THE REPUBLIC OF SLOVENIA

€1,500,000,000 4.700 per cent. Notes due 2016

The issue price of the EUR 1,500,000,000 4.700 per cent. Notes due 2016 (the "Notes") of the Republic of Slovenia ("Slovenia", the "Republic" or the "Issuer") is 99.604 per cent. of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 1 November 2016. See "*Terms and Conditions of the Notes – Redemption and Purchase*".

The Notes will bear interest from and including 22 November 2013 (the "Issue Date") at the rate of 4.700 per cent. per annum payable annually in arrear on 1 November in each year, commencing on 1 November 2014, save that the first payment of interest, to be made on 1 November 2014, will be made in respect of the period from (and including) the Issue Date to (but excluding) 1 November 2014 and will amount to €44.2959 per Calculation Amount (as defined in "*Terms and Conditions of the Notes – Interest*"). Payments on the Notes will be made 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 BBB+ by Fitch Ratings Limited ("Fitch") and A- by Standard & Poor's Credit Market Services Europe Limited, 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 and S&P is established in the European Union and is registered under Regulation (EU) No. 1060/2009 (as amended) 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 under the Securities Act ("Rule 144A")) in reliance on, and in compliance with, Rule 144A; and (b) to Persons (other than U.S. Persons) (each as defined in Regulation S under the Securities Act ("Regulation S")) outside the United States in reliance on Regulation S. 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 five global certificates in registered form (the "Global Certificates"), four of which will be issued in respect of the Notes offered and sold in reliance on Rule 144A (the "Restricted Global Certificates") and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), and the other 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 (or its nominee) 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 22 November 2013 or such later date as may be agreed (the "Closing Date") by the Republic and the Lead Manager (as defined under "*Subscription and Sale*").

Lead Manager

J.P. MORGAN

Offering Circular dated 21 November 2013

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.

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 Lead Manager (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 Lead Manager does not accept any responsibility for the contents of this Offering Circular or for any other statement made or purported to be made by the Lead Manager in connection with the Issuer or the issue and offering of the Notes. The Lead Manager accordingly disclaims 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 the Lead Manager or any person affiliated with the 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 Lead Manager 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 the Lead Manager 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 the 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 Lead Manager 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 at the fixed exchange rate of €1 = 239.64. References to ''billions'' are to thousands of millions.

References to ''*Uradni list Republike Slovenije*'' 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 2013 for which, and/or the relevant date in 2013 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 2013 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 2012 and certain statistical information for periods in 2013. 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, J.P. Morgan Securities plc (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, specifically developments within the Eurozone, 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)		
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
2012	1.2089	1.3454	1.2848	1.3194

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)	
May 2013	1.2853	1.3191
June 2013	1.3008	1.3406
July 2013	1.2813	1.3284
August 2013	1.3203	1.3384
September 2013	1.3117	1.3545
October 2013	1.3493	1.3805

The euro versus the U.S. dollar ECB exchange rate on 18 November 2013 was U.S.$1.3517 per €1.00.

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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 Organisation 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 Socialist Federal Republic of Yugoslavia ("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 contribution to 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, while 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. In 2012, the real economy declined 2.3 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. Since 2011, Slovenian enterprises have been deleveraging and unemployment levels have been increasing. In 2012, banking sector external deleveraging amounted to 10 per cent. of GDP.

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[(1)]			*Six months ended 30 June*
	2010	*2011*	*2012*	*2013*
	(€ billions. except for percentages)			
Nominal GDP	35,484.6	36,150.0	35,318.6	17,156
Real GDP growth (%)	1.3	0.7	(2.5)	(3.2)
Real exports growth (%)	10.2	7.0	0.6	1.43[(3)]
Real imports growth (%)	7.4	5.6	(4.7)	(3.81)[(3)]
Unemployment (ILO methodology) (%)	7.2	8.2	8.9	10.6
Consumer prices growth (%)	1.9	2.0	2.7	1.7
General government balance	(2,079.6)	(2,287.9)	(1,354.4)	N/A[(2)]
as a % of GDP	(5.9)	(6.3)	(3.8)	N/A[(2)]
Total revenues	15,466.7	15,758.4	15,620.2	N/A[(2)]
as a % of GDP	43.6	43.6	44.2	N/A[(2)]
Total expenditures	17,546.3	18,046.3	16,974.5	N/A[(2)]
as a % of GDP	49.4	49.9	48.1	N/A[(2)]
General government debt	13,741.7	17,016.2	19,204.2	N/A[(2)]
as a % of nominal GDP	38.7	47.1	54.4	N/A[(2)]

Notes:

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

(2) Due to internal accounting procedures, semi-annual comparisons cannot be calculated for budget revenue and expenditure.

(3) Refers to the eight months ended 31 August 2013.

Source: SORS; Ministry of Finance, EDP Report, October 2013.

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 domestic and external economic conditions, including the slow rate of recovery in the Eurozone and the effect of any 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 has been downgraded in recent years 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 Slovenian Bank Assets Management Company (the "BAMC") may be delayed or unsuccessful in acquiring distressed assets from Slovenian banks and any such delay or failure may adversely affect Slovenia's economy.
- The Slovenian banking system may face challenges in terms of liquidity.
- The Republic of Slovenia is a member of the European Monetary Union (the "EMU") 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 all the Noteholders.
- 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 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.
- An active trading market for the Notes may not develop.
- 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.
Lead Manager	J.P. Morgan Securities plc.
Issue Date	22 November 2013.
Maturity Date	1 November 2016.
Interest	4.700 per cent. per annum payable annually in arrear on 1 November in each year. There will be a short first coupon, payable on 1 November 2014, in the amount of €44.2959 per Calculation Amount.
Redemption	The Issuer will redeem the Notes at their principal amount on the Maturity Date.
ISINs	XS0982712795 and US831594AE61 for the Unrestricted Global Certificate and Restricted Global Certificates, respectively.
Common Code	098271279 and 078394811 for the Unrestricted Global Certificate and the Restricted Global Certificates, respectively.
CUSIP Number	831594AE6 for the Restricted Global Certificates.
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's outstanding international bond issues are governed by Slovenian law, and would therefore not constitute Relevant External Indebtedness 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.

Currency of Payment of Principal and Interest

Payments in respect of Notes represented by the Unrestricted Global Certificate will be made in euro. Holders of such Notes will not have the option to elect to receive payments in U.S. dollars.

Payments in respect of Notes represented by the Restricted Global Certificates will be made by the U.S. Paying Agent (in accordance with Clause 8.2 (*Payments in respect of Restricted Notes*) of the Agency Agreement):

(i) in euro, in the case of a Holder of a Note who has irrevocably elected to receive payment in euro by written notice to its DTC participant, for onward transmission by DTC to the U.S. Paying Agent by not later than five New York business days after the Record Date (in the case of an interest payment date) or at least 10 New York business days before the maturity date (in the case of a payment of principal on maturity) and in any event prior to the time as may be notified by DTC for payments on the Notes to be made in euro, by transfer of same day funds to a euro bank account outside DTC designated by such DTC participant; or

(ii) in U.S. dollars in the case of all other DTC participants, by the U.S. Paying Agent crediting the participant's U.S. dollar account at DTC with the participant's pro-rata share of an amount in U.S. dollars purchased by the Exchange Rate Agent with the amount, in euro, of the relevant payment. The Exchange Rate Agent will exchange the applicable amount of euro for U.S. dollars and transmit the U.S. dollar amount received to the U.S. Paying Agent for payment to the DTC participant. All costs of such conversion will be borne by DTC participants who receive payment in U.S. dollars. The U.S. dollar amount of any payment of principal or interest received by a DTC participant will be based on the Exchange Rate Agent's in-house mid-market agency rate (at or prior to 11:00 a.m. New York City time, on the day which is one business day preceding the relevant payment date) for the conversion of euro to U.S. dollars for settlement on such payment date. If the Exchange Rate Agent does not have available an exchange bid quotation, the Exchange Rate Agent will obtain an exchange bid quotation from a leading foreign exchange bank in the City of New York selected by

	the Exchange Rate Agent, after consultation with the Republic. In the event that no such exchange bid quotation is available, or the Exchange Rate Agent is unable to convert euros into U.S. dollars, the Exchange Rate Agent will notify the U.S. Paying Agent who will in turn notify DTC that the entire payment of principal or interest (as the case may be) which is due in respect of all Notes represented by the Restricted Global Certificates, shall be made in euro.
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 €100,000 and integral multiples of €1,000 in excess thereof.
Credit Ratings	The Notes are expected to be assigned on issue a rating of BBB+ by Fitch and A- by S&P. 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 and 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*", "*Subscription and Sale*" 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.

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 economic conditions, including the slow rate of recovery in the Eurozone and the effect of any 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 economic performance remains vulnerable to domestic and external economic conditions and shocks, including the delayed restoration of the Slovenian private sector and the slow rate of recovery in the Eurozone. The Slovenian economy is small, characterised by a relatively concentrated range of products, and is highly export-oriented. Slovenia experienced increases in GDP of 1.2 per cent. and 0.6 per cent. in 2010 and 2011, respectively, and a decrease of 2.5 per cent. in 2012. In the first half of 2013, GDP shrank by 3.2 per cent., and annual GDP for 2013 is expected to shrink by 2.4 per cent. The adopted budgets for 2014 and 2015 assume GDP projections based on the autumn forecast of the Institute of Macroeconomic Analysis and Development (the "IMAD"), according to which GDP is expected to shrink by 0.8 per cent. and to increase by 0.4 per cent. in 2014 and 2015 respectively. Moreover, in the first half of 2013, the unemployment rate rose to 10.4 per cent., but it remains lower than the average Eurozone unemployment rate of 11.9 per cent. in the same period calculated using the International Labour Organisation methodology (the "ILO methodology"), which represents a 1.5 per cent. increase over the first half of 2012. According to IMAD, it is expected that, with a further decline in economic activity, employment will contract slightly more in 2014 than it did in 2013. In additional projections by IMAD for 2013, investment is expected to decrease by 1.6 per cent., private consumption by 3.5 per cent. and government consumption by 2.5 per cent. A significant decline in the economic growth of any of Slovenia's major trading partners, in particular Germany, Italy, Austria, Croatia and the other EU member states, as well as Serbia, could also have a materially negative impact on Slovenia's balance of trade and adversely affect its economic growth prospects.

Slovenia's economy is also subject to the risk of further deterioration in domestic demand, which has not recovered from the recession in 2009 and continues to decline. Credit conditions have been tight following the economic recession. For example, debt to equity ratios for the corporate sector decreased from 165 per cent. in 2008 to 135 per cent. in 2012. Increasing unemployment could also 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. While 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, Spain and, most recently, Cyprus) have been somewhat mitigated recently, the default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions, or any EU or Eurozone exits (or threats thereof), could cause severe stress in the financial system generally and could adversely affect the global financial markets in ways that are difficult to predict. According to IMAD's autumn forecast, a slow or delayed recovery of the Eurozone economy could cause Slovenia to face difficulties in accessing funding for the Slovenian government and domestic banks.

Recent efforts by European leaders to find a lasting solution to market concerns about certain European countries' ability to repay their debt have produced bail-out packages and restructuring agreements for a number of these sovereign debtors. These include recent agreements with certain EU member countries, such as Greece and Cyprus, which have adopted fiscal austerity plans and, in the case of Cyprus, the imposition of losses on uninsured depositors, 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.

While the concerns raised by the developments described above about the ongoing viability of the euro currency and the EMU have eased in recent months, there remains the possibility that they could lead to the re-introduction of individual currencies in one or more EU Member States, or, in more extreme circumstances, the possible dissolution of the EMU entirely. The exit of one or more EU Member States from the EMU or the dissolution of the EMU could have a material adverse effect on the European and global economies, including the Republic of Slovenia, and cause a redenomination of financial instruments or other contractual obligations from the Euro to a different currency.

Global markets continue to record high levels of volatility and uncertainty. In March 2013, the EU and the International Monetary Fund (the "IMF") agreed to a package of €10 billion in state aid for the banking industry in Cyprus. Prospective investors should take into account the 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 general government deficit-to-GDP ratio target for 2013 envisaged in Stability Programme 2013, which is 4.2 per cent., which may adversely affect economic growth. The adopted state budgets for 2013 and 2014, with 4.0% and 3.2% deficit-to-GDP ratios respectively (excluding one-off expenditures for bank recapitalisations), assume implementation of several new measures envisaged in the Stability Programme 2013. 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 has been downgraded in recent years and could be downgraded in the future

As the situation in the international financial markets deteriorated significantly in the second half of 2011, and doubts over the sustainability of the Eurozone increased, as noted above, several ratings agencies downgraded the credit ratings of a number of EU sovereigns, including Slovenia. Further sovereign downgrades occurred in 2012 and 2013, with the Republic of Slovenia being downgraded by S&P in 2012 to A with a negative outlook from A+ with a negative outlook, and in 2013 to A- with a stable outlook. In 2012, Moody's downgraded Slovenia 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. On 30 April 2013, Moody's announced that it was further downgrading the Republic of Slovenia's government bond rating to Ba1 from Baa2 and retaining its negative outlook. According to Moody's, the downgrade was driven by the state of the Slovenian banking sector, the substantial increase in Slovenia's government debt metrics and uncertain funding prospects. On 17 May 2013, Fitch also downgraded the Republic of Slovenia's government bond rating to BBB+ with a negative outlook due to concerns about deteriorated macroeconomic and fiscal outlooks and a frail banking system. On 8 November 2013, Fitch affirmed this rating and outlook. The negative outlook on Slovenia's ratings by the three rating agencies indicates that Slovenia's ratings could be lowered further in the event that (i) the banking system suffers greater deterioration than expected resulting in higher and more imminent recapitalisation needs, (ii) the political environment (e.g., the coalition's slim majority in the Slovenian parliament (the "Parliament")) prevents implementation of necessary reforms particularly relating to the restructuring of the banking system, (iii) government debt ratios rise significantly more than expected as a result of higher than anticipated recapitalisation needs of the banking sector or fiscal underperformance, (iv) Slovenia petitions for external assistance from the EU or IMF (although the EU/IMF's policy on sovereign bail-outs may be modified in the future, potentially resulting in less support for sovereigns or support with more stringent conditions), or (v) in the event of deterioration of market sentiment generally. In downgrading Slovenia's credit rating, these agencies cited factors constraining Slovenia's creditworthiness, such as (i) poor growth prospects for export reliant countries such as Slovenia and sluggish growth in the Eurozone, (ii) rising policy-implementation risks and (iii) delays in implementing measures to stabilise the banking sector. 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, for which support must be provided within the time frame set out by the bank regulator. As at 31 December 2011, the share of non-performing loans in the Slovenian banking sector was 11.2 per cent. of all outstanding bank loans. It rose to 14.4 per cent. as at 31 December 2012 and to 16.9 per cent. as at 31 August 2013. The majority of non-performing loans in the Slovenian banking sector are concentrated in the non-financial corporate sector, which impacts the quality of the banking system's overall portfolio. As at 31 December 2012, the proportion of corporate non-performing loans was 24.0 per cent., up from 18.5 per cent. as at 31 December 2011, and reached 28.4 per cent. by the end of August 2013. The largest concentration of corporate non-performing loans was in the construction industry, which increased by 11.0 per cent. from the end of 2011 to the end of 2012 to 60.9 per cent., and reached 64.6 per cent. by the end of August 2013. Non-performing loans continue to increase and this could result in higher than expected costs. 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. A significant share of the loan portfolio is backed by real estate collateral, which also increases the sector's sensitivity to real estate price risk. Given the concentration of domestic lending, risks stemming from foreign exposures are modest. 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 €3.2 billion in government bonds as at 31 December 2011 and 31 December 2012, respectively, according to Central Securities Clearing Corporation Ljubljana.

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"), Slovenia's second largest, which together accounted for 34.3 per cent. of total assets of the Slovenian banking sector by the end of 2012. 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 (the "CoCo Bonds") and the issue of shares, such shares being purchased by state-owned pension and restitution funds. In January 2013, Nova Kreditna banka enhanced its capital base by selling its 51 per cent. shareholding in the insurance company Zavarovalnica Maribor, funded by redeeming subordinated instruments and by raising a new hybrid loan of €100 million provided by the Republic of Slovenia, which was converted into equity in April 2013. In February 2013, Nova Ljubljanska banka's CoCo Bonds were converted into equity with Slovenia's shareholding reaching 92.45 per cent.

Furthermore, the government has committed to a recapitalisation plan. See "*Public Finance – Fiscal Policy and Reform*", "*Monetary and Financial System – Banking Reform and Recapitalisations*" and "*The Slovenian Economy – Reforms Related to Pensions, Government Privatisation and Labour Market and Referendum Rules*". There is a risk that the size of non-performing loans may further increase even after the transfer of impaired assets to the BAMC, which could result in the need for additional bank recapitalisations in addition to those that are already expected. Furthermore, the process of transferring impaired assets to the BAMC may be delayed if additional conditions are imposed by the European Commission or for other legal reasons. A delay in BAMC implementation could potentially alter the original recapitalisation estimates. Finally, risks are also associated with the ongoing asset quality reviews ("AQR") that are estimated to be completed by the end of 2013. For more information, see "*Monetary and Financial System – Asset Quality Review ("AQR") and Stress Tests*". As a result of that review, the amount of the recapitalisations under the plan may be increased; recapitalisation costs to the government may be higher than planned and the market may react negatively.

Given Slovenia's sizable reliance on non-resident market demand for government debt, it remains subject to international liquidity risks and market conditions as well. As a result, the Government could choose to pursue an external support package in the event of a stressed market environment and significantly higher than expected recapitalisation needs of the banking system.

In 2013, one-off measures comprised recapitalisations of Nova Ljubljanska banka in the amount of €320 million and Nova Kreditna banka in the amounts of €200 million for the conversion of CoCo Bonds and €200 million for other recapitalisations. As a result, the general government deficit rose to 5.7 per cent. of GDP. Without such one-off measures, the general government deficit would have been expected to reach 4 per cent. of GDP. Due to the expenditures from the bank recapitalisation in 2013, the general government debt is expected to reach 63.1 per cent. of GDP in 2013 and it may increase further in the future.

In addition, the Republic of Slovenia's ability to take on further debt to finance 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 the government's liquidity position benefits from a significant cash balance deposited with domestic banks due to its prefunding strategy in 2012, significant drawdowns on these deposits to finance its deficit (which amounted to 3.4 per cent. of GDP in 2012 and 5.4 per cent. of GDP in 2011) 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 – Reforms Related to Pensions, Government Privatisation and Labour Market and Referendum Rules*", 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. Despite the uncertainties about implementation of pension reform in the second half of 2012, the National Assembly adopted the pension law in December 2012 (the "Pension Law"). The Pension Law came into force on 1 January 2013. Moreover, the law on sovereign holding (the "Sovereign Holding Act") and the Act to strengthen the stability of banks (the "Stability of the Banking Sector Act") came into force at the end of December 2012 as well. Furthermore, labour market reforms were adopted in March 2013.

The current government's privatisation agenda was implemented in June 2013 by a decision of the Parliament and laid the basis for the sale of the State's direct or indirect interests in 15 companies. A more ambitious privatisation agenda, as envisaged by the Sovereign Holding Act, may be subject to delays as the Act is in the process of being amended and potential investors are still to be identified. The Government may encounter resistance in the implementation of other structural reforms, potentially facing opposition from within the governing coalition (including from the slight majority of the coalition in the Parliament), or from groups such as trade unions, which are deeply entrenched in the political system or from unrest stemming from deteriorating economic conditions. In addition, while the volatile political environment over the past year has improved, challenges to members of the coalition cabinet or to the coalition cabinet as a whole could cause renewed political instability and delays in the implementation of reforms. For example, on 2 October 2013, although ultimately rejected by the National Assembly on 21 November 2013, an opposition party, the Slovenian Democratic Party ("SDS"), filed an interpellation motion to oust Finance Minister Uroš Čufer over the unlimited state guarantees granted for the controlled liquidation of Probanka and Factor banka as well as the dismissal of SDS MP Andrej Šircelj as a non-executive director of the BAMC. Additionally, on 20 November 2013, one of the measures designed to increase revenue, the introduction of a tax on real property, was vetoed by the National Council. Subsequently, the law will be returned to the Parliament where it will need to be passed by an absolute majority in order to take effect.

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. Furthermore, due to the nature and extent of these reforms, negative short-term effects on growth, employment and other key economic variables may occur before any positive long-term effects of any reforms are achieved. For more information, see "*The Slovenian Economy – Reforms Related to Pensions, Government Privatisation, Labour Market and Referendum Rules*".

The BAMC may be delayed or unsuccessful in acquiring distressed assets and any such delay or failure may adversely affect Slovenia's economy

The planning and implementation of the BAMC is described in this Offering Circular under "*The Slovenian Economy – Reforms Related to Pensions, Government Privatisation and Labour Market and Referendum Rules*". The original date by which the BAMC was to begin acquiring assets was the end of June 2013 and has been postponed because the Bank of Slovenia, in cooperation with the Ministry of Finance and in accordance with the recommendations/requirements of the European Council, ordered a "bottom up" asset quality review ("AQR") and stress tests of the banking system. A transfer of assets to the BAMC is planned for after the results of these exercises are reported, which is expected to occur by 31 December 2013. This process may still be prevented or delayed due to a number of occurrences such as a further change in the government. There is a risk that the amount allotted under the Stability of the Banking Sector Act for state guarantees (€4 billion) and recapitalisation (€1 billion) will not be adequate and any increase in funding would require approval by the parliament and increase the debt-to-GDP ratio by a higher than expected amount. Furthermore, the obligation for the BAMC to sell 10 per cent. of its acquired assets per year at their purchase price or for a fair value may be unfeasible, and the limited five-year time-span of the BAMC for selling such assets may have a detrimental impact on the BAMC's ability to maximise value received in any sales process. As a result of these considerations, an amendment to the act regulating the BAMC is being contemplated. Moreover, the value of assets determined through the valuation process may not align with the value the banks ascribe to them, which could increase the potential losses or recapitalisation needs of the banks, although the AQR results are expected to account for this. A delay or failure to implement the BAMC or any delay or failure by the BAMC in acquiring assets could cause international confidence in Slovenia to further deteriorate, alter original recapitalisation cost estimates, exacerbate the weaknesses of the banking system or otherwise have a material adverse effect on the economy in general and the country's ability to meet its obligations under the Notes. Further implementation of the BAMC is an important step towards the recovery of the Slovenian banking system. Even if the BAMC is successfully implemented, however, a full restoration to health of the banking system will require improvement in the general economic conditions in Slovenia as well.

The Slovenian banking system may face challenges in terms of liquidity

The Slovenian banking system may face challenges in terms of its liquidity, especially taking into account the proposed liquidation of Probanka and Factor banka, and the overall low level of credit activity within the system. Additionally, liabilities to the ECB were at €3.9 billion at the end of September 2013, representing roughly two thirds of the collateral currently pledged with the ECB, although there remain additional eligible assets held by the Slovenian banking system that could subsequently be pledged. Any instance of a strong deterioration in the banking system's liquidity could cause the Bank of Slovenia to prompt banks to reduce their lending activities and adversely effect growth prospects for the economy as a whole.

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

The Republic of Slovenia is a member of the 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, the SORS and the Securities Market Agency, 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 became mandatory in all new Eurozone government securities, with a maturity above one year, issued on or after 1 January 2013. The provisions of the clause permit "cross-series modifications" to be made to one or more series of debt securities issued by the Issuer (provided that those debt securities also contain a cross-series modification provision), including the Notes. In the case of a cross-series modification, a defined majority of the holders of the debt securities of all series (when taken in the aggregate) that would be affected by the proposed modification may bind all holders of such series; provided that a lower defined majority of holders of each affected series of debt securities approve the relevant amendment (See "*Terms and Conditions of the Notes – Meetings of Noteholders; Modification*").

The conditions of the Notes contain a provision permitting the Notes and the conditions of the Notes to be amended without the consent of the Noteholders to correct a manifest error or where the amendment is of a formal, minor or technical nature or is 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 relevant Notes shall become immediately due and payable, at their principal amount with accrued interest, without further action or formality.

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

The 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 EU Member State is required to provide to the tax authorities of another EU 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 for the benefit of, an individual resident or certain limited types of entity established in that other EU Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent., subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld. 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 EU Member States have adopted similar measures to the EU Savings Directive.

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 an EU 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 an EU 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.

An active trading market for the Notes may not develop

There is not currently an established trading market for the Notes (and, such a market may not develop in the future) and the Notes will only be sold to a single investor. Although the Lead Manager has informed the Republic that they currently intend to make a market in the Notes offered hereby, the Lead Manager has no obligation to do so and may discontinue making a market at any time without notice. The liquidity of any market for the Notes will depend upon the number of Noteholders, the performance of the Republic, the market for similar securities, the interest of securities dealers in making a market in the Notes and other factors, including general declines or disruptions in the markets for debt securities.

Although an application has been made to list on the 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. Furthermore, as the Notes shall on or about the

Closing Date be acquired by a single investor, there can be no assurance that a trading market for the Notes will develop. If a trading market does develop, there is no assurance that it will be liquid or maintained. If an active trading market in the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

The market for securities issued by the Republic is influenced by economic and market conditions in 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 euros. 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 euros. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro 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

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 S&P and Fitch is established in the European Union and regulated under the CRA Regulation.

TERMS AND CONDITIONS OF THE NOTES

The following (other than the paragraphs in italics) 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 Certificate:

The €1,500,000,000 4.700 per cent. Notes due 2016 (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 22 November 2013 (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 22 November 2013 (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), and as US Paying Agent (the "**US Paying Agent**", which expression includes any successor US Paying Agent appointed from time to time in connection with the Notes), and 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) and as exchange rate agent (the "**Exchange Rate Agent**", which expression includes any successor exchange rate agents 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 Exchange Rate 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 €100,000 and in integral multiples of €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 €100,000 and in integral multiples of €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 Condition 2(f) (*Closed periods*) and Condition 2(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 Condition 2(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) (*Transfers*) 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 Condition 2(d) (*Registration and delivery of Note Certificates*), "**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 22 November 2013 (the "**Issue Date**") at the rate of 4.700 per cent. per annum, (the "**Rate of Interest**") payable annually in arrear on 1 November in each year (the "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*), save that the first payment of interest, to be made on 1 November 2014, will be made in respect of the period from (and including) the Issue Date to (but excluding) 1 November 2014 and will amount to €44.2959 per Calculation Amount.

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(e) (*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 (other than the first Interest Payment Date, as described above) be €47.0000 per Calculation Amount (or its U.S. dollar equivalent as determined in accordance with Condition 6(c) (*U.S. Dollar Payment Election*)). 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 €1,000; "**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Interest Period in which the relevant period falls; and "**Interest Period**" means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next succeeding Interest Payment Date.

4 Negative Pledge

So long as any Note remains outstanding (as defined in Condition 12(a) (*General*)), 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 1 November 2016, 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 Condition 5(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 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

Payments in respect of Notes represented by the Unrestricted Global Certificate will be made in euro. Payments in respect of Notes represented by the Restricted Global Certificates will be made by the US Paying Agent (in accordance with Clause 8.2 (Payments in respect of Restricted Notes) of the Agency Agreement): (i) in euro, in the case of a Holder of a Note who has irrevocably elected to receive payment in euro by written notice to its DTC participant, for onward transmission by DTC to the U.S. Paying Agent not later than five New York business days after the Record Date (in the case of an interest payment date) or at least 10 New York business days before the maturity date (in the case of a payment of principal on maturity) and in any event prior to the time as may be notified by DTC for payments on the Notes to be made in euro, by transfer of same day funds to a euro bank account outside DTC designated by such DTC participant; or (ii) in U.S. dollars in the case of all other DTC participants, by the US Paying Agent crediting the participant's U.S. dollar account at DTC with the participant's pro-rata share of an amount in U.S. dollars purchased by the Exchange Rate Agent with the amount, in euro, of the relevant payment. The Exchange Rate Agent will exchange the applicable amount of euro for U.S. dollars and transmit the U.S. dollar amount received to the U.S. Paying Agent for payment to the DTC participant. All costs of such conversion will be borne by DTC participants who receive payment in U.S. dollars. The U.S. dollar amount of any payment of principal or interest received by a DTC participant will be based on the Exchange Rate Agent's in-house mid-market agency rate (at or prior to 11:00 a. m. New York City time, on the day which is one business day preceding the relevant payment date) for the conversion of euro to U.S. dollars for settlement on such payment date. If the Exchange Rate Agent does not have available an exchange bid quotation, the Exchange Rate Agent will obtain an exchange bid quotation from a leading foreign exchange bank in the City of New York selected by the Exchange Rate Agent, after consultation with the Republic. In the event that an exchange bid quotation is not available or the Exchange Rate Agent is unable to convert euros into U.S. dollars, the Exchange Rate Agent will notify the US Paying Agent who will in turn notify DTC that the entire payment of principal or interest (as the case may be) which is due in respect of all Notes represented by the Restricted Global Certificates, shall be made in euro.

(a) *Principal*: Payments of principal shall (subject to Condition 6(c) (*U.S. Dollar Payment Election*) below) be made by euro 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 euro account maintained by the payee (or in the case of an election pursuant to Condition 6(c) (*U.S. Dollar Payment Election*) by U.S. dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the US Paying Agent to receive such payment of interest or principal, as the case may be, in U.S. dollars, 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 (subject to Condition 6(c) (*U.S. Dollar Payment Election*) below) be made by euro 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 euro account maintained by the payee (or in the case of an election pursuant to Condition 6(c) (*U.S. Dollar Payment Election*) by U.S. dollar cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the US Paying Agent to receive such payment of interest or principal, as the case may be, in U.S. dollars, 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) *U.S. Dollar Payment Election*: Noteholders may, in respect of Notes sold in reliance on Rule 144A and represented by the Note Certificates, no later than the fifteenth day before the due date for any payment of interest or principal, give an irrevocable election to the Specified Office of the US Paying Agent to receive such payment of interest or principal, as the case may be, in U.S. dollars. The Exchange Rate Agent will exchange the applicable amount of euro for U.S. dollars and transmit the U.S. dollar amount received to the U.S. Paying Agent for payment to the relevant Noteholder. All costs of such conversion will be borne by the relevant Noteholder who elects to receive payment in U.S. dollars. Where such an election has been made, the U.S. dollar amount of any payment of principal or interest received by the relevant Noteholder will be based on the Exchange Rate Agent's in-house mid-market agency rate (at or prior to 11:00 a.m. New York City time, on the day which is one business day preceding the relevant payment date) for the conversion of euros to U.S. dollars for settlement on such payment date. If the Exchange Rate Agent does not have available an exchange bid quotation, the Exchange Rate Agent will obtain a bid quotation from a leading foreign exchange bank in the City of New York selected by the Exchange Rate Agent, after consultation with the Republic. In the event that no such bid quotation is available, or the Exchange Rate Agent is unable to convert euros into U.S. dollars, the Exchange Rate Agent will notify the U.S. Paying Agent that the entire payment of principal or interest, as the case may be, is to be made in euro.

(d) *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.

(e) *Payments on business days*: Where payment is to be made by transfer to a euro account (or U.S. dollar account as the case may be), 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 euro cheque (or U.S. dollar cheque as the case may be), 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 Condition 6(e) (*Payments on business days*), "business day" means (i) any day on which banks are open for general business (including dealings in foreign currencies) in Ljubljana and London, and (ii) a day when the TARGET System or any successor thereto is open for the settlement of payments in euro, or in the case of payments to be made in U.S. dollars, New York City, 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).

(f) In these Conditions:

"**TARGET2**" means the Trans European Automated Real Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007; and

"**TARGET System**" means the TARGET2 system.

(g) *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.

(h) *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 business 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 (*Notices*).

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 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 in Condition 16(d) (*Rights of the Noteholders to take proceedings outside England*));

(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 $66\frac{2}{3}$ 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 $66\frac{2}{3}$ 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 $66\frac{2}{3}$ 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 $66\frac{2}{3}$ 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 $66\frac{2}{3}$ 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 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 abovementioned 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
Back Office
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 and 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 Condition 16(e) (Process agent) 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.

SUMMARY OF PROVISIONS RELATING TO THE GLOBAL CERTIFICATES

The Global Certificates contain certain provisions (as summarised below) which apply to the Notes in respect of which they are issued, 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 an Unrestricted Global Certificate, which will be registered in the name of the Common Safekeeper (or its nominee) and the relevant Unrestricted Global Certificate will be deposited on or about the issue date with the Common Safekeeper. Depositing the relevant Unrestricted Global 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 four Restricted Global Certificates, which will be deposited with a custodian for, and registered in the name of a nominee of, DTC. Beneficial interests in a Restricted Global Certificates 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 relevant 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 a 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 Certificates, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Restricted Global Certificates 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 U.S. Paying Agent, all distribution of amounts with respect to book-entry interests in such Notes from the U.S. Paying Agent through DTC or, in the circumstances described below, to a euro account outside DTC. Distributions in the United States will be subject to the relevant U.S. tax laws and regulations.

Any such payments with respect to book-entry interests in the Restricted Global Certificates shall be made by the U.S. Paying Agent in U.S. dollars unless the Holders elect to receive such payments in euro by delivering a written notice and wire transfer instructions for payment to a euro account, to their DTC participant not later than the Record Date.

Each DTC participant must notify DTC of any such election and DTC will notify the U.S. Paying Agent. In order for such election to take effect, the U.S. Paying Agent must receive such notice from DTC not later than five New York business days after the Record Date (in the case of an interest payment date) or at least 10 New York business days before the maturity date (in the case of a payment of principal on maturity). Any such election will remain in effect with respect to any subsequent payment date under the Notes (if any) unless revoked by the relevant Holder by delivery of a written notice to its DTC participant not later than 15 calendar days prior to any such payment date.

Where Holders do not elect to receive payments in euro, the Exchange Rate Agent will exchange the applicable amount in euro which it receives from the Fiscal Agent for U.S. dollars using its in-house mid-market agency rate (at or prior to 11:00 a.m. New York City time, on the day which is one business day preceding the relevant payment date) for the conversion of euros to U.S. dollars for settlement on such payment date. If the Exchange Rate Agent does not have available an exchange bid quotation, the Exchange Rate Agent will obtain an exchange bid quotation from a leading foreign exchange bank in the City of New York selected by the Exchange Rate Agent after consultation with the Republic. In the event that no such exchange bid quotation is available or the Exchange Rate Agent is unable to convert euros into U.S. dollars, the Exchange Rate Agent will notify the U.S. Paying Agent who will in turn notify DTC that the entire payment of principal or interest (as the case may be) which is due in respect of all Notes represented by the Restricted Global Certificates, shall be made in euro.

If a Noteholder which holds a beneficial interest in the Notes through DTC does not elect to receive payments in euro, such Noteholder will be responsible for all currency exchange costs, which will be deducted from payments to such Noteholder. All determinations made by the Exchange Rate Agent will, in the absence of a manifest error, be binding on the Noteholders.

Beneficial owners of Notes, who hold their beneficial interests through Euroclear and Clearstream, Luxembourg, will not have the option to elect to receive payments in U.S. dollars.

In the case of all payments in respect of the Global Certificates, "business day" shall, unless specified otherwise, mean any day on which dealings in foreign currencies may be carried on in New York City and any day on which the TARGET2 system is open.

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 duly completed definitive certificates ("Restricted Certificates") and each Unrestricted Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for duly completed definitive certificates ("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 Certificates 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 Certificates 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 Certificate 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 the 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 2,058,123 as at 1 October 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 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 (*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.

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

The National Assembly and the National Council

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

Local Authority

As at 1 January 2013, there were 211 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.

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

Parties	*Votes*	*%*	*Seats*
Zoran Jankovic'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		

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.

Source: Electoral Commission of the Republic of Slovenia.

On 10 February 2012, the Parliament formally elected the now former Government, which was led by the Slovenian Democratic Party and now former Prime Minister Janez Janša. As has been the case in all governments of Slovenia to date, the former government was a coalition government, comprised of five parties.

On 8 January 2013, the Anti-Corruption Commission issued a report stating that former Prime Minister Janez Janša and the mayor of Ljubljana, Zoran Janković, the leader of the Positive Slovenia party, which was at the time the largest opposition party, failed to disclose the origins of certain assets. Following the report, all the coalition's parties, except the New Slovenia Party and the Slovenian Democratic Party, left the coalition and Zoran Janković was replaced by Alenka Bratušek as leader of the Positive Slovenia party. On 27 February 2013, the government lost a no-confidence vote.

Following the no-confidence vote, Alenka Bratušek took office as Prime Minister. A new coalition was formed, composed of four parties: Positive Slovenia, the Democratic Party of Pensioners of Slovenia, the Civic List and the Social Democrats. This coalition has a majority of 47 members of Parliament. The new Government's stated objectives are: (i) to make the BAMC fully operational, (ii) to proceed swiftly with bank re-capitalisation and the disposal of impaired assets, (iii) to continue fiscal consolidation by reducing structural deficit, (iv) to improve corporate governance and privatisation processes on the back of the Sovereign Holding Act and (v) to pursue deleveraging of the corporate sector.

On 9 May 2013, the Government adopted a National Reform Programme for 2013-2014 (the "National Reform Programme") and submitted it to the European Commission. In order to enhance economic growth within the framework of the National Reform Programme, the Government is undertaking measures primarily focused on strengthening bank stability, lowering debt and restructuring companies. The economic policy is based on three key pillars: (i) institutional changes that are crucial to strengthen the fiscal framework with clear rules to encourage fiscal discipline, the reform of referendum and electoral legislation and corporate management; (ii) measures to overhaul the banks, reduce debt and restructure companies, improve corporate management and strengthen the privatisation process; and (iii) measures to improve competitiveness and long-term sustainable growth including a wide spectrum of measures aimed at strengthening the rule of law, accelerating foreign investment, introducing flexibility to the labour market, ensuring the efficiency of the public sector and promoting entrepreneurship and awareness about health and the environment.

On 24 May 2013, Parliament achieved the two-thirds majority required to introduce a medium-term balanced budget rule into the Constitution with 78 of 90 members voting in favour. According to the agreement reached by parliamentary parties, the details of the balanced budget rule will be set out in a separate implementing law which the Parliament must also adopt by a two-thirds majority. The balanced budget rule and the implementing law will first be applied in the drafting of the 2015 budget. Deviations from the balanced budget rule will only be possible under extraordinary circumstances, which will be set out in the implementing law, along with the course of action that must be taken in such circumstances. Among the special circumstances envisaged by the EU's Fiscal Compact are unforeseeable events with a significant impact on public finances, such as natural disasters, and periods of significant economic contraction.

On 15 November 2013, the Prime Minister sought and succeeded on a vote of confidence tied to the adoption of the 2014 budget. The adopted 2014 budget foresees further fiscal consolidation, a 3.2 per cent. general government deficit-to-GDP ratio (excluding one-off expenditures for bank recapitalisations), and assumes implementation of several new measures envisaged in the Stability Programme 2013. For more information on the adopted 2014 budget, see "*The Slovenian Economy – Central Government Budget*."

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 EMU 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.

During 2012, 1,261 civil proceedings involving Slovenia were commenced, and by year-end, 1,515 civil proceedings involving Slovenia had been concluded. The total value of all claims in the civil proceedings concluded in 2012 was approximately €506 million. Slovenia paid approximately €5.6 million in compensation in respect of civil cases lost in 2012.

As at 1 January 2013, the State Attorney's office was representing Slovenia in 2,388 open civil proceedings compared to 2,642 open civil proceedings as at 1 January 2013. Slovenia was a defendant in 1,514 of these proceedings as at 1 January 2013, and the compensation sought in respect of these proceedings amounted to approximately €2.1 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 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; and

- 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.

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. In March 2013, Slovenia and Croatia signed a Memorandum of Understanding, recommitting to continue to work to a resolution based on the framework set out in the Agreement on Succession Issues.

As of the date of this Offering Circular, former Prime Minister Janez Janša 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.

In 2012, the Grand Chamber of the European Court of Human Rights found Slovenia in violation of article 8 (right to private life) but also article 14 (prohibition on discrimination) and article 13 (right to an effective remedy) of the European Convention on Human Rights. The case originated when Slovenia declared independence from the SFRY and centred on the process of application for citizenship in the newly independent Republic of Slovenia. The Government subsequently prepared a legal act of retribution, which is expected to come into force in December 2013 to address the violation. It is not possible to estimate the amount of any liability at this time.

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 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 84 per cent. in 2010, remaining stable in 2011 (according to Eurostat). In 2012, GDP per capita fell slightly to 82 per cent. of the average of the 27 EU member countries. In the private sector, the debt-to-GDP ratio in 2012 was the second lowest within the Euro-area, behind Germany, reaching 125.2 per cent. (according to Eurostat). In 2012, gross national savings stood at 20.8 per cent. of GDP, making it higher than the average of the 17 Euro-area states, which was at 19.0 per cent. (according to IMF), compared to 20.5 per cent. in 2011.

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 76.1 per cent. of GDP in 2012, Slovenia was strongly affected by the economic and financial crisis as GDP dropped 7.9 per cent. in 2009. Exports fell in 2009 by 16.1 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 10.2 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. In 2012, export growth slowed due to reduced external demand. Domestic demand was weaker largely as a result of the absence of large infrastructure projects and reduced activity in the construction sector, a deleveraging process underway among Slovenian enterprises and increased unemployment rates (8.2 per cent. in 2011 and 8.9 per cent. in 2012). In addition, government austerity measures enacted in 2011 and 2012 led to a decline in government consumption, while private consumption remained subdued due to the deterioration in the labour market and the fiscal consolidation process. In 2012, a fall in government consumption, private consumption and investment led to a decrease in GDP by 2.5 per cent. In the first half of 2013, GDP was down 3.2 per cent. compared to the same period in the previous year, mainly due to a further decline in domestic demand aggregates in spite of a slow-down in the decrease in investment activity. The latter was due to an investment in the energy sector and a stabilisation of activity in the construction sector. Growth of exports accelerated in the first half of 2013, which was attributable to high growth in exports to faster growing markets while the demand from traditional European markets also stabilised.

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 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*".

Recently, Slovenia adopted changes to the pension system and introduced labour market reform measures. The impact of the ongoing economic crisis and worsening of conditions in the banking sector has led to a comprehensive strategy to deal with bank assets including purchases, guarantees and re-capitalisations. The objective of the original policy response to the crisis was to limit the negative impact of lower external demand on existing production capacity and jobs. These policy measures were aimed at: (i) slowing down the impact of the global financial crisis on enterprises; (ii) enhancing financial liquidity of enterprises and safeguarding existing jobs; and (iii) increasing expenditure in research and education to improve the growth potential of the economy. The package was also focused on lowering taxation of labour through gradually abolishing the payroll tax and implementing changes to both the personal and corporate income tax regimes. These tax reforms included phasing out taxes on company payrolls and the simplifying of corporate and personal income taxes in conjunction with the incorporation of incentives for higher earnings. See also "*Public Finance – Taxation and Taxation Policy*".

Starting in 2011, and continuing in 2012 and 2013, the government's policy focus was on consolidating public finances, addressing the impact of the financial crisis on banks' balance sheets and implementing structural reforms to improve the resiliency of the economy. The latter includes pension and labour reform and a framework for enhancing corporate governance and privatisation of public sector enterprises. See "*The Slovenian Economy – Reforms Related to Pensions, Government Privatisation and Labour Market and Referendum Rules*".

Moreover, in 2013, the Government established the Spirit Slovenia public agency (the Slovenian Public Agency for Entrepreneurship, Innovation, Development, Investment and Tourism), an institutional framework which merged the Public Agency of the Republic of Slovenia for Entrepreneurship and Foreign Investments, the Slovenian Tourist Board and the Slovenian Technology Agency. The agency will be a "one-stop-shop" and cover a variety of functions, including implementing policies on economic competitiveness, ensuring support for companies in international business, managing the brand of Slovenia as a tourist destination and promoting Slovenia and its regions as favourable locations for foreign investment. The agency will propose measures aimed at increasing the economic performance and efficiency of the economy and other organisations in Slovenia and will become the national access point for comprehensive support for companies at all levels of development.

In 2012, the deficit was reduced to 3.8 per cent. of GDP from 6.3 per cent. of GDP in 2011 but is expected to widen in 2013. The government's adopted budgets for 2013, 2014 and 2015 foresee fiscal consolidation and streamlining of the public sector. See "*Public Finance*" for more details.

The following table sets out certain macroeconomic data regarding the Slovenian economy for the years ended 31 December 2008 to 2012 and for the six months ended 30 June 2012 and 2013:

	Year ended 31 December					*Six months ended 30 June*	
	2008	*2009*	*2010*	*2011*	*2012*	*2012*	*2013*
Nominal GDP (€ billions)	37,244	35,420	35,485	36,150	35,319	17,553	17,156
Real GDP growth (%)	3.4	(7.9)	1.3	0.7	(2.5)	(1.9)	(3.2)
GDP per capita in U.S.$ (current prices)	27,092	24,198	22,960	24,513	22,062	—	—
Current account balance[1] (% of GDP)	(5.4)	(0.5)	(0.1)	0.4	3.3	2.0	7.0
Unemployment rate (%)	4.4	5.9	7.3	8.2	8.9	8,5	10,6
Consumer price growth – year end (%)	2.1	1.8	1.9	2.0	2.7	2.3	1.9
General government balance (% of GDP)	(1.9)	(6.3)	(5.9)	(6.3)	(3.8)	—	—

Source: Statistical Office, Institute for Macroeconomic Analysis and Development

Note:

(1) Balance of Payment Statistics

Summary of balance of payments

In 2008, the current account deficit reached a high of €2,294.9 million or 6.2 per cent. of GDP. The current account deficit, which increased during Slovenia's period of rapid economic growth, saw a strong contraction in 2009. In 2011, the current account was balanced and in 2012 the current account had a surplus. 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 2008 to 2012. For a more detailed discussion of Slovenia's balance of payment, see "*Balance of Payments and Foreign Trade*".

	As at 31 December				
	2008	*2009*	*2010*	*2011*	*2012*
			(€ millions)		
Current account	**(2,294.9)**	**(246.1)**	**(209.1)**	**1.8**	**817.6**
Goods	**(2,385.4)**	**(497.9)**	**(997.3)**	**(1,043.2)**	**(334.6)**
Export of goods (fob)	20,295.0	16,410.4	18,761.9	21,264.6	21,454.1
Import of goods (fob)	(22,680.4)	(16,908.3)	(19,759.2)	(22,307.8)	(21,788.7)
Services	**1,423.7**	**1,165.1**	**1,285.1**	**1,442.8**	**1,700.7**
Export of services	4,956.5	4,347.0	4,616.0	4,839.2	5,095.4
Import of services	(3,532.8)	(3,181.9)	(3,330.8)	(3,396.4)	(3,394.7)
Income	**(1,029.9)**	**(754.1)**	**(599.4)**	**(550.4)**	**(577.7)**
Receipts	1,262.0	665.7	573.9	918.2	797.3
Expenditure	(2,291.9)	(1,419.8)	(1,173.3)	(1,468.6)	(1,375.0)
Current transfers	**(303.3)**	**(159.2)**	**102.4**	**152.6**	**29.2**
In Slovenia	871.0	959.3	1,202.8	1,372.7	1,369.6
Abroad	(1,174.3)	(1,118.5)	(1,100.4)	(1,220.1)	(1,340.4)
Capital and financial account	**2,597.1**	**174.6**	**534.9**	**(451.8)**	**(1,001.0)**
Capital account	(25.4)	14.0	53.0	(102.0)	(46.3)
Financial account	**2,622.5**	**160.6**	**481.9**	**(349.8)**	**(954.7)**
Direct investment	**327.4**	**(656.6)**	**430.6**	**638.0**	**185.5**
Abroad	(1,002.1)	(186.9)	159.7	(80.8)	72.8
In Slovenia	1,329.5	(469.7)	271.0	718.8	112.7
Portfolio investment	**572.2**	**4,627.6**	**1,955.5**	**1,837.6**	**(220.8)**
Financial derivatives	**46.0**	**(2.0)**	**(116.8)**	**(135.8)**	**(106.5)**
Other investment	**1,655.9**	**(3,975.5)**	**(1,806.2)**	**(2,761.6)**	**(844.0)**
Assets	**(322.1)**	**(267.3)**	**782.6**	**(1,460.5)**	**(1,485.7)**
Liabilities	**1,977.9**	**(3,708.3)**	**(2,588.8)**	**(1,301.1)**	**641.6**
Reserve assets	**21.0**	**167.2**	**18.8**	**72.0**	**31.2**
Net errors and omissions	(302.2)	71.5	(325.8)	450.1	183.4

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 2008 to 2012:

	Year ended 31 December				
	2008	*2009*	*2010*	*2011*	*2012*
	(€ millions, current prices)				
GDP	37,244	35,420	35,485	36,150	35,319
Exports of goods and services	25,293	21,022	23,688	26,389	26,870
Imports of goods and services	26,231	20,253	23,163	25,830	25,167
Private consumption	19,583	19,682	20,266	20,777	20,103
Government consumption	6,758	7,152	7,369	7,533	7,333
Gross fixed capital formation	10,663	8,167	6,993	6,719	6,274
Changes in inventories and valuables	1,178	(350)	332	562	(94)

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 2008 to 2012 and for the six month periods ended 30 June 2012 and 2013:

	Year ended 31 December										*Six months ended 30 June*			
	2008		*2009*		*2010*		*2011*		*2012*		*2012*		*2013*	
	(€ billions)	*(%)*	*(€ billions)*	*(%)*	*(€ billions)*	*(%)*	*(€ billions)*	*(%)*	*(€ billions)*	*(%)*	*(€ billions)*	*(%)*	*(€ billions)*	*(%)*
Services	20.89	63.9	20.72	66.8	20.95	67.6	21.07	66.8	20.33	66.2	10.07	65.85	9.76	65.36
of which:														
Wholesale and retail trade, Transportation and storage, Accommodation and food service	6.85	21.0	6.34	20.4	6.29	20.3	6.47	20.5	6.27	20.4	3.04	19.9	2.99	20.1
Public administration(1)	5.06	15.5	5.36	17.3	5.48	17.7	45.55	17.6	5.46	17.8	2.75	18.0	2.66	17.8
Professional, scientific and technical, administrative and support service activities(2)	2.90	8.9	2.75	8.9	2.84	9.2	2.86	9.1	2.78	9.1	1.33	8.7	1.30	8.7
Real estate activities	2.39	7.3	2.61	8.4	2.51	8.1	2.44	7.7	2.31	7.5	1.15	7.5	1.14	7.6
Financial and insurance activities	1.54	4.7	1.58	5.1	1.73	5.6	1.61	5.1	1.37	4.5	0.73	4.8	0.62	4.2
Information and communication	1.29	4.0	1.21	3.9	1.26	4.1	1.29	4.1	1.31	4.3	0.64	4.2	0.65	4.4
Other services(3)	0.85	2.6	0.86	2.8	0.86	2.8	0.86	2.7	0.83	2.7	0.42	2.7	0.39	2.6
Industry(4)	8.26	25.3	7.11	22.9	7.24	23.4	7.70	24.4	7.72	25.2	3.92	25.6	3.94	26.4
of which:														
Manufacturing	6.98	21.4	5.84	18.8	5.95	19.2	6.37	20.2	6.40	20.8	3.23	21.1	3.22	21.6
Construction	2.76	8.5	2.46	7.9	2.02	6.5	1.89	6.0	1.82	5.9	0.90	5.9	0.79	5.3
Agriculture, forestry and fishing	0.76	2.3	0.73	2.4	0.77	2.5	0.88	2.8	0.83	2.7	0.41	2.7	0.44	3.0
Gross value added	32.68	100.0	31.02	100.0	30.98	100.0	31.53	100.0	30.71	100.0	15.29	100.0	14.93	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. In 2012, the GVA in construction further declined and a decrease was also recorded in manufacturing and services. 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

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 and warehousing activities) to €1.76 billion and €1.87 billion in 2010 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. The GVA of architectural and engineering services declined from €0.64 billion in 2009 to €0.63 billion and €0.53 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 €2.44 billion in 2010 and 2011, respectively.

Decreased private consumption and negative trends in manufacturing and construction spurred a fall in all service sub-sectors in 2012, after increasing during the previous two years. In particular, lower private consumption led to a fall in the GVA of wholesale and retail trade, accommodation and food services, arts, entertainment and recreation and other personal service activities. The GVA of professional, scientific and technical, administrative and support service activities declined from €2.86 billion in 2011 to €2.78 billion in 2012, due to a continuing downturn in the construction sector and low economic activity. Similarly, real estate services recorded a decrease from €2.44 billion in 2011 to €2.31 billion in 2012.

In 2012, the services sector accounted for 66.2 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 2012 (20.4 per cent. of GVA), of which wholesale and retail trade represented the largest portion of the segment. Public services represented 17.8 per cent. of GVA for the year. For the six months ended 30 June 2013, the services sector accounted for 65.3 per cent. of Slovenia's total GVA, with wholesale and retail trade, transportation and storage, and accommodation and food services representing 20.1 per cent. of the services sector in this period.

Industry

The industry sector represented approximately 25.2 per cent. of GVA in 2012, most of which was contributed by the manufacturing sub-sector (20.8 per cent. of GVA in 2012). In 2012, Slovenia experienced modest growth in the industrial sector of 0.3 per cent., which was better than the Eurozone average of 0.1 per cent., and contrasted with the contraction in the industrial sectors of three of our neighbouring countries, Italy, Hungary and Croatia, by 3.5 per cent., 1.1 per cent. and 1.1 per cent. in the same period, respectively (according to Eurostat). In the six months ended 30 June 2013, the industry sector accounted for 26.4 per cent. of Slovenia's total GVA.

Manufacturing

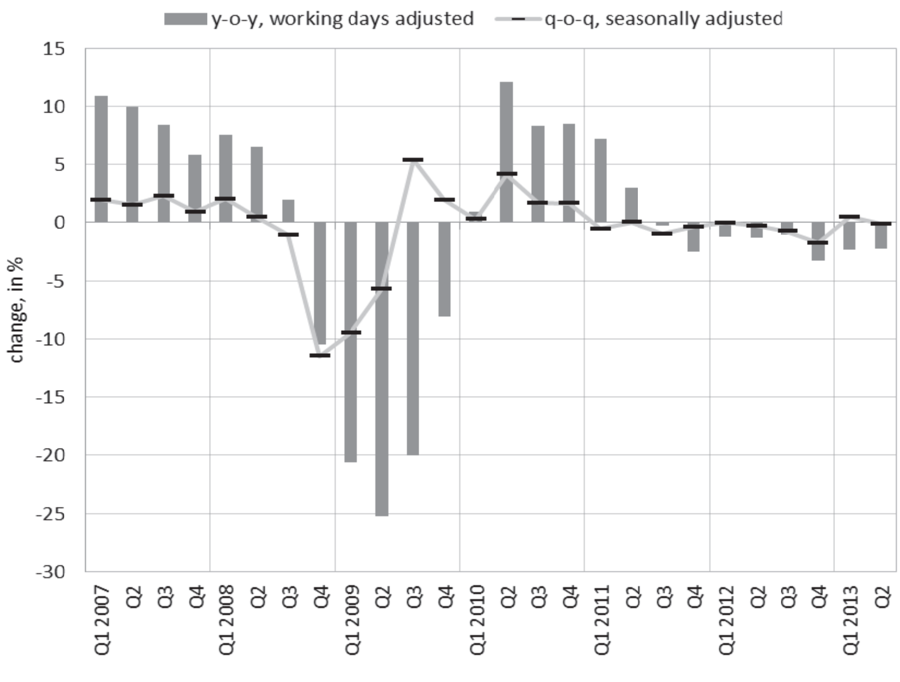
Following a deterioration in manufacturing output in the second half of 2008 and in 2009, which affected low-tech industries (specifically the textile, leather and furniture industries), medium low-tech industries (specifically the metal industry and the production of non-mineral products) and certain medium-high and high-tech industries (with the exception of the motor vehicle and pharmaceutical industries), the GVA of the manufacturing sector increased to €5.95 billion and €6.38 billion in 2010 and 2011, respectively, correlating with a gradual increase in foreign demand. The increase in output in 2010 (7.4 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 (1.8 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 contraction caused by a decrease in foreign demand. Low-tech industries, which started increasing 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.

In 2012, manufacturing output decreased by 1.7 per cent., with working days adjusted, as a consequence of a weaker domestic and foreign demand, the latter due to lower demand from the euro-markets, which is Slovenia's largest export market. Output was lower in low-tech industries (which are mainly domestic market oriented) and medium low-tech industries (due to lower foreign demand for intermediate goods because of lower manufacturing activity and lower domestic construction activity). In medium-high and high-tech industries, output increased (except in the production of motor vehicles and other transport equipment) at a slower pace than in 2011, due to weaker foreign demand.

Manufacturing, which represents over 90 per cent. of Slovenia's exports of goods, comprised 20.8 per cent. of GVA in 2012, of which metal production comprised 18.2 per cent., chemicals and pharmaceuticals 16.2 per cent., electrical and optical equipment 12.9 per cent., motor vehicles and other transport equipment 8.7 per cent., and machinery and equipment 6.8 per cent.

For the eight months ended 31 August 2013, manufacturing output continued to decrease, falling by 2.3 per cent. year-on-year (working days adjusted). This decrease was primarily due to lower domestic and foreign demand, principally within the Eurozone. Over the period, output was lower in all low-tech industries, some medium low-tech industries and in the medium-high tech production of motor vehicles and other transport equipment. In other medium-high- and high-tech industries output remained unchanged or increased.

The following chart sets out changes in manufacturing output production from January 2007 through to June 2013:



Source: SORS, calculations IMAD.

Construction

While the construction sector experienced a significant contraction of GVA in 2011 and 2012, construction activity began to stabilise in the second and third quarters of 2013. The GVA of this sector decreased from €2.76 billion in 2008, to €1.82 billion in 2012 and to €0.79 billion in the six months ended 30 June 2013, 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 2012 and construction activity began to stabilise in the second and third quarters of 2013, 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.

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. to 1.8 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. In 2012, the inflation rate was slightly higher than the Eurozone average mainly due to the rise in energy prices (in particular liquid fuels). Slovenia's share of energy expenses in household consumption is higher than that of the Eurozone average. This, together with increased excise duties on liquid fuels, has resulted in a more profound impact on headline inflation compared to that of other countries in the Eurozone. In addition to energy prices, higher prices of unprocessed food also impacted inflation. Further, as a consequence of one-off factors such as tax measures and the abolition of certain subsidies, Slovenia also saw slightly higher growth in services prices.

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 2008 to 2012 and the six months ended 30 June 2012 and 2013:

	Year ended 31 December					*Six months ended 30 June*	
	2008	*2009*	*2010*	*2011*	*2012*	*2012*	*2013*
				(%)			
Eurozone	3.3	0.3	1.6	2.7	2.5	2.3	1.9
Slovenia	5.5	0.9	2.1	2.1	2.8	2.4	1.7

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 2012, the employment rate (of those aged 15-64 years) dropped by 4.5 percentage points. In 2012, the employment rate averaged approximately 64.1 per cent., which is similar to the EU average. The average number of employees in 2012 was 7.0 per cent. lower 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 4.5 percentage points from 2008 to 2012. In 2012, the average unemployment rate stood at 8.9 per cent., compared to 8.2 per cent. in 2011, which was below the 2012 EU average of 10.4 per cent. (compared to 9.7 per cent. in 2011) (according to Eurostat). Due to further decreases in economic activity in 2013, the unemployment rate rose to 10.6 per cent. in the second quarter of 2013, which is slightly below the EU average (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 10.2 percentage points in the 2008-2012 period and reached 20.6 per cent. in 2012, compared to 15.7 per cent. in 2011. Despite the increase, the youth unemployment rate was still lower than the EU average of 22.8 per cent. (according to Eurostat). In 2011, the labour productivity, measured as GDP per employee, reached 80.6 per cent. of the average of the 27 EU Member States (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. 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. Taking into account labour market reform (adopted in 2013), Slovenia's employment protection index, as measured by the OECD, reaches the OECD average of 2.2. In 2013, the government adopted several new measures to address youth unemployment.

Although the labour market deteriorated during the economic crisis, unemployment continues to be substantially lower than the Eurozone average. In 2012, the unemployment rate was 8.9 per cent., compared to the average Eurozone unemployment rate of 11.4 per cent. The unemployment rate increased to 10.6 per cent. in the six months ended 30 June 2013 but it remains lower than the EU average of 12.1 per cent. in the same period.

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, reaching 26.4 per cent. in 2012, and was the fifth highest among the new EU member states and also higher than in Austria and Italy. Among the adult population, 85 per cent. has attained at least upper-secondary education.

The following table sets out the average rate of unemployment and certain statistics about education for the years ended 2008 to 2012 and the six months ended 30 June 2012 and 2013:

	Year ended 31 December					*Six months ended 30 June*	
	2008	*2009*	*2010*	*2011*	*2012*	*2012*	*2013*
	(amounts in thousands, except for percentages)						
Statistical survey of unemployed persons (ILO methodology) data(1)							
Total labour force	1,042	1,042	1,041	1,019	1,014	1,006	1,011
Employed	996	981	966	936	924	921	904
Unemployed	46	61	75	83	90	85	107
Change in the total number of unemployed	(4)	15	14	8	7	4	19
Unemployment rate (%)	4.4	5.9	7.3	8.2	8.9	8.5	10.6
Share of adult population with at least upper-secondary school education (%)	82	83.3	83.3	84.5	85	—	—
Share of adult population, aged 25-64 years, with tertiary education (%)	22.6	23.3	23.7	25.1	26.4	—	—
Labour Office register(1)							
Unemployed	63	86	101	111	110.2	107.2	118.8
Change in the total number of unemployed	(8)	23	15	10	(0.5)	(1.8)	11.6
Unemployment rate (%)	6.7	9.1	10.7	11.8	12.0	11.6	13

Source: SORS, Rapid Reports No. 37/2008, 35/2009, 21/2011 and 19/2011. Statistical releases, Labour market 17 August 2011, 6 April 2012, 17 August 2012 and 30 November 2012, Labour survey results 2nd quarter 2012, 31 August 2012, Eurostat.

Note:

(1) The primary methodological differences between the statistical survey of unemployed persons (ILO methodology) ("Survey") data and Labour Office register ("Register") data are: (i) the source data (Register data covers 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).

Wages

The following table sets out average monthly wages and its growth in real terms for the years ended 31 December 2008 to 2012 and for the six months ended 30 June 2012 and 2013:

	Year ended 31 December					Six months ended 30 June	
	2008	*2009*	*2010*	*2011*	*2012*	*2012*	*2013*
	(€, except for percentages)						
Average gross monthly wages	1,391.43	1,438.96	1,494.88	1,524.65	1,525.47	1,523.94	1,512.89
Real growth rate in %	2.5%	2.5%	2.1%	0.2%	(2.4%)	(1.5%)	(2,6%)
Private sector	1,261.17	1,281.52	1,353.41	1,388.65	1,395.84	1,386.53	1,387.81
Real growth rate in %	2.0%	0.7%	3.7%	0.8%	(2.0%)	(1,5%)	(1,8%)
Public sector	1,658.26	1,746.24	1,760.91	1,778.45	1,762.88	1,775.81	1,740.58
Real growth rate in %	3.8%	4.4%	(0.9%)	(0.8%)	(3.4%)	(1,7%)	(3,8%)

Source: SORS.

From 2009 to 2012, growth in average gross wages was strongly affected by the global economic crisis, a rise in the minimum wage, a renewed system of wages in the public sector and government austerity measures. The rise in the average gross wage per employee by 2.1 per cent. in real terms in 2010 and by 0.2 per cent. in 2011 was attributable to growth in private sector wages mainly due to a rise in the minimum wage. In the public sector, growth in wages levelled-off in 2010 and 2011 due to government austerity measures, which have been gradually implemented since 2009, aimed at addressing general economic and public financing conditions. In 2012, the average gross wages per employee decreased by 2.4 per cent. in real terms compared to 2011, due to declining economic activity and the impact of fiscal austerity measures. For the eight months ended 31 August 2013, the average gross wages per employee declined by 2.5 per cent. in real terms compared to 2012. In addition, as part of adopted austerity measures, public sector wages are expected to further decline by 4.3 per cent. in the last four months of 2013 in real terms compared to 2012 (for the eight months ended 31 August 2013, the public sector wage declined by 3.5 per cent in real terms compared to 2012). The private sector average gross wages per employee is expected to be similar to that in 2012 (for the eight months ended 31 August 2013, there was a decline of 1.8 per cent. in real terms).

Wage moderation in the public sector has been an important part of fiscal austerity measures in recent years. At the end of 2011 the National Assembly passed an Act for Additional Intervention Measures for 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 Budget*".

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 lowered the wages of all public servants by 8 per cent., and, at the same time, paid the last two quarters of funds to eliminate wage disparities agreed as part of the public wage reform in 2008. The total wage bill therefore decreased by 3 per cent. as a result of those measures.

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 continued to be suspended and work load-related bonuses for civil servants were further restricted. It was also agreed that until the end of 2013 wages will not be adjusted with inflation. See "*Public Finance – Consolidated General Government Budget*" 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 were challenged in the Constitutional Court. All of the measures reversed by the Constitutional Court will be replaced by alternative measures to achieve a similar financial effect.

In May 2013, Slovenia's government reached an agreement with leaders of unions of public sector workers on additional wage cuts, enabling the government to carry out the planned reduction of public sector wages. As a result of this agreement and the effects of the wage policy measures that have been in place since 2012, the public sector average gross wage is expected to decline in real terms in 2013. This will be the fourth consecutive year of decline in the public sector average gross wage. The May 2013 agreement resulted in a progressive reduction of the basic wages of all public servants by an average of 1.3 per cent. It also abolished the increased seniority bonus paid to women (for each completed year of service over 25 years) and reduced the allowances for specialisation, masters and doctoral studies and sickness benefits by 50 per cent. In addition, the government continues to suspend regular performance-related and work load-related bonuses for public servants until the end of 2014. Wages and all other remuneration and compensation to civil servants will not be adjusted for inflation, and holiday benefits will continue to be selectively disbursed in 2014.

Most Recently, the High Labour and Social Court in Ljubljana ruled that the government of Slovenia was obliged to redeem the outstanding difference in public employees' wages for the period from 1 October 2010 to 31 May 2012. On 7 November 2013, the Government and trade unions reached agreement on a draft version of the act, which defines the mechanics of how repayments shall be carried out. Based on this, repayments will be made in two instalments: the first half will be repaid by the end of February 2014 and residual amount by the end of January 2015. The draft is expected to be discussed at the government session on 15 November 2013, at the latest. The total redemption amount is not yet determined but is not expected to exceed €176 million.

Reforms Related to Pensions, Government Privatisation and Labour Market and Referendum Rules

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 61 to 65 for women and 63 to 65 for men 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. Following the end of the post-referendum period on 4 June 2012, the Government took further steps to implement pension reform. On 4 December 2012, the National Assembly adopted the new Pension and Disability Insurance Act which came into force on 1 January 2013. The new act: (i) increases the statutory "full" retirement age to 65 years for men and women if they fulfil 15 years of contributions; (ii) raises the effective retirement age by increasing the required years in employment to 40 with minimum age of 60 in order to obtain an old-age pension; (iii) extends the pension rating base from 18 to 24 years to ensure a stronger linkage between the paid-in contributions and paid out benefits pensions; (iv) reassesses the formula for the valorisation of past earnings and reduces the indexation of paid out benefits pensions; (v) introduces personal information accounts to enable insured persons to follow all the details relevant for their pension benefits; (vi) strengthens disincentives for early retirement; (iv) promotes greater professional rehabilitation of disabled persons; (vii) includes flexible forms of retirement such as partial retirement; (viii) modernises the supplementary pension system in order to raise participation as well as funds; and (ix) ensures greater supervision over the operation of pension funds. The implementation of the law is intended to stabilise total pension expenditures at their current level for at least a 7-year period.

Projections show that the new pension legislation will have positive effects on pension expenditure and increase the sustainability of the pension system. Following calculations based on a micro-simulation model, the pension expenditure is expected to decrease, and by 2020 it is projected to reach a similar levels of pension expenditure as in 2010 (which was slightly above 11 per cent. of GDP). After this time, the pension expenditure is expected to gradually rise again. However, the effects of the estimated savings (in comparison to the previous pension legislation) through 2020 should be preserved long-term.

The following table sets out revenues, transfers and expenditures of the Pension and Disability Insurance Institute of Slovenia (the "Pension Institute") for the years 2008 to 2012, estimates for 2013 and financial plans for 2014 and 2015:

	Year ended 31 December							
	2008	*2009*	*2010*	*2011*	*2012*	*Estimate 2013*(1)	*Proposed Revised Budget 2014*(1)	*Proposed Budget 2015*(1)
	(€ millions, except for percentages)							
Revenues	4,479.7	4,653.6	4,804.9	4,941.0	4,851.0	4,944.5	4,993.4	5,007.1
as a % of GDP	12.0	13.1	13.5	13.7	13.7	14.2	14.2	14.0
Revenues from contributions, capital income and sundry	3,334.4	3,366.4	3,469.2	3,440.9	3,434.8	3,352.0	3,482.4	3,525.7
as a % of GDP	9.0	9.5	9.8	9.5	9.7	9.6	9.9	9.9
Transfers from central budget	1,145.3	1,287.2	1,335.7	1,500.1	1,416.2	1,592.5	1,511.0	1,481.4
as a % of GDP	3.1	3.6	3.8	4.1	4.0	4.6	4.3	4.1
Expenditures	4,479.7	4,653.6	4,804.9	4,941.0	4,851.0	4,944.5	4,993.4	5,007.1
as a % of GDP	12.0	13.1	13.5	13.7	13.7	14.2	14.2	14.0

Source: Pension Institute Financial Report 2008-2012, Proposed Financial Plan 2014-2015, http://www.mf.gov.si/en/areas_of_work/public_finances/bulletin_of_government_finance/

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 Sovereign Holding Act, which consolidates all assets which are currently under state ownership into a newly established fund, Slovenian Sovereign Holding ("SSH"), 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 required 46 affirmative votes to pass. On 23 October 2012, the National Assembly confirmed the Sovereign Holding Act. Additionally, trade unions representing the energy sector and the government sector filed a referendum initiative. On 19 December 2012, the Constitutional Court reached a verdict on the referendum initiative and ruled that the suspension of the implementation of the Sovereign Holding Act would be unconstitutional. The law was published on 27 December 2012 and entered into force the next day.

On 24 April 2013, the National Assembly adopted an amendment to the Sovereign Holding Act, which gave the Court of Audit of the Republic of Slovenia (the "Court of Audit") the right to supervise the SSH and introduced a specific procedure for the sale of financial assets.

The Government is currently preparing a further amendment to the Sovereign Holding Act, which will modify the current law so that functions of the Slovenian state in its capacity as the owner of capital assets will be separate from other state functions. The new law will aim to centralise the management of all assets, prevent a distortion of competition in markets and unequal treatment of companies and reduce the influence of interest and political groups, corruption risk and conflict of interests. For the purpose of centralising management, the new law provides for the transformation of the Slovenian Restitution Fund ("SOD"), the current manager of assets owned by the Republic of Slovenia, into the SSH and the merger of the SSH with the other state asset funds. The amendment also modifies the existing act so that the Republic of Slovenia will retain ownership of all of its direct assets, which will be managed by the SSH, as opposed to transferring these assets to the SSH. The new law also includes provisions for performance and integrity requirements, limitations on conflicts of interest, supervision of the finances of the members of management and supervisory boards, assurance of responsibility and external supervision by the Court of Audit.

Under the terms of the amended law, state owned assets will be divided into three categories: strategic, relevant and portfolio. The adoption of an overall strategy for the SSH will be ongoing, it will not be a pre-requisite for the establishment of the SSH in order to ensure that the establishment will not be delayed while discussions of the SSH's strategy are finalised.

On 21 May 2013, the Parliament authorised the SOD, as the manager of assets owned by the Republic of Slovenia, as well as the (directly or indirectly) state-owned companies with public functions to sell their investments in 15 companies. The Parliament adopted the decision on the sale of assets for two groups of companies, those for which the procedures necessary for a successful sale had already begun before the adoption of the decision and those for which the procedure of sale of assets had not yet commenced. Since the adoption of the decision, the procedure for the sale of Telekom Slovenije, d.d., has begun (with the appointment of a financial advisor), whereas for the companies Aerodrom Ljubljana, d.d. and Žito d.d., an agreement has been signed between the current owners for a common sale procedure.

Of these 15 companies described above, four companies are companies in which the Republic of Slovenia has a direct stake (Adria Airways, Aerodrom Ljubljana, Nova KBM and Telekom Slovenije). The revenue that derives from the privatisation of these assets shall be reflected as revenue in the 2014 and 2015 budgets. The exact amount of revenue cannot be determined at this time because the individual sales are in the process of negotiation. Any revenue received is due to be used for the repayment of debt, in accordance with the Public Finance Act.

Labour Market Reform

In order to decrease the rigidity of the labour market that resulted from high employment protection legislation of employees with permanent employment contracts and high labour costs, the Government has recently implemented labour market reform. In April 2013, the Employment Relationship Act and the Labour Market Regulation Act entered into force. The reforms reduce a considerable amount of segmentation in the labour market due to the differing status of workers with fixed-term contracts and those with contracts for an indefinite period.

The principal highlights of the labour market reform laws are:

- reducing segmentation of the labour market by entitling some workers employed on fixed-term contracts to severance pay at the termination of the fixed-term contract;
- significantly lowering the OECD Employment Protection Legislation index by shortening notice periods (which are proportional to the duration of employment) and severance pay reduction while considering relevant conditions in international documents. Procedures for dismissals are simplified: obligatory advance notification, formal defence argument and offering another suitable job are no longer required;
- improving labour market flexibility – the new Act defines a new example of entering into a fixed-term employment contract and introduces the possibility for a sole owner of a one-person company to conclude an employment contract;
- improving internal flexibility – the Employment Relationship Act (*Uradni list Republike Slovenije, No 21/2013*) regulates in greater detail the ability to assign work to employees which may not be part of their job description if this has not been defined in a collective agreement. In addition, the concept of temporary lay-offs has been introduced, and the wage compensation of the worker for whom the employer cannot provide work has been reduced to 80 per cent. of the wage basis (as compared to the previous law which required workers to be compensated for 100 per cent. of their wages where an employer was unable to provide work);
- simplifying disciplinary proceedings;
- introducing termination of employment contracts during the probation period with a seven-day notice period by the employer if the worker is unsuccessful at performing duties during the probation period;
- ensuring greater protection of workers at temporary employment agencies; and
- preventing violation of workerś rights and ensuring greater protection of all workers.

Emergency Employment Measures

On 15 July 2013 the National Assembly adopted an Act on Emergency Measures in the field of Labour Market and Parental Care. The Act provides an exemption from the obligation of payment of employer's contributions as an incentive for the employment of young unemployed persons. This rule entered into force on 1 August 2013, but the exemption from obligation of payment of the employer's contributions will enter into force on 1 November 2013.

Employers who, in the period from 1 November 2013 to 31 December 2014, recruit, for an indefinite period, unemployed persons younger than 30 years old, who are at least three months away from being registered as unemployed persons, will be eligible for this incentive without prejudice to the provisions of the laws governing compulsory social insurance. Employers will be exempt from employer's contributions for pension and disability insurance, health insurance, insurance for parental protection and unemployment insurance for the first 24 months of employment.

PUBLIC FINANCE

General Government Sector

According to the Slovenian business registry (the Agency of Slovenia for Public Legal Records and Related Services), there were 2,679 spending units in the general government sector as of 31 December 2012. The central government, a sub-sector of the general government, comprised 538 spending units – 173 direct central government recipients or providers of budget funds, 10 "State Funds", one "Restitution Fund", 11 public agencies, 15 public companies and 329 other public institutions including hospitals, high schools and universities. The local government, another sub-sector of the general government, comprised 2,139 spending units – 1,095 direct local government recipients or providers of budget funds (211 municipalities and 884 local communities), 10 public funds, 10 public companies and 1,023 other public institutions including primary schools, kindergartens, museums and libraries. As of 2012, the long term financial assets of the central government amounted to €8.52 billion and included assets in companies such as DARS d.d., HSE d.o.o, Telekom Slovenije d.d., SID d.d. and Nova Ljubljanska banka.

There are also specially allocated Social Security Funds which are comprised of three spending units: the Health Insurance Fund, which is responsible for collecting and distributing mandatory health insurance funds, the Pension Insurance Fund, 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 shares in companies, that were privatised in the early 1990s and allocated to the fund in order to support the financing of the pension system.

Budgetary Process

The fiscal year in Slovenia is the calendar year. Slovenia's central government budget is prepared on a two year roll-over basis. 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 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 among ministries and policies, the second budget session of the government is held before the end of June. At this session, 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. Detailed financial plans are then submitted to the Ministry of Finance before 15 August. 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 Insurance Fund, Pension Insurance Fund, 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.

Strengthening fiscal framework and compliance with EU fiscal requirements

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 as stipulated by the November 2011 revised Stability and Growth Pact. The Treaty requires, amongst other things, that the signatories achieve a balanced or surplus budget for the general government. To this end, in May 2013 Slovenia adopted an amendment to its Constitution introducing a fiscal rule and imposing an obligation to plan the annual budget in a manner enabling the attainment of a balanced budget.

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

- The Fiscal Rule Act (under consideration by Parliament and submitted for comment to the European Commission) will lay down the manner and time-frame for the implementation of the medium-term balance between the revenues and expenditures of state budgets and define the medium-term fiscal target, the balanced budget rule itself and the competences of the fiscal council.
- The Public Finance Act, by transposing the implementing provisions into the preparation, implementation and monitoring of the budget of all general government institutional units (including the national budget, pension and health insurance funds, municipal budgets and other institutional units which are included in sector S.13 under the Decree on the standard classification of institutional sectors).
- The expansion of a single treasury system, which is intended to streamline public finance flows and fund management, for all indirect budget users. The system is to be expanded at the state and municipal levels, which includes public finance budgets and budget spending units.
- Constitutional amendment to referendum legislation adopted in May 2013, which limits the grounds on which a referendum can be called to those having no impact on public finances; a referendum can presently be exclusively called by voters (and no longer by deputies or the National Council). This has limited the possibilities of slowing down or halting measures and reforms having an impact on public finances.

Consolidated General Government Budget

Since 2004, Slovenia has used the ESA95 methodology for consolidating the general government budget according to EU accession obligations. ESA95 is an accrual-based methodology that is also used for the assessment of sustainability of public finances within the context of the Stability and Growth Pact by the EU.

In 2012, the total expenditure in nominal terms decreased by 6 per cent. to 48.1 per cent. of GDP, a 1.8 percentage point reduction compared to 2011 (when it stood at 49.9 per cent. of GDP). The following table sets out the consolidated general government revenues and expenditures for the years 2008 to 2012 (according to ESA95 methodology):

	Year ended 31 December(1)					
	2008	*2009*	*2010*	*2011*	*2012*	*2013(2)*
	(€ millions, except for percentages)					
Total revenues	15,808.6	14,988.1	15,466.7	15,758.4	15,620.2	N/A
as a % of GDP	42.4	42.3	43.6	43.6	44.2	N/A
Total expenditures	16,511.1	17,235.2	17,546.3	18,046.3	16,974.5	N/A
as a % of GDP	44.3	48.7	49.4	49.9	48.1	N/A
General government balance	(702.5)	(2,247.1)	(2,079.6)	(2,287.9)	(1,354.4)	(1,999.2)
as a % of GDP	(1.9)	(6.3)	(5.9)	(6.3)	(3.8)	(5.7)

Source: Slovenia EDP Report, October 2013.

Note:

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

(2) Figures for 2013 are based on Government estimates.

The following table sets out the sub-sector balances of the general government budget for the years 2008 to 2011, 2012 and estimates for 2013 (according to ESA95 methodology):

	Year ended 31 December(1)				
	2009	*2010*	*2011*	*2012*	*2013(2)*
	(€ millions. except for percentages)				
Central government balance	(1,910.6)	(1,845.6)	(2,281.9)	(1,305.9)	(1,970.6)
Local government balance	(201.5)	(108.6)	3.4	63.4	16.8
Social security funds balance	(135.0)	(125.4)	(9.4)	(111.8)	(45.4)
General government balance	(2,247.1)	(2,079.6)	(2,287.9)	(1,354.4)	(1,999.2)
as a % of GDP	(6.3)	(5.9)	(6.3)	(3.8)	(5.7)

Source: Slovenia EDP Report, October 2013.

Note:

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

(2) Figures for 2013 are based on Government estimates.

General government expenditures as a percentage of total GDP increased from 2009 to 2011. Slovenia has a very rigid public expenditure structure with a relatively high share of social policy related programmes. These have been increased in 2009 to 2011 due to several government measures to tackle the economic crisis. In 2012, these programmes have become increasingly scrutinised, along with several other measures, as the government is increasing efforts to make the budget more flexible and to improve long-term sustainability of public finance.

General government revenues as a percentage of GDP declined in (2009 because of the global financial crisis but then the trend began to reverse due to a lower GDP and an increase in the use of EU funds. In 2012 and 2013, Slovenia introduced several tax measures in order to improve competitiveness and enhance growth of its economy and to promote stable tax revenues. (See "*Public Finance – Fiscal Policy and Reform*" and "*Public Finance – Taxation and Taxation Policy*".)

Between 2007 and 2013, €5.93 billion was allocated to Slovenia by various EU programmes. As at 31 October 2013, 58.8 per cent. of this amount has been utilised. The majority of funds provided by the EU were received through the operational programmes for structural funds (the regional development, social fund and the cohesion fund). Smaller amounts of the funds were received through migration funds and two programmes funded by Norway and Switzerland. 29 per cent. of allocated EU funds are dedicated to agricultural programmes, the majority of which have funded and will continue to fund Slovenia's rural development programme between 2007 and 2013. (See "*Monetary and Financial System – Banking Reform and Recapitalisations*" and "*Risk Factors – The Slovenian banking system requires further recapitalisation, which may require the government to take on further debt to finance any such recapitalisation.*")

The general government budget was balanced in 2007 as a result of sound fiscal policy and strong economic performance. In 2008, the general government budget recorded a deficit of 1.9 per cent. of GDP, mostly due to the global financial crisis and an increase in investment expenditure at the local level, due to increased investments using EU funds. The deficit deteriorated significantly to 6.3 per cent. of GDP in 2009, due to revenue shortfalls, primarily resulting from lower corporate income tax caused by lower levels of economic activity. Additionally, in 2009 the payroll tax was abolished. The deficit arose also from discretionary use of measures to address the economic crisis, including subsidies for retaining jobs, various guarantee schemes for company crediting, self-employment subsidies and an increase in the minimum wage. In addition, automatic stabilisers – such as unemployment benefits – exceeded those budgeted for in 2009, due to a rise in unemployment on the back of the global economic crisis. In 2010, the general government budget deficit was slightly lower at 5.9 per cent., still under the pressures of lower tax revenues and the automatic stabilisers.

In 2011, the deficit reached 6.3 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 other Slovenian companies such as Adria Airways (€49 million), Peko (€6 million) and Nafta Lendava (€10 million), as well as continued payments of guarantees due for Slovenian railways, and contributions to the first Greek bailout programme of €140 million. The increase in the deficit was also caused by the assumption of claims of the Slovenian Railways (€119 million), a payment of guarantees due (€20 million) and assumption of debt of a public company for the construction of a power plant on River Sava INFRA, d.o.o. (€10 million).

In 2012, the government adopted a set of comprehensive fiscal consolidation measures, which include structural shifts in public expenditures (inclusive lower public sector wages). As a result, the general government deficit has come down to 3.8 per cent. of GDP. In 2012, the total revenue of the general government in nominal terms decreased by 0.9 per cent., while total expenditure decreased by 5.9 per cent. The general government deficit in 2012 was therefore significantly smaller than a year before, estimated at €1,354.37 million by ESA 95 methodology. Among the most important expenditure components in 2012, the biggest decrease was the estimated expenditure for capital transfers (at 57.0 per cent.), gross capital formation (at 19.6 per cent.), for social benefits in cash and in kind (at 2.4 per cent.), compensation for employees (at 3.3 per cent.) and for intermediate consumption (at 2.7 per cent.).

The additional reason for the significant reduction in the deficit in 2012 was the reduction of capital transfers (capital injections into loss making public companies, recognition of claims of public companies, super dividends and guarantees called by public companies). In 2012, these capital transfers amounted to €134 million or 0.4 per cent. of GDP (of which capital injections into banks was €61 million) compared to 2011, when such transfers amounted to €459 million or 1.3 per cent. of GDP (of which capital injections into banks was €243 million). Without these transactions the general government deficit in 2012 would be estimated at 3.3 per cent. of GDP, and in 2011 at 5.1 per cent. of GDP.

The 2013 fiscal policy goal set in the amended budget in July 2013 is a general government deficit of 5.7 per cent. of GDP including one-off measures in the amount of €620 million or 4 per cent. of GDP. One-off measures comprise recapitalisations of NLB in the amount of €320 million and NKBM in the amounts of €200 million for the conversion of CoCo Bonds (in June 2012, Slovenia underwrote new capital through the purchase of hybrid instruments (the "CoCo Bonds"), see "*Monetary and Financial System – Banking Reform and Recapitalisations*" for more information) and €200 million for other recapitalisations. To achieve this goal, the Government increased VAT rates in mid-2013 and introduced other revenue increasing measures (e.g. tax on lottery tickets, court fees increase, road use tax and improved tax compliance) and lowered labour costs in the public sector (base wages and wage supplements) and other recurrent costs financed from the budget. One-off expenditures for bank recapitalisations for 2014 will be determined as at 31 December 2013 and will be reflected in the revised budget for 2014.

Budget Response to Economic Situation

As a response to worsening macroeconomic conditions, supplementary budgets were needed in the last four fiscal years, from 2009 to 2012. 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 and environmental taxation (CO2); (ii) public sector wage and labour cost restraint; and (iii) a strict overhaul of general and investment expenditure.

As a first step towards fiscal consolidation in 2012, the Act on Additional Intervention Measures was adopted at the end of 2011. Public sector wages, pensions and subsidies to households were frozen. An amendment to this Act was passed by the National Assembly on 17 April 2012, and included changes to holiday allowances in the public sector and in companies where the state or a local government held a share exceeding 25 per cent.

On 11 May 2012, the National Assembly passed the Fiscal Balance Act, together with the Supplementary Budget for 2012. Both included measures to restrain public expenditure, such as lower labour cost in the public sector, various cuts in welfare allowances (pensioner allowances, child and parental allowances, meal and transport allowances for employees), as well as a set of tax measures to boost economic activity (lower corporate tax, higher allowances for business investments). It also introduced additional taxation on high incomes (50 per cent. rate in personal income tax bracket for 2013 and 2014) and property tax (taxation of vessels, motor vehicles, immobile property of higher value). The Government also introduced higher excise duties on oil, tobacco and alcohol. The goal of the Fiscal Balance Act is to bring government revenues and expenditures inside the framework of fiscal targets set in 2012.

In 2013, the Government has focused on further comprehensive consolidation of public finances. The measures introduced in 2012 have been implemented, including cuts in public sector wages, no indexation of social transfers, tax on financial services and the introduction of a CO_2 tax, but further action is needed to ensure comprehensive fiscal consolidation. In the revised budget for 2013, the Government further cut public sector wages and increased VAT rates. The Government also believes there will be a positive revenue impact from the broad set of measures adopted to improve tax compliance.

Key risks relating to the 2014 fiscal outcome centre on the recapitalisation of banks and the treatment of government holdings under the Sovereign Holding Act.

Central Government Budget

The following table sets out the actual revenues and expenditures of the central government budget[1] for the years 2008 to 2012, estimates for 2013 and budgeted revenues and expenditures for 2014 and 2015 (on a cash basis):

	Year ended 31 December							
			Actual			*Estimate*	*Proposed Revised Budget*	*Proposed Budget*
	2008	*2009*	*2010*	*2011*	*2012*	*2013*[(3)]	*2014*[(3)]	*2015*
				(€ millions)				
Current revenues	8,154.6	6,918.6	6,810.5	7,005.2	7,028.5	6,865.2	7,377.2	7,405.1
Taxes on income and profit	2,514.5	1,782.1	1,353.5	1,581.7	1,509.2	1,107.0	1,317.8	1,330.2
Individual income taxes	1,257.4	1,069.8	902.1	912.5	929.8	839.2	892.6	899.4
Corporate income tax	1,257.0	712.2	448.6	667.6	576.9	264.4	421.9	427.4
Other taxes on income and profit	0.0	0.0	2.8	1.6	2.6	3.4	3.3	3.4
Social security contributions	53.5	55.2	54.9	54.5	53.5	52.0	51.7	52.3
Taxes on payroll and workforce	258.0	28.5	28.1	29.2	25.6	23.5	23.4	23.6
Domestic taxes on goods and services	4,737.5	4,595.0	4,719.0	4,796.5	4,823.9	4,943.2	5,140.0	5,238.1
Taxes on international trade and transactions	120.1	90.5	90.7	100.2	82.5	77.7	79.8	84.5
Other taxes	1.8	2.8	3.0	12.4	7.7	37.4	250.6	209.5
Non-tax revenues	469.3	364.6	561.3	430.5	526.0	624.5	514.0	466.9
Capital revenues, grants and transfer revenues	17.2	17.2	15.7	16.0	16.4	50.7	44.7	60.7
Receipts from EU	363.2	594.9	723.3	812.2	842.1	960.2	1,200.0	1,160.3
Total Revenues	8,535.1	7,530.7	7,549.6	7,833.3	7,887.0	7,876.2	8,621.8	8,626.1
Current Expenditures	2,435.0	2,412.3	2,562.2	2,526.6	2,515.0	2,658.8	2,698.8	2,787.2
Wages and contributions	1,155.2	1,228.8	1,237.5	1,227.9	1,168.4	1,097.0	1,069.6	1,039.4
Goods and services	864.5	838.9	822.7	738.5	682.8	644.2	574.0	751.8
Interest payments	326.1	326.4	476.7	510.6	632.5	820.0	941.6	921.4
Reserves	89.2	18.2	25.2	49.5	31.3	97.6	113.6	74.7
Current Transfers	4,625.8	5,311.2	5,390.6	5,608.4	5,347.1	5,277.8	5,230.9	4,993.0
Subsidies	454.5	573.4	551.6	459.4	455.3	441.6	406.9	270.0
Transfers to individuals and households	1,041.3	1,267.7	1,344.0	1,449.9	1,375.7	1,255.4	1,264.3	1,301.9
Unemployed allowances	91.5	176.4	216.3	286.3	263.1	265.8	251.3	256.0
Child allowances	558.9	603.9	617.6	630.5	578.8	523.9	527.9	527.9
Social assistance allowances	136.0	170.7	178.2	175.5	216.0	199.3	203.3	224.0
Other transfers to individuals and households	254.9	316.6	331.9	357.7	317.7	266.4	281.8	294.0
Transfers to organisations and institutions	3,130.0	3,470.2	3,495.0	3,699.1	3,516.2	3,580.8	3,559.7	3,421.1
Current transfers to pension fund	445.5	459.2	444.3	441.0	339.4	330.0	330.6	311.6
Supplementary transfers to pension fund	666.4	778.5	841.8	1,001.6	1,020.5	1,137.7	1,125.5	1,114.5
Current transfers to public institutions	1,749.5	1,857.1	1,841.6	1,858.7	1,754.7	1,685.5	1,685.6	1,631.1
Other transfers to organisations and institutions	60.8	152.7	94.2	140.7	121.3	83.0	166.7	160.6
Capital expenditure	495.4	448.8	370.2	322.5	239.8	458.6	661.9	597.6
Capital transfers	486.0	647.8	560.4	500.2	501.3	599.2	651.0	694.1
Payments to EU budget	427.9	439.3	396.8	405.1	390.3	414.0	397.2	413.4
Total Expenditure	8,470.1	9,259.5	9,280.2	9,362.8	8,993.5	9,408.4	9,639.9	9,485.3
Budget surplus/deficit	65.0	(1,728.8)	(1,730.6)	(1,529.5)	(1,106.5)	(1,532.2)	(1,018.1)	(859.2)
Primary surplus/deficit	360.6	(1,417.1)	(1,299.3)	(1,050.2)	(505.2)	(726.4)	(84.5)	57.7
Lending minus repayments	(91.1)	(282.9)	(181.8)	(689.0)	(504.9)	(542.5)	(1,583.9)	(265.8)
Borrowing	1,016.2	4,739.5	2,525.0	3,885.9	2,947.4	4,923.0	4,874.4	2,696.3
Amortisation of debt	1,252.0	848.8	1,730.4	960.4	1,269.2	1,871.5	3,272.4	1,571.3
Changes in cash and deposits	(261.9)	1,879.0	(1,117.8)	707.1	66.8	976.8	(1,000.0)	(0.0)
Net financing	(65.0)	1,728.8	1,730.6	1,529.5	1,106.5	1,532.2	1,018.1	859.2

Source: Ministry of Finance, Bulletin of Government Finance.

Note:

(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 in numerous other EU member states, annual budgets are presented and approved based on a cash-based methodology.

Central government budget revenues 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 were taken to contain expenditures on wages and subsidies. Between 2010 and 2012 budgets were also under pressure from various crisis and consolidation measures in the context of very weak economic activity.

The budgets for 2013 and 2014 were adopted in December 2012. They were based on the macroeconomic assumptions of the Institute of Macroeconomic Analysis and Development (the "IMAD") from September 2012. The budgets took into account the effects of pension reform adopted in December 2012, as well as a lower wage bill in the public sector (due to rationalisation, retirements and dismissals). On the revenue side, the government introduced a tax on financial services and increased the rental income tax and various environmental taxes (such as CO2 tax). Excise duties are expected to be increased to the levels at which prices are still acceptable for the market (oil, tobacco, alcohol). At the same time, the corporate income tax rate has been reduced to 17 per cent. in 2013. Additionally, various administrative and tax simplifications for small entrepreneurs have been introduced.

However, due to the worse than expected economic situation and the unexpected rise in expenditures based on court decisions (including pensions and holiday allowance in public sector repayments), a revision of the 2013 budget was adopted in July 2013. The revised budget takes into account the adjustments due to the deterioration of the macroeconomic situation and introduces new measures. Two key measures introduced by the revised budgets are further cuts in public sector wages and increases in VAT rates, effective from 1 July 2013.

The budget for 2014 and 2015, which was adopted by the Government and sent to the National Assembly in September, is a continuation of the restrictive expenditure policy and introduces additional revenue-increasing measures to enable the achievement of target deficit values. One key revenue measure is the introduction of a real estate tax.

Public finance trends

	2013 Estimate	*2014 Budgeted*	*2015 Budgeted*
Central government budget, cash flow:			
Revenues in EUR million	7,876.2	8,621.8	8,626.1
Expenditure in EUR million	9,353.6	9,639.9	9,485.3
Deficit in EUR million	1,477.4	1,018.1	859.2
Deficit in % of GDP	4.2%	2.9%	2.4%
General Government sector, ESA 95 (estimates)			
Deficit in % of GDP[1]	4.0%	3.2%	2.5%
Deficit in % of GDP[2]	5.7%	—	—

Note:

(1) Without bank recapitalisation.

(2) Including bank recapitalisation.

For the 2014 budget, revenues are projected to be €8.6 billion and expenditures are projected to be €9.6 billion, resulting in a budget deficit of €1.0 billion (based on GDP assumption of €35.1 billion).

For the 2015 budget, revenues are projected to be €8.6 billion and expenditures are projected to be €9.5 billion, resulting in a budget deficit of €859.2 million (based on GDP assumption of €35.7 billion).

Fiscal Policy and Reform

The 2013 Stability Programme

Since 2006, Slovenia has had a stability programme in place in accordance with relevant EU Council regulations. The latest updates to the Stability Programme were in April 2013. At the end of May 2013, the European Commission presented recommendations in respect of Slovenia's Stability Programme. The Commission reviews Slovenia's progress in meeting its recommendations through bilateral meetings. It noted that Slovenia's deficit reduction programme, which currently runs through 2013, is based on measures that will enable Slovenia to meet and possibly exceed the EU Council recommendations. In its assessment of the National Reform Programme, the Commission noted that Slovenia implemented pension reform and labour reform in early 2013, but further reforms will be needed in both fields to ensure long term structural effect. As a priority, Slovenia has been urged to carry out a system-wide AQR and stress tests, conducted by an independent external adviser, which are currently on going. According to EU recommendations and OECD guidelines, Slovenia is also preparing legislation to improve the corporate governance of its state owned enterprises.

Slovenia has been formally under an excessive deficit procedure since 2 December 2009. According to new EU legislation on economic governance, Slovenia was required to prepare an Economic Partnerships Programme in October 2013, the purpose of which is to provide information concerning the implementation of the recommendations of the European Council and present the priority measures and policies to ensure an effective and lasting correction of the excessive deficit. The implementation of the Programme and the yearly budgetary plans consistent with it are monitored by the European Commission and the European Council.

Under the excessive deficit procedure, the European Commission can at any time determine that it will conduct a review or assessment of the relevant structural reforms and fiscal consolidation. In June 2013, the European Commission issued new recommendations, including recommendations for Slovenia. Following this, Slovenia prepared the Economic Partnership Programme to address the recommendations. The assessment of this programme and of the implementation of reforms in Slovenia is expected to be published on 15 November 2013. The European Commission will be also conducting reviews of Slovenia as part of the excessive macroeconomic imbalance procedure, most likely beginning in 2014.

The Government of the Republic of Slovenia has pursued the achievement of two key fiscal objectives as part of its Stability Programme: (i) structural balance by 2017 and (ii) the elimination of the excessive deficit of the general government sector by 2015. The correction of the excessive general government deficit below 3 per cent. of GDP is expected to be attained primarily through further implementation of measures to reduce general government expenditure and measures to increase revenues. The Government has amended the 2013 and 2014 budgets to achieve these objectives and has also adopted the 2015 budget. The measures implemented to increase revenue and reduce expenditure have been designed to ensure a gradual consolidation of public finances in a sustainable manner.

Measures to reduce expenditure include: (i) wage reduction in the public sector; (ii) no pension indexation; (iii) no indexation and reduction of social transfers and (iv) rational use of current expenditure.

Measures to increase revenue include: (i) increasing VAT rates; (ii) introducing the real property tax; (iii) tax on lottery tickets; (iv) halting the reduction in the corporate income tax rate; (v) limiting the indexation of tax reliefs and personal income tax bases; (vi) measures to improve the effectiveness of tax collection and reduce the "shadow economy" and (vii) changes to other taxes and allowances.

Public reaction to recent reform measures

The implementation of consolidation and growth enhancing measures requires the co-operation of social partners (such as employers' associations and trade unions), and the government cultivates a regular dialogue with them. Most recently, pension reform was successfully negotiated with these social partners. The social partners are currently providing input on labour market reform as described in "*The Slovenian Economy – Reforms Related to Pensions, Government Privatisation, Bank Recapitalisation, Labour Market and Referendum Rules*".

Some public sector trade unions posed a call for referendum for a budget execution law for 2013 and 2014, but the call has been withdrawn and the budget for 2013 came into force on 1 January 2013.

Before the supplementary budget and the Fiscal Balance Act were passed by the National Assembly in May 2012, the government and the co-ordination committee of the 33 representative public sector trade unions reached an agreement on the unions' demands. 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 strikes or similar activities. 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, were challenged and the Constitutional Court recently repealed some provisions. Accordingly, the government will need to compensate for some of these benefits, the final financial impact of which is not yet known.

Taxation and Taxation Policy

The following table sets out the main categories of general government revenue as a percentage of GDP for the years ended 31 December 2008 to 2012 and for the eight months ended 31 August 2013:

	Year ended 31 December					*Eight months ended 31 August*
	2008	*2009*	*2010*	*2011*	*2012*	*2013*
	(€ millions, except for percentages)					
Personal income tax	2,185.1	2,092.9	2,039.3	2,054.3	2,077.1	1,207.1
as a % of GDP	5.9	5.9	5.7	5.7	5.9	—
Corporate income tax	1,257.0	712.2	448.6	667.6	576.9	130.0
as a % of GDP	3.4	2.0	1.3	1.8	1.6	—
Value Added Tax	3,144.5	2,838.0	2,940.9	2,992.4	2,905.0	1,894.8
as a % of GDP	8.4	8.0	8.3	8.3	8.2	—
Excises	1,213.3	1,415.0	1,439.2	1,462.4	1,560.3	968.8
as a % of GDP	3.3	4.0	4.1	4.0	4.4	—
EU funds	365.4	596.5	724.7	814.9	845.1	486.9
as a % of GDP	1.0	1.7	2.0	2.3	2.4	—

Source: Ministry of Finance Bulletin of Government Finance 2008-2012.

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 further 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 included: (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.

On 1 January 2013, further changes to corporate income tax and to personal income tax were introduced, aimed at the simplification of administrative procedures for taxation of business income of entrepreneurs and companies with annual turnover of less than €50,000. In addition, the threshold for VAT registration was increased from €25,000 to €50,000 in April 2013. Due to budgetary restrictions, the tax rate of income of individuals from capital (dividends, interest, capital gains) was increased from 20 to 25 per cent. Similarly, the tax rate for derivative financial instrument gains was increased from 20 to 25 per cent. In March 2013, a new tax on fees charged with respect to certain financial services became effective. The tax rate is 6.5 per cent. and the taxable amount is the fee (remuneration) received by the financial institution for the execution of a financial service. Financial services concerning trading with securities and management of investment funds are tax exempt.

From 1 August 2011, the Bank Balance Sheet Tax Act became applicable. The tax base is the balance sheet of the person liable for tax with a rate of 0.1 per cent. of the tax base. The tax can be reduced by 0.1 per cent. of the loan balances granted to non-financial corporations and sole traders. When the above-mentioned loans achieve certain growth in the tax year, exemptions may apply.

In July 2013, additional changes to VAT and corporate income tax were introduced as part of the policy to ensure the stability of government revenue. The Government increased the general VAT rate by 2 percentage points (from 20 per cent. to 22 per cent.) and raised the reduced VAT rate by 1 percentage points (from 8.5 per cent. to 9.5 per cent.). In June 2013, a 10 per cent. tax on the sale price of lottery tickets was also introduced. Further, in September 2013, the Government adopted a corporate income tax rate of 17 per cent., which is the tax rate for 2013 and onward. Tax incentives adopted in 2012 remain unchanged.

Slovenia is also preparing additional legislation on personal income taxation as a response to the pension and labour legislation reforms with some additional measures to consolidate public finances.

The changes eliminate the automatic adjustment of tax credits and net annual tax basis in the scale for assessing personal income tax adjusted for changes in consumer prices and abolish the special relief for daily migrants and residents over 65 years of age.

By the end of 2013, Slovenia intends to modernise its real estate taxation. The main objective of the modernisation is to simplify the system and provide an additional budgetary resource during fiscal consolidation and subsequently allow the gradual reduction of the tax burden on other sources.

Further, Slovenia has already adopted measures to increase the efficiency of collecting of taxes and reducing the extent of the "shadow economy". Other additional measures are under consideration, including the proposed merger of the tax and customs administrations into a joint finance administration of the Republic of Slovenia.

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.

Slovenia is taking part in discussions on the introduction of a tax on transactions with financial instruments at the EU level, but it is not possible to predict when this tax will become effective.

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 2008 to 2012, including estimate figures as at 31 December 2013:

	As at 31 December				
	Actual				*Estimate*
	2009	*2010*	*2011*	*2012*	*2013*
	(€ millions, except for percentages)				
Outstanding general government debt	12,459.99	13,741.65	17,016.24	19,204.24	22,044.24
Nominal GDP	35,420.19	35,484.55	36,149.96	35,318.61	34,908.13
General government debt as % of nominal GDP(1)	35.2	38.7	47.1	54.4	63.1

Source: EDP Report, October 2013, SORS.

Note:

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

In accordance with Article 87 of the Public Finance Act, the debt of certain other public entities is not included in general government debt. Such entities include non-profit public economic entities, entities wherein the government holds a majority influence on entity governance, and other entities that are not part of the general government but are classified as public entities. On 30 June 2013, there were 550 all public entities, of which 92 had debt outstanding (of which 46 are general government entities), predominantly in the field of transport, communications, electricity and natural gas.

The following table sets out the debt of these public entities (without the general government entities) as a percentage of nominal GDP as at 31 December 2009 to 2012 and as at 30 June 2013:

	As at 31 December				*Six months ended 30 June*
	2009	*2010*	*2011*	*2012*	*2013*
	(€ millions, except for percentages)				
Outstanding debt of other public entities (without the general government entities)	4,940.9	5,056.0	5,135.1	5,297.6	5,340.1
Nominal GDP	35,420.19	35,484.55	36,149.96	35,318.6	34,908.1
General government debt as % of nominal GDP	13.9	14.2	14.2	15.0	15.3

Source: Ministry of Finance, SORS.

The following table sets out the debt of these public entities (without the general government entities) by currency as at 30 June 2013:

	As at 30 June 2013			
	Short-term	*Long-term*	*Total*	*As % of total*
	(€ millions)			
EUR	210.5	5,068.7	5,279.2	98.9
CHF	0	59.0	59.0	1.1
U.S.$	0	1.9	1.9	0.0
Total	210.5	5,129.6	5,340.1	100.0

Source: Ministry of Finance.

Following budgetary and other developments as outlined in the May 2013 Stabilisation Programme (see "*Public Finance – Fiscal Policy and Reform*"), general government debt is estimated to increase to 63.1 per cent. of GDP in 2013 and then 63.2 per cent. of GDP in 2014 and 2015. Central government debt represented approximately 96.9 per cent. of general government debt as at 31 December 2012 compared to 96.4 per cent. of general government debt as at 31 December 2011 and forecasted 97.5 per cent. of general government debt at the end of 2013. 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.

Central government guarantees

The following table sets out Slovenia's government guarantees for the years ended 31 December 2008 to 2012 and for the six months ended 30 June 2013:

	As at 31 December					*Six months ended 30 June*
	2008	*2009*	*2010*	*2011*	*2012*	*2013*
			(€ millions)			
Guarantees for the general government entities	70.8	257.0	569.1	571.7	560.2	554.9
Guarantees for other public entities	4,618.6	4,714.1	4,717.1	4,579.7	4,391.3	4,729.1
Guarantees for commercial banks under financial crisis programme	—	2,000.0	2,200.0	1,554.9	200.0	200.0
Guarantees for debt of privately owned entities	13.8	166.3	243.1	166.4	117.7	89.7
Guarantees to EFSF Other	—	—	—	118.5	1,232.3	1,353.3
Other	—	4.6	18.4	4.7	4.4	4.4
Total	4,703.2	7,142.0	7,747.7	6,995.9	6,505.8	6,931.5

Source: Ministry of Finance.

The central government issues guarantees to certain entities predominantly within the public sector, on a case-by-case basis, for projects such as the construction of highways and railways. The total amount of central government guarantees outstanding as at 30 June 2013 was €6,931.5 million, comprising €5,277.8 million non-crisis guarantees and €1,653.7 million crisis guarantees. In respect of the debt of public sector and government controlled entities the outstanding "non-crisis guarantees" comprise approximately €5,264.9 million and €12.2 million with regards to the debt of private entities. Regarding the debt of commercial banks under the "financial crisis programme", the outstanding crisis guarantees comprise €200 million. For the purpose of borrowing facilitation in the markets under the "crisis prevention programme", €2.2 billion of guarantees were extended to four banks: Nova Ljubljanska banka, Abanka Vipa d.d., Factor banka and Deželna banka Slovenije d.d. The debt was largely settled on 31 July 2012. Moreover, under the "crisis prevention programme" the debt of entities amounts to €96.5 million, the debt of households to €3.8 million and another €1,353.3 million is outstanding in respect of Slovenia's portion of bonds issued under the European Financial Stability Facility and the Greek bailout programme.

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 2009 to 2012 and as at 30 September 2013:

	As at 31 December				*As at 30 September*
	2009	*2010*	*2011*	*2012*	*2013*
			(€ millions)		
Internal	9,039.0	10,354.8	14,090.1	14,052.3	13,754.5
T-bills	739.5	25.0	883.4	1,560.6	1,435.4
Long-term Securities	8,153.2	10,236.5	12,824.6	11,678.7	11,624.9
Special Drawing Rights	27.7	29.4	30.2	29.6	29.1
Loans	118.6	64.0	351.9	783.4	665.1
External(1)	2,044.3	1,529.7	1,066.6	2,783.8	5,613.1
Long-term Securities	1,950.0	1,450.0	1,000.0	2,726.9	5,413.6
Loans	—	—	—	—	—
International financial institutions and official bilateral creditors	94.3	79.7	66.6	56.9	199.5
Total	11,083.4	11,884.5	15,156.8	16,836.1	19,367.6

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 October 2012 and May 2013 are listed on the Luxembourg Stock Exchange and classified as external debt. The Notes contemplated in this Offering Circular, will also 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 €1.6 billion and a yearly interest burden of approximately €0.5 billion.

The following table sets out the total nominal value of government T-bills and bonds outstanding as at 31 December 2011 and 2012 and as at 30 September 2013:

	As at 31 December				*As at 30 September*	
	2011		*2012*		*2013*	
	(€ millions)	*(%)*	*(€ millions)*	*(%)*	*(€ millions)*	*(%)*
T-bills (3-month maturity)	28.2	0.2	61.3	0.4	20.5	0.1
T-bills (6-month maturity)	0.0	0.0	222.4	1.4	25.1	0.1
T-bills (12-month maturity)	0.0	0.0	421.6	2.6	237.8	1.3
T-bills (18-month maturity)	855.3	5.8	855.3	5.4	1,043.8	5.7
Government bonds (3-year maturity)	1,000.0	6.8	0.0	0.0	0.0	0.0
Government bonds (5-year maturity)	2.500.0[1]	17.0	2,500.0	15.7	3,267.6	17.8
Government bonds (10-year maturity)	7,036.2	47.8	8,623.3	54.0	10,493.9	57.1
Government bonds (15-year maturity)	3,175.9	21.6	3,169.8	19.9	3,164.6	17.2
Government bonds (20-year maturity)	112.5	0.8	112.5	0.7	112.5	0.6
Total	14,708.0	100.0	15,966.2	100.0	18,365.8	100.0

Source: Ministry of Finance.

Note:

(1) Original maturity.

Additionally, on 17 April 2013, Slovenia held an auction for T-bills (18-month maturity). The new T-bills issue settled on 19 April 2013 in the nominal amount of €1.1 billion and will mature on 16 October 2014.

The following table sets out central government debt by currency as at 31 December 2009, 2010, 2011 and 2012 and as at 30 September 2013:

	As at 31 December								*As at 30 September*	
	2009		*2010*		*2011*		*2012*		*2013*	
	(€ millions)	*%*	*(€ millions)*	*%*	*(€ millions)*	*%*	*(€ millions)*	*%*	*(€ millions)*	*%*
Special Drawing Rights	27.7	0.2	29.4	0.2	30.2	0.2	29.6	0.2	29.1	0.2
EUR	11,055.7	99.8	11,855.1	99.8	15,126.6	99.8	15,079.6	89.6	14,924.9	77.0
USD	0.0	0.0	0.0	0.0	0.0	0.0	1,726.9	10.2	4,413.6	22.8
Total	11,083.4	100.0	11,884.5	100.0	15,156.8	100.0	16,836.1	100.0	19,367.6	100.0

Source: Ministry of Finance.

Debt Service

The average maturity for Slovenia's debt portfolio is 6.1 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 2008 to 2012:

	Year ended 31 December				
	2008	*2009*	*2010*	*2011*	*2012*
			(€ millions)		
Debt service					
Principal Payments	1,251.9	848.8	1,730.4	960.4	1,269.2
Interest Payments	326.1	326.4	476.7	510.6	632.5
Total	1,578.0	1,175.2	2,207.1	1,471.0	1,901.7

Source: Ministry of Finance.

The following table sets out projected state debt service payments with respect to principal and interest (before taking account of any payment obligations in respect of the issue of the Notes described in this Offering Circular) for the years 2013 to 2026:

	Year ended 31 December[(1)]													
	2013	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*	*2024*	*2025*	*2026*
	(€ millions)													
Principal Payments	1,871.5	3,151.7	1,319.3	1,291.4	508.2	1,895.8	1,047.3	1,501.3	1,501.3	1,756.5	2,002.0	1,500.0	0.0	1,500.0
Interest Payments	821.1	862.5	712.2	674.1	624.7	588.4	525.8	480.6	418.7	353.0	203.5	151.0	81.7	81.7
Total	2,692.6	4,014.2	2,031.4	1,965.5	1,132.9	2,484.2	1,573.1	1,981.9	1,920.0	2,109.5	2,205.5	1,651.0	81.7	1,581.7

Source: Ministry of Finance.

Note:

(1) Debt service projections for the central government budget of Slovenia is calculated on the outstanding debt as at 30 September 2013.

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

Credit Rating

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

The following table sets out Slovenia's credit ratings as at 11 November 2013:

Agency	*Long-term domestic currency*	*Long-term foreign currency*	*Country ceiling*	*Outlook*
Standard & Poor's Ratings	A-	A-	—	Stable
Moody's Ratings	Ba1	Ba1	Ba1	Negative
Fitch Ratings	BBB+	BBB+	AAA	Negative

Source: Respective agency websites

From the second half of 2011 and into 2013, 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. In February 2013, S&P further downgraded Slovenia's credit rating. On 30 April 2013, Moody's announced that it was downgrading the Republic of Slovenia's government bond rating to Ba1 from Baa2 and retaining its negative outlook. In May 2013, Fitch downgraded the Republic of Slovenia's government bond rating to BBB+ from A- and retained its negative outlook. On 8 November 2013, Fitch affirmed this rating and outlook.

The following table sets out the changes in Slovenia's credit rating in the period from September / October 2011 to November 2013:

Agency	*September/ October 2011*	*December 2011/ January 2012*	*February 2012*	*August 2012*	*February 2013*	*April 2013*	*May 2013*
Standard & Poor's Ratings	AA-	A+	—	A	A-	—	—
Moody's Ratings	Aa3	A1	A2	Baa2	Baa2	Ba1	—
Fitch Ratings	AA-	A	—	A-	—	—	BBB+

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 regarding the formulation and implementation of monetary policy. The Eurosystem's primary objective is to maintain price stability. As part of the Eurosystem, the decisions regarding the money supply as well as interest rates decisions rest with the Governing Council of the ECB. At the end of 2012, the Slovenian financial sector's assets stood at €64.4 billion or 178.6 per cent. of GDP, according to preliminary data. 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 and 2012. From 2009 to 2012, 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. 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 Euro-area 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 European System of Central Banks (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 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 banking supervision, the Bank of Slovenia participates in activities of the European Systemic Risk Board (''ESRB''). The ESRB is an independent EU body responsible for the macro-prudential supervision of the financial system of the EU as a whole, and for monitoring and assessing risks to its stability. The Governor and the Vice-Governor responsible for banking supervision and financial stability are members of the ESRB's General Board, which takes the decisions necessary for the performance of the duties entrusted to the ESRB. At the micro-prudential level, the Bank of Slovenia is engaged in the work of the European Banking Authority (the ''EBA'').

A draft directive establishing a framework regarding national resolution authorities in the EU, for the recovery and resolution of credit institutions and investment firms, was published by the European Council in June 2013, aimed at providing national authorities with common powers and instruments to pre-empt bank crises and to resolve any financial institution in an orderly manner in the event of failure, whilst preserving essential bank operations and minimising taxpayers' exposure to losses. The Bank of Slovenia already has some of the responsibilities contemplated in the draft directive, and a final decision on how to implement the directive will be made when it enters into force.

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 was purchasing outright government and covered bonds in the markets. In September 2012, the Eurosystem announced a new non-standard measure, Outright Monetary Transactions in secondary sovereign bond markets, which aims to safeguard the implementation of an appropriate monetary policy. These purchases are strictly conditional on an appropriate European Financial Stability Facility/European Stability Mechanism programme.

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 "*Monetary and Financial System – 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 and once in July 2012. In May 2013 the rate was cut again to a record low of 0.5 per cent. Accordingly, in May 2013 the interest rate on the marginal lending facility was decreased to 1 per cent., while the deposit facility rate remained unchanged at the 0 per cent. rate set in July 2012. In order to ensure that market expectations on future monetary policy are consistent with the policy intention of the Eurosystem, forward guidance was introduced in July 2013. According to the new guidance, the ECB expects the policy rates to remain at current or even lower levels for an extended period of time.

Financial System

At the end of 2012 the Slovenian financial sector's assets stood at €60.8 billion or 172.2 per cent. of GDP. Banks are the most important financial intermediaries with close to three quarters of total financial sector assets. The largest group among non-monetary financial institutions are insurers with approximately 44 per cent. of total non-monetary financial institutions assets, followed by leasing companies (31.4 per cent.), and investment and pension funds (21.7 per cent.). The number of institutions in different segments of the financial sector has changed only slightly recently. There were five fewer investments funds and two fewer small banks (one merged and one bank under majority foreign ownership stopped operating in Slovenia) at the end of 2012 compared to 2011. There are two financial conglomerates operating in Slovenia.

The following table sets out certain statistical information about the Slovenian financial system as 31 December 2011 and 2012[(1)]:

	Total assets		*As % of total assets*		*As % of GDP*		*No. of institutions*	
	2011	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*
	(€ millions)		*(%)*		*(%)*			
Monetary financial institutions[(1)]	48,592	45,460	76.1	74.7	134.4	128.7	25	23
Banks	48,097	44,893	75.4	73.8	133.0	127.1	22	20
Private owned	36,468	34,621	57.1	56.9	100.9	98.0	—	—
Domestic	18,134	17,210	28.4	28.3	50.2	48.7	—	—
Foreign	18,334	17,411	28.7	28.6	50.7	49.3	—	—
Government owned	11,629	10,271	18.2	16.9	32.2	29.1	—	—
Savings banks	495	567	0.8	0.9	1.4	1.6	3	3
Non-monetary financial institutions[(2)]	15,223	15,359	23.9	25.3	42.1	43.5	—	—
Insurers	6,108	6,790	9.6	11.2	16.9	19.2	17	17
Pension Funds[(3)]	1,518	1,491	2.4	2.5	4.2	4.2	10	10
Investment Funds	1,816	1,835	2.8	3.0	5.0	5.2	139	134
Leasing companies	5,277	4,817	8.3	7.9	14.6	13.6	21	21
BHs, MCs and others	504	426	0.8	0.7	1.4	1.2	—	—
Total	63,814	60,819	100.0	100.0	176.5	172.2	—	—

Source: Bank of Slovenia.

Note:

(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) Includes the First Pension Fund.

Cross-ownership between domestic financial institutions has not materially changed in 2012, the proportion of the financial sector overall accounted for by the banks, insurers, pension funds and other financial intermediaries remained at 14 per cent. as at 31 December 2012. 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 18 per cent. of their total financial assets.

Banking System

At 30 September 2013, the Slovenian banking system comprised 17 banks (including seven subsidiary banks), three branches of foreign banks and three savings banks. The banks accounted for 98.4 per cent. of the total assets of the Slovenian banking system as at 30 September 2013. In the beginning of September 2013, the Bank of Slovenia began the controlled winding down process of two domestic banks: Factor banka and Probanka (while ensuring both banks continue to carry on normal business operations). For more information, see *"Monetary and Financial System – Measures to Strengthen the Stability of the Banking Sector Act – Factor bank and Probanka Recapitalisations"*.

In terms of ownership structure, the banking system comprises 10 banks under majority domestic ownership and seven banks under majority foreign ownership. The proportion of the banks' equity held by non-residents increased by 2.1 percentage points in 2012 to 41.3 per cent. and decreased to 37.0 per cent. by 30 September 2013. In 2012, recapitalisations raised the government's holding of the banking system's total equity by 0.2 percentage points to 22.9 per cent. and by 30 September 2013 to 38.1 per cent. The largest banks by market share are as follows:

	Market Share as at 31 December		
	2010	*2011*	*2012*
		(%)	
Nova Ljubljanska banka	27.5	26.6	24.9
Nova Kreditna banka Maribor	9.6	9.9	9.4
Abanka Vipa d.d.	9.0	8.6	7.8
Unicredit banka Slovenija d.d.	6.0	6.0	6.1
SKB banka d.d. (SocGen group)	5.3	5.4	5.6
Banka Koper d.d. (SanpaoloIMI group)	5.2	4.6	5.0
Banka Celje d.d.	4.5	5.1	4.9

Source: Bank of Slovenia.

As at 31 December 2012	*Majority Ownership*	*Total assets in EUR thousand*	*Return on assets in %*	*Operational costs/ Average total assets*	*Capital adequacy in %*
Nova Ljubljanska banka	Domestic	11,487,425	(2.41)	1.77	11.76
Nova Kreditna banka	Domestic	4,338,576	(4.36)	1.76	9.18
Abanka Vipa d.d.	Domestic	3,597,986	(1.89)	1.36	9.65
Unicredit banka Slovenija d.d.	Foreign	2,815,367	0.04	1.39	13.45
SKB banka d.d. (SocGen group)	Foreign	2,594,376	0.14	2.11	13.73

Source: Bank of Slovenia.

Assets and Liabilities

The banking system's total assets amounted to €46.1 billion as at 31 December 2012, having declined by €3.1 billion or 6.3 per cent. during the year, compared to €49.2 billion as at 31 December of 2011, having declined by €1.5 billion or 3.0 per cent. during 2011. The declining growth in total assets is a result of the banks' debt repayments on the wholesale markets, a decrease in government deposits and a contraction in lending. At the end of August 2013, the banking system's total assets amounted to €44.5 billion, having declined by €3.2 billion or 6.7 per cent. in year-on-year terms. As at 31 December 2012, liabilities to the Eurosystem totalled €4.0 billion, representing 8.7 per cent. of the banking system's total assets compared with liabilities totalling €1.7 billion in 2011. Liabilities to the Eurosystem were up €2.3 billion in 2012, compared to an increase of €1.1 billion in 2011. The increase in 2012 is primarily the result of €2 billion raised via three-year long term refinancing operations at the ECB in February. At the end of August 2013, liabilities to the Eurosystem totalled €3.8 billion, representing 8.6 per cent. of the banking system's total assets. In 2012, banking sector wholesale deleveraging continued and amounted to €3.5 billion. In the eight months ended 31 August 2013, this process continued and, by 31 August 2013, the volume of liabilities to foreign banks and issued debt securities together had decreased to €1.9 billion.

On the investment side, banks primarily reduced loans to non-banking sectors and investments in securities. In 2012, there was a decline in loans to the non-banking sector of 6.6 per cent. during the year. This decline was primarily in loans to the corporate sector, which was partially offset by a €534 million increase in loans to government. In 2011, there was a decline in year-on-year growth in loans to non-banking sectors at all the banks of 4.5 per cent. as at 31 December 2011, from an increase of 1.6 per cent. as at 31 December 2010. In 2012, the stock of loans to the non-banking sector also declined by €2.2 billion during the year. The stock of loans to the non-banking sector decreased at the end of August 2013 by €3.1 billion or by 9.5 per cent. in year-on-year terms. Lending to non-financial corporations was down by 10.3 per cent. or €1.9 billion in 2012 and by 13.3 per cent. or €2.3 billion at the end of August in year-on-year terms. The contraction in lending to the non-banking sector is a result of the general economic situation and domestic supply and demand factors. The key factors that contributed to the decline in demand of non-financial corporations for bank loans were negative economic growth, a decline in corporate sales revenues and new orders, high corporate indebtedness, rising financial leverage due to losses, which reduce capital, the lack of payment discipline, a reduction in the value and liquidity of assets accepted as eligible loan collateral and the interest rate spread between Slovenian banks and euro area banks. Unemployment, negative growth in real wages and austerity measures have been driving down demand for loans by households. On the supply side, lending activity was restricted by high bank funding costs, deterioration in the quality of their credit portfolio, maturing of liabilities and difficulties in rolling over maturing liabilities.

The stock of loans to non-banking sectors had declined by 4.5 per cent. by the end of 2011 and lending to non-financial corporations was down by 7.4 per cent. in 2011 compared to 2010. The main factors in this 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.

The value of loans to households amounted to €8.8 billion as at 31 December 2012, having declined by €213 million or 2.3 per cent. during the year. The year over year decline as at 31 August 2013 was 3.2 per cent. The proportion of total loans to households accounted for by housing loans increased from 50 per cent. at the end of 2009 to approximately 61 per cent. at the end of December 2012 and to 63 per cent. at the end of August 2013. The key reasons for this increase lie in decreasing but positive growth in housing loans and negative growth in household borrowing in consumer loans since the middle of 2010.

Comparatively, in 2011, the stock of loans to households increased by €205 million, 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. Moreover, declining demand for household and consumer loans has been observed in recent years. At the same time the banks slightly tightened their credit standards for the approval of housing and consumer loans. Increased uncertainty on the labour market, a decline in real wages, a lack of confidence and the uncertainty in the real estate market are expected to have an adverse impact on growth in household loans in the following year.

The average maturity of new housing loans declined to 18.2 years in 2012 and increased to 18.5 years for the eight months ended 31 August 2013. The majority of these loans were approved with a variable interest rate, most frequently tied to the EURIBOR. Higher bank funding costs have increased the premium to 2.4 percentage points in 2012 and to 2.7 per cent. in the eight months ended 31 August 2013 and thereby decreased the availability of housing loans. The premium increased even more for short-term consumer loans to 2.5 per cent. and for long-term consumer loans to 4.1 per cent. in 2012 and to 2.6 per cent. for short-term consumer loans and to 4.5 per cent. for long-term consumer loans in the eight months ended 31 August 2013. The proportion of loans with variable interest rates and their average maturities is nevertheless increasing the risk to the household sector in the event of a rise in interest rates.

Comparatively, in 2011, the average maturity of the stock of long-term consumer loans was unchanged, though 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 again 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. The proportion of new consumer loans with a variable interest rate was down 12 percentage points in 2011.

New housing loans to households amounted to €694 million in 2012, which is 23.3 per cent. lower compared to the same period last year, compared to €905 million in 2011, which was down a quarter on the previous year and the lowest figure in the last six years. The volume of new housing loans decreased to €407 million in the eight months ended 31 August 2013. Loans were predominately approved in domestic currency. However, 17 per cent. of the value of housing loans remains denominated in Swiss francs in 2012. The movement of the euro/Swiss franc exchange rate will therefore remain important for Slovenian households. Conversely, higher risk for households is connected with the variable interest rate, to which 92 per cent. of the value of loans is linked. Consequently, a rise in the EURIBOR will increase the household debt repayment burden in the coming years.

At the end of December 2012, average variable interest rates on housing loans was equal to 2.9 per cent., one percentage point lower compared to the same date the previous year. Variable interest rates on housing loans used to be higher than the Eurozone average, but the difference diminished at the end of 2012. Interest rates on consumer loans declined as well and were, at the end of July 2013, considerably lower than the Eurozone average. The spread over Eurozone interest rates on corporate loans increased to some extent and reached above two percentage points at the end of 2012. At the end of July 2013, interest rates on corporate loans stood at approximately 5.8 per cent. on loans of up to €1 million and at 4.4 per cent. on loans of more than €1 million.

Funding

Banks continued to restructure their funding by making debt repayments on foreign wholesale markets and by increasing funding from the Eurosystem. The proportion of total assets accounted for by bank funding on the wholesale markets had fallen in 2012 by 6 percentage points, to 21 per cent. at the end of 2012, mostly due to the maturing of securities in 2012 and to the unfavourable conditions for financing on wholesale markets. For the eight months ended 31 August 2013, the share of wholesale funding decreased further to 17.2 per cent. of total assets mostly due to net repayments from liabilities to foreign banks. The proportion of total assets accounted for by sources raised at the ECB was up and reached 8.7 per cent. at the end of 2012. Banks partly used the long-term loans raised at the Eurosystem to reduce external debt. The banks continued to reduce their debt at foreign banks by €1,969 billion in 2012, bringing their total external debt down to €7.6 billion at the end of 2012. As of 31 August 2013, banks reduced their debt to foreign banks by €2,226 billion in year-on-year terms to €6.0 billion. This source of funding, however, does not constitute a final resolution in the restructuring of banks' funding sources.

Deposits by the non-banking sector remain the most important source of bank funding. They account for 51.7 per cent. of the banking system's total funding in December 2012, a higher share than at the end of 2011, and for 56.8 per cent. at the end of August 2013. In 2012, the share of deposits by the non-banking sector increased by 1.8 percentage points in comparison to the previous year due to faster contraction of the total banks' assets in comparison to deposits. Year-on-year growth in deposits by the non-banking sector was negative in December at 2.9 per cent. In the sectorial breakdown, the largest decrease was recorded by deposits of non-monetary financial institutions which declined by 13.3 per cent. and government deposits which decreased by 12.7 per cent. Household deposits and deposits by non-financial corporations recorded significantly lower changes, decreases of 0.2 per cent. and 4.5 per cent. respectively. At the end of August 2013, year-on-year growth in deposits by the non-banking sector was 6.1 per cent. In the sector breakdown, the largest increase was recorded in government deposits, which increased by 57.9 per cent. Deposits by non-financial corporations increased by 5.8 per cent., while deposits to households and non-monetary financial institutions decreased by 2.2 per cent. and 16.6 per cent. respectively. In the maturity breakdown, an increase was recorded by demand deposits while both short-term and long-term deposits decreased in

2012. For the eight months ended 31 August 2013 the share of demand deposits remained comparable to that at the end of 2012, however the share of short term deposits increased by 1.9 per cent. to 30.8 per cent. and the share of long term deposits decreased by 1.5 per cent. to 30.6 per cent. Interest rates on household deposits of up to one year again remained below the euro area average in 2012 and decreased slightly to the euro area average of 1.9 per cent. by July 2013, while were above the average for deposits of more than one year as a result of the banks' efforts to secure stable long-term funding.

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

	31 December 2010	*31 December 2011*	*31 December 2012*	*30 September 2013*
		(%)		
Maturity breakdown	100.0	100.0	100.0	100.0
Demand deposits	35.1	35.8	38.7	37.4
Short-term deposits	33.1	30.9	28.9	32.0
Long term deposits	31.8	33.4	32.3	30.6
Sector breakdown	100.0	100.0	100.0	100.0
Non-financial corporations	17.0	15.8	15.6	16.3
Households(1)	62.4	61.7	63.5	58.5
Government	12.8	14.1	12.7	16.8
Other financial institutions	5.4	6.0	5.3	4.6
Foreigners	2.4	2.4	3.0	3.8

Note:

(1) Including non-profit institutions serving households.

Credit Risk

The Slovenian banking system has been exposed to significant credit risk and income risk. Net interest was down 2.9 per cent. in 2011 and 13.2 per cent. in 2012 from the previous year. In September 2013, the deterioration in net interest income was even higher and was down 19.9 per cent. compared to September 2012. Both interest income and expenses decreased but the nominal decrease was greater in interest income compared to interest expenses. 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. Due to a still deteriorating economic environment in 2012, impairments and provision costs increased by 23.0 per cent. in 2012, resulting in a loss of €749 million after taxation. For the nine months ended 30 September 2013, impairments and provision costs increased by 20.0 per cent. (compared to the nine months ended 30 September 2012), resulting in a loss of €567 million after taxation.

At the end of 2012, the share of classified claims with arrears over 90 days was 14.4 per cent. For the nine months ended 30 September 2013, the share of classified claims with arrears over 90 days increased to 17.4 per cent. The share of classified corporate claims with arrears of more than 90 days reached 24.0 per cent. at the end of 2012 and 29.3 per cent. for the nine months ended 30 September 2013.

Liquidity and Capital Adequacy

The liquidity of the banking system remained at a satisfactory level in 2013 as the first bucket liquidity ratio stood at 1.34 at the end of September 2013. The decline in funding via securities issues and international borrowing exposed banks to refinancing risk, which they partly mitigated by borrowing from the Eurosystem. Interest rate risk has slightly increased by the end of March 2013. Banks (especially small banks under majority domestic ownership) are exposed to a rise in interest rates particularly in respect of obligations with maturities of between one and two years.

With respect to regulatory requirements, the banking system maintained satisfactory capital adequacy by the end of June 2013, decreasing slightly, because of a decrease in hybrid instruments. The capital adequacy ratio stood at 11.8 per cent. as at 30 June 2013. The Tier 1 capital ratio decreased by 0.03 per cent. over the same period and stood at 10.2 per cent. The share of total capital in total assets has decreased by 0.24 per cent. in 2013 to 7.9 per cent. at the end of June 2013.

Moreover, the Bank of Slovenia is in the process of implementing the Capital Requirements Directive of the European Commission ("CRD") and CRD IV, following the phase in approach. However, a simplified internal quantitative impact capital study was conducted, assuming full implementation of the Capital Requirements Regulation ("CRR") framework, as at 31 December 2012 (without taking into account transitional arrangements). All banks on a solo or on a consolidated level were part of the exercise. According to the study, capital ratios (without a capital conservation buffer) under the new regulations would have fallen. The majority of the banks would still fulfil the minimum capital ratios, but five would fall below the minimum threshold. When taking into account the requirement of a capital conservation buffer as well, half of the Slovenian banks would have been faced with a capital shortfall. The decline in the capital ratios are mainly attributable to the exclusion of non-eligible instruments (additional Tier 1 and Tier 2 requirements) and the introduction of deferred tax assets as a deductible item. Minor positive effects also arose due to changes in the deduction regime (particularly regarding the treatment of significant investments and threshold exemptions).

Following the quantitative impact capital study, the leverage ratio was calculated. As this is a new ratio, the observation period is expected to run through the beginning of 2017. During this time data will be collected. Basel III determines the minimum leverage ratio at 3 per cent. of Tier 1 capital; however, it will not come into force until 2018. In the calculation of the leverage ratio as at 31 December 2012, all banks and saving banks on a solo basis were included. Taking into account banking data on exposure values and the outcome of the quantitative impact capital study, only one bank would not reach the determined threshold.

In 2011 and 2012, a quantitative impact study exercise regarding the liquidity coverage ratio was performed. The average liquidity coverage ratio for the banking system in the 2011 study was 129 per cent. (the study was performed on a solo basis only), while in 2012 it was 151 per cent. on a solo basis and 163 per cent. on a consolidated basis. The general outcomes of both studies were similar. The group of banks with a liquidity coverage ratio lower than 100 per cent. both times is consistent with that of other EU countries banking group members, which heavily rely on credit facilities provided by a parent institution. According to the CRR this, in principle, is not taken into account when calculating inflows. The group of banks with a very high liquidity coverage ratio consist mainly of small banks with a stable retail basis. According to the CRR, retail deposits are assigned a very low outflow rate. This group of banks is also characterized by a relatively high proportion of liquid assets. Due to the fact that the liquidity coverage requirement will be introduced gradually (by being phased-in, which requires 60 per cent. of the liquidity coverage requirement in 2015 until it is due to reach 100 per cent. in 2018) most of banks already fulfil the required levels with the exception of one to two banks which are members of other EU countries banking groups, for the above mentioned reasons.

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 (€160 million), 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 and Deželna 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 €840 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, €243 million of which 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 CoCo Bond funded by the government (which accounted for €320 million). These measures were effected during the period from 29 June to 2 July 2012. The CoCo Bonds 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 CoCo Bonds) falls to less than 7 per cent. The CoCo Bond solution was supported by the Slovenian banking regulator (and hence the European Banking Authority) as well as the European Commission.

In December 2012, Slovenia and KBC reached an agreement, which enabled Slovenia to take over 22.04 per cent. of KBC's stake in NLB. Slovenia's share in NLB was thereby increased to 86.15 per cent., which will empower Slovenia to control the process of finding new long-term shareholders for NLB in accordance with the decisions taken by the relevant Slovenian authorities.

Due to the high impairments in 2012 the capital adequacy of NLB fell and consequently, in February 2013, the CoCo Bonds converted into equity. Conversion took place at a price of 36.75 euros per share, which was a price that did not constitute state aid according to European Commission requirements. With the conversion of the CoCo Bonds Slovenia increased its share of NLB to 92.45 per cent.

In December 2012, Nova KBM, in which Slovenia is the largest shareholder, successfully completed a project aimed at improving its Core Tier 1 capital ratio to 9 per cent. thus meeting the requirements of the EBA to strengthen its capital position. The enhanced capital base will enable Nova KBM to ensure long-term stability of its operations. The project consisted of a number of interdependent and complex activities that were carried out in coordination between the Government of the Republic of Slovenia, the Bank of Slovenia and the bank itself. These activities included the sale of the bank's 51 per cent. shareholding in Zavarovalnica Maribor, a redemption/conversion of subordinated instruments, and the raising of a new hybrid loan. The Government of the Republic of Slovenia contributed a hybrid loan of €100 million with a fixed interest rate of 10 per cent. *per annum*. In April 2013 NKBM converted the €100 million hybrid loan (CoCo) into equity, which was contributed by Slovenia in late 2012. With the conversion Slovenia's share will increase to about 79 per cent. Currently, the banking sector is exposed to 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. The recapitalization needs for the three largest banks, NLB, Nova KBM and Abanka Vipa d.d. is estimated at €1.2 billion in the 2013 budget. The government has the flexibility to raise an additional €1 billion if needed, and the 2014 budget takes a similar approach. 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, 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 – Reforms Related to Pensions, Government Privatisation and Labour Market and Referendum Rules"*.

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.

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 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.

In December 2012, the Banking Act was amended again increasing the legal powers of Bank of Slovenia to solve issues faced by the banking system under adverse financial conditions through granting resolution power and other measures.

The Banking Act enforces the powers of the Bank of Slovenia to take action within the framework of its supervisory competence, in case of identified violations in a bank or an identified likelihood of violations that might arise in the field of risk management and capital adequacy. The Act enables the supervisor to eliminate any negative impacts and potential violations in an individual bank with preventive measures.

The Banking Act amends the legal basis for extraordinary measures, however, the arrangement of a transfer of assets of a bank to the acquirer is additionally proposed as a new extraordinary measure. These measures are suitable if the stability of the financial system is at stake or if banks lose the confidence of their depositors and investors and would therefore need a special arrangement with regard to strengthening their capital. Extraordinary measures in the amended Act include: (i) the appointment of a bank's extraordinary management board; (ii) compulsory disposal of shares of a bank for the account of existing shareholders; (iii) the increase in the initial capital of a bank pursuant to a decision by the Bank of Slovenia; and (iv) the measure of a transfer of assets of a bank to an acquirer.

The Banking Act includes a provision that enables the Bank of Slovenia to prohibit a bank's supervisory board member from performing their function if they have been found to violate the duties of a supervisory board member or when a supervisory board member fails to meet the conditions for the appointment.

The Banking Act lays down exceptions from the application of the Takeovers Act regarding the banking system. These exceptions are necessary for the smooth implementation of the above mentioned supervision measures by the Bank of Slovenia.

In July 2013, the Banking Act was amended. The Ficod1 Directive was adopted, which amends the CRD directive as regards the supplementary supervision of financial entities in a financial conglomerate. The Ficod1 Directive and its implementation under the Banking Act stipulates that supervisors can simultaneously apply banking consolidated supervision, insurance group supervision and supplementary supervision at the level of the same parent entity, in case that parent is a holding company. In addition the changes relate to the application of conglomerate supervision, to ensure that it supplements but does not substitute sectoral supervision when a group is headed by a financial or insurance holding company.

The new amendments also address the need for burden-sharing of hybrid and subordinated instruments. The new extraordinary supervisory measure may be used by the Bank of Slovenia for providing the necessary capital to achieve capital adequacy. The measure applies to the write-off or conversion of qualified obligations, which can be used when it is unlikely to achieve short- and long-term capital adequacy or liquidity positions with other measures. The use of the extraordinary measure shall be in the public interest to prevent a threat to the stability of the financial system.

The qualified obligations are obligations to shareholders from the paid-up share capital, obligations to holders of financial instruments which are included in the basic or additional capital, as well as the obligations to creditors, which would be due in the event of bankruptcy after ordinary claims were paid.

It is planned that the amendments to the Banking Act will be applicable by the end of November 2013.

Measures to Strengthen the Stability of the Banking Sector Act

Establishment and Operation of the BAMC

The economic crisis that initially affected mainly the economic sector spread to the banking sector in 2011 and 2012. The country's credit rating and the credit ratings of banks were downgraded. Consequently, it was difficult for banks to obtain funding in the interbank and international markets and the new funding they could obtain became more expensive. In both years, banks' foreign liabilities came due and were renewed on a smaller scale, resulting in a contraction of total assets. At the same time the ability of debtors to settle their obligations decreased. As a result, banks reduced exposures to corporations and reduced their lending activity, which had a negative impact on profit. Additionally, the operations of banks were also affected by a fall in the prices of government securities and real estate.

Accordingly, steps to rehabilitate the banking sector were deemed essential. On 3 October 2012, the National Assembly adopted the Stability of the Banking Sector Act (the "ZUKSB"). Subsequently, the law was voted on by the National Council and returned to the National Assembly for a subsequent vote which required 46 affirmative votes to pass. On 23 October 2012, the National Assembly confirmed the law. Subsequently, trade unions representing employees in the chemical sector filed a referendum initiative. On 19 December 2012, the Constitutional Court reached a verdict on the referendum initiative and ruled that the suspension of the implementation of the act by referendum would be unconstitutional. The law was published on 27 December 2012 and entered into force the next day.

On 6 February 2013, the Government appointed four Non-Executive Directors to the board of the BAMC who have been tasked with appointing executive directors to the board. As of 31 October 2013, three acting executive directors have been appointed. The final step for legal establishment of the BAMC was the decision of the registry court, which was adopted on 19 March 2013.

The purpose of the law is to deal with non-performing loans and distressed assets on banks' balance sheets. Under this new law, the BAMC was 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 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 for obligations of the special purpose vehicles set up by the banks to assume certain of their risks and for obligations the banks incurred from measures that were taken to ensure emergency liquidity assistance from the Bank of Slovenia; and (iii) increasing the share capital of banks and the subscription and purchase of instruments eligible for inclusion into the regulatory capital of the banks. The use of measures may be proposed by (i) the BAMC on its own initiative, (ii) a bank itself, or (iii) the Bank of Slovenia. The main objective of the BAMC is to maximise the value of assets and liquidate the investments in a timely manner.

In accordance with the provisions of the law, the Ministry of Finance and the Bank of Slovenia, with technical assistance from the European Commission, the European Central Bank and the

International Monetary Fund, prepared a comprehensive implementing act (the "BAMC Regulation"). The BAMC Regulation provides the criteria and conditions which banks have to meet in order to qualify for the determination and implementation of particular measures according to the Stability of the Banking Sector Act. The BAMC Regulation was enacted by the Government on 13 March 2013.

The BAMC was implemented using a country-wide approach. The assets are valued based on a methodology verified by the European Commission. This methodology for valuation uses the real long-term economic value of assets as a basis, which is initially valued by the respective bank and subsequently confirmed by independent authorised auditors appointed by the BAMC.

Asset Quality Review ("AQR") and Stress Tests

Prior to the implementation of measures to guarantee the stability of the banks, in accordance with the recommendations of the European Council published in June 2013, the Bank of Slovenia, in cooperation with the Ministry of Finance, ordered an AQR of the banking system and the implementation of "bottom-up" stress tests. The AQR will audit the three systemically important banks (NLB, Nova KBM and Abanka) as well as Banka Celje, Gorenjska banka, Probanka, Factor banka, UniCredit Bank Slovenia, Hypo Alpe Adria Bank and Raiffeisen Bank. The banks are divided into three categories: the banks entitled to rely on state aid measures for recapitalisation; banks for which any shortfall will by covered by each bank's "parent" company; and banks for which any shortfall will be covered by existing shareholders. The Bank of Slovenia nominated Oliver Wyman to conduct the stress tests and Deloitte Touche Tohmatsu Limited and Ernst & Young to carry out the AQR. Valuation of real estate for the purpose of the stress tests and AQR will be conducted by several independent real estate appraisers. This approach is intended to increase confidence in Slovenia's financial markets, while also avoiding some of the issues which arose in the context of previous capital increases by state-owned banks. Slovenia expects that the results of the AQR and the results of the stress tests will be announced in December 2013. The AQR/stress test exercise is managed by a steering committee comprising the Bank of Slovenia and the Ministry of Finance with the European Commission, the European Central Bank and the European Banking Authority acting as observers. The steering committee discusses the methodological issues underpinning the exercise and ensures there is consistency across similar exercises being undertaken in other EU Member States.

Review of the AQR includes verifying the completeness and integrity of data, review of individual loans and the value of collateral and the identification of impairment deficiency. The objective of the stress test is an assessment of potential capital needs in the baseline scenario (more favourable) and adverse scenario (i.e. scenario of greatly increased macroeconomic imbalances) for the three-year period from 2013 to 2015.

As of November 2013, after assessing the three systemically important banks, NLB, Nova KBM and Abanka, the Government decided that they are suitable for the implementation of measures under the ZUKSB. The measures will be implemented as soon as the test results of the AQR and stress tests are known and aid is granted by the European Commission. Following the publication of the results of the AQR and the stress tests, other banks may submit to the initiative for state aid as well.

Upon the decision of the Government of Slovenia to approve the aforementioned banks as eligible for the implementation of measures under the ZUKSB, the BAMC acquired the power to initiate measures to strengthen the stability of the banks. The BAMC will review the valuation of assets, align business strategy with banks, provide funding and carry out other necessary actions to prepare a more detailed proposal regarding the implementation of the measures. This will be the basis for the proposal of the interministerial committee to the government to determine the type and number of measures needed to be implemented at each bank.

NLB and Nova KBM are expected to participate in the Europe-wide AQR planned for 2014. As of 11 November 2013, it is not yet determined whether Abanka will participate in the review. Factor banka and Probanka are not expected to participate.

Factor banka and Probanka Recapitalisations

Under the new European Commission rules on state aid, Member States are required to encourage the exit of failed banks from the market. Whenever a bank is unable to establish long-term successful viability, it is necessary to carry out a liquidation. The process must be carried out in a manner that preserves financial stability. The European Commission recognises that credit institutions cannot be liquidated by conventional methods, so in such cases it authorises state aid.

On 6 September 2013, the Government, on the initiative of the Bank of Slovenia, adopted two measures under the ZUKSB to strengthen Factor banka and Probanka, two of Slovenia's systemically important banks. The Government guaranteed ELA provided by the Bank of Slovenia (providing government guarantees in the amount of €490 million for Probanka and €540 million for Factor banka) and it pledged to recapitalise both banks if their solvency was threatened in order to protect the overall financial stability of the country. This is expected to enable uninterrupted liquidity and compliance with creditor obligations. It is possible that the cost of recapitalisation will be higher than anticipated (previously estimated at €400 million). These measures tie in with the European Commission's Recovery and Restructuring Directive and are in line with the state aid rules, which introduce partial bail-ins.

In the event of the insolvency of Factor banka or Probanka, the financial stability of the Republic of Slovenia would be jeopardised. Due to the interdependency of the two banks and the other financial institutions in the Republic of Slovenia, the bankruptcy of these banks would affect other financial institutions in Slovenia thereby reducing liquidity and capital levels. The simultaneous cessation of the two banks' critical functions (e.g. payment services) would further strain the Slovenian economy and undermine financial stability.

In accordance with the EU rules on the prohibition of monetary financing, the Bank of Slovenia may approve ELA only to a solvent bank. Therefore the recapitalisation of Factor banka and Probanka is necessary to provide positive equity. The Bank of Slovenia expects that in the process of a controlled winding up of the banks, recapitalisation will be required due to estimated additional impairments. The recapitalisation is expected to provide the positive capital for the approval of ELA if needed. The cost of the recapitalisation of Factor banka is expected to be €249 million and the cost of the recapitalisation of Probanka is expected to be €151 million.

The recapitalisation of the banks will be carried out by converting the existing deposits of the Republic of Slovenia in the banks, and, if necessary, by the Republic of Slovenia making payments on the instruments used in the calculation of capital. The direct obligations of Factor banka to the Government amount to €157 million. The direct obligations of Probanka to the Government amount to €210 million.

The Bank of Slovenia, concurrently with the measures of the Government, appointed an extraordinary management board for Factor banka and Probanka with a mandate to draw up a plan for their controlled winding up. The aim of the controlled winding up is the gradual sale of assets of the two banks, resulting in repayment of all ordinary creditors. Controlled cessation of operations will be carried out in a way that the Republic of Slovenia guarantees the Bank of Slovenia's provision of liquidity to the banks in the amount of €490 million for Probanka and €540 million for Factor banka, which will allow the two banks sufficient liquidity for continued operations and normal fulfilment of obligations to ordinary creditors.

The precise dynamics of the recapitalisations and possible payment of the government guarantees will be known when the liquidation plan is adopted. In accordance with the agreement between the Bank of Slovenia and the two banks, a realisation of the government guarantee will occur after the maturity of the loan within two to three years.

The cost of cessation of business will primarily affect the owners of the two banks and secondarily affect the holders of subordinated and hybrid financial instruments. In the event that the assets of the banks, which will be gradually sold, are not sufficient to repay the ordinary creditors, the Republic of Slovenia will provide funds through a recapitalisation in the amount required to repay the ordinary creditors. The Republic of Slovenia will not provide funds for the repayment of liabilities to shareholders arising from paid-up shares or creditors from hybrid and subordinated financial instruments.

The Ministry of Finance anticipates amendments to the ZUKSB, which will extend the life of the BAMC, (which is currently five years), allowing the entry of other owners into the BAMC and removing the provision requiring the BAMC to sell at least 10 per cent. of its portfolio of assets per year. See *"Risk Factors – The BAMC may be delayed or unsuccessful in acquiring distressed assets and any such delay or failure may adversely affect Slovenia's economy"*.

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. All banks and savings banks registered in Slovenia are required to contribute to the scheme.

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

Under the current law, payout under the deposit insurance scheme is triggered when the institution is placed into bankruptcy.

In the event of bankruptcy proceedings being initiated against a bank or savings institution, the guaranteed deposits are to be paid out to depositors within 20 (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 revoke a 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 2013 despite increasing credit and capital risk. The share of total capital in total assets was also favourable. The capital adequacy ratio stood at 11.8 per cent. as at 30 June 2013, a decrease of 0.11 per cent. from 31 December 2012. The Tier 1 capital ratio decreased by 0.03 percentage points over the same period to stand at 10.2 per cent.

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

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

Liquidity

The Bank of Slovenia 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 April 2012) 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 2008 to 30 September 2013.

	As at 31 December								
	2008			*2009*			*2010*		
	Classified assets	*Impairments*	*Coverage claims by impairments*	*Classified assets*	*Impairments*	*Coverage claims by impairments*	*Classified assets*	*Impairments*	*Coverage claims by impairments*
				(€ millions, except percentages)					
Category[1]	Structure (%)			Structure (%)			Structure (%)		
A	74.2	8.9	0.4	70.5	7.1	0.4	70.6	5.7	0.4
B	22.9	34.5	4.6	24.7	30.7	4.6	21.4	19.8	4.5
C	1.1	8.7	24.8	2.6	16.2	23.3	4.4	22.4	25.0
D	1.0	20.8	62.4	1.5	24.8	62.9	2.9	35.6	60.08
E	0.8	27.2	100.0	0.8	21.3	100.00	0.8	16.3	100.0
Total	**46,664**	**1,408**	**3.0%**	**49,257**	**1,823**	**3.7%**	**49,766**	**2,420**	**4.9%**

	As at 31 December 2011			*As at 31 December 2012*			*As at 30 September 2013*		
	Classified assets	*Impairments*	*Coverage claims by impairments*	*Classified assets*	*Impairments*	*Coverage claims by impairments*	*Classified assets*	*Impairments*	*Coverage claims by impairments*
				(€ millions, except percentages)					
Category[1]	Structure (%)			Structure (%)			Structure (%)		
A	66.0	3.3	0.3	57.3	2.0	0.3	55,7	1,5	0.3
B	22.7	14.6	4.2	28.1	12.4	3.89	26,8	10,8	4.2
C	5.1	20.9	26.8	5.6	17.2	26,9	7,4	19,6	27.5
D	5.5	50.6	60.4	8.2	59,9	63.6	9,1	57,7	65.9
E	0.7	10.6	100.0	0.7	8.54	100.0	1,1	10,5	100.0
Total	**49,467**	**3,249**	**6.6%**	**47,876**	**4,170**	**8.7%**	**45,891**	**4,761**	**10.4%**

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, 2012 and through the first three quarters of 2013. 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 and 2012 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 85.5 per cent. as at 31 December 2012, down 11.6 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. and had risen to 8.9 per cent. by 31 December 2012 and to 10.2 per cent. in September 2013. Impairment and provisioning costs have risen at an annual rate of just over 30 per cent. in 2010 and 2011, but slightly slowed down with 28.4 per cent. in 2012 and with 23.3 per cent. by 30 September 2013. They stood at €4.2 billion at 31 December 2012 (€4.8 billion at 30 September 2013), including €2.9 billion non-performing claims coverage (€3.2 billion at 30 September 2013), while the coverage of all classified claims by impairments increased from 6.6 to 8.7 per cent. (7.9 to 10.4 per cent. by 30 September 2013).

In 2012, the total non-performing claims collateral coverage stood at €6.3 billion and by September 2013 it stood at €7.4 billion. In addition, the proportion of non-performing bank loans, defined as loans more than 90 days in arrears, is also monitored. Non-performing loans rose to 11.2 per cent. of total loans at the end of 2011,14.4 per cent. at the end of 2012 and 16.9 per cent. at 31 August 2013.

Coverage, Funding and Non-performing Loans

In September 2013, the coverage of loans to the non-banking sector by deposits by the non-banking sector stood at 98.4 per cent. at the large domestic banks, at 100 per cent. at the small domestic banks, while the figure at the banks under majority foreign ownership was 68 per cent., compared to the end of 2012, when it stood at 88 per cent. at the large domestic banks, 92.8 per cent. at the small domestic banks and at 57 per cent. in the banks under majority foreign ownership. In September 2013, the coverage of loans by foreign bank funding was 14.2 per cent. at the large domestic banks, and 33.3 per cent. at the banks under majority foreign ownership, compared to December 2012 when it was 18.6 per cent. at the large domestic banks, but at nearly 40 per cent. at the banks under majority foreign ownership. The coverage of loans by issued securities was at 9.9 per cent. at the large domestic banks for the nine months ended 30 September 2013 compared to 11.5 per cent. in December 2012, owing to the repurchase of bonds by certain banks, and stood at 7.1 per cent. at the small domestic banks compared to 9 per cent. in December 2012.

The banks' average funding costs stood at 4.51 per cent. in February 2013, compared to 3.4 per cent. at the end of 2011. Funding costs rose due to higher costs of capital, however the falling market interest rates and a change in the structure of bank funding have decreased the average costs of bank debt financing.

Equity is the most expensive form of funding, the average costs reaching 22 per cent. at the end of 2012 compared to 13.9 per cent. in December 2011. The costs of equity have risen since the beginning of 2011 to stand at 22 per cent. in December 2012 as the result of a fall in share prices. The average cost of debt financing fell by 0.4 percentage points to 1.86 per cent. in February 2013. At 3.5 per cent. the most expensive form of debt financing remained the issue of securities, followed by funding via deposits by the non-banking sector at 2.0 per cent., and funding raised at foreign banks at 1.26 per cent. The costs of Eurosystem sources remain below 1 per cent. The decrease in average costs of funding via deposits by the non-banking sector and liabilities to foreign banks amounted to 0.1 per cent. and 0.5 per cent., respectively, from June 2012 until February 2013, however the marginal costs via liabilities to foreign banks increased from 0.9 per cent. in June 2012 to 2.0 per cent. in February 2013, the main factor in the increase in the latter being a rise in the risk premium.

The proportion of non-performing bank claims, defined as claims more than 90 days in arrears, rose by 2.5 per cent. to 16.9 per cent. for the eight months ended 31 August 2013. 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 rose to 28 per cent. for the eight months ended 31 August 2013. Non-performing loans to corporates in the construction sector constituted 64.5 per cent. of all loans by corporates in this sector and were up by 3.6 per cent. compared to the end of 2012. Non-performing claims have also continued to increase rapidly for the eight months ended 31 August 2013 in the accommodation and food service activities sector (37 per cent.) and the financial and insurance activites sector (51.5 per cent.). Corporates in the information and communication activites sector have 31 per cent. of their claims classified as non-performing.

The level of non-performing claims in non-monetary financial institutions (such as insurers, pension funds, investment funds and leasing companies) remained high for the eight months ended 31 August 2013 at 27.2 per cent.

Households represent one of the banks' least risky client segments. The proportion of households' claims settled more than 90 days in arrears stood at 3.8 per cent. at the end of 2012, a year-on-year increase of 0.3 per cent.

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 first amended on 1 May 2010 in order to partially adopt Directive 2009/44/EC of the European Parliament and of the Council of 6 May 2009 amending Directive 98/26/EC on settlement finality in payment and securities settlement systems and Directive 2002/47/EC on financial collateral arrangements as regards linked systems and credit claims and Directive 2009/111/EC of the European Parliament and of the Council of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management. The PSS Act was next amended on 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 PPS Act was last amended on 19 May 2012 in order to adopt Directive 2010/78/EU of the European Parliament and of the Council of 24 November 2009 amending Directive 98/26/EC on settlement finality in payment and securities settlement systems. The PSS Act provides a comprehensive legal framework governing the provision of payment services, prudential requirements for payment institutions and electronic money institutions, resolution of disputes relating to provision of payment services or issuance and use of electronic money, as well as the terms and conditions for the operation of payment systems and supervision of the payment system operators. 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 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 objectives of the central supervisory institution in the insurance area are mitigating and eliminating irregularities in insurance; protecting policyholders' interests; and facilitating the functioning of the insurance industry, which in turn has a positive impact on the entire economy. The ISA is a legal entity and is independent in implementing its tasks and responsibilities. It is accountable to the National Assembly, however it has its own rules of procedure stipulating in detail its internal organisation and operation. The annual accounts and the financial plan of the ISA are approved by the 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.

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. 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.

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 compete 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 (amended in 2008, 2009, 2010, 2011, 2012 and 2013).

The Market in Financial Instruments Act establishes regulations for the offering of securities to the public and the admission of securities to trade in a regulated market. It also establishes regulations concerning disclosure of information related to the securities admitted to trade on a regulated market as well as the terms and conditions for founding, operating, supervising and winding-up investment firms, market operators and settlement systems with a registered office in 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 to reflect changes in international trade of securities. 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. The last amendment reflected changes due to the EU's Settlement Finality Directive (2009/44/EC) and the introduction of matching with emphasis on Target 2 Securities initiative.

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 Book Entry Securities 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 securities 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 2010 to 2012:

	Year ended 31 December		
	2010	*2011*	*2012*
		(€ billions)	
Market capitalisation (€ billions)	20.22	19.33	17.66
Market capitalisation IF (€ billions)	0.27	0.02	—
Share of market capitalisation in GDP (%)	57.2	54.7	—
SBI TOP (the Slovenian blue chip index)	850.35	589.58	635.51
Number of financial instruments	158	139	124
Shares	75	68	63
of which (P) IC Shares	2	0	1
Investment coupons MF	4	1	1
Bonds	79	70	60
Turnover (€ billions)	0.49	0.47	0.36
Share of turnover in GDP (%)	1.4	1.3	—
Share turnover ratio	0.05	0.08	—
Bond turnover ratio	0.01	0.004	0.00
Turnover ratio of shares in PFs/ICs/Ifs	0.09	0.8	—
Number of authorised participants	25	25	22
Investment firms	9	9	6
Banks	16	16	16

Source: Security Market Agency.

The number of long-term financial instruments traded on the LjSE fell from 158 in 2010 to a total of 124 in 2012.

Trading in financial instruments on the LjSE reached around €360 million in 2012, almost 27 per cent. less than in 2010. Contrary to stock exchange indices on foreign markets in financial instruments, the Slovenian blue-chip index SBI TOP was, in 2012, down by 25 per cent. in nominal terms compared to 2010, equalling 635.51 points.

Due to lower turnover, the share turnover ratio was 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 0.004 in 2011 to 0.00 in 2012, while the turnover ratio for shares in Investment Funds increased from 0.09 in 2010 and to 0.8 in 2011.

Market capitalisation of financial instruments on the LjSE amounted to €17.66 billion at the end of 2012 (Investment Funds excluded), which is a decrease of 8.6 per cent. over December 2011.

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		
	2010	*2011*	*2012*
		(€ billions)	
Shares	0.36	0.39	0.30
Bonds	0.11	0.06	0.05
Investment Funds	0.02	0.02	—
Pension coupons	—	—	—
Long-term financial instruments	0.49	0.47	0.36
Short-term financial instruments	—	—	—
Total	0.49	0.47	0.36

Source: Security Market Agency.

The volume of trading in financial instruments on the regulated market has fallen by almost 27 per cent. in the last three years. The volume of trading in shares of public companies was down by 16.7 per cent. in 2012 compared to 2010, while the volume of trading in bonds dropped by 54.5 per cent.

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

	Year ended 31 December					
	2010	*Share (%)*	*2011*	*Share (%)*	*2012*	*Share (%)*
			(€ millions, except percentage)			
Share market	7,027.89	34.31	4,872.81	25.18	4,911.17	27.80
First listing	4,713.90	23.01	3,696.05	19.10	3,911.72	22.59
Standard listing	1,498.48	7.31	578.19	2.99	317,84	1.79
Entry market	815.51	3.98	598.57	3.09	601.61	3.40
Bond market	13,192.76	64.40	14,459.25	74.72	12,735.68	72.10
Investment fund market	265.33	1.30	20.02	0.10	16.85	0.09
Investment coupon market	106.78	0.52	20.02	0.10	16.85	0.09
IC share market	158.55	0.77	—	—	—	—
Total	20,485.98	100.00	19,352.08	100.00	17,663.70	100.0

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 €17.66 billion at the end of 2012, which is 13.8 per cent. less than in December 2010, when the figure was almost €20.49 billion. Total market capitalisation of all shares on the stock exchange (excluding Investment Funds) stood at €4.91 billion at the end of December 2012, which was 30.1 per cent. less than at the end of December 2010. Total market capitalisation of bonds stood at almost €12.74 billion at the end of December 2012, down 3.5 per cent. from 2010, when it amounted to €13.2 billion.

Bankruptcy Law

The Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (the ''Bankruptcy Act'') serves to transpose into Slovenian law 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.

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 2012 and for the eight months ended 31 August 2012 and 2013:

	As at 31 December						*As at 31 August*	
	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2012*	*2013*
	(amounts in EUR millions)							
Current account	**(1,440.7)**	**(2,028.3)**	**(172.5)**	**(49.9)**	**146.1**	**1,159.3**	**477.0**	**1,596.2**
Goods	**(1,456.1)**	**(2,144.0)**	**(440.5)**	**(830.5)**	**(956.9)**	**(109.7)**	**(218.6)**	**541.6**
Export of goods (fob)	20,021.6	20,528.9	16,585.4	18,973.3	21,449.9	21,631.1	14,358.7	14,563.6
Import of goods (fob)	(21,477.8)	(22,672.9)	(17,025.9)	(19,803.8)	(22,406.8)	(21,740.8)	(14,577.3)	(14,022.0)
Services	**1,047.4**	**1,428.0**	**1,165.2**	**1,280.7**	**1,476.1**	**1,803.3**	**1,197.0**	**1,420.3**
Export of services	4,145.2	4,951.7	4,333.3	4,592.8	4,841.6	5,166.3	3,379.2	3,555.3
Import of services	(3,097.9)	(3,523.7)	(3,168.0)	(3,312.1)	(3,365.5)	(3,363.0)	(2,182.2)	(2,135.0)
Income	**(788.5)**	**(1,029.9)**	**(723.7)**	**(588.5)**	**(523.9)**	**(552.1)**	**(454.2)**	**(215.7)**
Receipts	1,168.9	1,262.0	682.8	583.2	936.2	699.1	429.0	609.8
Expenditure	(1,957.4)	(2,291.9)	(1,406.5)	(1,171.6)	(1,460.1)	(1,251.2)	(883.2)	(825.6)
Current transfers	**(243.5)**	**(282.3)**	**(173.6)**	**88.3**	**150.8**	**17.9**	**(47.2)**	**(150.0)**
In Slovenia	941.0	893.4	981.8	1,231.2	1,404.1	1,409.9	910.8	878.2
Abroad	(1,184.5)	(1,175.7)	(1,155.4)	(1,142.9)	(1,253.2)	(1,392.0)	(958.0)	(1,028.2)
Capital and financial account	**1,919.7**	**2,592.8**	**162.2**	**529.8**	**(473.7)**	**(1,206.2)**	**(480.3)**	**(2,377.1)**
Capital account	(51.9)	(29.7)	9.4	53.7	(85.0)	(91.9)	(13.3)	(53.9)
Financial account	**1,971.5**	**2,622.5**	**152.8**	**476.1**	**(388.7)**	**(1,114.3)**	**(467.0)**	**(2,323.1)**
Direct investment	**(255.9)**	**327.4**	**(662.9)**	**428.2**	**633.1**	**165.8**	**303.0**	**(641.5)**
Abroad	(1,362.3)	(1,002.1)	(188.9)	156.4	(84.6)	212.0	223.8	(48.2)
In Slovenia	1,106.4	1,329.5	(474.1)	271.8	717.7	(46.3)	792	(593.4)
Portfolio investment	**(2,255.4)**	**572.2**	**4,627.6**	**1,955.7**	**1,838.8**	**(217.8)**	**(1,595.2)**	**1,930.9**
Abroad	(3,310.7)	(40.6)	74.3	(375.2)	13.1	136.0	236.3	138.8
In Slovenia	1,055.4	612.8	4,553.3	2,331.0	1,825.7	(353.9)	(1,831.5)	1,792.1
Financial derivatives	**(15.2)**	**46.0**	**(2,0)**	**(116.8)**	**(155.4)**	**(203.2)**	**(55.6)**	**(343.9)**
Other investment	**4,358.4**	**1,655.9**	**(3,977.0)**	**(1,809.9)**	**(2,777.2)**	**(890.2)**	**892.1**	**(3,237.3)**
Assets	**(4,695.5)**	**(322.1)**	**(271.5)**	**779.1**	**(1,489.8)**	**(1,474.3)**	**(1,291.4)**	**(1,870.2)**
Commercial credits	(399.6)	(142.3)	419.1	(173.7)	(48.6)	65.4	(208.7)	(234.6)
Loans	(1,895.1)	(324.6)	(0.7)	202.8	(54.6)	(318.5)	(1.0)	(69.3)
Currency and deposits	(2,408.0)	140.5	(610.1)	668.6	(1,341.0)	(1,176.7)	(1,161.3)	(1,493.8)
Other assets	7.2	4.3	(79.7)	81.5	(45.7)	(44.5)	79.5	(72.5)
Liabilities	**9,053.9**	**1,977.9**	**(3,705.5)**	**(2,589.0)**	**(1,287.4)**	**584.1**	**2,183.5**	**(1,367.1)**
Commercial credits	499.4	(73.0)	(449.9)	362.0	106.8	264.5	144.8	(464.4)
Loans	3,841.1	1,868.6	(2,910.5)	(985.8)	(1,234.2)	(729.4)	(489.5)	637.4
Deposits	4,726.7	189.8	(318.0)	(1,953.7)	(169.1)	1,026.2	2,538.6	(1,518.8)
Other liabilities	(13.2)	(7.5)	(27.1)	(11.4)	9.2	22.8	(10.3)	(21.2)
Reserve assets	**139.6**	**21.0**	**167.2**	**18.8**	**72.0**	**31.2**	**(11.3)**	**(31.4)**
Net errors and omissions	(478.9)	(564.5)	10.3	(479.8)	327.6	46.8	3.3	780.8

Source: Bank of Slovenia

Current Account

In the period from 2007 to 2012, the current account position moved from a deficit of €1,440.7 million (4.16 per cent. of GDP) in 2007 to a surplus of €1,159.3 million in 2012 (3.28 per cent. of GDP). 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 and went into surplus in 2012. 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 and goods. 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, 2011 and 2012. The change in current transfers was the result of more extensive usage of EU funds.

The surplus increased in 2013. For the eight months ended 31 August 2013, the surplus amounted to €1,596.2 million, compared to €477.0 million in the eight months ended 31 August 2012. The main reason for the increase in 2013 was the change from deficit to surplus in the goods account. For the eight months ended 31 August 2013 the exports of goods increased by 1.43 per cent. compared to the same period in 2012, while the imports of goods decreased by 3.91 per cent.

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, 75 per cent. in 2012 and 74 per cent. for the eight months ended 31 August 2013. On the debit side, its share was 77 per cent. in 2007, 78 per cent. in 2012 and 78 per cent. for the eight months ended 31 August 2013. Slovenia's foreign trade is predominantly linked to EU countries, followed by the countries of the former SFRY. Over the past seven years, Slovenia has steadily increased its market share of exports into EU countries.

Exports increased in the eight months ended 31 August 2013 by 1.43 per cent. compared to the same period of 2012, while imports decreased by 3.81 per cent. in the same period. In 2012 exports of goods increased by 0.85 per cent. compared to 2011, while imports decreased by 2.97 per cent. This compares to an increase of both exports and imports in 2011 compared to 2010 (13.05 per cent. for exports of goods; 13.14 per cent. for imports of goods). A similar increase occurred in 2010 compared to 2009. Exports of goods declined in 2009 compared to 2008 as a result of the global financial crisis (19.21 per cent. for exports of goods; 24.91 per cent. for imports of goods). In total, from 2007 to 2012, exports of goods increased by 8.04 per cent. while imports of goods increased by 1.22 per cent.

Imports and Exports of Goods by Region

The geographical breakdown of Slovenian foreign trade has been relatively stable over the last four years. In 2012, EU countries represented 75.3 per cent. of total exports and 80.3 per cent. of total imports. In the eight months ended 31 August 2013 the share of EU countries was pretty much the same, being 75.1 per cent. on the export side and 79.1 per cent. on the import side. Among EU countries, Germany is Slovenia's most significant trading partner, followed by Italy, Austria and Croatia. Serbia and Russia are also important partners.

The following tables set out the shares of imports and exports of goods by region as at 31 December 2009 to 2012 and for the eight months ended 31 August 2012 and 2013:

	As at 31 December				*As at 31 August*	
	2009	*2010*	*2011*	*2012*	*2012*	*2013*
Export of goods (fob)						
EU	69.6	71.2	78.0	75.3	75.7	75.1
of which:						
Austria	8.1	8.4	7.9	8.7	8.7	8.9
Italy	11.6	12.1	13.1	11.4	11.3	11.6
Germany	19.5	19.5	18.5	21.0	21.4	20.7
France	8.4	8.0	6.5	5.4	5.5	5.4
Hungary	3.0	3.1	3.4	2.8	2.8	3.0
Netherlands	1.6	2.0	1.6	1.9	2.0	1.6
Czech Republic	2.4	2.4	2.5	2.7	2.5	2.8
United Kingdom	2.3	2.4	2.7	2.2	2.2	2.0
Croatia	7.7	6.7	8.1	6.3	6.5	6.3
Serbia	4.0	3.6	3.5	3.4	3.4	3.3
Russia	3.2	3.2	3.6	4.4	4.2	4.8
China	0.4	0.5	0.3	0.6	0.6	0.6
USA	1.3	1.5	1.7	1.6	1.6	1.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Bank of Slovenia

	As at 31 December				*As at 31 August*	
	2009	*2010*	*2011*	*2012*	*2012*	*2013*
Import of goods (fob)						
EU	78.5	77.0	82.9	80.3	80.3	79.1
of which:						
Austria	13.2	12.1	12.8	11.7	11.6	11.7
Italy	17.6	17.6	18.1	18.4	18.5	16.3
Germany	18.3	18.5	19.3	18.6	18.9	18.6
France	5.5	5.6	5.5	4.6	4.9	3.7
Hungary	3.8	4.0	3.4	4.5	4.3	4.6
Netherlands	3.3	3.2	3.5	3.0	3.0	3.0
Czech Republic	2.5	2.5	2.3	2.5	2.5	2.5
United Kingdom	1.3	1.3	1.8	1.4	1.4	1.9
Croatia	3.7	3.9	4.0	4.2	4.0	4.6
Serbia	1.5	1.8	1.7	1.6	1.7	1.8
Russia	1.2	1.5	2.2	1.7	1.7	2.2
China	2.1	2.5	1.6	2.8	2.7	2.6
USA	1.9	1.3	1.3	1.3	1.7	1.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Bank of Slovenia

The following table sets out the amounts of imports and exports by region as at 31 December 2009 to 2012 and for the eight months ended 31 August 2012 and 2013:

	As at 31 December				*As at 31 August*	
	2009	*2010*	*2011*	*2012*	*2012*	*2013*
			(amounts in EUR millions)			
Exports of goods (fob)						
EU 28	12,721.7	14,628.1	16,559.4	16,285.2	10,872.9	10,944.2
of which:						
Austria	1,331.3	1,583.0	1,732.8	1,886.0	1,249.9	1,296.1
Italy	1,897.9	2,272.3	2,524.3	2,463.2	1,629.4	1,682.1
Germany	3,199.2	3,659.1	4,450.7	4,542.9	3,071.4	3,011.2
France	1,371.4	1,492.7	1,421.9	1,170.9	786.3	785.9
Hungary	495.1	584.0	664.8	612.5	406.5	436.3
Netherlands	255.2	366.7	440.7	418.8	287.7	237.1
Czech Republic	393.6	441.0	528.8	591.6	362.6	406.7
United Kingdom	381.3	453.4	500.6	465.2	320.6	293.2
Croatia	1,295.2	1,277.4	1,439.5	1,367.2	927.7	924.3
Serbia	583.3	616.0	632.5	746.1	488.1	485.0
Russia	554.2	631.1	780.1	953.3	599.2	695.6
China	80.4	102.5	99.4	136.4	86.0	88.4
USA	216.2	296.7	328.5	342.8	232.0	235.2
Total	**16,585.4**	**18,973.3**	**21,449.9**	**21,631.1**	**14,358.7**	**14,563.6**

Source: Bank of Slovenia

	As at 31 December				As at 31 August	
	2009	*2010*	*2011*	*2012*	*2012*	*2013*
			(amounts in EUR millions)			
Imports of goods (fob)						
EU 28	13,952.8	16,005.9	18,056.0	17,464.2	11,711.6	11,084.9
of which:						
Austria	2,247.8	2,403.5	2,571.5	2,546.3	1,690.8	1,639.6
Italy	2,978.3	3,469.0	3,907.8	4,003.8	2,690.1	2,285.9
Germany	3,108.2	3,654.1	4,362.9	4,053.9	2,757.2	2,608.5
France	928.9	1,099.2	1,073.4	1,005.1	713.4	521.1
Hungary	643.4	793.7	922.3	967.9	633.4	641.8
Netherlands	552.5	640.9	709.7	658.4	443.6	417.2
Czech Republic	430.6	492.5	570.3	541.5	361.9	355.6
United Kingdom	223.1	257.8	350.2	298.1	201.3	268.0
Croatia	636.6	779.0	910.3	923.4	588.6	650.7
Serbia	258.6	350.3	408.4	358.2	240.8	256.6
Russia	207.2	298.9	398.7	370.8	251.3	304.2
China	356.5	498.0	560.8	600.1	398.6	363.1
USA	319.1	266.8	481.2	292.3	251.4	151.9
Total	**17,025.9**	**19,803.8**	**22,406.8**	**21,740.8**	**14,577.3**	**14,022.0**

Source: Bank of Slovenia

Composition of Trade

The composition of exports and imports of goods by products was relatively stable in the period from 2009 to 2013. The most significant exports in 2012 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 2009 to 2012 and for the eight months ended 31 August 2012 and 2013:

	As at 31 December				As at 31 August	
	2009	*2010*	*2011*	*2012*	*2012*	*2013*
			(% share of total)			
Exports of goods (fob)						
Food and live animals	3.7	3.2	3.2	3.2	3.1	3.2
Beverages and tobacco	0.5	0.4	0.4	0.4	0.4	0.4
Crude materials (except fuels)	3.1	4.0	3.9	3.8	3.8	3.8
Mineral fuels. lubricants and related materials	3.2	4.2	5.7	6.5	6.1	6.8
Animal and vegetable oils. fats and waxes	0.1	0.1	0.1	0.1	0.1	0.1
Chemicals and related products	16.6	16.5	16.6	17.8	17.6	18.7
Manufactured goods	20.7	22.0	23.0	21.9	22.3	21.3
Machinery and transport equipment	40.2	38.7	36.7	35.9	36.2	35.6
Miscellaneous manufactured articles	11.9	10.8	10.4	10.2	10.1	9.7
Other commodities and products of trade	0.1	0.1	0.1	0.2	0.2	0.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Bank of Slovenia, SORS

	As at 31 December				As at 31 August	
	2009	*2010*	*2011*	*2012*	*2012*	*2013*
			(% share of total)			
Imports of goods (fob)						
Food and live animals	7.6	6.5	6.6	6.8	6.5	6.8
Beverages and tobacco	1.0	0.8	0.8	0.8	0.9	0.8
Crude materials (except fuels)	4.8	6.3	6.1	5.9	5.8	5.9
Mineral fuels. lubricants and related materials	11.3	12.8	15.2	17.1	17.3	15.9
Animal and vegetable oils. fats and waxes	0.3	0.3	0.3	0.3	0.3	0.3
Chemicals and related products	13.5	13.7	13.6	14.4	14.5	14.9
Manufactured goods	18.3	19.2	19.3	18.4	18.7	17.8
Machinery and transport equipment	32.0	30.1	28.2	27.2	26.9	29.0
Miscellaneous manufactured articles	11.1	10.0	9.5	8.9	8.8	8.2
Other commodities and products of trade	0.2	0.3	0.5	0.3	0.3	0.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Bank of Slovenia, SORS

Capital and Financial Account

For the year ended 31 December 2012, the capital and financial account generated net outflows of €1,206.2 million. That year, foreign direct investment generated net inflows of €165.8 million and portfolio investment generated net outflows of €217.8 million. Conversely, financial derivatives and other investment generated net outflows of €203.2 million and €890.2 million. The capital and financial account generated net inflows in 2010 (€529.8 million) and 2009 (€162.2 million) and net outflows of €473.7 million in 2011.

For the eight months ended 31 August 2013, the capital and financial account generated net outflows of €2,377.1 million. In that period, direct investment (€641.5 million), financial derivatives (€343.9 million) and other investment (€3,237.3 million) generated net outflows, while portfolio investment (€1,930.9 million) generated net inflows.

Amounts and Origins of Foreign Direct Investment

The amount of inward foreign direct investment in Slovenia as at 31 December 2012 totalled €11,724.3 million, a slight increase from 2011 in terms of value.

In the period from 2010 to 2012, foreign direct investment primarily recorded net inflows (2010: €271.8 million; 2011: €717.7 million). However, in 2009 and 2012, foreign direct investment recorded net outflows of €474.1 million and €46.3 million respectively. In 2011, the majority of foreign direct investment was on account of the net increase of liabilities to foreign parent companies, while in 2010 the major part of inflows represented equity capital. In 2009, the majority of foreign direct investment was mostly on account of a net decrease in liabilities to foreign parent companies, while negative reinvested earnings of €322.3 million were the main factor in a net decrease of foreign direct investment in 2012. Transactions in equity, in 2012, were net positive in the amount of €328.7 million.

For the eight months ended 31 August 2013, the balance of payments showed a net decrease of €593.4 million in inward foreign direct investment. €629.8 million was a result of a net decrease in debt liabilities to foreign owners, while estimated negative earnings contributed €175.1 million. In the same period, a net inflow of equity capital in the amount of €211.6 million was recorded.

The following table sets out the net inflow of foreign direct investment in Slovenia by country of origin for the years ended 31 December 2009 to 2012 and for the eight months ended 31 August 2012 and 2013:

	As at 31 December				*As at 31 August*	
	2009	*2010*	*2011*	*2012*	*2012*	*2013*
	(amounts in EUR millions)					
Austria	18.4	152.1	502.5	(178.9)	(83.8)	(789.3)
Belgium	(15.3)	(44.3)	(92.9)	51.0	(28.1)	(44.4)
Switzerland	(226.4)	(144.8)	103.6	86.2	82.9	6.7
Cyprus	8.5	(6.4)	(2.9)	0.2	3.4	(7.0)
Germany	(93.0)	(3.8)	88.9	92.4	95.5	(9.6)
France	(77.7)	(49.1)	(17.5)	(8.9)	44.4	157.9
United Kingdom	(21.7)	174.8	44.0	(46.1)	(16.0)	34.3
Croatia	(2.9)	197.2	(19.3)	(8.8)	(14.7)	34.3
Italy	68.6	28.6	36.1	(3.0	6.1	15.8
Luxembourg	30.2	(74.0)	(9.3)	(15.7)	(4.9)	6.2
Netherlands	(93.1)	(12.5)	(52.1)	28.6)	27.6	(24.2)
Other countries	(69.8)	54.0	136.5	(43.3)	(33.1)	26.0
Total	**(474.1)**	**271.8**	**717.7**	**(46.3)**	**79.2**	**(593.4)**

Source: Bank of Slovenia

Gross External Debt

As at 31 December 2012, gross external debt, which includes both public and private debt, amounted to €40.8 billion, which is 115.7 per cent. of GDP. The ratio of external debt to GDP has gradually increased since 2009, from 113.8 per cent. of GDP to 115.7 per cent. of GDP in 2012, 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.

As at 31 August 2013, gross external debt had decreased by 1 per cent. to €40.0 billion compared to 31 August 2012.

The following table sets out gross external debt by sector as at 31 December 2009 to 2012 and for the eight months ended 31 August 2012 and 2013(1):

	As at 31 December								*As at 31 August*	
	2009		*2010*		*2011*		*2012*		*2012*	*2013*
	(€ millions)	*% GDP*	*(€ millions)*	*% GDP*	*(€ millions)*	*% GDP*	*(€ millions)*	*% GDP*	*(€ millions)*	*(€ millions)*
General Government	6,558.8	18.5	8,166.5	23.0	8,714.7	24.1	11,063.3	31.3	8,580.8	12,693.1
Monetary Authority	3,595.0	10.1	2,374.9	6.7	3,010.5	8.3	4,702.1	13.3	6,089.7	3,824.0
Banks	16,414.2	46.3	16,013.2	45.1	13,440.5	37.2	9,889.8	28.0	10,689.6	8,442.6
Other Sectors	9,548.2	27.0	9,502.6	26.8	9,591.3	26.5	9,954.2	28.2	9,681.3	10,402.4
Direct Investment:										
Intercompany le	4,201.7	11.9	4,665.9	13.1	5,343.4	14.8	5,239.1	14.8	5,381.2	4,663.8
Total Gross External Debt	40,318.0	113.8	40,723.0	114.8	40,100.4	110.9	40,848.6	115.7	40,422.7	40,026.0

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 25 per cent. 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 Republike Slovenije, No. 13/2011 uradno prečiščeno besedilo, 32/2012 and 94/2012*) 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

General. Payments of interest 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 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.

Foreign Currency Denominated Interest. The amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in Euros in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the Internal Revenue Service (the "IRS").

Upon receipt of the interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in euros, the U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Sale, Exchange, Retirement or Other Taxable Disposition

A U.S. Holder will generally recognise gain or loss on the sale, exchange, retirement, or other taxable disposition of a Note equal to the difference between the amount realised on the sale or retirement and the tax basis of the Note. A U.S. Holder's tax basis in a Note will generally be its U.S. dollar cost (as defined below) reduced by any payments other than payments of interest. The U.S. dollar cost of a Note purchased with euros will generally be the U.S. dollar value of the purchase price on the date of purchase, or the settlement date for the purchase, in the case of Notes traded on an established securities market, within the meaning of the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects). The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. The amount realised on a sale or retirement for an amount in euros will be the U.S. dollar value of this amount on the date of sale or retirement, or the settlement date for the sale, in the case of Notes traded on an established securities market, within the meaning of the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects).

A U.S. Holder will recognise U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Note (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest) will be realised only to the extent of total gain or loss realised on the sale or retirement. Except to the extent of changes in exchange rates, gain or loss recognised by a U.S. Holder on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year.

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 deducibility of capital losses is subject to limitations. Prospective purchasers should consult their tax advisers as to the foreign tax credit implications of the sale or retirement of Notes.

Disposition of Foreign Currency

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time the foreign currency is received. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

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 EU Member State is required to provide to the tax authorities of another EU Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or for the benefit of, an individual resident or certain limited types of entity established in that other EU Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 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 to the EU Savings Directive.

The European Commission has proposed certain amendments to the 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 Clear stream, 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 Restricted Certificates, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in the Restricted Global Certificates, 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 five 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

J.P. Morgan Securities plc (the ''Lead Manager'') has in a subscription agreement dated 21 November 2013 (the ''Subscription Agreement'') made between the Republic and the Lead Manager upon the terms and subject to the conditions contained therein, agreed to subscribe and pay for the Notes at an issue price of 99.604 per cent., of their principal amount less a combined management and underwriting commission of 0.045 per cent., of their principal amount. The Lead Manager is entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreements prior to the closing of the issue of the Notes. Notes subscribed for by the Lead Manager shall be sold to a single investor.

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 Lead Manager, 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.

The 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 the 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 the 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. The 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 Lead Manager 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)(l) 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 Lead Manager and its 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

The 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 Lead Manager 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 Lead Manager 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 on or about the 5th 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.

The Lead Manager and its 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 four Restricted Global Certificates and that Notes offered outside the United States in offshore transactions pursuant to Regulation S will be represented by one Unrestricted Global Certificate;

(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)(l) 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 Lead Manager 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 Lead Manager; 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 the first and second paragraphs of Article 84 of the Public Finance Act (*Zakon o javnih financah, Uradni list Republike Slovenije No. 11/2011 – uradno prečiščeno besedilo, 110/2011, and 14/2013-corrigendum*) and the first paragraph of Article 39 of the Republic of Slovenia Budgets for 2013 and 2014 Implementation Act (*Zakon o izvrševanju proračunov Republike Slovenije za leti 2013 in 2014, Uradni list Republike Slovenije No. 104/2012 46/2013, 56/2013, 61/2013 and 82/2013*).

(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 Agreements;

   (b) the Subscription Agreements;

   (c) the Deed of Covenant;

   (d) certified English translations of the extracts from Article 84 of the Public Finance Act and Article 39 of the Republic of Slovenia Budgets for 2013 and 2014 Implementation Act, as referred to in the first paragraph above.

(4) Application has been made for acceptance of the Restricted Global Certificates into DTC's book-entry settlement system. The Unrestricted Global Certificate has been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for the Unrestricted Global Certificate is XS0982712795 and for the Restricted Global Certificates is US831594AE61. The Common Code for the Unrestricted Global Certificate is 098271279 and for the Restricted Global Certificates is 078394811. The CUSIP number for the Restricted Global Certificates is 831594AE6.

(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.

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