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

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

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

DRUŽBA ZA UPRAVLJANJE TERJATEV BANK, D.D.

(*incorporated with as a joint stock company under the laws of the Republic of Slovenia*)

€505,800,000 3.75 per cent. Notes due 15 December 2015

€505,800,000 4.50 per cent. Notes due 15 December 2016

unconditionally and irrevocably guaranteed by

THE REPUBLIC OF SLOVENIA

The issue price of the €505,800,000 3.75 per cent. Notes due 15 December 2015 (the "**2015 Notes**") and the €505,800,000 4.50 per cent. Notes due 15 December 2016 (the "**2016 Notes**" and, together with the 2015 Notes, the "**Notes**") of the Družba za upravljanje terjatev bank d.d. ("**DUTB**" or the "**Issuer**") guaranteed by the Republic of Slovenia ("**Slovenia**", the "**Republic**" or the "**Guarantor**") is 100 per cent. of their respective principal amounts.

The 2015 Notes will bear interest from and including 20 December 2013 at the rate of 3.75 per cent. per annum, payable annually in arrear on 15 December in each year, except that the first payment of interest will be made on 15 December 2014 in respect of the period from and including 20 December 2013 to, but excluding, 15 December 2014, amounting to €3,698.63 per Note in the denomination of €100,000 (see "*Terms and Conditions of the 2015 Notes – Interest*"). The 2016 Notes will bear interest from and including 20 December 2013 at the rate of 4.50 per cent. per annum, payable annually in arrear on 15 December in each year, except that the first payment of interest will be made on 15 December 2014 in respect of the period from and including 20 December 2013 to, but excluding, 15 December 2014, amounting to €4,438.36 per Note in the denomination of €100,000 (see "*Terms and Conditions of the 2016 Notes – Interest*"). Payments of interest in respect of the Notes will be made without deduction for or on account of Slovenian taxes, as described, and subject to the exceptions set out, under "*Terms and Conditions of the 2015 Notes — Taxation*" and "*Terms and Conditions of the 2016 Notes — Taxation*" respectively. The Guarantor will unconditionally and irrevocably guarantee the due and punctual payment of all amounts at any time becoming due and payable in respect of the Notes.

The 2015 Notes will mature on 15 December 2015. The 2016 Notes will mature on 15 December 2016. The Terms and Conditions of the Notes are governed by Slovenian law.

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

Application has been made by the Issuer for interests in the Notes to be held through accounts with Euroclear and Clearstream, Luxembourg through the links established by KDD with Euroclear and Clearstream, Luxembourg, although there is no assurance that such application will be accepted and that any interests in the Notes will be able to be held in such manner.

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

Application will be made immediately after the issue of the Notes for the Notes to be listed and traded on the bond segment (*segment obveznic*) of the stock exchange market (*borzni trg*), which is an EEA Regulated Market of the Ljubljana Stock Exchange (*Ljubljanska borza d.d.*) (the "**Ljubljana Stock Exchange**") pursuant to the rules and regulations of the Ljubljana Stock Exchange.

Arranger

HSBC

The date of this Offering Circular is 19 December 2013.

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

*HSBC France (the "**Arranger**") has not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer or the Republic in connection with the Notes or their distribution.*

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

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

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

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

*The Notes have not been and will not be registered under the U.S. Securities Act of 1933 (the "**Securities Act**"). Subject to certain exceptions the Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons.*

*This Offering Circular neither constitutes a prospectus pursuant to the Slovenian Financial Instruments Market Act (Zakon o trgu finančnih instrumentov, Uradni list Republike Slovenije, No. 67/2007, 100/2007, 69/2008, 40/2009, 88/2010, 108/2010– uradno prečiščeno besedilo, 78/2011, 55/2012, 105/2012-ZBan-1 and 63/2013-ZS-K hereinafter the "**ZTFI**") which implements Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (the "**Prospectus Directive**") nor a simplified prospectus pursuant to article 42 of the ZTFI. Accordingly, this Offering Circular does not purport to meet the format and the disclosure requirements of the Prospectus Directive and Commission*

Regulation (EC) No 809/2004 (as amended) implementing the Prospectus Directive, and it has not been, and will not be, submitted for approval to any competent authority within the meaning of the Prospectus Directive and in particular the Agencija za trg vrednostnih papirjev, in its capacity as competent authority under the ZTFI. The Notes, issued pursuant to this Offering Circular, will therefore not qualify for the benefit of the single European passport pursuant to the Prospectus Directive.

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

CONTENTS

Page

TERMS AND CONDITIONS OF THE 2015 NOTES

The following is the text of the Terms and Conditions of the 2015 Notes which (subject to completion and amendment) will be applicable to each 2015 Note (the Slovenian language version will be included in the Registration Order and shall prevail over the English language version):

1. **FORM, DENOMINATION AND TITLE; CURRENCY OF PAYMENT**

The €505,800,000 3.75 per cent. Notes due 15 December 2015 (the "**2015 Notes**", which expression includes any further notes issued pursuant to Condition 12 and forming a single series therewith) of Družba za upravljanje terjatev bank d.d. ("**DUTB**" or the "**Issuer**") are in uncertified and dematerialised registered form in the denomination of €100,000.

The 2015 Notes are issued in accordance with the provisions of the Dematerialised Securities Act (*Zakon o nematerializiranih vrednostnih papirjih, Uradni list RS No 2/2007 – uradno prečiščeno besedilo, 67/2007, 58/2009 and 78/2011* (the "**ZNVP**")) as entries in the central register (the "**Central Register**") maintained by KDD, Tivolska cesta 48, SI-1000 Ljubljana, Slovenia ("**KDD**"). No global or definitive Notes or interest coupons will be issued in respect of the 2015 Notes in any circumstances.

The obligations of DUTB in respect of the Notes are guaranteed by the Republic of Slovenia (the "**Republic**") pursuant to the statement of guarantee constituting the Schedule to these Conditions and forming an integral part of the registration order relating to the Notes (the "**Guarantee Statement**") and in accordance with *Zakon o ukrepih Republike Slovenije za krepitev stabilnosti bank (Uradni list RS, št. 105/12*, the "**ZUKSB**").

The 2015 Notes are transferable in accordance with the provisions of the ZNVP, other applicable Slovenian legislation and the rules and regulations applicable to, and/or issued by, KDD. Title to the 2015 Notes will pass by registration in the Central Register.

Each person that is for the time being recorded in the Central Register as the holder of a particular number of the 2015 Notes (in which regard any certificate or other document issued by KDD as to the number of 2015 Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by DUTB as the legal holder of such number of 2015 Notes for all purposes (and the expressions "**2015 Noteholder**" and the "**holder of 2015 Notes**" and related expressions shall be construed accordingly).

The legal holder of any 2015 Note shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein) and no person shall be liable for so treating such holder.

No person other than DUTB and the respective 2015 Noteholder shall have any right to enforce any term or condition of any 2015 Note. Notwithstanding the aforesaid, the right to receive payments in respect of a 2015 Note may be enforced by the Beneficiary (as defined in Condition 5.1 (i) of such payments or by an Accountholder (as defined in Condition 5.3).

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

2. **STATUS OF THE NOTES**

2.1 The 2015 Notes constitute direct, unconditional, unsecured and unsubordinated obligations of DUTB and will at all times rank *pari passu* and without any preference among themselves. The obligations of DUTB under the 2015 Notes will at all times rank at least equally with all the other present and future unsecured and unsubordinated indebtedness of DUTB.

3. **INTEREST**

The 2015 Notes bear interest from 20 December 2013 (the "**Issue Date**") at the rate of 3.75 per cent. per annum (the "**Rate of Interest**"), payable in arrear on 15 December in each year commencing on 15 December 2014 (each, an "**Interest Payment Date**"), except that the first payment of interest will be made on 15 December 2014 in respect of the period from and including 20 December 2013 to, but excluding, 15 December 2014, amounting to €3,698.63 per Calculation Amount, subject as provided in Condition 5.

Each 2015 Note will cease to bear interest from the due date for final redemption. If payment of principal is improperly withheld or refused, the Beneficiary of such payment will be entitled to receive interest at the rate specified above (after as well as before judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such 2015 Note up to that day are received by or on behalf of the relevant Beneficiary (as defined in Condition 5.1) or (b) the day which is five business days after DUTB has notified the Beneficiaries that all sums due in respect of such principal and interest will be paid subject only to the receipt by DUTB of a notice specifying the details of the euro account of the relevant Beneficiary in accordance with Condition 5.2 (except to the extent that there is any subsequent default in payment).

The amount of interest due in respect of any 2015 Notes will be calculated by reference to the aggregate principal amount of 2015 Notes held by the relevant holder and the amount of such payment shall be rounded down to the nearest €0.01.

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 and 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 denomination of such Note divided by the Calculation Amount, where:

As used herein:

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

(ii) "**Calculation Amount**" means €100,000;

(iii) "**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 date last day in such period, divided by the number of days in the Regular Period in which the relevant period falls;

(iv) "**Regular Date**" means 15 December in any year; and

(v) "**Regular Period**" means each period from (and including) any Regular Date to (but excluding) the next Regular Date.

4. **REDEMPTION AND PURCHASE**

4.1 **Principal amount of the Notes**

The principal amount of a Note at any given time is equal to the nominal amount of such Note.

4.2 **Scheduled redemption**

Unless previously redeemed, or purchased and cancelled, the 2015 Notes will be redeemed at their principal amount on 15 December 2015, subject as provided in Condition 5 (*Payments*).

4.3 **Purchase and cancellation**

DUTB, the Republic and its Agencies (as defined below) may at any time purchase 2015 Notes in the open market or otherwise and at any price. Any 2015 Notes so purchased may be cancelled or held and resold (**provided that** such resale is outside the United States, as defined in Regulation S under the United States Securities Act of 1933, as amended). Any 2015 Notes so purchased, while held by or on behalf of DUTB, the Republic or any Agency, shall not entitle the holder to vote at any meeting of the 2015 Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the 2015 Noteholders. Any 2015 Notes so cancelled will not be reissued.

In this Condition 4.3, "**Agency**" means any political sub-division, regional government, ministry, department, authority or statutory corporation of the Republic or the government thereof (whether or not such statutory corporation is autonomous) and "**Agencies**" shall be construed accordingly.

5. **PAYMENTS**

5.1 **Principal and interest**

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

In this Condition 5:

(i) "**Beneficiary**" means, in relation to any amount payable in respect of a 2015 Note, the person registered as the holder of such 2015 Note in the Central Register, at the Relevant Time (as defined below);

(ii) "**Relevant Time**" means, in relation to any amount payable in respect of a 2015 Note, the end of the third KDD Business Day (as defined below) prior to the due date for such amount;

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

and

(iv) "**euro account**" means, in relation to a person, an account nominated by or on behalf of such person pursuant to Condition 5.2 and into which euro payments in respect of the 2015 Notes may be credited or transferred.

5.2 **Notification of euro account**

Each 2015 Noteholder or Beneficiary shall nominate its euro account by notifying details in respect thereof to DUTB either (a) in the manner notified to the 2015 Noteholder or Beneficiary by DUTB or its paying agent (if any) appointed in accordance with Condition 5.6 following a request from such 2015 Noteholder or Beneficiary to DUTB or its paying agent in accordance with Condition 13 or (b) in such other manner as may from time to time be specified in a notice given by or on behalf of DUTB in accordance with Condition 13.

If a Beneficiary of any amount payable in respect of a 2015 Note fails to nominate its euro account in accordance with the foregoing before the third KDD Business Day prior to the due date for payment of such amount, such Beneficiary shall not be entitled to payment of the amount due until the fifth business day after details of its euro account have been properly nominated in accordance with the foregoing, and the relevant Beneficiary shall not be entitled to any interest or other payment in respect of any such delay.

5.3 **Assignment of Clearing Systems' rights**

In the case of an Event of Default described in Condition 7.1, any right to receive payment in respect of a 2015 Note held at the Relevant Time by Clearstream Banking, société anonyme or Euroclear Bank SA/NV (if applicable) (each a "**Clearing System**", and together the "**Clearing Systems**") or by any other person on behalf of a Clearing System (if applicable) (each such person a "**Fiduciary**") shall be deemed assigned on the due date for such payment to the person recorded in the records of the relevant Clearing System as the holder of such 2015 Note at the Relevant Time (the "**Accountholder**") (in which regard a statement of accounts issued by the relevant Clearing System and, where applicable, its Fiduciary as to the nominal amount of 2015 Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding evidence of a right to receive such payment) and such Accountholder shall be entitled to enforce the obligation of DUTB to make such payment (including any further interest due in accordance with Condition 3) to the euro account of the Beneficiary of such payment (being the relevant Clearing System or, where applicable, its Fiduciary).

5.4 **Payments subject to fiscal laws**

All payments in respect of the 2015 Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 6. No commissions or expenses shall be charged to the 2015 Noteholders or Beneficiaries in respect of such payments.

5.5 **Payments on business days**

If the due date for payment of any amount in respect of any 2015 Note is not a business day, the Beneficiary shall not be entitled to payment of the amount due until the next succeeding business day and shall not be entitled to any interest or other payment in respect of any such delay.

5.6 **Paying agent**

DUTB reserves the right at any time to appoint or terminate the appointment of a paying agent who acts solely as an agent DUTB and does not assume any obligations towards or relationship of agency or trust for or with any of the 2015 Noteholders or Beneficiaries.

6. **TAXATION**

All payments of principal and interest in respect of the 2015 Notes by or on behalf of DUTB 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 DUTB shall pay such additional amounts as will result in the receipt by the Beneficiaries of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable:

(i) in respect of any amount payable in respect of a 2015 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 2015 Note or receiving principal or interest in respect thereof; or

(ii) in respect of any amount payable in respect of a 2015 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 DUTB 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 2015 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.

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 DUTB has notified the relevant Beneficiary that the amount in question will be paid subject only to the receipt by DUTB of a notice specifying the details of its euro account in accordance with Condition 5.2 (except to the extent that there is any subsequent default in payment).

Any reference in these Conditions to principal or interest in respect of the 2015 Notes shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 6.

7. EVENTS OF DEFAULT

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

7.1 Non-payment

DUTB fails to pay any amount of principal or interest in respect of the 2015 Notes within 30 days of the due date for payment thereof; or

7.2 Breach of other obligations

DUTB does not perform or comply with, or is otherwise in breach of, any one or more of its other obligations under the 2015 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 by 2015 Noteholders holding not less than 25 per cent. in aggregate of the principal amount of the outstanding Notes; or

7.3 Insolvency, etc.

Any of the following events occur:

(i) DUTB becomes insolvent or is unable to pay its debts as they fall due;

(ii) an administrator (*upravitelj prisilne poravnave*), bankruptcy manager (*stečajni upravitelj*) or liquidator (*likvidacijski upravitelj*) of DUTB or the whole or a substantial part of the undertaking, assets and revenues of DUTB is appointed (or application for any such appointment is made);

(iii) DUTB takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it;

(iv) DUTB ceases or threatens to cease to carry on all or any substantial part of its business; or

7.4 Winding up etc.

An order is made or an effective resolution is passed for the winding up, liquidation or dissolution of DUTB; or

7.5 Analogous event

Any event occurs which under the laws of the Republic of Slovenia has an analogous effect to any of the events referred to in Conditions 7.3 (*Insolvency, etc.*) and 7.4 (*Winding up, etc.*); or

7.6 **Guarantee not in force**

If the Guarantee Statement is not (or is claimed by the Republic not to be) in full force and effect,

then 2015 Noteholders holding not less than 25 per cent. in aggregate of the principal amount of the outstanding 2015 Notes may declare the 2015 Notes due and payable, in each case at their principal amount together with accrued interest, without further formality. Upon such declaration DUTB shall give notice to the 2015 Noteholders in accordance with Condition 13.

If DUTB receives notice in writing from 2015 Noteholders of at least 50 per cent. in aggregate principal amount of the outstanding 2015 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, DUTB shall give notice thereof to the 2015 Noteholders in accordance with Condition 13, whereupon the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations which may have arisen before such notice is given (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other declaration or any subsequent Event of Default or any right of any 2015 Noteholder in relation thereto.

8. **PRESCRIPTION**

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

9. **MEETINGS OF NOTEHOLDERS; MODIFICATION AND WAIVER**

9.1 **Definitions**

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

"**Chairman**" means, in relation to any Meeting, the individual who takes the chair in accordance with Condition 9.4;

"**Extraordinary Resolution**" means a resolution passed at a Meeting duly convened and held in accordance with this Condition 9 by a majority of at least:

(i) in the case of a Reserved Matter, 75 per cent. of the aggregate principal amount of the outstanding 2015 Notes represented at a duly called meeting; or

(ii) in the case of a matter other than a Reserved Matter, 66 2/3 per cent. of the aggregate principal amount of the outstanding 2015 Notes which are represented at that meeting;

"**Meeting**" means a meeting of 2015 Noteholders (whether originally convened or resumed following an adjournment); a 2015 Note shall be considered to be "**outstanding**" unless one or more of the following events has occurred:

(i) it has been redeemed in full or purchased under Condition 4, and if purchased under Condition 4, has been cancelled in accordance with Condition 4.3; or

(ii) for the purposes of Condition 9, it is being held by or on behalf of DUTB, the Republic or any Agency (as defined in Condition 4.3);

"**Proxy**" means, in relation to any Meeting, a person appointed to vote on behalf of one or more 2015 Noteholders, other than:

(i) any such person whose appointment has been revoked and in relation to whom DUTB has been notified in writing of such revocation by the time which is at least 24 hours before the time fixed for such Meeting; and

(ii) any such person appointed to vote at a Meeting which has been adjourned for want of a quorum and who has not been re-appointed to vote at the Meeting when it is resumed;

"**Reserved Matter**" means, subject as provided in the paragraph below (*Matters requiring unanimity*), any proposal of DUTB:

(i) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the 2015 Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the 2015 Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the 2015 Notes on any date;

(ii) to change the currency in which any amount due in respect of the 2015 Notes is payable or the manner in which any payment is to be made;

(iv) to change the quorum required at any Meeting or the majority required to pass an Extraordinary Resolution, Written Resolution or any other resolution of 2015 Noteholders or the number or percentage of votes required to be cast, or the number or percentage of 2015 Notes required to be held, in connection with the taking of any decision or action by or on behalf of the 2015 Noteholders or any of them;

(v) to change this definition, the definition of "Extraordinary Resolution", the definition of "outstanding" or the definition of "Written Resolution";

(vi) to change or waive the provisions of the 2015 Notes set out in Condition 2; or

(vii) to change any provision of the 2015 Notes describing circumstances in which 2015 Notes may be declared due and payable prior to their scheduled maturity date, set out in Condition 7.

"**Matters requiring unanimity**" means any proposal:

(i) to change the law governing the 2015 Notes, the courts to the jurisdiction of which DUTB has submitted in the 2015 Notes or DUTB's waiver of immunity, in respect of actions or proceedings brought by any 2015 Noteholder, in each case set out in Condition 15;

(ii) to modify any provision of the Guarantee Statement;

(iii) to modify any provision of these Conditions in connection with any exchange or substitution of the 2015 Notes for, or the conversion of the 2015 Notes into, any other obligations or securities of DUTB or the Republic (except in such case where an exchange of 2015 Notes is to occur solely as a result of the operation of Condition 11) or any other person, which would result in the Conditions as so modified being less favourable to the holders of 2015 Notes which are subject to the Conditions as so modified than:

(A) the provisions of the other obligations or securities of DUTB or any other person resulting from the relevant exchange or substitution or conversion; or

(B) if more than one series of other obligations or securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series having the largest aggregate principal amount; or

(iv) to modify the provisions of this paragraph above (*Matters requiring unanimity*),

may only be given effect with the consent of the holders of all of the outstanding 2015 Notes and of the Republic.

"**Modifications**" means a modification of these Conditions as provided in the paragraph above (*Matters requiring unanimity*), any modification of any provision of these Conditions may be made if approved by an Extraordinary Resolution or a Written Resolution;

"**Voter**" means, in relation to any Meeting, any person registered in the Central Register as the holder of any 2015 Note 48 hours before the time fixed for such Meeting or a Proxy appointed by such 2015 Noteholder;

"**Written Resolution**" means a resolution in writing signed by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding 2015 Notes, in the case of a Reserved Matter, or 66 2/3 per cent. of the aggregate principal amount of the outstanding 2015 Notes, in the case of a matter other than a Reserved Matter. Any Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more 2015 Noteholders;

"**24 hours**" means a period of 24 hours including all or part of a day upon which banks are open for business in the place where the relevant Meeting is to be held (disregarding for this purpose the day upon which such Meeting is to be held) and such period shall be extended by one period or, to the extent necessary, more periods of 24 hours until there is included as aforesaid all or part of a day upon which banks are open for business as aforesaid; and "**48 hours**" means 2 consecutive periods of 24 hours.

9.2 **Convening of Meeting**

DUTB may convene a Meeting at any time and DUTB shall be obliged to do so upon the request in writing of 2015 Noteholders holding not less than one tenth of the aggregate principal amount of the outstanding 2015 Notes.

9.3 **Notice**

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the relevant Meeting is to be held) specifying the date, time and place of the Meeting shall be given to the 2015 Noteholders. The notice shall set out (i) the full text of any resolutions to be proposed, (ii) details of the manner in which Proxies may be appointed and the deadline for any such appointment, which shall be 24 hours before the time fixed for such Meeting and (iii) the name of the Chairman appointed by DUTB.

9.4 **Chairman**

An individual (who may, but need not, be a 2015 Noteholder) appointed by DUTB may take the chair at the respective Meeting. If the individual appointed is not present within 15 minutes after the time fixed for the Meeting, those present shall elect one of themselves to take the chair failing which, DUTB may appoint a Chairman.

9.5 **Quorum**

The quorum at any Meeting convened to vote on an Extraordinary Resolution will be:

(i) one or more persons present and holding or representing more than 50 per cent. of the aggregate principal amount of the outstanding 2015 Notes; or

(ii) where a Meeting is adjourned and rescheduled owing to a lack of quorum, at any rescheduled Meeting, one or more persons present and holding or representing at least 25 per cent. of the aggregate principal amount of the outstanding 2015 Notes,

provided, **however**, **that** any proposals relating to a Reserved Matter may only be approved by an Extraordinary Resolution passed at a Meeting at which one or more persons present and holding or representing at least 75 per cent. of the aggregate principal amount of the outstanding 2015 Notes form a quorum.

9.6 **Adjournment for want of quorum**

If within 15 minutes after the time fixed for any Meeting a quorum is not present, then:

(i) in the case of a Meeting requested by 2015 Noteholders, it shall be dissolved; and

(ii) in the case of any other Meeting, it shall be adjourned for such period (which shall be not less than 14 days and not more than 42 days) and to such place as the Chairman determines; **provided**, **however**, **that** the Meeting shall be dissolved if DUTB so decides and no Meeting may be adjourned more than once for want of a quorum.

9.7 **Adjourned Meeting**

The Chairman may, with the consent of (and shall if directed by) any Meeting, adjourn such Meeting from time to time and from place to place, but no business shall be transacted at any adjourned Meeting except business which might lawfully have been transacted at the Meeting from which the adjournment took place.

9.8 **Notice following adjournment**

Condition 9.3 shall apply to any Meeting which is to be resumed after adjournment for want of a quorum save that:

(i) 10 days' notice (exclusive of the day on which the notice is given and of the day on which the Meeting is to be resumed) shall be sufficient; and

(ii) the notice shall specifically set out the quorum requirements which will apply when the Meeting resumes.

It shall not be necessary to give notice of the resumption of a Meeting which has been adjourned for any other reason.

9.9 **Participation**

The following may attend and speak at a Meeting:

(i) Voters;

(ii) representatives of DUTB and the Republic;

(iii) the financial advisers of DUTB and the Republic;

(iv) the legal counsel to DUTB and the Republic;

(v) the financial advisers of the 2015 Noteholders present or represented at the Meeting;

(vi) the legal counsel to the 2015 Noteholders present or represented at the Meeting; and

(vii) any other person approved by the Meeting.

9.10 **Show of hands**

Every question submitted to a Meeting shall be decided in the first instance by a show of hands. Unless a poll is validly demanded before or at the time that the result is declared, the Chairman's declaration that on a show of hands a resolution has been passed, passed by a particular majority, rejected or rejected by a particular majority shall be conclusive, without proof of the number of votes cast for, or against, the resolution.

9.11 **Poll**

A demand for a poll shall be valid if it is made by the Chairman, DUTB or one or more Voters representing or holding not less than one fiftieth of the aggregate principal amount of the outstanding 2015 Notes. The poll may be taken immediately or after such adjournment as the Chairman directs, but any poll demanded on the election of the Chairman or on any question of adjournment shall be taken at the Meeting without adjournment. A valid demand for a poll shall not prevent the continuation of the relevant Meeting for any other business as the Chairman directs.

9.12 **Votes**

Every Voter shall have: (i) on a show of hands, one vote; and (ii) on a poll, one vote in respect of each 2015 Note represented or held by him. In the case of a voting tie the Chairman shall have a casting vote.

A Voter shall not be obliged to exercise all votes to which he is entitled or (in case of a poll) to cast all the votes which he/she exercises in the same way.

9.13 **Validity of Votes by Proxies**

If DUTB requires, a notarised copy of each document appointing a Proxy and satisfactory proof of the identity of each Proxy named therein shall be produced at the Meeting, but DUTB shall not be obliged to investigate the validity of any such appointment or the authority of any Proxy.

Any vote by a Proxy shall be valid even if the appointment of such Proxy or any instruction pursuant to which it was given has been amended or revoked, **provided that** DUTB has not been notified in writing of such amendment or revocation by the time which is at least 24 hours before the time fixed for the relevant Meeting. Unless revoked, any appointment of a Proxy in relation to a Meeting shall remain in force in relation to any resumption of such Meeting following an adjournment; **provided**, **however**, **that** no such appointment of a Proxy in relation to a Meeting originally convened which has been adjourned for want of a quorum shall remain in force in relation to such Meeting when it is resumed. Any person appointed to vote at such a Meeting must be re-appointed as a Proxy to vote at the Meeting when it is resumed.

9.14 **Powers**

A Meeting shall have the power (exercisable by Extraordinary Resolution), without prejudice to any other powers conferred on it or any other person:

(i) to approve any Reserved Matter;

(ii) to approve any proposal by DUTB for any modification, abrogation, variation or compromise of any of the Conditions or any arrangement in respect of the obligations of DUTB under or in respect of the 2015 Notes;

(iii) to approve the substitution of any person for DUTB (or any previous substitute) as principal obligor under the 2015 Notes;

(iv) to waive any breach or authorise any proposed breach by DUTB of its obligations under or in respect of the 2015 Notes or any act or omission which might otherwise constitute an Event of Default under the 2015 Notes;

(v) to authorise any person to execute all documents and do all things necessary to give effect to any Extraordinary Resolution;

(vi) to give any other authorisation or approval which is required to be given by Extraordinary Resolution; and

(vii) to appoint any persons as a committee to represent the interests of the 2015 Noteholders and to confer upon such committee any powers which the 2015 Noteholders could themselves exercise by Extraordinary Resolution.

9.15 **Extraordinary Resolution binds all holders**

Any Extraordinary Resolution duly passed at a Meeting duly convened and held in accordance with this Condition 9 shall be binding upon all 2015 Noteholders whether or not present at such Meeting, and whether or not they voted in favour, and each of the 2015 Noteholders shall be bound to give effect to it accordingly. Notice of the result of every vote on an Extraordinary Resolution shall be given by DUTB to the 2015 Noteholders within 14 days of the conclusion of the Meeting in accordance with Condition 13.

9.16 **Minutes**

Minutes shall be made of all resolutions and proceedings at each Meeting. The Chairman shall sign the minutes, which shall be *prima facie* evidence of the proceedings recorded therein. Unless and until the contrary is proved, every such Meeting in respect of the proceedings of which minutes have been summarised and signed shall be deemed to have been duly convened and held and all resolutions passed or proceedings transacted at it to have been duly passed and transacted.

9.17 **Written Resolution**

A Written Resolution shall take effect as if it were an Extraordinary Resolution and shall be binding on all 2015 Noteholders whether or not signed by them.

10. **MANIFEST ERROR**

The 2015 Notes and these Conditions may be amended without the consent of the 2015 Noteholders to correct a manifest error or for the purposes of any amendment which is of a formal, minor or technical nature as determined by a major international law firm and evidenced by a signed legal opinion from that law firm.

11. **EXCHANGE OF THE NOTES**

If (a) an Extraordinary Resolution is passed or a Written Resolution is signed, approving in each case an amendment, modification, variation or abrogation of any provision of the 2015 Notes or these Conditions or the substitution of any person for DUTB as principal obligor under the 2015 Notes; or (b) an amendment of the 2015 Notes or these Conditions is permitted pursuant to Condition 10, such amendment, modification, variation, abrogation or substitution shall, to the extent required under Slovenian law, be effected by way of deemed redemption of the 2015 Notes prior to their scheduled maturity date and by DUTB procuring that, on the Exchange Date (as defined below). Replacement 2015 Notes (as defined below) are credited to the account of each 2015 Noteholder with KDD in exchange for each 2015 Note which had been credited to the account of such 2015 Noteholder with KDD at close of business on the KDD Business Day prior to the Exchange Date.

It shall be deemed that each 2015 Noteholder has consented to the exchange of 2015 Notes in accordance with the foregoing and has authorised KDD to debit its securities account maintained with KDD accordingly.

In this Condition 11:

(i) "**Exchange Date**" means the date specified by DUTB in a notice given to the 2015 Noteholder in accordance with Condition 13 not less than seven days before such date; and

(ii) "**Replacement Notes**" means securities differing from the 2015 Notes solely in such respects as had been approved by the relevant Extraordinary Resolution or Written Resolution or as permitted pursuant to Condition 10.

12. **FURTHER ISSUES**

DUTB may from time to time, without the consent of the 2015 Noteholders, create and issue further notes having the same terms and conditions as the 2015 Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the 2015 Notes.

13. **NOTICES**

A notice to a 2015 Noteholder or a Beneficiary shall be valid if either (at the sole discretion of DUTB) (a) sent by mail to such 2015 Noteholder or Beneficiary at the address registered for a 2015 Noteholder or Beneficiary in the Central Register or at the address notified by such a person to DUTB in accordance with this Condition 13, and any such notice shall be deemed to have been given on the eighth day following the day the notice was sent by mail or (b) published in a leading Slovenian language daily newspaper having general circulation in Slovenia and in a leading English language daily newspaper having general circulation in Europe and, in any event, shall be published in such other manner as may be required by the rules of any regulated market on which the 2015 Notes are at such time listed and/or traded. Any such notice given by publication shall be deemed to have been given on the date of publication or, if so published more than once on different dates, on the date of the first publication.

Notices to DUTB shall be sent by letter or fax to:

Davčna ulica 1
1000 Ljubljana
Slovenia

Fax: +386 1 429 38 59
Attention: Mr Torbjörn Månsson

or, in any case, to such other address or fax number or for the attention of such other person or department as DUTB has by prior notice to the 2015 Noteholders and Beneficiaries specified for a particular purpose.

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

All notices hereunder shall only be valid if made (a) in the case of Notices to the 2015 Noteholders or Beneficiaries, in English and Slovenian; and (b) in the case of Notices to DUTB, in English or Slovenian or in any other language **provided that** such notices are accompanied by a certified English or Slovenian translation thereof. Any certified English or Slovenian translation delivered hereunder shall be certified a true and accurate translation by a professionally qualified translator or by some other person competent to do so.

14. GOVERNING LAW AND JURISDICTION

14.1 Governing law

The 2015 Notes and any non-contractual obligations arising out of or in connection with these are governed by and shall be construed in accordance with Slovenian law.

14.2 Jurisdiction

DUTB agrees for the benefit of the 2015 Noteholders and Beneficiaries that the courts of the Republic of Slovenia shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the 2015 Notes (collectively, "**Proceedings**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

14.3 Non-exclusivity

The submission to the jurisdiction of the courts of the Republic of Slovenia shall not (and shall not be construed so as to) limit the right of any 2015 Noteholder or Beneficiary to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

14.4 Consent to enforcement, etc.

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

14.5 **Waiver of immunity**

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

SCHEDULE 1

GUARANTEE STATEMENT

1. Introduction

Pursuant to paragraph 1 of Article 12 of Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act, (*Zakon Republike Slovenije za krepitev stabilnosti bank*, *Uradni list RS, št. 105/2012 in 63/2013*) (the "**ZUKSB**") the Republic of Slovenia may issue guarantees for notes, issued by Družba za upravljanje terjatev bank, d.d. ("**DUTB**") for financing the purchase of a bank's assets in accordance with Article 11 of ZUKSB.

Pursuant to paragraph 3 of Article 30 of the Decree on the Implementation of Measures to Strengthen Bank Stability (*Uredba o izvajanju ukrepov za krepitev stabilnosti bank, Uradni list RS, št. 103/2013*) (the "**Decree**"), the Minister of Finance is authorised to sign a document issuing a guarantee.

The government of the Republic of Slovenia has adopted a decision granting a guarantee for the obligations of DUTB arising from borrowing on financial or interbank markets and from notes that were subscribed to in exchange for a transfer of impaired assets from NKBM, d.d., to DUTB, up to the amount of EUR 422 million on 12 December 2013.

The government of the Republic of Slovenia has adopted a decision granting a guarantee for the obligations of DUTB arising from borrowing on financial or interbank markets and from notes that were subscribed to in exchange for a transfer of impaired asset from NLB, d.d., to DUTB, up to the amount of EUR 711 million on 12 December 2013.

The Ministry of Finance has issued a consent to the issue of notes by DUTB up to the nominal value of EUR 1,133,000,000 on 17 December 2013.

Based on the foregoing, the Minister of Finance, in the name of and on behalf of the Republic of Slovenia, issues this document (the "**Guarantee Statement**") which relates to notes issued by DUTB in the total nominal amount of EUR 505,800,000, with annual interest rate 3.75 per cent. and due date 15 December 2015 (hereinafter the "**Notes**"), issued in dematerialised registered form in the denomination of €100,000. The Guarantee Statement is attached to the terms and conditions of the Notes (the "**Conditions**") and is an integral part of the registration order for the issue of the Notes.

2. Definitions

In this Guarantee Statement the following terms shall have the following meaning:

"**Notes**" have the meaning ascribed to such term in Section 1.

"**Conditions**" have the meaning ascribed to such term in Section 1.

"**Business Day**" means any day which is a day on which the Trans European Automated Real Time Gross Settlement Express Transfer (TARGET2) payment system which utilises a single shared platform and which was launched on 19 November 2007 is operating.

"**Beneficiary**" means, in relation to any amount payable in respect of a Note, the person registered as the holder of such Note in the Central Register, at the Relevant Time.

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

"**KDD Business Day**" means any day which is a day on which KDD is open for business.

"**Demand**" has the meaning ascribed to such term in Section 5.

"**Noteholder**" means each person that shall be for the time being recorded in the Central Register as the holder of a particular number of the Notes.

"**Proceedings**" has the meaning ascribed to such term in Section 15.

"**Central Register**" means the central register of securities, maintained by KDD.

"**KDD**" means KDD d.d., Tivolska cesta 48, SI 1000 Ljubljana, Slovenia.

"**Tax**" has the meaning ascribed to such term in Section 12.

3. **Guarantor's obligation**

The Republic of Slovenia hereby irrevocably and unconditionally guarantees the due and punctual payment of all amounts payable by DUTB under the Notes as and when the same become due and payable and, accordingly, undertakes to pay to the Beneficiary of each such payment promptly and in any event no later than 3 (three) Business Days following the receipt of the Demand (as defined below), any and every sum or sums which DUTB is liable to pay to such Beneficiary in respect of the Notes and which DUTB has failed to pay on its due date and which remains outstanding.

4. **Status**

The payment obligations of the Republic of Slovenia under this Guarantee Statement will at all times rank at least equally (*pari passu*) with all the other present and future unsecured and unsubordinated indebtedness of the Republic of Slovenia.

5. **Demand**

A demand for payment of an amount in respect of the guaranteed obligations (a "Demand") is a Beneficiary's notice addressed to the Republic of Slovenia, stating:

(a) that it concerns a demand for payment in relation to the Notes (with reference to the ISIN code of the Notes);

(b) the identity of the Beneficiary and the details of its euro account;

(c) the amount to which the Demand relates, including the principal and/or interest amount and due date and any costs and expenses necessary to effect such payment obligation, which details can be verified promptly upon the request;

(d) that the Issuer has failed to pay such amount its due date; and

(e) that the Beneficiary demands the payment of such amount from the Republic of Slovenia.

6. **Payment without Demand**

The Republic of Slovenia may, at its sole discretion, make a payment in respect of the Notes on its due date even if no Demand has been made.

7. **Continuing obligations**

The obligations of the Republic of Slovenia in respect of the Notes shall continue in full force and effect until all payment obligations under the Notes have been paid in full and shall not be considered satisfied by any intermediate or partial payment all or any of DUTB's obligations under or in respect of any Note.

8. **Obligations not discharged**

Neither the obligations of the Republic of Slovenia herein contained nor the rights, powers and remedies conferred upon the Beneficiaries under this Guarantee Statement or by law shall be discharged, impaired or otherwise affected by:

(a) Winding up: the winding up, dissolution, administration, re-organisation or moratorium of DUTB or any change in its status, function, control or ownership;

(b) Invalidity: any of the obligations of DUTB under or in respect of the Notes being invalid, unenforceable or ineffective in any respect due to lack of capacity;

(c) Indulgence: time or other indulgence being granted or agreed to be granted to DUTB in respect of any of its obligations under or in respect of the Notes;

(d) Amendment: any amendment to, or any variation, waiver, non-enforcement or release of, any obligation of DUTB under or in respect of the Notes or any security or other guarantee or indemnity in respect thereof, however fundamental; or

(e) Analogous events: any other act, event or omission which, but for this Section 8, might operate to discharge, impair or otherwise affect the obligations expressed to be assumed by the Republic of Slovenia herein or any of the rights, powers or remedies conferred upon the Beneficiaries or any of them by this Guarantee Statement or by law.

9. **Repayments in insolvency proceedings**

A Beneficiary shall be entitled to receive payment under this Guarantee Statement also following full discharge of the obligations under the Notes by DUTB if (i) such Beneficiary has received payment from DUTB under the Notes but due to the operation of the provisions of insolvency legislation it is obliged to repay such payments and has made repayment accordingly; and (ii) it has made a Demand within 30 calendar days following the repayment referred to in (i) above that it demands payment under this Guarantee Statement from the Guarantor; and (iii) has notified the Guarantor in writing within 30 calendar days following the receipt of any request for a repayment referred to in (i) above.

10. **Exercise of rights**

Except as provided in this Guarantee Statement, no Beneficiary shall be obliged before exercising any of the rights, powers or remedies conferred upon it by this Guarantee Statement or by law:

(a) Take action: to take any action or obtain judgment in any court against DUTB; or

(b) Claim or proof: to make or file any claim or proof in a winding up or dissolution of DUTB

11. **Deferral of rights**

The Republic of Slovenia agrees, to the extent permissible under the law, that, so long as any sums are or may be owed by DUTB in respect of the Notes, the Republic of Slovenia will not exercise any rights against DUTB which the Republic of Slovenia may at any time have by reason of the performance of its obligations under this Guarantee Statement.

12. **Taxation**

All payments in respect of the Guarantee Statement by the Republic of Slovenia 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 of Slovenia 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 Republic of Slovenia shall pay such additional amounts to Beneficiaries as will result in the receipt by the Beneficiaries of such amounts as would have been received by them had no such withholding or deduction been required, except where such additional amounts would not be required to be paid by the DUTB under the Conditions.

13. **Notices**

A notice from the Republic of Slovenia to a Noteholder or a Beneficiary shall be valid if given in the manner in which notices to Noteholders or Beneficiaries may be given in accordance with the Conditions.

Notices to the Republic of Slovenia shall be sent by letter or by facsimile to the following address:

Ministrstvo za finance
Direktorat za javno premoženje in finančni sistem
Župančičeva 3
1502 Ljubljana
Slovenija

Tel.: + 386 1 369 6690
Fax: + 386 1 369 6855

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

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

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

14. **Governing law**

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

15. **Jurisdiction**

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

16. **Non-exclusivity**

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

17. **Consent to enforcement, etc.**

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

18. **Waiver of immunity**

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

19. **Entry into force of the Guarantee Statement and number of copies**

This Guarantee Statement shall enter into force on the date it is signed by the Guarantor. The obligations of the Guarantor under this Guarantee Statement shall be recorded in the Central Register and shall be deemed to be accepted by each Noteholder and Beneficiary on registration of the Notes to the account of the Noteholder and Beneficiary in the KDD. This Guarantee Statement is issued in three original copies. One copy shall be received by the Guarantor, one by the issuer and one copy shall be delivered together with registration order for the issue of the Notes to KDD.

TERMS AND CONDITIONS OF THE 2016 NOTES

The following is the text of the Terms and Conditions of the 2016 Notes which (subject to completion and amendment) will be applicable to each 2016 Note (the Slovenian language version will be included in the Registration Order and shall prevail over the English language version):

1. **FORM, DENOMINATION AND TITLE; CURRENCY OF PAYMENT**

The €505,800,000 4.50 per cent. Notes due 15 December 2016 (the "**2016 Notes**", which expression includes any further notes issued pursuant to Condition 12 and forming a single series therewith) of Družba za upravljanje terjatev bank d.d. ("**DUTB**" or the "**Issuer**") are in uncertified and dematerialised registered form in the denomination of €100,000.

The 2016 Notes are issued in accordance with the provisions of the Dematerialised Securities Act (*Zakon o nematerializiranih vrednostnih papirjih, Uradni list RS No 2/2007 – uradno prečiščeno besedilo, 67/2007, 58/2009 and 78/2011* (the "**ZNVP**")) as entries in the central register (the "**Central Register**") maintained by KDD, Tivolska cesta 48, SI-1000 Ljubljana, Slovenia ("**KDD**"). No global or definitive Notes or interest coupons will be issued in respect of the 2016 Notes in any circumstances.

The obligations of DUTB in respect of the Notes are guaranteed by the Republic of Slovenia (the "**Republic**") pursuant to the statement of guarantee constituting the Schedule to these Conditions and forming an integral part of the registration order relating to the Notes (the "**Guarantee Statement**") and in accordance with *Zakon o ukrepih Republike Slovenije za krepitev stabilnosti bank (Uradni list RS, št. 105/12*, the "**ZUKSB**").

The 2016 Notes are transferable in accordance with the provisions of the ZNVP, other applicable Slovenian legislation and the rules and regulations applicable to, and/or issued by, KDD. Title to the 2016 Notes will pass by registration in the Central Register.

Each person that is for the time being recorded in the Central Register as the holder of a particular number of the 2016 Notes (in which regard any certificate or other document issued by KDD as to the number of 2016 Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by DUTB as the legal holder of such number of 2016 Notes for all purposes (and the expressions "**2016 Noteholder**" and the "**holder of 2016 Notes**" and related expressions shall be construed accordingly).

The legal holder of any 2016 Note shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein) and no person shall be liable for so treating such holder.

No person other than DUTB and the respective 2016 Noteholder shall have any right to enforce any term or condition of any 2016 Note. Notwithstanding the aforesaid, the right to receive payments in respect of a 2016 Note may be enforced by the Beneficiary (as defined in Condition 5.1 (i) of such payments or by an Accountholder (as defined in Condition 5.3).

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

2. **STATUS OF THE NOTES**

2.1 The 2016 Notes constitute direct, unconditional, unsecured and unsubordinated obligations of DUTB and will at all times rank *pari passu* and without any preference among themselves. The obligations of DUTB under the 2016 Notes will at all times rank at least equally with all the other present and future unsecured and unsubordinated indebtedness of DUTB.

3. **INTEREST**

The 2016 Notes bear interest from 20 December 2013 (the "**Issue Date**") at the rate of 4.50 per cent. per annum, (the "**Rate of Interest**") payable in arrear on 15 December in each year commencing on 15 December 2014 (each, an "**Interest Payment Date**"), except that the first payment of interest will be made on 15 December 2014 in respect of the period from and including 20 December 2013 to, but excluding, 15 December 2014, amounting to €4,438.36 per Calculation Amount, subject as provided in Condition 5.

Each 2016 Note will cease to bear interest from the due date for final redemption. If payment of principal is improperly withheld or refused, the Beneficiary of such payment will be entitled to receive interest at the rate specified above (after as well as before judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such 2016 Note up to that day are received by or on behalf of the relevant Beneficiary (as defined in Condition 5.1) or (b) the day which is five business days after DUTB has notified the Beneficiaries that all sums due in respect of such principal and interest will be paid subject only to the receipt by DUTB of a notice specifying the details of the euro account of the relevant Beneficiary in accordance with Condition 5.2 (except to the extent that there is any subsequent default in payment).

The amount of interest due in respect of any 2016 Notes will be calculated by reference to the aggregate principal amount of 2016 Notes held by the relevant holder and the amount of such payment shall be rounded down to the nearest €0.01.

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 and 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 denomination of such Note divided by the Calculation Amount, where:

As used herein:

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

(ii) "**Calculation Amount**" means €100,000;

(iii) "**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 date last day in such period, divided by the number of days in the Regular Period in which the relevant period falls;

(iv) "**Regular Date**" means 15 December in any year; and

(v) "**Regular Period**" means each period from (and including) any Regular Date to (but excluding) the next Regular Date.

4. **REDEMPTION AND PURCHASE**

4.1 **Principal amount of the Notes**

The principal amount of a Note at any given time is equal to the nominal amount of such Note.

4.2 **Scheduled redemption**

Unless previously redeemed, or purchased and cancelled, the 2016 Notes will be redeemed at their principal amount on 15 December 2016, subject as provided in Condition 5 (*Payments*).

4.3 **Purchase and cancellation**

DUTB, the Republic and its Agencies (as defined below) may at any time purchase 2016 Notes in the open market or otherwise and at any price. Any 2016 Notes so purchased may be cancelled or held and resold (**provided that** such resale is outside the United States, as defined in Regulation S under the United States Securities Act of 1933, as amended). Any 2016 Notes so purchased, while held by or on behalf of DUTB, the Republic or any Agency, shall not entitle the holder to vote at any meeting of the 2016 Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the 2016 Noteholders. Any 2016 Notes so cancelled will not be reissued.

In this Condition 4.3, "**Agency**" means any political sub-division, regional government, ministry, department, authority or statutory corporation of the Republic or the government thereof (whether or not such statutory corporation is autonomous) and "**Agencies**" shall be construed accordingly.

5. **PAYMENTS**

5.1 **Principal and interest**

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

In this Condition 5:

(i) "**Beneficiary**" means, in relation to any amount payable in respect of a 2016 Note, the person registered as the holder of such 2016 Note in the Central Register, at the Relevant Time (as defined below);

(ii) "**Relevant Time**" means, in relation to any amount payable in respect of a 2016 Note, the end of the third KDD Business Day (as defined below) prior to the due date for such amount;

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

and

(iv) "**euro account**" means, in relation to a person, an account nominated by or on behalf of such person pursuant to Condition 5.2 and into which euro payments in respect of the 2016 Notes may be credited or transferred.

5.2 **Notification of euro account**

Each 2016 Noteholder or Beneficiary shall nominate its euro account by notifying details in respect thereof to DUTB either (a) in the manner notified to the 2016 Noteholder or Beneficiary by DUTB or its paying agent (if any) appointed in accordance with Condition 5.6 following a request from such 2016 Noteholder or Beneficiary to DUTB or its paying agent in accordance with Condition 13 or (b) in such other manner as may from time to time be specified in a notice given by or on behalf of DUTB in accordance with Condition 13.

If a Beneficiary of any amount payable in respect of a 2016 Note fails to nominate its euro account in accordance with the foregoing before the third KDD Business Day prior to the due date for payment of such amount, such Beneficiary shall not be entitled to payment of the amount due until the fifth business day after details of its euro account have been properly nominated in accordance with the foregoing, and the relevant Beneficiary shall not be entitled to any interest or other payment in respect of any such delay.

5.3 **Assignment of Clearing Systems' rights**

In the case of an Event of Default described in Condition 7.1, any right to receive payment in respect of a 2016 Note held at the Relevant Time by Clearstream Banking, société anonyme or Euroclear Bank SA/NV (if applicable) (each a "**Clearing System**", and together the "**Clearing Systems**") or by any other person on behalf of a Clearing System (if applicable) (each such person a "**Fiduciary**") shall be deemed assigned on the due date for such payment to the person recorded in the records of the relevant Clearing System as the holder of such 2016 Note at the Relevant Time (the "**Accountholder**") (in which regard a statement of accounts issued by the relevant Clearing System and, where applicable, its Fiduciary as to the nominal amount of 2016 Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding evidence of a right to receive such payment) and such Accountholder shall be entitled to enforce the obligation of DUTB to make such payment (including any further interest due in accordance with Condition 3) to the euro account of the Beneficiary of such payment (being the relevant Clearing System or, where applicable, its Fiduciary).

5.4 **Payments subject to fiscal laws**

All payments in respect of the 2016 Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 6. No commissions or expenses shall be charged to the 2016 Noteholders or Beneficiaries in respect of such payments.

5.5 **Payments on business days**

If the due date for payment of any amount in respect of any 2016 Note is not a business day, the Beneficiary shall not be entitled to payment of the amount due until the next succeeding business day and shall not be entitled to any interest or other payment in respect of any such delay.

5.6 **Paying agent**

DUTB reserves the right at any time to appoint or terminate the appointment of a paying agent who acts solely as an agent DUTB and does not assume any obligations towards or relationship of agency or trust for or with any of the 2016 Noteholders or Beneficiaries.

6. **TAXATION**

All payments of principal and interest in respect of the 2016 Notes by or on behalf of DUTB 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 DUTB shall pay such additional amounts as will result in the receipt by the Beneficiaries of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable:

(i) in respect of any amount payable in respect of a 2016 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 2016 Note or receiving principal or interest in respect thereof; or

(ii) in respect of any amount payable in respect of a 2016 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 DUTB 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 2016 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.

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 DUTB has notified the relevant Beneficiary that the amount in question will be paid subject only to the receipt by DUTB of a notice specifying the details of its euro account in accordance with Condition 5.2 (except to the extent that there is any subsequent default in payment).

Any reference in these Conditions to principal or interest in respect of the 2016 Notes shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 6.

7. EVENTS OF DEFAULT

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

7.1 Non-payment

DUTB fails to pay any amount of principal or interest in respect of the 2016 Notes within 30 days of the due date for payment thereof; or

7.2 Breach of other obligations

DUTB does not perform or comply with, or is otherwise in breach of, any one or more of its other obligations under the 2016 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 by 2016 Noteholders holding not less than 25 per cent. in aggregate of the principal amount of the outstanding Notes; or

7.3 Insolvency, etc.

Any of the following events occur:

(i) DUTB becomes insolvent or is unable to pay its debts as they fall due;

(ii) an administrator (*upravitelj prisilne poravnave*), bankruptcy manager (*stečajni upravitelj*) or liquidator (*likvidacijski upravitelj*) of DUTB or the whole or a substantial part of the undertaking, assets and revenues of DUTB is appointed (or application for any such appointment is made);

(iii) DUTB takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it;

(iv) DUTB ceases or threatens to cease to carry on all or any substantial part of its business; or

7.4 Winding up etc.

An order is made or an effective resolution is passed for the winding up, liquidation or dissolution of DUTB; or

7.5 Analogous event

Any event occurs which under the laws of the Republic of Slovenia has an analogous effect to any of the events referred to in Conditions 7.3 (*Insolvency, etc.*) and 7.4 (*Winding up, etc.*); or

7.6 **Guarantee not in force**

If the Guarantee Statement is not (or is claimed by the Republic not to be) in full force and effect,

then 2016 Noteholders holding not less than 25 per cent. in aggregate of the principal amount of the outstanding 2016 Notes may declare the 2016 Notes due and payable, in each case at their principal amount together with accrued interest, without further formality. Upon such declaration DUTB shall give notice to the 2016 Noteholders in accordance with Condition 13.

If DUTB receives notice in writing from 2016 Noteholders of at least 50 per cent. in aggregate principal amount of the outstanding 2016 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, DUTB shall give notice thereof to the 2016 Noteholders in accordance with Condition 13, whereupon the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations which may have arisen before such notice is given (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other declaration or any subsequent Event of Default or any right of any 2016 Noteholder in relation thereto.

8. **PRESCRIPTION**

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

9. **MEETINGS OF NOTEHOLDERS; MODIFICATION AND WAIVER**

9.1 **Definitions**

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

"**Chairman**" means, in relation to any Meeting, the individual who takes the chair in accordance with Condition 9.4;

"**Extraordinary Resolution**" means a resolution passed at a Meeting duly convened and held in accordance with this Condition 9 by a majority of at least:

(i) in the case of a Reserved Matter, 75 per cent. of the aggregate principal amount of the outstanding 2016 Notes represented at a duly called meeting; or

(ii) in the case of a matter other than a Reserved Matter, 66 2/3 per cent. of the aggregate principal amount of the outstanding 2016 Notes which are represented at that meeting;

"**Meeting**" means a meeting of 2016 Noteholders (whether originally convened or resumed following an adjournment); a 2016 Note shall be considered to be "**outstanding**" unless one or more of the following events has occurred:

(i) it has been redeemed in full or purchased under Condition 4, and if purchased under Condition 4, has been cancelled in accordance with Condition 4.3; or

(ii) for the purposes of Condition 9, it is being held by or on behalf of DUTB, the Republic or any Agency (as defined in Condition 4.3);

"**Proxy**" means, in relation to any Meeting, a person appointed to vote on behalf of one or more 2016 Noteholders, other than:

(i) any such person whose appointment has been revoked and in relation to whom DUTB has been notified in writing of such revocation by the time which is at least 24 hours before the time fixed for such Meeting; and

(ii) any such person appointed to vote at a Meeting which has been adjourned for want of a quorum and who has not been re-appointed to vote at the Meeting when it is resumed;

"**Reserved Matter**" means, subject as provided in the paragraph below (*Matters requiring unanimity*), any proposal of DUTB:

(i) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the 2016 Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the 2016 Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the 2016 Notes on any date;

(ii) to change the currency in which any amount due in respect of the 2016 Notes is payable or the manner in which any payment is to be made;

(iv) to change the quorum required at any Meeting or the majority required to pass an Extraordinary Resolution, Written Resolution or any other resolution of 2016 Noteholders or the number or percentage of votes required to be cast, or the number or percentage of 2016 Notes required to be held, in connection with the taking of any decision or action by or on behalf of the 2016 Noteholders or any of them;

(v) to change this definition, the definition of "Extraordinary Resolution", the definition of "outstanding" or the definition of "Written Resolution";

(vi) to change or waive the provisions of the 2016 Notes set out in Condition 2; or

(vii) to change any provision of the 2016 Notes describing circumstances in which 2016 Notes may be declared due and payable prior to their scheduled maturity date, set out in Condition 7.

"**Matters requiring unanimity**" means any proposal:

(i) to change the law governing the 2016 Notes, the courts to the jurisdiction of which DUTB has submitted in the 2016 Notes or DUTB's waiver of immunity, in respect of actions or proceedings brought by any 2016 Noteholder, in each case set out in Condition 15;

(ii) to modify any provision of the Guarantee Statement;

(iii) to modify any provision of these Conditions in connection with any exchange or substitution of the 2016 Notes for, or the conversion of the 2016 Notes into, any other obligations or securities of DUTB or the Republic (except in such case where an exchange of 2016 Notes is to occur solely as a result of the operation of Condition 11) or any other person, which would result in the Conditions as so modified being less favourable to the holders of 2016 Notes which are subject to the Conditions as so modified than:

    (A) the provisions of the other obligations or securities of DUTB or any other person resulting from the relevant exchange or substitution or conversion; or

    (B) if more than one series of other obligations or securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series having the largest aggregate principal amount; or

(iv) to modify the provisions of this paragraph above (*Matters requiring unanimity*),

may only be given effect with the consent of the holders of all of the outstanding 2016 Notes and of the Republic.

"**Modifications**" means a modification of these Conditions as provided in the paragraph above (*Matters requiring unanimity*), any modification of any provision of these Conditions may be made if approved by an Extraordinary Resolution or a Written Resolution;

"**Voter**" means, in relation to any Meeting, any person registered in the Central Register as the holder of any 2016 Note 48 hours before the time fixed for such Meeting or a Proxy appointed by such 2016 Noteholder;

"**Written Resolution**" means a resolution in writing signed by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding 2016 Notes, in the case of a Reserved Matter, or 66 2/3 per cent. of the aggregate principal amount of the outstanding 2016 Notes, in the case of a matter other than a Reserved Matter. Any Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more 2016 Noteholders;

"**24 hours**" means a period of 24 hours including all or part of a day upon which banks are open for business in the place where the relevant Meeting is to be held (disregarding for this purpose the day upon which such Meeting is to be held) and such period shall be extended by one period or, to the extent necessary, more periods of 24 hours until there is included as aforesaid all or part of a day upon which banks are open for business as aforesaid; and "**48 hours**" means 2 consecutive periods of 24 hours.

9.2 **Convening of Meeting**

DUTB may convene a Meeting at any time and DUTB shall be obliged to do so upon the request in writing of 2016 Noteholders holding not less than one tenth of the aggregate principal amount of the outstanding 2016 Notes.

9.3 **Notice**

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the relevant Meeting is to be held) specifying the date, time and place of the Meeting shall be given to the 2016 Noteholders. The notice shall set out (i) the full text of any resolutions to be proposed, (ii) details of the manner in which Proxies may be appointed and the deadline for any such appointment, which shall be 24 hours before the time fixed for such Meeting and (iii) the name of the Chairman appointed by DUTB.

9.4 **Chairman**

An individual (who may, but need not, be a 2016 Noteholder) appointed by DUTB may take the chair at the respective Meeting. If the individual appointed is not present within 15 minutes after the time fixed for the Meeting, those present shall elect one of themselves to take the chair failing which, DUTB may appoint a Chairman.

9.5 **Quorum**

The quorum at any Meeting convened to vote on an Extraordinary Resolution will be:

(i) one or more persons present and holding or representing more than 50 per cent. of the aggregate principal amount of the outstanding 2016 Notes; or

(ii) where a Meeting is adjourned and rescheduled owing to a lack of quorum, at any rescheduled Meeting, one or more persons present and holding or representing at least 25 per cent. of the aggregate principal amount of the outstanding 2016 Notes,

provided, **however**, **that** any proposals relating to a Reserved Matter may only be approved by an Extraordinary Resolution passed at a Meeting at which one or more persons present and holding or representing at least 75 per cent. of the aggregate principal amount of the outstanding 2016 Notes form a quorum.

9.6 **Adjournment for want of quorum**

If within 15 minutes after the time fixed for any Meeting a quorum is not present, then:

(i) in the case of a Meeting requested by 2016 Noteholders, it shall be dissolved; and

(ii) in the case of any other Meeting, it shall be adjourned for such period (which shall be not less than 14 days and not more than 42 days) and to such place as the Chairman determines; **provided**, **however**, **that** the Meeting shall be dissolved if DUTB so decides and no Meeting may be adjourned more than once for want of a quorum.

9.7 **Adjourned Meeting**

The Chairman may, with the consent of (and shall if directed by) any Meeting, adjourn such Meeting from time to time and from place to place, but no business shall be transacted at any adjourned Meeting except business which might lawfully have been transacted at the Meeting from which the adjournment took place.

9.8 **Notice following adjournment**

Condition 9.3 shall apply to any Meeting which is to be resumed after adjournment for want of a quorum save that:

(i) 10 days' notice (exclusive of the day on which the notice is given and of the day on which the Meeting is to be resumed) shall be sufficient; and

(ii) the notice shall specifically set out the quorum requirements which will apply when the Meeting resumes.

It shall not be necessary to give notice of the resumption of a Meeting which has been adjourned for any other reason.

9.9 **Participation**

The following may attend and speak at a Meeting:

(i) Voters;

(ii) representatives of DUTB and the Republic;

(iii) the financial advisers of DUTB and the Republic;

(iv) the legal counsel to DUTB and the Republic;

(v) the financial advisers of the 2016 Noteholders present or represented at the Meeting;

(vi) the legal counsel to the 2016 Noteholders present or represented at the Meeting; and

(vii) any other person approved by the Meeting.

9.10 **Show of hands**

Every question submitted to a Meeting shall be decided in the first instance by a show of hands. Unless a poll is validly demanded before or at the time that the result is declared, the Chairman's declaration that on a show of hands a resolution has been passed, passed by a particular majority, rejected or rejected by a particular majority shall be conclusive, without proof of the number of votes cast for, or against, the resolution.

9.11 **Poll**

A demand for a poll shall be valid if it is made by the Chairman, DUTB or one or more Voters representing or holding not less than one fiftieth of the aggregate principal amount of the outstanding 2016 Notes. The poll may be taken immediately or after such adjournment as the Chairman directs, but any poll demanded on the election of the Chairman or on any question of adjournment shall be taken at the Meeting without adjournment. A valid demand for a poll shall not prevent the continuation of the relevant Meeting for any other business as the Chairman directs.

9.12 **Votes**

Every Voter shall have: (i) on a show of hands, one vote; and (ii) on a poll, one vote in respect of each 2016 Note represented or held by him. In the case of a voting tie the Chairman shall have a casting vote.

A Voter shall not be obliged to exercise all votes to which he is entitled or (in case of a poll) to cast all the votes which he/she exercises in the same way.

9.13 **Validity of Votes by Proxies**

If DUTB requires, a notarised copy of each document appointing a Proxy and satisfactory proof of the identity of each Proxy named therein shall be produced at the Meeting, but DUTB shall not be obliged to investigate the validity of any such appointment or the authority of any Proxy.

Any vote by a Proxy shall be valid even if the appointment of such Proxy or any instruction pursuant to which it was given has been amended or revoked, **provided that** DUTB has not been notified in writing of such amendment or revocation by the time which is at least 24 hours before the time fixed for the relevant Meeting. Unless revoked, any appointment of a Proxy in relation to a Meeting shall remain in force in relation to any resumption of such Meeting following an adjournment; **provided**, **however**, **that** no such appointment of a Proxy in relation to a Meeting originally convened which has been adjourned for want of a quorum shall remain in force in relation to such Meeting when it is resumed. Any person appointed to vote at such a Meeting must be re-appointed as a Proxy to vote at the Meeting when it is resumed.

9.14 **Powers**

A Meeting shall have the power (exercisable by Extraordinary Resolution), without prejudice to any other powers conferred on it or any other person:

(i) to approve any Reserved Matter;

(ii) to approve any proposal by DUTB for any modification, abrogation, variation or compromise of any of the Conditions or any arrangement in respect of the obligations of DUTB under or in respect of the 2016 Notes;

(iii) to approve the substitution of any person for DUTB (or any previous substitute) as principal obligor under the 2016 Notes;

(iv) to waive any breach or authorise any proposed breach by DUTB of its obligations under or in respect of the 2016 Notes or any act or omission which might otherwise constitute an Event of Default under the 2016 Notes;

(v) to authorise any person to execute all documents and do all things necessary to give effect to any Extraordinary Resolution;

(vi) to give any other authorisation or approval which is required to be given by Extraordinary Resolution; and

(vii) to appoint any persons as a committee to represent the interests of the 2016 Noteholders and to confer upon such committee any powers which the 2016 Noteholders could themselves exercise by Extraordinary Resolution.

9.15 **Extraordinary Resolution binds all holders**

Any Extraordinary Resolution duly passed at a Meeting duly convened and held in accordance with this Condition 9 shall be binding upon all 2016 Noteholders whether or not present at such Meeting, and whether or not they voted in favour, and each of the 2016 Noteholders shall be bound to give effect to it accordingly. Notice of the result of every vote on an Extraordinary Resolution shall be given by DUTB to the 2016 Noteholders within 14 days of the conclusion of the Meeting in accordance with Condition 13.

9.16 **Minutes**

Minutes shall be made of all resolutions and proceedings at each Meeting. The Chairman shall sign the minutes, which shall be *prima facie* evidence of the proceedings recorded therein. Unless and until the contrary is proved, every such Meeting in respect of the proceedings of which minutes have been summarised and signed shall be deemed to have been duly convened and held and all resolutions passed or proceedings transacted at it to have been duly passed and transacted.

9.17 **Written Resolution**

A Written Resolution shall take effect as if it were an Extraordinary Resolution and shall be binding on all 2016 Noteholders whether or not signed by them.

10. **MANIFEST ERROR**

The 2016 Notes and these Conditions may be amended without the consent of the 2016 Noteholders to correct a manifest error or for the purposes of any amendment which is of a formal, minor or technical nature as determined by a major international law firm and evidenced by a signed legal opinion from that law firm.

11. **EXCHANGE OF THE NOTES**

If (a) an Extraordinary Resolution is passed or a Written Resolution is signed, approving in each case an amendment, modification, variation or abrogation of any provision of the 2016 Notes or these Conditions or the substitution of any person for DUTB as principal obligor under the 2016 Notes; or (b) an amendment of the 2016 Notes or these Conditions is permitted pursuant to Condition 10, such amendment, modification, variation, abrogation or substitution shall, to the extent required under Slovenian law, be effected by way of deemed redemption of the 2016 Notes prior to their scheduled maturity date and by DUTB procuring that, on the Exchange Date (as defined below). Replacement 2016 Notes (as defined below) are credited to the account of each 2016 Noteholder with KDD in exchange for each 2016 Note which had been credited to the account of such 2016 Noteholder with KDD at close of business on the KDD Business Day prior to the Exchange Date.

It shall be deemed that each 2016 Noteholder has consented to the exchange of 2016 Notes in accordance with the foregoing and has authorised KDD to debit its securities account maintained with KDD accordingly.

In this Condition 11:

(i) "**Exchange Date**" means the date specified by DUTB in a notice given to the 2016 Noteholder in accordance with Condition 13 not less than seven days before such date; and

(ii) "**Replacement Notes**" means securities differing from the 2016 Notes solely in such respects as had been approved by the relevant Extraordinary Resolution or Written Resolution or as permitted pursuant to Condition 10.

12. **FURTHER ISSUES**

DUTB may from time to time, without the consent of the 2016 Noteholders, create and issue further notes having the same terms and conditions as the 2016 Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the 2016 Notes.

13. **NOTICES**

A notice to a 2016 Noteholder or a Beneficiary shall be valid if either (at the sole discretion of DUTB) (a) sent by mail to such 2016 Noteholder or Beneficiary at the address registered for a 2016 Noteholder or Beneficiary in the Central Register or at the address notified by such a person to DUTB in accordance with this Condition 13, and any such notice shall be deemed to have been given on the eighth day following the day the notice was sent by mail or (b) published in a leading Slovenian language daily newspaper having general circulation in Slovenia and in a leading English language daily newspaper having general circulation in Europe and, in any event, shall be published in such other manner as may be required by the rules of any regulated market on which the 2016 Notes are at such time listed and/or traded. Any such notice given by publication shall be deemed to have been given on the date of publication or, if so published more than once on different dates, on the date of the first publication.

Notices to DUTB shall be sent by letter or fax to:

Davčna ulica 1
1000 Ljubljana
Slovenia

Fax: +386 1 429 38 59
Attention: Mr Torbjörn Månsson

or, in any case, to such other address or fax number or for the attention of such other person or department as DUTB has by prior notice to the 2016 Noteholders and Beneficiaries specified for a particular purpose.

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

All notices hereunder shall only be valid if made (a) in the case of Notices to the 2016 Noteholders or Beneficiaries, in English and Slovenian; and (b) in the case of Notices to DUTB, in English or Slovenian or in any other language **provided that** such notices are accompanied by a certified English or Slovenian translation thereof. Any certified English or Slovenian translation delivered hereunder shall be certified a true and accurate translation by a professionally qualified translator or by some other person competent to do so.

14. GOVERNING LAW AND JURISDICTION

14.1 Governing law

The 2016 Notes and any non-contractual obligations arising out of or in connection with these are governed by and shall be construed in accordance with Slovenian law.

14.2 Jurisdiction

DUTB agrees for the benefit of the 2016 Noteholders and Beneficiaries that the courts of the Republic of Slovenia shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the 2016 Notes (collectively, "**Proceedings**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

14.3 Non-exclusivity

The submission to the jurisdiction of the courts of the Republic of Slovenia shall not (and shall not be construed so as to) limit the right of any 2016 Noteholder or Beneficiary to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

14.4 Consent to enforcement, etc.

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

14.5 **Waiver of immunity**

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

SCHEDULE 1

GUARANTEE STATEMENT

1. Introduction

Pursuant to paragraph 1 of Article 12 of Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act, (*Zakon Republike Slovenije za krepitev stabilnosti bank*, *Uradni list RS, št. 105/2012 in 63/2013*) (the "**ZUKSB**") the Republic of Slovenia may issue guarantees for notes, issued by Družba za upravljanje terjatev bank, d.d. ("**DUTB**") for financing the purchase of a bank's assets in accordance with Article 11 of ZUKSB.

Pursuant to paragraph 3 of Article 30 of the Decree on the Implementation of Measures to Strengthen Bank Stability (*Uredba o izvajanju ukrepov za krepitev stabilnosti bank, Uradni list RS, št. 103/2013*) (the "**Decree**"), the Minister of Finance is authorised to sign a document issuing a guarantee.

The government of the Republic of Slovenia has adopted a decision granting a guarantee for the obligations of DUTB arising from borrowing on financial or interbank markets and from notes that were subscribed to in exchange for a transfer of impaired assets from NKBM, d.d., to DUTB, up to the amount of EUR 422 million on 12 December 2013.

The government of the Republic of Slovenia has adopted a decision granting a guarantee for the obligations of DUTB arising from borrowing on financial or interbank markets and from notes that were subscribed to in exchange for a transfer of impaired asset from NLB, d.d., to DUTB, up to the amount of EUR 711 million on 12 December 2013.

The Ministry of Finance has issued a consent to the issue of notes by DUTB up to the nominal value of EUR 1,133,000,000 on 17 December 2013.

Based on the foregoing, the Minister of Finance, in the name of and on behalf of the Republic of Slovenia, issues this document (the "**Guarantee Statement**") which relates to notes issued by DUTB in the total nominal amount of EUR 505,800,000, with annual interest rate 4.50 per cent. and due date 15 December 2016 (hereinafter the "**Notes**"), issued in dematerialised registered form in the denomination of €100,000. The Guarantee Statement is attached to the terms and conditions of the Notes (the "**Conditions**") and is an integral part of the registration order for the issue of the Notes.

2. Definitions

In this Guarantee Statement the following terms shall have the following meaning:

"**Notes**" have the meaning ascribed to such term in Section 1.

"**Conditions**" have the meaning ascribed to such term in Section 1.

"**Business Day**" means any day which is a day on which the Trans European Automated Real Time Gross Settlement Express Transfer (TARGET2) payment system which utilises a single shared platform and which was launched on 19 November 2007 is operating.

"**Beneficiary**" means, in relation to any amount payable in respect of a Note, the person registered as the holder of such Note in the Central Register, at the Relevant Time.

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

"**KDD Business Day**" means any day which is a day on which KDD is open for business.

"**Demand**" has the meaning ascribed to such term in Section 5.

"**Noteholder**" means each person that shall be for the time being recorded in the Central Register as the holder of a particular number of the Notes.

"**Proceedings**" has the meaning ascribed to such term in Section 15.

"**Central Register**" means the central register of securities, maintained by KDD.

"**KDD**" means KDD d.d., Tivolska cesta 48, SI 1000 Ljubljana, Slovenia.

"**Tax**" has the meaning ascribed to such term in Section 12.

3. **Guarantor's obligation**

The Republic of Slovenia hereby irrevocably and unconditionally guarantees the due and punctual payment of all amounts payable by DUTB under the Notes as and when the same become due and payable and, accordingly, undertakes to pay to the Beneficiary of each such payment promptly and in any event no later than 3 (three) Business Days following the receipt of the Demand (as defined below), any and every sum or sums which DUTB is liable to pay to such Beneficiary in respect of the Notes and which DUTB has failed to pay on its due date and which remains outstanding.

4. **Status**

The payment obligations of the Republic of Slovenia under this Guarantee Statement will at all times rank at least equally (*pari passu*) with all the other present and future unsecured and unsubordinated indebtedness of the Republic of Slovenia.

5. **Demand**

A demand for payment of an amount in respect of the guaranteed obligations (a "Demand") is a Beneficiary's notice addressed to the Republic of Slovenia, stating:

(a) that it concerns a demand for payment in relation to the Notes (with reference to the ISIN code of the Notes);

(b) the identity of the Beneficiary and the details of its euro account;

(c) the amount to which the Demand relates, including the principal and/or interest amount and due date and any costs and expenses necessary to effect such payment obligation, which details can be verified promptly upon the request;

(d) that the Issuer has failed to pay such amount its due date; and

(e) that the Beneficiary demands the payment of such amount from the Republic of Slovenia.

6. **Payment without Demand**

The Republic of Slovenia may, at its sole discretion, make a payment in respect of the Notes on its due date even if no Demand has been made.

7. **Continuing obligations**

The obligations of the Republic of Slovenia in respect of the Notes shall continue in full force and effect until all payment obligations under the Notes have been paid in full and shall not be considered satisfied by any intermediate or partial payment all or any of DUTB's obligations under or in respect of any Note.

8. **Obligations not discharged**

Neither the obligations of the Republic of Slovenia herein contained nor the rights, powers and remedies conferred upon the Beneficiaries under this Guarantee Statement or by law shall be discharged, impaired or otherwise affected by:

(a) Winding up: the winding up, dissolution, administration, re-organisation or moratorium of DUTB or any change in its status, function, control or ownership;

(b) Invalidity: any of the obligations of DUTB under or in respect of the Notes being invalid, unenforceable or ineffective in any respect due to lack of capacity;

(c) Indulgence: time or other indulgence being granted or agreed to be granted to DUTB in respect of any of its obligations under or in respect of the Notes;

(d) Amendment: any amendment to, or any variation, waiver, non-enforcement or release of, any obligation of DUTB under or in respect of the Notes or any security or other guarantee or indemnity in respect thereof, however fundamental; or

(e) Analogous events: any other act, event or omission which, but for this Section 8, might operate to discharge, impair or otherwise affect the obligations expressed to be assumed by the Republic of Slovenia herein or any of the rights, powers or remedies conferred upon the Beneficiaries or any of them by this Guarantee Statement or by law.

9. **Repayments in insolvency proceedings**

A Beneficiary shall be entitled to receive payment under this Guarantee Statement also following full discharge of the obligations under the Notes by DUTB if (i) such Beneficiary has received payment from DUTB under the Notes but due to the operation of the provisions of insolvency legislation it is obliged to repay such payments and has made repayment accordingly; and (ii) it has made a Demand within 30 calendar days following the repayment referred to in (i) above that it demands payment under this Guarantee Statement from the Guarantor; and (iii) has notified the Guarantor in writing within 30 calendar days following the receipt of any request for a repayment referred to in (i) above.

10. **Exercise of rights**

Except as provided in this Guarantee Statement, no Beneficiary shall be obliged before exercising any of the rights, powers or remedies conferred upon it by this Guarantee Statement or by law:

(a) Take action: to take any action or obtain judgment in any court against DUTB; or

(b) Claim or proof: to make or file any claim or proof in a winding up or dissolution of DUTB

11. **Deferral of rights**

The Republic of Slovenia agrees, to the extent permissible under the law, that, so long as any sums are or may be owed by DUTB in respect of the Notes, the Republic of Slovenia will not exercise any rights against DUTB which the Republic of Slovenia may at any time have by reason of the performance of its obligations under this Guarantee Statement.

12. **Taxation**

All payments in respect of the Guarantee Statement by the Republic of Slovenia 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 of Slovenia 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 Republic of Slovenia shall pay such additional amounts to Beneficiaries as will result in the receipt by the Beneficiaries of such amounts as would have been received by them had no such withholding or deduction been required, except where such additional amounts would not be required to be paid by the DUTB under the Conditions.

13. **Notices**

A notice from the Republic of Slovenia to a Noteholder or a Beneficiary shall be valid if given in the manner in which notices to Noteholders or Beneficiaries may be given in accordance with the Conditions.

Notices to the Republic of Slovenia shall be sent by letter or by facsimile to the following address:

Ministrstvo za finance
Direktorat za javno premoženje in finančni sistem
Župančičeva 3
1502 Ljubljana
Slovenija

Tel.: + 386 1 369 6690
Fax: + 386 1 369 6855

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

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

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

14. **Governing law**

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

15. **Jurisdiction**

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

16. **Non-exclusivity**

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

17. **Consent to enforcement, etc.**

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

18. **Waiver of immunity**

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

19. **Entry into force of the Guarantee Statement and number of copies**

This Guarantee Statement shall enter into force on the date it is signed by the Guarantor. The obligations of the Guarantor under this Guarantee Statement shall be recorded in the Central Register and shall be deemed to be accepted by each Noteholder and Beneficiary on registration of the Notes to the account of the Noteholder and Beneficiary in the KDD. This Guarantee Statement is issued in three original copies. One copy shall be received by the Guarantor, one by the issuer and one copy shall be delivered together with registration order for the issue of the Notes to KDD.

INVESTMENT CONSIDERATIONS

Prospective investors should carefully consider the following investment considerations, 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 investment considerations set forth below could, individually or in the aggregate, have a material adverse effect on DUTB or the Republic's capacity to repay principal and make payments of interest on the Notes or otherwise fulfil their obligations under the Notes.

Prospective investors should note that the investment considerations described below are not exhaustive and are not intended to represent all of the investment considerations which prospective investors should consider when reaching a decision to invest in the Notes. Additional risks and uncertainties not currently known to the Issuer or the Republic or that the Issuer or the Republic currently deems to be immaterial may also affect their ability to fulfil their obligations under the Notes. In any such case, investors may lose all or part of their investment in the Notes.

Investment considerations related to DUTB

- DUTB 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 purchase price for the distressed assets to be acquired by DUTB is to be determined by a process that is not under the control of DUTB. The purchase price for the distressed assets has been set by the European Commission's Directorate General for Competition ("**DG Comp"**) following an assessment of the findings of the asset quality review completed at the request of the European Commission and the European Central Bank. For the banks identified as being of systemic importance to the Slovenian banking system (NLB, NKBM, Abanka) the asset quality review was completed under instruction from the Inter-Ministerial Committee (formed of members appointed by the Government and the Bank of Slovenia). DUTB has had no detailed insight into the methodology and approach applied by DG Comp in determining the appropriate pricing for the distressed assets to be acquired. The advisors who have completed the asset quality review for the Inter-Ministerial Committee do not owe a duty of care to DUTB, and DUTB has not had an opportunity to perform their own independent assessment on either the asset quality review process or its results. There is a risk therefore that the recoverable value of the distressed assets acquired may be less than the purchase price paid (as determined by DG Comp).

- DUTB will be entering into contracts with Slovenian banks to provide certain transitional services in relation to the distressed assets acquired by DUTB. There is a risk that the Slovenian banks do not perform under the agreed service level agreements, which may impact on the ability of DUTB to optimise recoveries from the distressed assets acquired.

- The value (net of recovery costs) eventually recovered by DUTB in relation to distressed assets acquired from Slovenian banks may be significantly less than the acquisition price. This may be due to factors outside the control of DUTB, including those outlined below under "*Investment considerations related to the Republic of Slovenia*".

- DUTB is reliant on equity funding from the Republic. If losses arising from distressed assets acquired are significantly higher than those forecast, DUTB may require additional equity funding from the Republic to enable DUTB to absorb such losses.

- Future changes to the legislation that governs DUTB, or changes to the operational structure of DUTB, may have an effect on DUTB's future financial performance.

- Depending on DUTB's future financial performance, holders of the Notes may be required to rely on the guarantee of the Republic to obtain repayment.

- In accordance with Article 36 of the ZUKSB, the ZUKSB shall not be in force after 31 December 2017, when DUTB ceases to exist. Third parties may therefore perceive DUTB to be a 'seller under pressure', which may have a negative impact on value eventually recovered by DUTB in relation to distressed assets acquired.

Investment considerations related to the Republic of Slovenia

- 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 banking system may face challenges in terms of liquidity.
- The Republic of Slovenia is a member of the European Monetary Union and, therefore, has limited ability to set monetary policy.
- Official economic data may not be directly comparable with data produced by other sources.

Investment considerations related to 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.

ISSUE OF THE NOTES

The 2015 Notes, which are expected to amount to €505,800,000 and the 2016 Notes, which are expected to amount to €505,800,000 will be used by DUTB for financing the acquisition of assets from Slovenian banks in accordance with Article 11 of ZUKSB. In addition to the receipt of assets from the relevant Slovenian banks, the Issuer will also receive €186,185 in net proceeds, which will be used by the Issuer for its general corporate purposes.

THE ISSUER

Establishment and Operation

The Issuer's legal and commercial name is Družba za upravljanje terjatev bank, d.d. ("**DUTB**" or the "**Issuer**").

The Issuer was incorporated in the Republic of Slovenia on 19 March 2013.

The Issuer was incorporated as a joint stock company under Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act (the "**ZUKSB**") The Issuer's registered office is at Davčna ulica 1, 1000 Ljubljana, Slovenia and the telephone number of its registered office is +386 820 542 35.

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 ZUKSB. However, the law was rejected 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 DUTB who have been tasked with appointing executive directors to the board. As of 10 December 2013, three acting executive directors have been appointed. The final step for legal establishment of DUTB was the decision of the registry court, which was adopted on 19 March 2013. On 13 September 2013, one of the appointed Non-Executive Directors, Andrej Šircelj, was dismissed by the Government based on a legal opinion that there was a conflict of interest between being a member of parliament and member of the board of DUTB, due to the legislation regulating Members of Parliament. Mr Šircelj is contesting the Government's decision.

The purpose of the ZUKSB is to deal with non-performing loans and distressed assets on banks' balance sheets. Under this new law, DUTB 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 DUTB; (ii) government guarantees (limited by law to a maximum of €4 billion) to strengthen the stability of banks, namely for assumed obligations of DUTB for obligations of the special purpose vehicles set up by the banks or by DUTB and 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) DUTB on its own initiative, (ii) a bank itself, or (iii) the Bank of Slovenia. The main objective of DUTB 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 "**DUTB Regulation**"). DUTB 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. DUTB Regulation was enacted by the Government on 13 March 2013. However, DUTB Regulation was replaced by a new regulation adopted by the Government which entered into force on 12 December 2013.

The new regulation provides that the transfer price for the assets to be acquired by DUTB will be set by DG Comp. DG Comp sets the transfer price after completing an evaluation which applies a methodology for valuation using the real long-term economic value of assets as a basis, takes into consideration the asset quality reviews completed for each bank and applies certain deductions for the operating costs and financing costs of DUTB. The transfer price payable by DUTB for the assets to be acquired from NLB and NKBM has been set by DG Comp following an evaluation completed by DG Comp.

In accordance with Article 36 of the ZUKSB, the ZUKSB shall not be in force after 31 December 2017, when DUTB ceases to exist. Article 36 of the ZUKSB also provides for the assets, rights and obligations of DUTB to be transferred to the Slovene Compensation Fund or its legal successor at this time. In the Republic's National Reform Programme 2013-2014 dated May 2013, it has been noted that possible changes to ZUKSB are being considered which would prolong the life span of DUTB, although no decision to extend the life span of DUTB has as yet been made. DUTB was requested to submit recommendations regarding potential changes to ZUKSB and these submissions have been sent to the Ministry of Finance. DUTB's recommendations include removing the requirement for DUTB to be wound up by 31 December 2017. To date, no timeframe has been set for when ZUKSB will be updated, or alternatively replaced with new legislation.

Statutory Guarantee

Pursuant to ZUKSB, DUTB may finance the purchase of banks' assets by issuing bonds guaranteed by the Republic. These guarantees are not limited by the limits which are set in the public finance laws but are capped at €4 billion.

Management of the Issuer

Name	**Function(s) within the Group**	**Principal outside activities**
Torbjörn Månsson	Acting Executive Director	None
Aleš Koršič	Acting Executive Director	None
Boštjan Gjerkeš	Acting Executive Director	None

There are no conflicts of interest between the duties of the persons listed above to the issuer and their private interests or other duties.

Organisational Structure

The Issuer was established as a state founded entity in accordance with the ZUKSB and its sole shareholder is the Republic of Slovenia.

The Issuer does not have any subsidiary undertakings.

Capital Structure

The Issuer's registered capital is EUR 3,625,000.

On 12 December 2013, the General Assembly of the Issuer resolved to provide additional capital of EUR 200,000,000 to the Issuer in the form of marketable securities. Once registered, the Issuer's registered capital will be EUR 203,625,000.

Major Shareholders

The Issuer's share capital is owned by a sole shareholder, the Republic of Slovenia.

Litigation

The Issuer is not involved in any legal proceedings.

THE REPUBLIC OF SLOVENIA

Area 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 approximately two million people. 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.

History

Slovenia was 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. At the end of 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.

During the Second World War, Slovenia was occupied by Germany, Italy and Hungary. At the end of the Second World War, the Communist Party came to power and the Federal People's Republic of Yugoslavia was established. This was later renamed the Socialist Federal Republic of Yugoslavia (the "**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, particularly between the Serbs and the Albanians in Kosovo. Serbia proposed to overturn the 1974 constitution in favour of greater economic and cultural uniformity. The people of Slovenia disagreed largely with the Serbian proposal, and in September 1989, the Slovenian 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 Slovenian 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.

Political Structure and External Relations

On 23 December 1991, Slovenia adopted a constitution that established it as a democratic republic with a Parliament consisting of a National Assembly and a National Council, a government which holds executive power, 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.

The National Assembly is the highest 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.

The Government of Slovenia comprises (i) a Prime Minister, who is nominated by the President of Slovenia 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.

In the December 2011 elections, seven political parties representing views across the political spectrum were voted into the Parliament. As has been the case in all governments of Slovenia to date, the present government of Slovenia is a coalition government. The government of Slovenia comprises four left-centre parties.

Following a non-confidence vote on 27 February 2013, for the now former government formally elected by Parliament on 10 February 2012, 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 DUTB 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.

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.

The President of the Republic of Slovenia is commander-in-chief of its defence forces. 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. The President has no authority to veto legislation approved by the National Assembly.

Judicial authority is vested in the Supreme Court, district courts and county courts. A separate Constitutional Court has jurisdiction over all matters relating to the interpretation of the provisions of the Constitution. The judges of the Constitutional Court are appointed for a term of nine years and are not eligible for re-appointment.

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, Slovenia became a member of the United Nations and the European Bank for Reconstruction and Development. In 1993, Slovenia 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 European Union ("**EU**") and the North Atlantic Treaty Organisation in 2004 and joined the European Economic and Monetary Union at the beginning of 2007, making it the first of the 2004 accession states to have done so. Likewise, Slovenia was the first member of the 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 Organisation for Economic Cooperation and Development ("**OECD**").

Economy

Prior to its independence in June 1991, Slovenia accounted for approximately 8 per cent. of the total SFRY population but generated approximately 17 per cent. of the gross domestic product ("**GDP**") of the SFRY and approximately 26 per cent. of the SFRY's exports. Slovenia benefited from the high tariffs of the SFRY and a protected internal market within the SFRY. However, the gradual stagnation of the SFRY economy during the 1980s and the subsequent break-up of the SFRY had a marked impact on Slovenian trade with the other republics of the SFRY.

Following independence, Slovenia began a transformation into a market economy. After the first two years of coping with a recession resulting from the problems of transition and establishing its own sovereignty, the economy has experienced positive growth. GDP per capita on a purchasing power parity ("**PPP**") basis has increased in a sustained manner. In 2012 it amounted to approximately 82 per cent. of the average of the 27 member states of the EU.

GDP growth rates 2008 – 2013

Year	Real growth rate (%)
2008	3.4
2009	(7.9)
2010	1.3
2011	0.7
2012	(2.5)
Six month ended 30 June 2013	(3.2)

Source: Eurostat, Statistical office, Institute for Macroeconomic Analysis and Development.

The two main factors underpinning strong GDP growth during the years 2004 – 2008 were strong international economic conditions and significantly stronger investment activity. In addition to cyclical developments, historical GDP growth in recent years was supported by the effects of adopted government reforms (particularly in the field of taxation) and wage policy, along with the positive effects of Slovenia's membership of the EU and Eurozone, which has especially benefited external trade.

Slovenia experienced increases in GDP of 1.3 per cent. and 0.7 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 autumn forecast of Institute of Macroeconomic Analysis and Development expects GDP to shrink by 0.8 per cent. and to increase by 0.4 per cent. in 2014 and 2015 respectively.

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 equates 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.

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.

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. 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.

Among the measures to enhance the competitiveness of its economy, Slovenia has reformed its system of corporate taxation. In 2006, Slovenia implemented a reform whereby tax on the payroll of companies was phased out gradually on an annual basis, and was 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. The corporate income tax rate was gradually reduced from 25 per cent. to 20 per cent. between 2006 and 2010. 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.

Similarly, efforts have been made to reduce government expenditure in recent years. In particular, general government expenditure as a percentage of GDP has been steadily declining since 2004. 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.

As a result of sound fiscal policy and good economic performance, fiscal consolidation gained momentum in 2007 and the 2007 general government position was balanced. In 2008, the government balance recorded a deficit of 1.9 per cent. and, as a result of the global financial crisis and the government's policy responses to it, the general government deficit in 2009 increased to 6.3 per cent. and dropped to 5.9 per cent. in 2010 and increased again to 6.3 per cent. in 2011. In 2012, the government adopted a set of comprehensive fiscal consolidation measures, which include structural shifts in public expenditures (including lower public sector wages). As a result, the general government deficit has come down to 3.8 per cent. of GDP.

As part of Slovenia's programme to join the Eurozone (which took place in 2007), Slovenia's rate of inflation was reduced to Eurozone rate of 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 level. In the second half of 2008, Slovenia's rate of inflation fell significantly and, as a consequence, the rate of inflation differential with the Eurozone rate of inflation has since narrowed. Slovenia's rate of inflation was low in 2010 and 2011, reading 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). Six month ended 30 June 2013 inflation reached 1.7 per cent. which is slightly below Euro Area average.

Annual Inflation (Harmonised Index of Consumer Prices) in 2009 to 2013, in per cent.

					Six months ended 30 June	
	2009	**2010**	**2011**	**2012**	**2012**	**2013**
Euro Area	0.3	1.6	2.7	2.5	2.3	1.9
Slovenia	0.9	2.1	2.1	2.8	2.4	1.7

Source: Eurostat

Prevailing adverse international economic conditions within the international banking and financial markets have led Slovenia to take a series of preventive measures to offset the impact on the Slovenian financial system and real sector, similar in nature to those taken by other countries in the Eurozone. These measures are in conformity with relevant decisions adopted by the Council of the EU.

Slovenia's 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 endorsement 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) purchase of receivables from credit institutions. The government was authorised to take individual measures up to 31 December 2010.

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

From 2009 to 2011, various measures were also implemented to offset the impact of the prevailing adverse international economic conditions. Measures taken to protect the Slovenian financial system included the use of treasury deposits in the first quarter of 2009, a time when the financial crisis was most acute, to strengthen the resilience of the banking system. In order to facilitate the normal flow of credit to the economy, borrowing guarantees were granted to four commercial banks, Nova Ljubljanska banka ("**NLB**"), Abanka Vipa d.d. ("**Abanka**"), 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 ("**EBA**") and the Bank of Slovenia, NLB launched a €250 million capitalisation, €243 million of which was provided by the government in 2011.

In light of further recapitalisation needs of NLB, the government 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 NLB) executed a backstop arrangement to ensure that the criterion of nine per cent. core Tier 1 capital was satisfied.

This back-stop arrangement entailed a number of measures including the buy-back of outstanding lower tier 2 and hybrid instruments, an increase of its share capital through cash contributions by state-owned shareholders (which accounted for €61 million), and the issuance of a contingent convertible bond ("**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 EBA 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 EBA) as well as the European Commission.

In December 2012, Slovenia and KBC Group NV ("**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 Nova KBM converted the €100 million hybrid loan (contingent convertible) into equity, which was contributed by Slovenia in late 2012. With the conversion, Slovenia's share will increase to about 79 per cent. There have been two main risks that the banking sector was exposed to: (i) its relatively low capitalisation; and (ii) a possible increase in underperforming loans due to a slow recovery of the Slovenian economy. However, on 12 December 2013 the Bank of Slovenia and the government of the Republic of Slovenia announced the results of the stress tests: the capital shortfall at the banks covered by the review would amount to €4.78 billion under the adverse scenario. €3.01 billion will be required for capital increases at three banks, of which NLB requires €1.55 billion, Nova KBM requires €870 million and Abanka requires €591 million. The government has secured the requisite funds: two-thirds in cash and one-third in marketable government securities. After the process has been completed, NLB, Nova KBM and Abanka will have overall capital adequacy ratios of around 15 per cent.

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.

To offset the impact of the global financial crisis in the real sector, the government introduced schemes for subsidising enterprises, for shortening the hours worked by employees, for enterprise restructuring, for fostering development of small and medium sized enterprises and tourism and for technological (R&D) centres and infrastructure as well as subsidies for new entrants in order to promote competition.

The objective of the original policy response was to limit the negative impact of lower external demand on existing production capacity and jobs. The policy measures 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.

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, which in turn induced the establishment of the Slovenian Sovereign Holding. On 21 May 2013, the Parliament authorised the Slovenska odškodninska družba, d.d. ("**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.

GDP 2008-2013, nominal values of GDP components

	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.

Balance of Payments 2007-2013

	2007	2008	2009	2010	2011	2012	Six months ended 30 June 2012	Six months ended 30 June 2013
					(*amounts in mio EUR*)			
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
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
Income	(788.5)	(1,029.9)	(723.7)	(588.5)	(523.9)	(552.1)	(454.2)	(215.7)
Current transfers	(243.5)	(282.3)	(173.6)	88.3	150.8	17.9	(47.9)	(150.0)
Capital Account and Financial Account...........	1,919.7	2,592.8	162.2	529.8	(473.7)	(1,206.2)	(480.3)	(2,377.1)
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)
Portfolio Investment	(2,255.4)	572.2	4,627.6	1,955.7	1,838.8	(217.8)	(1,595.2)	1,930.9
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)
Liabilities........	9,053.9	1,977.9	(3,705.5)	(2,589.0)	(1,287.4)	584.1	2,183.5	(1,367.1)
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.

In 2008, the current account deficit reached a high of €2,028.3 million or 5.4 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.

Foreign trade (goods only) by major destinations 2009-2013

		2009	2010	2011	2012	As at 31 August 2012	As at 31 August 2013
				(*in € million*)			
EU – 28...........	exports	12,721.70	14,628,10	16,559.40	16,285.20	10,872.90	10,944.20
	imports	13,952.80	16,005.90	18,056.00	17,464.20	11,711.60	11,084.90
Countries of ex Yugoslavia (Croatia, Serbia)	exports	1,878.50	1,893.40	2,072.00	2,113.30	1,415.80	1,409.30
	imports	895.2	1,129.30	1,318.7	1,281.60	829.40	907.7
Rest of the world..............	exports	850.80	2,451.80	2,818.50	1,432.50	917.20	1,019.20
	imports	2,177.90	2,668.60	3,032.10	2,995.00	2,036.30	2,029.80
Total goods	exports	16,585.40	18,973.30	21,449.90	21,631.10	14,358.70	14,563.60
	imports	17,025.90	19,803.80	22,406.80	21,740.80	14,577.30	14,022.00

Source: Bank of Slovenia.

Government Finances and Public Debt

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).

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.

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. 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 NLB, 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 the 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**")) 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 CO2 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.

Budget Developments

	2010	2011	2012	Revised budget 2013	Nine months ended 30 September 2012	Nine months ended 30 September 2013
			(*in €million*)			
Current revenues	6,810.5	7,005.2	7,028.5	6,849.1	4,967.2	4,900.7
Taxes on income and profit	1,353.5	1,581.7	1,509.2	1,147.1	1,001.4	684.9
Social security contributions	54.9	54.5	53.5	52.2	5.7	38.2
Taxes on payroll and workforce	28.1	29.2	25.6	23.5	19.5	17.1
Domestic taxes on goods and services	4,719.0	4,796.5	4,823.9	4,956.6	3,533.8	3,584.4
Taxes on international trade and transactions	90.7	100.2	82.5	79.3	62.0	60.5
Other taxes	3.0	12.4	7.7	54.2	2.4	38.6
Non tax revenues	561.3	430.5	526.0	536.2	342.3	477.0
Capital revenues, grants and transfer revenues	15.7	16.0	16.4	48.8	8.0	46.9
Receipts from EU	723.3	812.2	842.1	1,185.8	553.4	536.8
Total revenues	7,549.6	7,833.3	7,887.0	8,083.7	5,528.5	5,484.4
Wages and contributions	1,237.5	1,227.9	1,168.4	1,097.1	892.3	824.4
Goods and services	822.7	738.5	682.8	649.1	485.5	460.5
Interest payments	476.7	510.6	632.5	820.5	580.9	682.7
Reserves	25.2	49.5	31.3	125.4	27.1	77.6
Subsidies	551.6	459.4	455.3	493.0	313.4	349.7
Transfers to individuals and households	1,344.0	1,449.9	1,375.7	1,262.9	1,057.6	949.1
Transfers to organisations and institutions	3,495.0	3,699.1	3,516.2	3,600.0	2,572.5	2,744.6
Capital expenditure	370.2	322.5	239.8	473.1	149.6	218.0
Capital transfers	560.4	500.2	501.3	696.1	256.8	222.5
Payments to EU budget	396.8	405.1	390.3	414.0	330.4	360.4
Total expenditure	9,280.2	9,362.8	8,993.5	9,631.1	6,666.3	6,889.6
Budget surplus/deficit	(1,730.6)	(1,529.5)	(1,106.5)	(1,547.4)	(1,137.7)	(1,405.2)
Primary surplus/deficit	(1,299.3)	(1,050.2)	(505.2)	(740.9)	(585.7)	(728.5)
Lending minus repayments	(181.8)	(689.0)	(504.9)	(1,858.3)	(362.8)	(202.1)
Borrowing	2,525.0	3,885.9	2,947.4	4,077.2	1,051.9	4,301.9
Amortisation of debt	1,730.4	960.4	1,269.2	1,871.5	1,165.6	1,793.3
Changes in cash and deposits	(1,117.8)	707.1	66.8	(1,200.0)	(1,614.3)	901.3
Net financing	1,730.6	1,529.5	1,106.5	1,547.4	1,137.7	1,405.2

Source: Ministry of Finance

	Government balance	Government balance	Debt	Debt
	(*in € million*)	(*% GDP*)	(*in € million*)	(*% GDP*)
2005	(429.5)	(1.5)	7,682.8	26.7
2006	(422.7)	(1.4)	8,204.4	26.4
2007	(15.9)	(0.0)	7,980.9	23.1
2008	(702.5)	(1.9)	8,180.7	22.0
2009	(2,247.1)	(6.3)	12,460.0	35.2
2010	(2,079.6)	(5.9)	13,741.7	38.7
2011	(2,287.9)	(6.3)	17,016.2	47.1
2012	(1,354.4)	(3.8)	19,204.2	54.4
2013*	(1,999.2)	(5.7)	22,044.2	63.1

* Estimate
Source: SORS, EDP Report October 2013.

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 structure 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 opinion of this programme and of the implementation of reforms in Slovenia was positive and published in November 2013. The European Commission will be conducting regular monitoring of Slovenia as part of the macroeconomic imbalance procedure in January 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.

Government debt and guarantees

The general government debt to GDP ratio in 2009 was 35.2 per cent. and reached 38.7 per cent. in 2010., 47.1 per cent. in 2011 in 54.4 per cent. in 2012. The central government debt represents the bulk (approximately 90 per cent.) of general government debt. It consists almost exclusively of market instruments.

Following budgetary and other developments as outlined in the May 2013 Stabilisation Programme, 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 govenm1ent 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 debt instruments, denominated in Slovenian Tolars. This focus has shifted since Slovenia's adoption of the Euro with effect from 1 January 2007, with the proportion of domestic-held debt instruments stabilising at around 15 to 20 per cent. of each bond issue by the central government, while short term T-bills are almost exclusively held by domestic entities.

The central government has issued guarantees, on a case-by-case basis, to certain entities predominantly within the public sector 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. The general government debt estimate for 2013 is 63.1 per cent. of GDP, primarily due to the increased budget deficit and the measures taken to offset the global financial crisis.

Since 1998, the Republic of Slovenia has been rated by all three major credit rating agencies. Its current ratings are set out in the table below.

Credit ratings at 10 December 2013

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

On 22 December 2010, Standard & Poor's changed its outlook on the Republic of Slovenia's debt from stable to negative, pending the progress of fiscal consolidation in the next two years, especially regarding structural reforms and the Government's commitment to adhere to its medium term targets.

CLEARING AND SETTLEMENT

The Notes will be issued in accordance with the provisions of the Slovenian Dematerialised Securities Act (*Zakon o nematerializiranih vrednostnih papirjih, Uradni list RS No. 2/2007 — uradno prečiščeno besedilo, 67/2007, 58/2009 and 78/2011* hereinafter: the "**ZNVP**") as entries within the central register (the "**Central Register**") maintained by KDD — Centralna klirinško depotna družba, delniška družba, Tivolska cesta 48, SI-1542 Ljubljana, Slovenia (KDD — Central Securities Clearing Corporation Inc., hereinafter: the "**KDD**").

KDD was established to provide central securities register services, clearance and settlement of securities transactions and maintenance of the Central Register of dematerialised securities (and their holders) in the Republic of Slovenia. KDD's shareholders are banks, stock brokers, fund management companies, government funds and issuers. Currently KDD's legal status and operation is regulated by the Slovenian Financial Instruments Market Act (*Zakon o trgu finančnih instrumentov, Uradni list RS No. 67/2007, 100/2007, 69/2008, 40/2009, 88/2010, 108/2010 – uradno prečiščeno besedilo, 78/2011 and 55/2012, 105/2012-ZBan-1 and 63/2013-ZS-K*) hereinafter: the "**ZTFI**").

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

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

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

Interests in the Notes may be possible to be held through accounts in Euroclear and Clearstream, Luxembourg through links established by KDD with Euroclear and Clearstream, Luxembourg.

Persons holding interests in the Notes through accounts with Euroclear or Clearstream, Luxembourg (rather than directly in KDD) will not be considered the legal owners of such Notes under Slovenian law.

Notwithstanding the foregoing, if such persons qualify as Accountholders (as defined within "*Terms and Conditions of the 2015 Notes — Payments" and "Terms and Conditions of the 2016 Notes — Payments"* respectively), they are entitled to make a direct claim against the Issuer for payments under the 2015 Notes and the 2016 Notes respectively, subject to the provisions set out within the "*Terms and Conditions of the 2015 Notes — Payments*" and *"Terms and Conditions of the 2016 Notes – Payments"* respectively. In order for such persons to enforce any other rights (other than payment) conferred to the 2015 Noteholders and the 2016 Noteholders respectively, such persons should look to the standard terms of business of such clearing system with respect to indirect enforcement of their rights. Please see the front page for further information.

Application has been made by the Issuer for interests in the Notes to be held through accounts with Euroclear and Clearstream, Luxembourg through the links established by KDD with Euroclear and Clearstream, Luxembourg, although there is no assurance that such application will be accepted and that any interests in the Notes will be able to be held in such manner. If the Issuer obtains such acceptance at a later date, it will publish a notice through KDD and the Ljubljana Stock Exchange and notify the Noteholders of the allocated common code.

EUROPEAN CENTRAL BANK ELIGIBILITY

KDD is an approved Central Securities Depositary ("**CSD**"). See the website of the ECB (www.ecb.int) for further information. The contents of such website do not form part of, nor shall they be incorporated in this Offering Circular.

SLOVENIAN TAXATION

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

Taxation of Interest Income

Taxation of interest income derived from the Notes will differ depending on whether, at the time when the Issuer will make payments of interests under the Notes, the Notes will be admitted to trading on a regulated market or a multilateral trading facility ("**MTF**") within an EU member state or OECD (the Notes, while so admitted to trading, hereinafter referred as "**Listed Securities**").

If, and for as long as the Notes qualify as Listed Securities, the Issuer will be entitled to make all payments of interest under the Notes free and clear of any withholding or deduction for or on account of taxes pursuant to applicable Slovenian law.

If, however, at the time when the Issuer will make a payment of interests under the Notes, the Notes do not qualify as Listed Securities, then:

(a) such payment will be subject to withholding tax payable by the Issuer at the maximum rate applicable under Slovenian taxation law (currently being 25 per cent.); and

(b) if the income derived from such interest payment would, if received directly by its beneficial owner, be exempted from Slovenian tax or subject to tax at a rate lower than applied for the purpose of such withholding tax, the beneficial owner will be entitled to claim a refund of the excessive amount of tax so withheld from the Slovenian tax administration.

Corporate Investors

Interest on the Notes received by a legal person resident for taxation purposes in the Republic of Slovenia or a permanent establishment (*poslovna enota*) in the Republic of Slovenia of a legal person not resident for taxation purposes in the Republic of Slovenia will be subject to Slovenian Corporate Income Tax (*davek od dohodkov pravnih oseb*) as a part of its overall income tax levied at the rate of 17 per cent.

If, and for as long as the Notes qualify as Listed Securities, no Slovenian tax will be levied on payments under the Notes to legal persons not resident for taxation purposes in the Republic of Slovenia and having no permanent establishment (*poslovna enota*) in the Republic of Slovenia. If, however, at the time when the Issuer will make a payment of interest under the Notes, the Notes do not qualify as Listed Securities and the amount so paid will be subject to withholding tax at the rate of 25 per cent., legal persons who beneficially received such interest will be entitled to claim a refund of the tax so withheld (a) in the case of legal persons resident for taxation purposes in certain non-EU jurisdictions where the general or average nominal income tax rate is lower than 12.5 per cent. and which are included in the list of "tax havens" published from time to time by the Ministry of Finance, of the amount exceeding 15 per cent. of the amount paid; or (b) in the case of any other legal persons, in the full amount of the tax so withheld.

Individuals

The amounts of interest on the Notes received by an individual resident for tax purposes in Slovenia will be subject to Slovenian Personal Income Tax (*dohodnina*) assessed on the income so derived at the rate of 25 per cent., which tax is the final tax imposed by Slovenia on interest on the Notes, except where such income qualifies as business income (*dohodek iz dejavnosti*) of such individual, in which case such income will be subject to Slovenian Personal Income Tax as a part of overall annual business income at the rate applicable in accordance with the progressive tax scale which may reach up to 50 per cent.

The amounts of interest on the Notes received by an individual who is not resident for taxation purposes in Slovenia will be fully exempt from Slovenian tax if and for as long as the Notes qualify as Listed Securities. If, however, at the time when the Issuer makes a payment of interest under the Notes, the Notes do not qualify as Listed Securities, the amounts of interest on the Notes received by an individual not resident for tax purposes in Slovenia will be subject to Slovenian Personal Income Tax assessed on the income so derived at the rate of 25 per cent., which tax is the final tax imposed by Slovenia on interest on the Notes, provided that an individual who is resident for taxation purposes in an EU Member State (other than Slovenia) shall be fully exempt from this Slovenian tax in circumstances where (i) the individual in question is the beneficial owner of such interest; and (ii) the paying agent (*plačilni zastopnik*) as defined in the Slovenian Tax Procedure Act (*Zakon o davčnem postopku (ZDavP-2*), *Uradni list RS, No. 13/2011-UPB4, 32/2012, 94/2012 and 101/2013*) is required to report the payment to the tax authorities in the jurisdiction of the relevant paying agent 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.

Slovenian Personal Income Tax on non-business interest income will only be levied by way of withholding tax if, at the time when the Issuer makes a payment of interest under the Notes, the Notes will not qualify as Listed Securities.

Any individual who is liable for Slovenian Personal Income Tax on interest income under the Notes as non-business income and receives an amount of interest under the Notes free of any deduction for account of this tax shall (i) declare each amount so received in a tax return filed by the 15th day of a calendar month for the period of the previous three calendar months; and (ii) pay the amount of tax in accordance with the relevant decision of the tax authorities.

Taxation of Capital Gains

Corporate Investors

Capital gains earned on the sale or disposition of the Notes by a legal person resident for taxation purposes in the Republic of Slovenia or a permanent establishment (*poslovna enota*) in the Republic of Slovenia of a legal person not resident for taxation purposes in the Republic of Slovenia will be subject to Slovenian Corporate Income Tax as a part of its overall income tax levied at the rate of 17 per cent.

Capital gains earned by legal persons not resident for taxation purposes in the Republic of Slovenia and having no permanent establishment (*poslovna enota*) in the Republic of Slovenia are not subject to Slovenian taxation.

Individuals

Under the Slovenian Personal Income Tax Act (*Zakon o dohodnini (ZDoh-2), Uradni list RS No. 13/2011-UPB7, 9/2012, 24/2012, 30/2012, 40/2012, 71/2012, 75/2012, 94/2012, 52/2013 and 96/2013)*, capital gains from the sale or other disposition of debt securities held as non-business assets are in general exempt from taxation, while capital gains earned as business income (*dohodek iz dejavnosti*) of an individual resident for taxation purposes in the Republic of Slovenia are subject to Slovenian Personal Income Tax as a part of such individual's overall annual business income at the rate applicable in accordance with the progressive tax scale which may reach up to 50 per cent.

Capital gains earned on the sale or disposition of the Notes by an individual resident for taxation purposes in the Republic of Slovenia may, in circumstances described in the Act on the Taxation of Profits from the Disposal of Derivatives (*Zakon o davku od dobička od odsvojitve izvedenih finančnih instrumentov (ZDDOIFI) Uradni list RS no. 65/08, 40/2012*), be subject to tax levied at the rate of up to 40 per cent.

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

SELLING RESTRICTIONS

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act ("**Regulation S**").

United Kingdom

The Offering Circular may only be communicated, or caused to be communicated, and any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("**FSMA**")) may only be communicated or caused to be communicated in circumstances in which section 21(1) of the FSMA does not apply to DUTB or the Republic and each must comply with all applicable provisions of the FSMA in relation to the Notes with respect to any actions taken in, from or otherwise involving the United Kingdom.

General

No action has been or will be taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Offering Circular, or any other offering material relating to the Notes or any supplement, in any country or jurisdiction where action for that purpose is required. Further neither the Issuer nor the Republic represent that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction or pursuant to any exemption available thereunder or assumes any responsibility for facilitating the same.

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

GENERAL INFORMATION

1. The issue of the Notes has been duly authorised pursuant to (i) the approval of DUTB's Board of Directors pursuant to Article 29 of DUTB's Articles of Association as of 2 April 2013 approving the issue of securities guaranteed by the Republic of Slovenia and (ii) the resolution of DUTB's Board of Directors pursuant to Article 26 of the Articles of Association.

2. The Guarantee Statements have been duly authorised pursuant to (i) the approval of the Ministry of Finance of the Republic of Slovenia pursuant to Article 30 of the Decree on the Implementation of Measures to Strengthen Bank Stability (*Uredba o izvajanju ukrepov za krepitev stabilnosti bank, Uradni list RS, No.103/2013*) approving DUTB's indebtedness which will be guaranteed by the Republic of Slovenia; (ii) the decision of the Government of the Republic of Slovenia pursuant to Article 30 of the Decree granting the issuance of the guarantees by the Republic of Slovenia for DUTB's indebtedness in the nominal amount of up to EUR 1,133,000,000, and the Guarantor has received Decision SA.33229 (2012/C) (ex 2011/N) and Decision SA.35709 (2013/N) of the European Commission referred to in such authorisations.

3. Application will be made immediately after the issue of the Notes for the Notes to be listed on the bond market and traded on the EEA Regulated Market of the Ljubljana Stock Exchange pursuant to the rules and regulations of the Ljubljana Stock Exchange.

4. DUTB will by no later than 120 days from the Issue Date, appoint a paying agent capable of making all payments of principal and interest due under the Notes and will notify the holders of the Notes through the Ljubljana Stock Exchange and the KDD of the identity, address and contact details of such paying agent.

5. The Notes will be in dematerialised registered form and held with the KDD. The ISIN for the 2015 Notes is SI0032103333. The ISIN for the 2016 Notes is SI0032103366.

6. Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

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

   The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

INDEX OF DEFINED TERMS

THE ISSUER

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