC.

The Republic will not impose any fees in respect of holding the Notes; however, holders of book-entry interests in the Notes may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg or DTC.

Clearing and Settlement Procedures

Initial Settlement

Upon their original issue, the Notes will be in global form represented by the two Global Certificates. Interests in the Notes will be in uncertified book-entry form. Purchasers electing to hold book-entry interests in the Notes through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional Eurobonds. Book-entry interests in the Notes will be credited to Euroclear and Clearstream, Luxembourg participants' securities clearance accounts on the business day following the Closing Date against payment (value the Closing Date). DTC participants acting on behalf of purchasers electing to hold book-entry interests in the Notes through DTC will follow the delivery practices applicable to securities eligible for DTC's Same Day Funds Settlement system. DTC participants' securities accounts will be credited with book-entry interests in the Notes following confirmation of receipt of payment to the Republic on the Closing Date.

Secondary Market Trading

Secondary market trades in the Notes will be settled by transfer of title to book-entry interests in the Clearing Systems. Title to such book-entry interests will pass by registration of the transfer within the records of Euroclear, Clearstream, Luxembourg or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the Notes may be transferred within Euroclear and within Clearstream, Luxembourg and between Euroclear and Clearstream, Luxembourg in accordance with procedures established for these purposes by Euroclear and Clearstream, Luxembourg. Book-entry interests in the Notes may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfer of book-entry interests in the Notes between Euroclear or Clearstream, Luxembourg and DTC may be effected in accordance with procedures established for this purpose by Euroclear, Clearstream, Luxembourg and DTC.

General

None of Euroclear, Clearstream, Luxembourg or DTC is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

None of the Republic or any of their agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

SUBSCRIPTION AND SALE

BNP Paribas, Deutsche Bank AG, London Branch and J.P. Morgan Securities plc (the "**Joint Lead Managers**") have in a subscription agreement dated 22 October 2012 (the "**Subscription Agreement**") and made between the Republic and the Joint Lead Managers upon the terms and subject to the conditions contained therein, agreed to subscribe and pay for the Notes at an issue price of 98.491 per cent., of their principal amount less a combined management and underwriting commission of 0.175 per cent., of their principal amount. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States of America

The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (a) outside the United States in offshore transactions in reliance on, and in compliance with, Regulation S and (b) in the United States to a limited number of QIBs as defined in the Securities Act in connection with resales by the Joint Lead Managers, in reliance on, and in compliance with, Rule 144A.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of the Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Each Joint Lead Manager has represented and agreed that it has offered and sold, and will offer and sell, the Notes (a) as part of its distribution at any time and (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, only in accordance with Rule 903 of Regulation S or Rule 144A. Accordingly, neither such Joint Lead Manager nor its affiliates, nor any persons acting on its or their behalf, have engaged or will engage in any directed selling efforts (as defined in Regulation S) with respect to the Notes, and such Joint Lead Manager, its affiliates and all persons acting on its or their behalf have complied and will comply with the offering restrictions requirement of Regulation S. Each Joint Lead Manager has agreed that, at or prior to confirmation of sale of the Notes (other than a sale pursuant to Rule 144A), it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases the Notes from it during the restricted period a confirmation or notice to substantially the foregoing effect.

Each purchaser of a Note, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with the Republic and the Joint Lead Managers as follows:

It understands and acknowledges that the Notes have not been registered under the Securities Act or any other applicable securities law, and that the Notes are being offered for sale in transactions not requiring registration under the Securities Act or any other securities laws, including sales pursuant to Rule 144A and Regulation S and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act or any other applicable securities laws, pursuant to an exemption therefrom or pursuant to a transaction not subject thereto.

It is either (i) a QIB and is aware that any sale of the Notes to it will be made in reliance on Rule 144A and it is acquiring the Notes for its own account or for the account of another QIB with respect to which it exercises full investment discretion, or (ii) it is purchasing the Notes in an offshore transaction (as defined in Regulation S) in accordance with Regulation S.

It is purchasing the Notes for its own account or for the account of investors meeting the requirements of paragraph (b) above for which it is acting as a fiduciary or agent and with respect to which it has the authority to make these acknowledgements, representations and agreements, in each case not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act.

If it is a QIB purchasing the Notes pursuant to Rule 144A, it will not offer, sell, pledge or otherwise transfer the Notes except (i) (A) to the Republic, (B) to a person whom the purchaser reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (C) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S or (D) in a transaction that is otherwise exempt from the registration requirements of the Securities Act but only upon delivery to the Republic of an opinion of counsel in form and scope satisfactory to the Republic and (ii) in accordance with all applicable securities laws of the States of the United States.

It acknowledges that certificates in respect of Notes purchased pursuant to Rule 144A, unless otherwise agreed by the Republic, will bear a legend to the following effect:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE SECURITIES ACT). THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS CERTIFICATE IS ISSUED, AGREES, FOR THE BENEFIT OF THE REPUBLIC, THAT SUCH NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(1) TO THE REPUBLIC, (2) IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (4) IN A TRANSACTION THAT IS OTHERWISE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT BUT ONLY UPON DELIVERY TO THE REPUBLIC OF AN OPINION OF COUNSEL IN FORM AND SCOPE SATISFACTORY TO THE REPUBLIC; AND (B) IN COMPLIANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES.

It acknowledges that certificates in respect of Notes purchased pursuant to Regulation S, unless otherwise agreed by the Republic, will bear a legend to the following effect:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933 (THE SECURITIES ACT), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED OR SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.

Each purchaser further acknowledges that the Joint Lead Managers and their affiliates and otherwise will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Restricted Global Certificates for the account of one or more QIBs, the purchaser thereof represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

General

No action has been or will be taken in any jurisdiction by the Republic or the Joint Lead Managers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes 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 have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

Delivery of the Notes will be made against payment therefor on or about the Issue Date, which will be the fifth business day following the date of pricing of the Notes (such settlement being herein referred to as "T+5"). Under Rule 15c6-l under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trades expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next succeeding business day should consult their own adviser.

Certain of the Joint Lead Managers and their affiliates have engaged, are currently engaged and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Republic, and/or its affiliates in the ordinary course of business. Such persons may have received, or may continue to receive, customary compensation.

TRANSFER RESTRICTIONS

Due to the following significant transfer restrictions applicable to the Notes, investors are advised to consult legal counsel prior to making any reoffer, resale, pledge, transfer or disposal of the Notes.

The Notes have not been registered under the Securities Act, and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold (1) in the United States only to persons reasonably believed to be "qualified institutional buyers," which are referred to as QIBs, as defined in Rule 144A under the Securities Act in compliance with Rule 144A and (2) to persons outside the United States ("**foreign purchasers**") in offshore transactions pursuant to Regulation S under the Securities Act ("**Regulation S**").

By its purchase of Notes, each purchaser of Notes will be deemed to:

(a) represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is (i) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A or (ii) a foreign purchaser in an offshore transaction pursuant to Regulation S;

(b) acknowledge that the Notes have not been registered under the Securities Act and may not be offered or sold within the United States except as set forth below;

(c) if it is a person other than a foreign purchaser outside the United States after the expiration of the distribution compliance period, agree that if it should resell or otherwise transfer the Notes within the time period referred to in Rule 144(k) under the Securities Act after the original issuance of the Notes, it will do so only (i) to the Republic, (ii) to a QIB in compliance with Rule 144A, (iii) outside the United States in an offshore transaction in compliance with Rule 903 or 904 of Regulation S, (iv) pursuant to a transaction that is otherwise exempt from the registration requirements of the Securities Act but only if available and upon delivery to the Republic of an opinion of counsel in form and scope satisfactory to the Republic or (v) pursuant to an effective registration statement under the Securities Act. Subject to the procedures set forth in the Agency Agreement, prior to any proposed transfer of the Notes (other than pursuant to an effective registration statement) within the time period referred to in Rule 144(k) under the Securities Act after the original issuance of the Notes, the holder thereof must check the appropriate box set forth on the reverse of its Notes relating to the manner of such transfer and submit the Notes to the Fiscal Agent;

(d) agree that it will deliver to each person to whom it transfers Notes notice of any restriction on transfer of such Notes;

(e) understand and agree that Notes initially offered in the United States to QIBs will be represented by one or more Restricted Global Certificates and that Notes offered outside the United States in offshore transactions pursuant to Regulation S will be represented by one or more Unrestricted Global Certificates;

(f) understand that unless registered under the Securities Act, the Notes (other than those issued to foreign purchasers after expiration of the distribution compliance period) will bear a legend to the following effect, unless otherwise agreed by the Republic and the holder thereof:

THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE SECURITIES ACT), OR ANY SECURITIES LAW OF ANY STATE IN THE UNITED STATES OF AMERICA, AND MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT AS PERMITTED BY THE FOLLOWING SENTENCES. THE HOLDER HEREOF, BY PURCHASING THE NOTES IN RESPECT OF WHICH THIS CERTIFICATE IS ISSUED, ACKNOWLEDGES AND AGREES, FOR THE BENEFIT OF THE ISSUER, THAT SUCH NOTES MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(1) TO THE ISSUER, (2) IN COMPLIANCE WITH

RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (3) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) IN A TRANSACTION THAT IS OTHERWISE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT BUT ONLY IF AVAILABLE AND UPON DELIVERY TO THE ISSUER OF AN OPINION OF COUNSEL IN FORM AND SCOPE SATISFACTORY TO THE ISSUER; AND (B) IN EACH CASE IN COMPLIANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES;

(g) acknowledge that the Republic and the Joint Lead Managers will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agree that if any of the acknowledgements, representations or warranties deemed to have been made by it by its purchase of Notes are no longer accurate, it shall promptly notify the Republic and the Joint Lead Managers; and

(h) if it is acquiring Notes as a fiduciary or agent for one or more investor accounts, represent that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

GENERAL INFORMATION

(1) The issue of the Notes has been duly authorised pursuant to Article 84 of the Public Finance Act (*Zakon o javnih financah, Uradni list Republike Slovenije No. 11/2011 – uradno prečiščeno besedilo, and 110/2011*) and Article 36, paragraph 2 of the Republic of Slovenia Budgets for 2011 and 2012 Implementation Act (*Zakon o izvrševanju proračunov Republike Slovenije za leti 2011 in 2012, Uradni list Republike Slovenije No. 96/2010, 4/2011, 22/2012 and 37/2012*).

(2) Save as disclosed in "*The Republic of Slovenia – Legal and Arbitration Proceedings*", the Republic is not involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes nor, so far as the Republic is aware, is any litigation or arbitration pending or threatened.

(3) Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to admit the Notes to trading on the Luxembourg Stock Exchange's regulated market. Copies (and certified English translations where the documents in question are not in English) of the following documents may be obtained during normal business hours at the offices of the Listing Agent in Luxembourg:

(a) the Fiscal Agency Agreement;

(b) the Subscription Agreement;

(c) the Deed of Covenant;

(d) certified English translations of the extracts from Article 84 of the Public Finance Act and Article 36, paragraph 1 of the Republic of Slovenia Budgets for 2011 and 2012 Implementation Act, as referred to in paragraph 1 above.

(4) Application has been made for acceptance of the Restricted Global Certificates into DTC's book-entry settlement system. The Unrestricted and Restricted Global Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for the Unrestricted Global Certificates is XS0847086237 and for the Restricted Global Certificates is US831594AB23. The Common Code for the Unrestricted Global Certificates is 084708623 and for the Restricted Global Certificates is 084756130. The CUSIP number for the Restricted Global Certificates is 831594AB2.

(5) Where information in this Offering Circular has been sourced from third parties, this information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third-party information is identified where used.

(6) As at the date of this Offering Circular, a judgment obtained in an English court against the Republic should be enforceable against the Republic in Slovenia, as Council Regulation 44/2001 is directly applicable in Slovenia. According to the civil procedure law of the Republic of Slovenia the application for enforcement of such judgment in Slovenia shall be submitted for decision to a competent county court. The judgment of a foreign court shall be executed according to the procedures specified in the Slovenian Enforcement and Securing of Civil Claims Act.

ISSUER

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