



**SID-SLOVENSKA IZVOZNA IN
RAZVOJNA BANKA, D.D., LJUBLJANA**
EUR 350,000,000 Guaranteed 0.125 per cent. Notes due 2025
guaranteed by
The Republic of Slovenia

The issue price of the EUR 350,000,000 Guaranteed 0.125 per cent. Notes due 2025 (the "**Notes**") of SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana (the "**Issuer**" or "**SID bank**") is 99.920 per cent. of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 8 July 2025. The Notes are subject to redemption in whole at their principal amount at the option of the Issuer at any time in the event of certain changes affecting taxation in the Republic of Slovenia. See "*Terms and Conditions of the Notes—Redemption and Purchase*".

The Notes will bear interest from 8 July 2020 at the rate of 0.125 per cent. per annum payable annually in arrear on 8 July in each year commencing on 8 July 2021.

Payments on the Notes will be made in euro without deduction for or on account of taxes imposed or levied by the Republic of Slovenia to the extent described under "*Terms and Conditions of the Notes—Taxation*". The payment obligations of the Issuer in respect of the Notes are unconditionally and irrevocably guaranteed (the "**Guarantee**") by the Republic of Slovenia (the "**Guarantor**" or the "**State**").

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade them on the Luxembourg Stock Exchange's regulated market, which is a regulated market for the purposes of the Directive 2014/65/EU on markets in financial instruments (as amended, "**MiFID II**"). This Information Memorandum constitutes an alleviated prospectus pursuant to the Luxembourg law dated 16 July 2019 on prospectuses for securities, which entered into force on 21 July 2019 (the "**Luxembourg Prospectus Law**"). This Information Memorandum does not constitute a prospectus for the purposes of Regulation (EU) 2017/1129, as amended or superseded (the "**Prospectus Regulation**"). Accordingly, this Information Memorandum does not purport to meet the format and the disclosure requirements of the Prospectus Regulation and it has not been, and will not be, submitted for approval to any competent authority within the meaning of the Prospectus Regulation.

The Notes admitted to trading will not be assigned a credit rating.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 as amended (the "**Securities Act**") or the securities law of any state of the United States or other jurisdiction and are subject to United States tax law requirements. The Notes will be offered and sold in offshore transactions outside the United States in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered or sold, directly or indirectly, within the United States or to, or for the account or benefit of, U.S. persons (as such term is defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws.

Investing in the Notes involves certain risks. The principal risk factors that may affect the abilities of the Issuer to fulfil its obligations under the Notes are discussed under "Risk Factors" below.

The Notes will be in bearer form and in the denomination of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof up to and including EUR 199,000. The Notes will initially be in the form of a temporary global note (the "**Temporary Global Note**"), without interest coupons, which will be deposited on or around 8 July 2020 (the "**Closing Date**") with a common safekeeper for Euroclear Bank SA/NV ("**Euroclear**", of 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium) and Clearstream Banking, S.A., ("**Clearstream, Luxembourg**", of 42 Avenue J.F. Kennedy, L-1855 Luxembourg). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the "**Permanent Global Note**"), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in the denomination of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof up to and including EUR 199,000 and with interest coupons attached. See "*Summary of Provisions Relating to the Notes in Global Form*".

JOINT LEAD MANAGERS
DEUTSCHE BANK **J.P. MORGAN**

6 July 2020

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IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Information Memorandum and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Information Memorandum to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import.

The Issuer has confirmed to the Joint Lead Managers named under "*Subscription and Sale*" below (the "**Joint Lead Managers**") that this Information Memorandum contains all information regarding the Issuer and the Notes which is (in the context of the issue of the Notes and the application of the Guarantee) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Information Memorandum on the part of the Issuer are honestly held or made and are not misleading in any material respect; this Information Memorandum does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all reasonable enquiries have been made to ascertain or verify the foregoing.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Information Memorandum or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Joint Lead Managers or any of their respective directors, affiliates, advisers or agents.

The Issuer has used information from third party sources in this Information Memorandum, including (but not limited to): the Bank of Slovenia, the Statistical Office of the Republic of Slovenia and the Ministry of Finance of the Republic of Slovenia. The Issuer confirms that information sourced from third parties has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from information published by third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Republic of Slovenia has neither reviewed this Information Memorandum nor verified the information contained in it, and the Republic of Slovenia makes no representation with respect to, and does not accept any responsibility for, the contents of this Information Memorandum or any other statements made or purported to be made on its behalf in connection with the Issuer or the offering of the Notes. The Republic of Slovenia accordingly disclaims all and any liability whether arising in tort or contract or otherwise, which it might otherwise have in respect of this Information Memorandum or any such statement.

Neither the Joint Lead Managers nor any of their respective directors, affiliates, advisers or agents have made an independent verification of the information contained in this Information Memorandum or authorised the whole or any part of this Information Memorandum and none of them makes any representation or warranty, express or implied, or accepts any responsibility as to the accuracy or completeness of the information contained in this Information Memorandum. Nothing contained in this Information Memorandum, is to be construed, or shall be relied upon, as a promise, warranty or representation, whether in relation to the past or the future, by the Joint Lead Managers or any of their respective directors, affiliates, advisers or agents in any respect. Neither the delivery of this Information Memorandum nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Information Memorandum or that the information herein is correct as of any time subsequent to its date. The contents of this Information Memorandum are not, are not to be construed as, and should not be relied on as, legal, business or tax advice and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

Neither this Information Memorandum 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 that any recipient of this Information Memorandum 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.

This Information Memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, or an invitation to subscribe for or purchase, any Notes in or from any jurisdiction where it is unlawful to make such an offer or solicitation.

The distribution of this Information Memorandum and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. This Information Memorandum may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorised or is unlawful. In particular, this Information Memorandum does not constitute an offer of securities to the public in the United Kingdom. No prospectus has been or will be approved in the United Kingdom in respect of the Notes. Consequently this Information Memorandum is being distributed only to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this document or any of its contents. Persons into whose possession this Information Memorandum comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Information Memorandum and other offering material relating to the Notes, see "*Subscription and Sale*".

In particular, the Notes have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

This Information Memorandum does not constitute a prospectus pursuant to the Prospectus Regulation. Accordingly, this Information Memorandum does not purport to meet the format and the disclosure requirements of the Delegated Regulation (EU) 2019/980, as amended, implementing the Prospectus Regulation, and it has not been, and will not be, submitted for approval to any competent authority within the meaning of the Prospectus Regulation and in particular the Commission de Surveillance du Secteur Financier in its capacity as competent authority under the Luxembourg Prospectus Law. The Notes, issued pursuant to this Information Memorandum, will therefore not qualify for the benefit of the single European passport pursuant to the Prospectus Regulation.

In this Information Memorandum, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**EUR**" or "**euro**" are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, 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.

Certain figures included in this Information Memorandum have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In connection with the issue of the Notes, Deutsche Bank AG, London Branch (the "Stabilising Manager") (or persons acting on behalf of the Stabilising Manager) may over allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

MIFID II PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ELIGIBLE COUNTERPARTIES ONLY TARGET MARKET

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for

distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

INFORMATION INCORPORATED BY REFERENCE

The following information shall be deemed to be incorporated in, and to form part of, this Information Memorandum *provided however that* any statement contained in any document which is deemed to be incorporated by reference in, and forming part of, this Information Memorandum shall be deemed to be modified or superseded for the purpose of this Information Memorandum to the extent that a statement contained herein modifies or supersedes such statement:

- the financial statements of SID bank (including the notes to the financial statements and the Auditors' reports) for the year ended 31 December 2019; and
- the financial statements of SID bank (including the notes to the financial statements and the Auditors' reports) for the year ended 31 December 2018.

Such documents will be made available, free of charge, during usual business hours at the specified offices of the Fiscal Agent and the Listing Agent in Luxembourg, unless such documents have been modified or superseded. Such documents will also be available to view on the website of the Luxembourg Stock Exchange (www.bourse.lu).

For ease of reference, the tables below set out the relevant page references for the financial statements, the notes to the financial statements and the Auditors' reports for the years ended 31 December 2019 and 2018 for the Issuer, as set out in the respective annual reports. Any information not listed in the cross-reference table but included in the documents incorporated by reference is given for information purposes only.

Financial Statements for the year ended 2019

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RISK FACTORS

Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Information Memorandum have the same meanings in this section.

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. These factors are contingencies that may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Factors (although not exhaustive) which the Issuer believes could be material for the purpose of assessing the market risks associated with the Notes are described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Information Memorandum and reach their own views prior to making any investment decision.

Before making an investment decision with respect to the Notes, prospective investors should consult their own stockbroker, bank manager, lawyer, accountant or other financial, legal and tax advisers and carefully review the risks entailed by an investment in the Notes and consider such an investment decision in the light of the prospective investor's personal circumstances.

Risks relating to the Issuer

Risk factors affecting the Issuer's business outlook include the Slovenian economy's sensitivity to a potential slowdown in the Euro area or globally, credit spreads widening, potential liquidity outflows, worsened interest rate outlook, regulatory measures and other geopolitical uncertainties. The current economic and market situation is unpredictable and will depend on the duration and impact of the COVID-19 outbreak and on the success of individual countries in dealing with this situation. Since the impact of COVID-19 could be deeper and longer than originally expected, the countervailing economic measures would be unprecedented as well.

The main risks to which SID bank is exposed are credit risk, interest rate risk, liquidity risk, profitability risk, operational risk, strategic risk and reputation risk, which reflect in the capital position of SID bank.

The Issuer is exposed to credit risk

Credit risk is related to SID bank's assets portfolio. SID bank extends credit to corporates (among other entities) and may be negatively affected if a large number of such corporates are unable to repay the credit as it is most exposed to the risk of losses arising from a counterparty's inability to settle contractual liabilities. Furthermore, the majority of SID bank's non-performing loans are in the corporate sector (for further information see the "*Non-performing loans*" section of the "*Description of the Issuer*" below). Whilst there is no current observable deterioration of the credit portfolio, such deterioration is expected as a result of COVID-19. As in others EU countries, sectors that have been impacted the most include tourism, the automotive industry and accommodation and food service activities. Increased credit risk within the framework of individual financing programmes exist due to financing of clients with poorer current credit ratings, financing of high-risk segments, which is in line with the role and policies of a development bank, longer moratorium periods and poorer loan to value ratios.

Additionally, SID bank's role as a development bank involves undertaking anti-crisis and counter-cyclical activities, particularly as it intends to undertake more activities with higher risks in order to mitigate the effects of COVID-19 on the Slovenian economy. Since SID bank increases its activity during times of crises, its counter-cyclical role makes its exposure to credit risk more pro-cyclical.

The economic crisis resulting from the COVID-19 pandemic is expected to have a negative impact on SID bank's existing credit portfolio quality and new loans. The following consequences as a result of COVID-19 may increase SID bank's credit risk:

- a significant increase in the implementation of support programmes that require financing, which in turn could expose SID bank to more credit risk than it finds acceptable;

- a concentration in individual segments (for example, financing large individual companies and banks) may, in the event of a significant increase in the credit risk of individual clients/banks, have a negative impact on impairments and consequently on statement of profit or loss;
- a possible further deterioration of the financial condition of existing clients that are already classified as non-performing exposures;
- an increase in allowances and provisions for credit losses can result from a significant increase in the credit risk of individual financial assets due to the deterioration of credit ratings, possibly with a certain lag. Some assets could consequently be classified as stage 2 loans within the IFRS9 framework, where allowances and provisions for credit losses are measured on the basis of the lifetime expected credit losses of the financial instrument. New default events can be expected, resulting in the reclassification of performing financial assets to nonperforming financial assets;
- a deterioration of the quality of collateral and credit portfolio as a result of COVID-19;and
- an increase in credit (and operational) risk due to the large number of applications which require some rationalisation in the approval and monitoring process.

Changes in regulation that affect the assessment of clients' credit quality (such as through payment moratoria), in turn, impacts SID bank's risk modelling, and this may result in, or lead to, a significant increase in the SID bank's credit risk. For example, intervention measures taken by the Slovenian government, like an option of moratoriums on payment of obligations to all eligible borrowers due to COVID-19, or measures that additionally cause indebtedness of clients (new liquidity loans) may reduce the predictive power of models and the ability to detect deterioration of client's credit quality and the perception of over-indebtedness.

SID bank has high exposure to the Slovenian economy, as the majority of its assets comprise government bonds and loans and advances to banks and companies established in Slovenia. Slovenian government bonds represented 47.2 per cent. of SID bank's portfolio of debt securities as at 31 December 2019. A large proportion of SID bank's credit portfolio is exposed to the banking sector as a significant amount of its assets are earmarked for banks established in the Republic of Slovenia, which transfer funding to the final beneficiaries in accordance with the Slovenian Export and Development Bank Act (*Zakon o Slovenski izvozni in razvojni banki* (Uradni list RS, No. 56/08, 20/09, 25/15 – ZBan-2 and 61/20 - ZDLGPE)) ("**ZSIRB**" or the "**Act**"), in force from 21 June 2008, as amended by ZSIRB-A, in force from 17 March 2009 (Uradni list RS, No 20/2009), ZBan-2 in force from 13 May 2015 (Uradni list RS, No 25/2015), and as amended by ZDLGPE in force from 1 May 2020 (Uradni list RS, no 61/2020). The financing of final beneficiaries (sole traders, cooperatives, small to medium enterprises ("**SMEs**"), companies with a medium sized market capitalization, large enterprises and municipalities) is undertaken preferably on the basis of a long-term purpose-specific financing via commercial banks and savings banks. Such way of operating reduces credit risk, operational costs and also reduces the possibility of crowding out commercial banks in the segments of financing where they operate. Loans to commercial banks and savings banks accounted for 47 per cent. of SID bank's credit portfolio at the end of 2019 (compared to 51 per cent. in 2018). However, if there are continued significant external or internal shocks to the economy in Slovenia, it could increase SID bank's potential for significant losses in its credit portfolio.

The Issuer is exposed to profitability risk

SID bank recorded a low net interest margin of 1 per cent. in 2019 and 2018, while the financial intermediation margin stood at 2.8 per cent. in 2019. SID bank expects the low interest rate period to continue and for economic activity to decline, which could have a significant impact on profitability risk and on liquidity reserve management. The main challenges in managing liquid assets relate to low income potential due to low or even negative interest rates.

Profitability risk is growing as a result of taking higher risks in order to mitigate the impacts of the COVID-19 pandemic on the domestic economy. These risks arise from:

- the deterioration of the loan portfolio as materialisation of credit risk could lead to downgrade of clients' credit ratings and impact IFRS 9 staging of loans and consequently, increase impairments and provisions; and

- an increase in risk assets and, due to the nature of SID bank's business, current environment and gap-based approach, such assets are likely to be more at higher risk. The bank is protected to a certain extent due to the first loss tranche from the government. However, no assurance can be given that the first loss tranche will be sufficient to cover all losses and so the increased exposure to higher risk assets in a negative economic environment could see SID bank's asset quality deteriorate and impairments increase.

SID bank can afford a comparatively low interest margin due to its business model involving cost efficiency given a large balance sheet relative to a rather small number of employees. In particular, the bank is not involved in retail or payment businesses. The net interest margin is expected to remain stable, but given the significant expected increase in the balance sheet (due to increased activities expected in response to COVID-19), additional revenue is expected to offset possible losses from the risk that could materialise in relation to the incumbent and future loan exposure over the next few years. However, there can be no assurance that SID bank will be able to protect itself from the negative effects of, or losses from, future or increased loan exposures.

The Issuer is exposed to liquidity risk

SID bank is exposed to liquidity risk especially in ensuring refinancing of its liabilities in support of its activities.

Due to reliance on sovereign guarantees, a deterioration in the credit rating of the Republic of Slovenia (increased sovereign risk) could have an impact on SID bank's market access to long term financing in the future and/or consequently make it more difficult to access long-term financing at a reasonable cost. SID bank does not accept deposits from the public and is therefore not exposed to any potential outflows arising from retail and corporate deposits in the event of adverse liquidity conditions. This fact and the specific role of SID bank also affects the structure of the funding and means that there is a higher concentration with regards to funding than is the case with commercial banks.

SID bank also obtains long-term funding supported by Slovenian government guarantees from international financial markets with original maturity between 5 and 10 years in normal market conditions, whereas with adverse liquidity conditions the original maturity is shortened accordingly. SID bank's credit lines also include long-term purpose-specific funding from the European Investment Bank, the KfW bank, the Council of Europe Development Bank and the Ministry of Economic Development and Technology, in addition to other sources of funding.

SID bank has established an internal stress testing framework and early warning indicators with the aim to identify adverse liquidity conditions in a timely manner and take appropriate measures to overcome any liquidity difficulties but no assurance can be given that these controls will be effective in all circumstances. Possible adverse negative impacts of the COVID-19 pandemic that increase the liquidity risk include:

- the volatility in the financial markets could have negative impact on market valuation of financial assets (major declines in the market values of debt securities);
- market valuation of liquid assets and liquidity buffer could be affected by adverse financial market conditions as well as possible potential downgrades due to increased credit risk of (specific) issuers or increased sovereign risk. This usually happens with a certain lag;
- concentration of debt security portfolio in Slovenian government bonds (account for 47.2 per cent. of the portfolio of debt securities at the end of 2019) may cause a certain vulnerability for SID bank, but only in case there is a need to sell liquid assets (market liquidity risk); and
- increased cash outflows (new loans) due to increased liquidity needs of borrowers most affected by COVID-19 pandemic and possible changes in expected cash inflows from existing loans due to granting an option of moratoriums on payment of obligations to COVID-19 eligible borrowers.

The Issuer is exposed to operational risk

The main factors affecting operational risk are human resources, business processes, outsourcing, information technology and other infrastructure, organisational structure and external events. The management of operational risk is based on the established system of internal controls, the decision-making

and authorisation policies, appropriate substitution for absent workers, suitable staff qualifications and investments in information technology. System risks inherent in information technology are increasing in line with the level of computerisation and these are managed through additional measures, such as the establishment of a business continuity plan, the duplication of server infrastructure and other measures aimed at increasing information security, for example systems to detect and prevent infiltrations and surveillance systems. SID bank is optimising its own operation and moving towards digitalisation. By gradually shifting to digitalisation, SID bank is exposed to cyber-attacks and failures due to non-functioning of its digitalised solutions. SID bank does not provide payment services, e-banking products and/or similar products for its clients, where realisation of operational risk also represents a threat for the reputation and potential losses for indemnification of clients.

SID bank has a small number of employees and is exposed to human capital risk. New tasks require an increase in human resources, especially in new or specific professional fields, while at the same time there is a need to ensure staff replacement and maintenance of acquired specific skills. As a result, SID bank is exposed to operational risks from an internal point of view (internal procedures, processes, appropriate information support, monitoring and other regulatory requirements regarding new products) and regulatory risk (new areas of activities). To cope with the possible risks related to human capital, SID bank has been steadily increasing its number of employees in recent years, especially in business units where human capital is highly specific to the carrying out of its mandates: risk management, assets-and-liabilities management, product development with the focus on EU financial instruments, project assessment, macro-financial and market gaps analysis. However, there is significant competition for employees with the level of experience and qualifications that SID bank depends upon. If SID bank cannot increase, attract, train, retain and motivate qualified personnel, it may be unable to undertake its activities effectively, and the Issuer's growth strategies may be limited, which in each case could have a material adverse effect on the business of SID bank.

The Issuer is exposed to operations under authorisation of the Republic of Slovenia

SID bank provides insurance for international business transactions against non-marketable risks on behalf of and for the account of the Republic of Slovenia as an agent of the State. The requisite funding for the effective provision of insurance operations is provided to SID bank by the Republic of Slovenia in the form of contingency reserves, which are used to settle liabilities to the insured (claims pay-outs) and to cover losses on these operations. Contingency reserves are also created from premiums, fees and commissions, recourse from paid claims and other income generated by SID bank from insurance and reinsurance against non-marketable risks. If the claims cannot be settled from the aforementioned reserves, the funding for pay-outs is provided by the Republic of Slovenia.

The COVID-19 outbreak could impact the operations under Republic of Slovenia authorisation in the segment where SID bank also provides credit and investment insurance against non-marketable risks of a commercial and non-commercial nature. Risks of non-repayment of existing insured credits (loans) and investments could increase. Moreover, as a result of the COVID-19 outbreak, negative macro-economic developments might lead to a deterioration of asset quality and increase the need to provide more insurance transactions. Such impact would trigger more engagements from SID bank and increase the use of resources.

Guarantee schemes and sureties for investments

On the basis of three laws, the Republic of Slovenia Guarantee Scheme Act, the Republic of Slovenia Guarantee Scheme for Natural Persons Act and the Republic of Slovenia Guarantees for Financial Investments by Companies Act, SID bank was authorised in the past to pursue business in the form of a guarantee issuance on behalf of and for the account of the State.

The guarantee is a statutory guarantee and relies on the ability of Slovenia to be able to honour its guarantee obligations. If there are continued significant external or internal shocks to the economy in Slovenia, it could affect the ability of Slovenia to honour such obligations. These guarantee schemes are expiring and there have been no new transactions in connection with them in the last several years. In 2020, SID bank was mandated to manage two new guarantee schemes introduced in response to the COVID-19 crisis (see "*Guarantee Schemes mandate on behalf of the Republic of Slovenia*" in the "*Activities related to COVID-19*" section of the "*Description of the Issuer*" below).

Risks relating to the Guarantor

The Notes bear the risk of the Republic of Slovenia. As a decline in the creditworthiness of the Republic of Slovenia may reduce the market value of the Notes.

No statement is made in this Information Memorandum about the creditworthiness of the Republic of Slovenia. Any prospective investor must make its own investigations relating to the creditworthiness of the Republic of Slovenia. The Notes may only be sold to professional investors, accordingly any potential investor must base, and will be deemed to have based, its decision to invest on its own investigations. Any professional investor must seek, and will be deemed to have sought, professional advice as they deem appropriate with respect to any decision to invest.

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

The Republic's economic performance remains vulnerable to external and domestic economic conditions and shocks, including the delayed restoration of the Slovenian private sector, the slow rate of recovery in the Eurozone, the exit of the United Kingdom from the EU pursuant to the triggering of Article 50 and the effect of any future significant economic difficulties of its major trading partners. The Slovenian economy is small, highly export-oriented and deeply integrated into the European supply chain. Challenges in achieving the government's key macroeconomic policy objectives could impact gross domestic product ("GDP") growth, as could procedural difficulties related to the absorption of EU funds and government investment activity. A significant decline in the economic growth of any of the Republic's major trading partners, in particular, Germany, Italy, Austria, Croatia and the other member states of the EU (the "**EU Member States**") could also have a materially negative impact on the Republic's balance of trade and adversely affect its economic growth prospects.

While the government believes that its efforts to revitalise the banking sector are helping to improve the state of the economy, credit conditions have been tight following the economic recession in 2008. Debt in the corporate sector remains high relative to firms' capacity to repay. Additionally, ongoing restructuring of the corporate sector weighs on growth prospects. While concerns over credit risk, the large amount of sovereign debt and the fiscal deficits of several other European countries have been somewhat mitigated recently, a default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions, or any EU or Eurozone exits (or threats thereof), could cause severe stress in the financial system generally and could adversely affect the global financial markets in ways that are difficult to predict. A slow or delayed recovery of the Eurozone economy could cause the Republic to face difficulties in accessing funding for the Republic and domestic banks.

Recent efforts by European leaders to find a lasting solution to market concerns about certain European countries' ability to repay their debt have produced bail-out packages and restructuring agreements for a number of these sovereign debtors. These include agreements with certain EU member countries, such as Cyprus and Greece, which have adopted or have agreed to adopt fiscal austerity plans and impose losses on uninsured depositors to address concerns over its credit profile. Despite these efforts and successful completions of programmes in the case of Ireland and Spain, some doubts remain over the successful implementation of these measures and the continued stability of the European monetary system and economy. As at 31 December 2019, the Republic's exposure to financial assistance programmes supporting financial stability in the Eurozone was €1,522.1 million, of which €263.7 million related to the Loan Facility Agreement for Greece on a bilateral level.

Following the triggering of Article 50 by the United Kingdom on 29 March 2017 the future terms of the United Kingdom's exit from the EU have created significant political, social and macroeconomic uncertainty.

On 17 October 2019 a revised withdrawal agreement (the "**Withdrawal Agreement**") setting out the terms of the United Kingdom's exit from the EU, and a political declaration on the framework for the future relationship between the United Kingdom and EU were agreed between the United Kingdom and the European Council. The Withdrawal Agreement includes the terms of a transition or "standstill" period until 31 December 2020, during which the United Kingdom will have formally withdrawn from the EU, but will

still be treated for most purposes as an EU member state. This transition period may be extended (by agreement before 1 July 2020) until the end of 2021 or 2022. During the transition period, the United Kingdom would still be subject to EU laws as well as benefit from them but would have very limited involvement in EU decision-making processes and institutions. The Withdrawal Agreement also provides that the EU will notify third-party countries that the United Kingdom should be treated as a member of the EU, but third-party countries may not be legally bound to treat the United Kingdom as such.

Following the United Kingdom's withdrawal from the EU, and depending on the agreements (if any) that the United Kingdom reaches regarding tariffs and other trade regulations with either the EU or individual member states, the Republic's products and services could be subject to increased import duties, levies and regulatory requirements in the United Kingdom, which could negatively affect trade between the Republic and the United Kingdom and could, as a result, negatively impact the Slovenian economy. The United Kingdom was also one of the biggest net contributors to the EU budget, and its departure could adversely impact the Republic's allocation for the next EU Multiannual Financial Framework (2021-2027).

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

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

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

Additionally, in the event of weaker than budgeted growth, driven by either softer external or domestic demand or COVID-19 consequences, the government may need to implement further cost-reduction or revenue raising measures in order to meet the central government surplus-to-GDP ratio targets, which were 0.4 per cent., 0.8 per cent., 1.1 per cent. and 1.2 per cent. for 2019, 2020, 2021 and 2022, respectively. Such measures may adversely affect economic growth.

Whilst the direct and indirect impact of the COVID-19 outbreak remains uncertain, a number of central banks and governments have announced financial stimulus packages in anticipation of a very significant negative impact on GDP during 2020. Concerns remain as to whether these policy tools will counter anticipated macro-economic risks. A prolongation of the outbreak could significantly adversely affect economic growth, and impact business operations across the economy generally (within the Republic of Slovenia and that of its trading partners), as a result of weakened economic activity and in terms of the health and wellbeing of employees being affected. Such weakening of the economy and or operations could have a material adverse impact on the economic performance of the euro area and ultimately adversely affect economic growth in the Republic and, consequently, have an adverse effect on the Republic's ability to meet its obligations under any outstanding indebtedness.

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

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

As the situation in the international financial markets deteriorated significantly in the second half of 2011 and doubts over the sustainability of the Eurozone increased, several rating agencies downgraded the credit ratings of a number of EU sovereigns, including the Republic. Further sovereign downgrades occurred in 2012 and 2013 by Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**"), Moody's Investors Service, Inc. ("**Moody's Inc.**") and Fitch Ratings Limited ("**Fitch**"). However, in 2014 and 2015 Fitch, Standard & Poor's and Moody's Investors Services Ltd. ("**Moody's Ltd.**") began to upgrade the Republic's credit rating. Most recently, Standard & Poor's upgraded the Republic's rating on 14 June 2019 to AA- with a stable outlook and confirmed the same rating and outlook on 12 June 2020; Fitch upgraded the Republic's rating on 19 July 2019 to A with a stable outlook; and Moody's Ltd. upgraded the Republic's rating on 8 September 2017 to Baa1 with a stable outlook and subsequently revised its outlook to positive on 26 April 2019.

Although Fitch and Standard & Poor's have a stable outlook, and Moody's Ltd. has a positive outlook, on the Republic, the risk of a possible future downgrade still remains. The agencies could lower their ratings of the Republic if, among other things, the Republic's macroeconomic environment was substantially weakened, the policy-making became less predictable, the government's debt trajectory worsened or in the event of economic or financial shocks arising from the ongoing banking system stabilisation. A further downgrade of sovereign debt ratings, including those of the Republic, or a continued Eurozone crisis may result in an increased risk of further deleveraging and credit contraction, which could have a materially negative effect on the Slovenian economy and could have a negative impact on investor confidence in the Republic or on the Republic's ability to raise capital from the external debt markets in the future.

The credit ratings of the Republic as at the date of this Information Memorandum are AA- by Standard & Poor's, A by Fitch and Baa1 by Moody's Ltd.

Parts of the Slovenian banking system could require further recapitalisation

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

The banking system's overall portfolio is impacted by non-performing loans, the majority of which are concentrated in the non-financial corporate sector, particularly in small- and medium-sized enterprises. As at 31 December 2013, following the transfer of bad assets to the Government-owned bank asset management company (*Družba za upravljanje terjatev bank, d.d.*, the "**BAMC**"), the share of non-performing loans in the Slovenian banking sector, measured by claims in arrears over 90 days, was 13.4 per cent. of all outstanding bank loans. Largely due to increased active management of non-performing loans by banks as part of their on-going restructuring processes, as well as an additional transfer of non-performing loans to the BAMC in the last quarter of 2014, the share of non-performing loans decreased to 11.9 per cent. as at 31 December 2014. Since the end of 2014, the share of non-performing loans has been decreasing substantially due to the restructuring of the exposures by the large companies, write-offs, the sale of non-performing portfolios by certain banks and the favourable impact of economic recovery. The share of non-performing loans further decreased to 9.9 per cent., 5.5 per cent., 3.7 per cent., and 2.3 per cent. as at 31 December 2015, 2016, 2017 and 2018, respectively. The share of non-performing loans further decreased to 1.1 per cent. as at 31 December 2019.

To further support the banking system, the Republic has also engaged in recapitalisation. From 2011 to 2016, the Republic recapitalised Nova Ljubljanska banka d.d., Ljubljana ("**NLB**"), Nova Kreditna banka Maribor d.d. ("**NKBM**"), Abanka d.d. ("**Abanka**"), Banka Celje d.d. ("**Banka Celje**"), Probanka d.d. ("**Probanka**") and Factor banka d.d. ("**Factor banka**"). In 2015, Abanka merged with Banka Celje, and in 2016, Factor banka and Probanka were merged with the BAMC.

While certain non-performing loans and distressed assets have been transferred from the balance sheets of certain Slovenian banks to the BAMC, there remains a risk of an increase in the amount of non-performing loans of such Slovenian banks even after such transfers, which could result in the need for further bank recapitalisations.

The recapitalisation of large state-owned banks has been the main driver of the considerable increase of public debt since the financial crisis. The ratio of general government debt to GDP has more than tripled since 2008, according to the European Commission reports. This development decreased the Republic's shock absorption capacity, weakening fiscal leeway should similar pressures re-emerge. The ratio peaked at 82.6 per cent. in 2015 and started to decline in 2016, reaching 70.4 per cent. of GDP as at 31 December 2018, and decreased to 66.1 per cent. of GDP as at 31 December 2019.

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

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

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

The ongoing and anticipated reforms of the Republic of Slovenia may not continue in the manner described or on the basis of any expected timetable, and may fail to be implemented or may subsequently be reversed. In particular, the Republic is bound by EU legislation and is committed to pursuing structural reforms, such as fiscal consolidation, long-term reform of the pension system in an effort to make the pension deficit sustainable in light of the Republic's ageing population and streamlining the stratified labour market. Pension reform was implemented by the Pension and Disability Insurance Act (*Zakon o pokojninskem in invalidskem zavarovanju (ZPIZ-2)*, the "**Pension Act**"), which came into force on 1 January 2013, though further reforms may be required in the future.

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

The failure of the government to implement its contemplated reforms or the failure of these reforms to achieve their stated objectives may lead to a deterioration of general economic conditions or may have an adverse effect on the Republic's ability to repay its financial obligations, such as payments under the Notes. Furthermore, due to the nature and extent of these reforms, negative short-term effects on growth, employment and other key economic variables may occur before any positive long-term effects of any reforms are achieved.

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

The 19 members of the Eurozone have transferred the power to set monetary policy to the European Central Bank ("**ECB**"). The powers of the ECB include the power to manage the monetary policy of the Eurozone member states, as well as to manage liquidity and stability of the financial system through open market operations, marginal lending facilities, reserve requirements and other policy instruments which may be available to the ECB in accordance with its constitutional documents. The ECB is an independent body. As a result, the Republic does not have any power to directly influence any policy decisions made by the ECB. The ECB sets monetary policy with a view to the Eurozone as a whole. Therefore, where economic events are limited to the Republic or do not affect the Eurozone as a whole, the ECB may not take such actions as may benefit the Republic, in particular, or as might be required to alleviate the effects of a financial crisis in the Republic. The absence of an independent monetary policy may contribute to a need to implement further structural reforms and financial consolidation measures to stabilise economic conditions. This may have a material adverse effect on the economy of the Republic and, consequently, on the Republic's ability to meet its obligations under any outstanding indebtedness. Given the Republic's relatively high indebtedness, a tightening of ECB's monetary policy may also have adverse repercussions for the country's debt sustainability.

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

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

Risk Relating to the Guarantee

The Notes are irrevocably and unconditionally guaranteed by the Republic of Slovenia pursuant to Article 13 of the Act (the "**Guarantee**"). If there are continued significant external or internal shocks to the economy in Slovenia, it could affect the ability of Slovenia to honour such obligations.

The Guarantee is payable "as and when due" upon written demand of the creditor stating that SID bank has failed to settle a mature liability. Moreover, it is payable without deductions. The Guarantee is a statutory guarantee and is accordingly governed by the laws of the Republic of Slovenia in force from time to time. The Guarantee is therefore subject to future change in law. However, according to the Slovenian Constitution (Ustava Republike Slovenije (URS), Uradni list RS, Nos 33/91-I, 42/97 – UZS68, 66/00 – UZ80, 24/03 – UZ3a, 47, 68, 69/04 – UZ14, 69/04 – UZ43, 69/04 – UZ50, 68/06 – UZ121,140,143, in 47/13 – UZ148, 47/13 – UZ90,97,99 and 75/2016 – UZ70a), a law may only be amended retroactively if amended by another law and if such amendment is in the public interest and does not prejudice the acquired rights.

The validity and enforceability of the Guarantee is subject to the Issuer using proceeds of the issue of the Notes for performing the activities pursuant to Article 11 of the Act and for funding the financial transactions referred to in Article 12 of the Act.

It may not be possible for investors to effect service of process upon the Guarantor outside the Republic of Slovenia, or to enforce judgments obtained in courts outside the Republic of Slovenia or under laws other than the laws of the Republic of Slovenia. As far as the Issuer and the Guarantor are aware, there are presently no plans to amend, vary or otherwise change the Guarantee.

The Republic of Slovenia has not participated in the drafting of this Information Memorandum, and therefore no information has been provided in relation to the creditworthiness of the Republic of Slovenia. Investors must therefore make their own credit assessment of the Issuer and the Republic of Slovenia when evaluating whether or not to purchase the Notes.

Risk Relating to the Notes

If the Notes cease to be admitted to trading on a regulated market or an MTF, then the interest payments on the Notes could become subject to withholding tax.

Under Slovenian law, taxation of interest income derived from the Notes will differ depending on whether, at the time when the Issuer will make payments of interest 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. Should the Notes cease to be admitted to trading on such a regulated market or MTF, payments of interest under the Notes could become subject to withholding tax.

Non-compliance with State Aid law may affect the validity of the Guarantee

The payment obligations of the Issuer under the Notes are guaranteed by the Guarantor pursuant to Article 13 of the Act. The preliminary informal view of the Directorate-General for Competition of the European Commission (as communicated to the Republic of Slovenia in a letter dated 13 April 2015) was that, subject to compliance with certain conditions (such conditions, which have not yet been formalised, would include,

without limitation, ensuring that the remit of the Issuer's activities is limited to addressing market failures), the Guarantee does not involve State aid that could not be approved by the European Commission as compatible with EU State aid law. Therefore, non-compliance with one or more of the conditions may render the Guarantee to be considered State aid that is incompatible with EU State aid law. For so long as the European Commission has not formally approved the Guarantee as being compatible State aid, or if any conditions attached by the European Commission to its approval were not complied with, such a non-approval or non-compliance may have an impact on the validity and enforceability of the Guarantee.

There is no active trading market for the Notes.

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application has been made for the Notes to be admitted to listing on the official list and trading on the Luxembourg Stock Exchange's regulated market, there is no assurance that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes and therefore, any prospective purchaser should be prepared to hold the Notes indefinitely or until the maturity or fiscal redemption of the Notes.

The Notes may be redeemed prior to maturity.

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Slovenia or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Terms and Conditions of the Notes.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer.

The Notes will be represented by the Temporary Global Note or the Permanent Global Note (together the "Global Notes") except in certain limited circumstances described in the Permanent Global Note. The Global Notes will be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Note, investors will not be entitled to receive Definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the common safekeeper for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes will not have a direct right under the Global Notes to take enforcement action against the Issuer in the event of a default under the Notes but will have to rely upon their rights under the Deed of Covenant.

Minimum Denomination

As the Notes have a denomination consisting of the minimum denomination of EUR100,000 and integral multiples of EUR 1,000 in excess thereof up to and including EUR 199,000, it is possible that the Notes may be traded in amounts in excess of EUR 100,000 (or its equivalent) that are not integral multiples of EUR 100,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination.

The Notes may not be a suitable investment for all investors

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Information Memorandum or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, legal and other factors that may affect its investment and its ability to bear the applicable risks.

Modification and waivers

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Notes and the Conditions may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of the Issuer, not materially prejudicial to the interests of the Noteholders.

FATCA

The United States has enacted rules, commonly referred to as "FATCA", that generally impose a new reporting and withholding regime with respect to certain U.S. source payments (including dividends and interest), gross proceeds from the disposition of property that can produce U.S. source interest and dividends and certain payments made by entities that are classified as financial institutions under FATCA. The United States has entered into an intergovernmental agreement regarding the implementation of FATCA with the Republic of Slovenia (the "**Slovenia IGA**"). Under the Slovenia IGA, as currently drafted, the Issuer does not expect payments made on or with respect to the Notes to be subject to withholding under FATCA. However, significant aspects of when and how FATCA will apply remain unclear, and no assurance can be given that withholding under FATCA will not become relevant with respect to payments made on or with respect to the Notes in the future. Prospective investors should consult their own tax advisors regarding the potential impact of FATCA. If an amount were required to be deducted or withheld from interest, principal or other payments on the Notes as a result of FATCA, the Slovenia IGA or Slovenian law implementing the Slovenia IGA, none of the Issuer, any paying agent or any other person would, pursuant to the Terms and Conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may receive less interest or principal than expected.

Change of law

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

Legal investment considerations may restrict certain investments

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

Exchange rate risks and exchange controls

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

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be endorsed on each Note in definitive form:

The EUR 350,000,000 Guaranteed 0.125 per cent. Notes due 2025 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 12 (*Further Issues*) and forming a single series therewith) of SID-Slovenska izvozna in razvojna banka, d.d., Ljubljana (the "**Issuer**") are the subject of a fiscal agency agreement to be dated on or around 8 July 2020 (as amended or supplemented from time to time, the "**Fiscal Agency Agreement**") between the Issuer, Deutsche Bank AG, London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the paying agent named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). The Notes have the benefit of a statutory guarantee from the Republic of Slovenia (the "**Guarantor**"), further details of which are set out below. Certain provisions of these Conditions are summaries of the Fiscal Agency Agreement and subject to its detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Fiscal Agency Agreement applicable to them. Copies of the Fiscal Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Fiscal Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. **Form, Denomination and Title**

The Notes are serially numbered and in bearer form in the denominations of EUR 100,000 and integral multiples of EUR 1,000 in excess thereof up to and including EUR 199,000 with Coupons attached at the time of issue. Notes of one denomination will not be exchangeable for Notes of another denomination. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon 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, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

2. **Status and Guarantee**

- (a) *Status of the Notes:* The Notes constitute direct, general, unconditional and unsubordinated obligations of the Issuer which will at all times rank pari passu among themselves and at least pari passu with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
- (b) *Guarantee of the Notes:* The payment obligations of the Issuer under the Notes are unconditionally and irrevocably guaranteed by the Guarantor pursuant to Article 13 of the Slovenian Export and Development Bank Act (Zakon o Slovenski izvozni in razvojni banki (Uradni list RS, No. 56/08, 20/09, 25/15 – ZBan-2 and 61/2020 - ZDLGPE)) ("**ZSIRB**"), in force from 21 June 2008, as amended by ZSIRB-A, in force from 17 March 2009 (Uradni list RS, No 20/2009), as amended by ZBan-2 in force from 13 May 2015 (Uradni list RS, No 25/2015), and as amended by ZDLGPE, in force from 1 May 2020 (Uradni list RS, No 61/2020) (the "**Guarantee**"). The Guarantee of the Notes constitutes direct, general and unconditional obligations of the Guarantor which will at all times rank at least pari passu with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

3. **Interest**

The Notes bear interest from and including 8 July 2020 (the "**Issue Date**") at the rate of 0.125 per cent. per annum (the "**Rate of Interest**") payable in arrear on 8 July in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 5 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be EUR 125 in respect of each Note of EUR 100,000 denomination and EUR 1.25 in respect of each Note of EUR 1,000 denomination. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction 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:

"Calculation Amount" means EUR 1,000;

"Day Count Fraction" means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls; and

"Regular Period" means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

4. **Redemption and Purchase**

- (a) *Scheduled redemption:* Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 8 July 2025, subject as provided in Condition 5 (*Payments*).
- (b) *Redemption for tax reasons:* The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their principal amount, together with interest accrued to the date fixed for redemption, if:
 - (i) the Issuer has or will become obliged to pay additional amounts as provided for or referred to in Condition 6 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Republic of Slovenia or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 6 July 2020; and
 - (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent:

- (A) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and
- (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Upon the expiry of any such notice as is referred to in this Condition 4(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 4(b).

- (c) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled redemption*) and (b) (*Redemption for tax reasons*) above.
- (d) *Purchase:* The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith.

In these Conditions:

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"): (a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or (b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person; and

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality.

- (e) *Cancellation:* All Notes so redeemed or purchased by the Issuer or any of its subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

5. **Payments**

- (a) *Principal:* Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by Euro cheque drawn on, or (at the option of the payee) by transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank having access to the TARGET System.
- (b) *Interest:* Payments of interest shall, subject to paragraph (g) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) (*Principal*) above.
- (c) *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 6 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (d) *Unmatured Coupons void:* On the due date for redemption of any Note pursuant to Condition 4(a) (*Scheduled redemption*), Condition 4(b) (*Redemption for tax reasons*) or Condition 7 (*Events of Default*), all unmatured Coupons (if any) relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.
- (e) *Payments on business days:* If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "**business day**" means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of payment by transfer to a Euro account as referred to above, which is a Target Settlement Day.

- (f) *Payments other than in respect of matured Coupons:* Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.

6. **Taxation**

All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Slovenia or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction 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:

- (a) in respect of any Note or Coupon presented for payment by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or
- (b) in respect of any Note or Coupon presented for payment more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.

Notwithstanding anything to the contrary in this Condition, none of the Issuer, any paying agent or any other person shall be required to pay any additional amounts with respect to any withholding or deduction imposed on or in respect of any Note pursuant to Section 1471 to 1474 of the U.S. Internal Revenue Code of 1986, as amended ("**FATCA**"), any treaty, law, regulation or other official guidance implementing FATCA, or any agreement between the Issuer, a paying agent or any other person and the United States, any other jurisdiction, or any authority of any of the foregoing implementing FATCA.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in a city in which banks have access to the TARGET System by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest 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 (*Taxation*).

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Slovenia references in these Conditions to the Republic of Slovenia shall be construed as references to the Republic of Slovenia and/or such other jurisdiction.

7. **Events of Default**

If any of the following events occurs and is continuing:

- (a) *Non payment:* the Issuer fails to pay any amount of principal in respect of the Notes within three days of the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within five days of the due date for payment thereof; or
- (b) *Breach of other obligations:* the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer by any

Noteholder, has been delivered to the Issuer or to the Specified Office of the Fiscal Agent;
or

- (c) *Insolvency, etc.*: (i) the Issuer becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or the whole or a substantial part of the undertaking, assets and revenues of the Issuer is appointed (or application for any such appointment is made), (iii) by reason of its financial difficulties the Issuer 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 generally or any guarantee of any indebtedness given by it or (iv) the Issuer ceases or threatens to cease to carry on all or any substantial part of its business; or
- (d) *Winding up, etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer; or
- (e) *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 paragraphs (c) (*Insolvency, etc.*) to (d) (*Winding up, etc.*) above; or
- (f) *Guarantee not in force*: the Guarantee of the Notes is not (or is claimed by the Guarantor not to be) in full force and effect,

then any Note may, by written notice by the holder thereof addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders.

8. **Prescription**

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

9. **Replacement of Notes and Coupons**

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

10. **Paying Agents**

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

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent and additional or successor paying agents; provided, however, that the Issuer shall at all times maintain a fiscal agent.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders by or on behalf of the Issuer.

11. **Meetings of Noteholders; Modification**

- (a) *Meetings of Noteholders*: The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including

the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution (as defined in the Fiscal Agency Agreement). Such a meeting may be convened by the Issuer and shall be convened by it upon the request in writing of Noteholders holding not less than one tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided, however, that** certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**") may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

(b) **Electronic Consent:**

For so long as the Notes are represented by a Temporary Global Note and/or a Permanent Global Note (each as defined in the Fiscal Agency Agreement), then, in respect of any resolution proposed by the Issuer where the terms of such resolution proposed by the Issuer have been notified to the Noteholders through the relevant ICSD(s) (as defined in the Fiscal Agency Agreement), the Issuer shall be entitled to rely upon approval of such resolution given by way of electronic consents communicated through the electronic communications systems of the relevant ICSD(s) to the Paying Agents ("**Electronic Consent**") in accordance with the provisions of Schedule 5 to the Fiscal Agency Agreement. Any resolution passed by Electronic Consent by or on behalf of Noteholders holding or representing three-quarters of the aggregate principal amount of the outstanding Notes who for the time being are entitled to receive notice of a meeting of Noteholders shall be binding on all Noteholders even if the relevant consent or instruction proves to be defective. The Issuer shall not be liable or responsible to anyone for such reliance.

(c) *Written Resolution:* In addition, a resolution in writing signed by or on behalf of Noteholders holding or representing three-quarters of the aggregate principal amount of the outstanding Notes who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(d) *Modification:* The Notes and these Conditions may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of the Issuer, not materially prejudicial to the interests of the Noteholders.

12. **Further Issues**

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

13. **Notices**

Notices to the Noteholders shall be valid if published in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburger Wort) or on the website of the Luxembourg Stock Exchange (www.bourse.lu) and shall be published in such other manner as may be required by the rules of any market on which Notes are at such time listed and/or traded or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

14. **Governing Law and Jurisdiction**

- (a) *Governing law:* The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.
- (b) *English courts:* The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including a dispute regarding any non-contractual obligation arising out of or in connection with the Notes).
- (c) *Appropriate forum:* The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
- (d) *Rights of the Noteholders to take proceedings outside England:* Condition 14(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 14 (*Governing law and jurisdiction*) prevents any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.
- (e) *Service of Process:* The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to the Embassy of the Republic of Slovenia, at 17 Dartmouth Street, Westminster, London SW1H 9BL, United Kingdom or to such other person with an address in England or Wales as the Issuer may specify by notice in writing to the Noteholders. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.
- (f) *Waiver of immunity:* To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer irrevocably agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction, and irrevocably and unconditionally consents to the giving of any relief or the issue of any process including, without limitation, the making, enforcement, execution or attachment against any assets or revenues whatsoever (irrespective of its use or intended use) or any order or judgment made or given in connection with any Proceedings.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Closing Date with a common safekeeper for Euroclear and Clearstream, Luxembourg.

The Notes will be issued in new global note ("NGN") form. On 13 June 2006 the European Central Bank (the "ECB") announced that Notes in NGN form are in compliance with the "Standards for the use of EU securities settlement systems in ESCB credit operations" of the central banking system for the euro (the "Eurosystème"), **provided that** certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystème operations if the NGN form is used.

The Notes are intended to be held in a manner which would allow Eurosystème eligibility - that is, in a manner which would allow the Notes to be recognised as eligible collateral for Eurosystème monetary policy and intra-day credit operations by the Eurosystème either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystème eligibility criteria.

The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") at the request of the bearer of the Permanent Global Note if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 7 (*Events of Default*) occurs.

So long as the Notes are represented by a Temporary Global Note or a Permanent Global Note and Euroclear and/or Clearstream, Luxembourg so permit, the Notes will be tradeable only in the minimum authorised denomination of EUR100,000 and higher integral multiples of EUR1,000, notwithstanding that no Definitive Notes will be issued with a denomination above EUR199,000.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has duly requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) the Permanent Global Note (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under a deed of covenant to be dated on or around 8 July 2020 (the "**Deed of Covenant**") to be executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in the Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate

principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

In addition, the Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg.

Payments on business days: In the case of all payments made in respect of the Temporary Global Note and the Permanent Global Note "**business day**" means any day which is a TARGET Settlement Date.

Notices: Notwithstanding Condition 13 (*Notices*), while all the Notes are represented by the Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 13 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg, except that, for so long as such Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, such notices shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (www.bourse.lu) and/or in such other manner as may be required or permitted by the said rules.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to approximately EUR 349,282,500, will be used by the Issuer for performing the activities pursuant to Article 11 of the Act and for funding the financial transactions referred to in Article 12 of the Act.

SID bank is authorised to act as a specialised Slovenian export and development bank to support economic, structural, social and other policies of the Republic of Slovenia pursuant to Article 11 of the Act by primarily providing financial services in segments where market gaps occur or have been observed. Pursuant to Article 12 of the Act, SID bank may perform, in order to carry out the tasks set out in Article 11, all activities allowed under the law governing banking and may also perform other services, such as counselling and education, as well as provide different development funding schemes and carry out different action programs of the Republic of Slovenia and other programs and projects which comply with the EU regulations, including in co-operation with different European financial institutions in various forms. Article 12 of the Act also provides that, in provision of its services, SID bank may use all financial instruments available under financial legislation, such as loans, guarantees and other forms of security, factoring, financial leasing, concession credits and other international development cooperation instruments, other forms of funding, grants, subsidies, capital investments and other forms of undertaking risk and that SID bank may obtain the financing necessary for the performance of its tasks set out in Article 11 and for the use of instruments set out in Article 12 by borrowing, including by borrowings in the form of loans and issuance of debt securities.

COVID-19 Response

The proceeds of the Notes form part of the funding of Sid Bank for its general corporate purposes and will not be committed to or earmarked for lending to, financing of, any specific loans, projects or programmes.

SID bank is a specialised promotional, export and development bank authorised to provide financial services designed to supplement financial services in various areas defined by the Act that are important to Slovenia's sustainable development. The core activity of SID bank is financing of market gaps, which mostly focuses on SMEs, development, environmental protection, infrastructure and energy projects, and the internationalisation of enterprises. This role has increased during the COVID-19 pandemic. In line with its counter-cyclical mandate SID Bank intends to focus on companies impacted by the crisis, including providing access to finance for small, medium-sized or large cap corporates, whether directly or indirectly through financial institutions, through insurance products or supply chain finance.

For more information see "*Activities related to COVID-19*" below.

SID Bank has neither established a separate framework for application of the proceeds of the Notes nor will be reporting on the impact of the use of proceeds of the Notes or conducting any external review of such impact or use of proceeds. Each potential investor should make its own assessment of the suitability of the intended use of proceeds with respect to its own investment criteria.

For the avoidance of doubt, despite the important role of the Notes in helping SID bank respond to the COVID-19 crisis, the Notes are not in alignment with the Social Bond Principles, as administered by the International Capital Market Association, and SID bank has not obtained a second-party opinion or any other type of external verification of the Notes.

DESCRIPTION OF THE ISSUER

Introduction

SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana (SID – Slovenian export and development bank) was established by the Slovenian Export Finance and Insurance Company Act (*Zakon o Družbi za zavarovanje in financiranje izvoza Slovenije* ("**ZDZFI**"), Official Gazette, Nos. 32/92, 13/93 - ZP-G, 37/95, 34/96, 31/97, 99/99 and 2/04) as an export credit agency ("**ECA**") and, after obtaining its banking licence at the end of 2006, began operating as a bank. SID bank's registration number is 5665493000, telephone number: +386 1 200 75 00, and email: info@sid.si.

SID bank is a specialised promotional, export and development bank authorised to carry out long-term financial services designed to supplement financial services in various areas defined by the Act that are important to Slovenia's sustainable development. The core activity of SID bank is financing of market gaps, which mostly focuses on SMEs, development, environmental protection, infrastructure and energy projects, and the internationalisation of enterprises. SID bank's activity is based on a clear strategy and business model that is derived from the long-term development documents of Slovenia and the EU. The long-term stability of SID bank is guaranteed by the State, enabling it to carry out its business and activities to pursue the long-term development policies of Slovenia and the EU.

In 2008, SID bank was authorised to act as a specialised Slovenian export and development bank to support economic, structural, social and other policies of the Republic of Slovenia pursuant to Article 11 of the Act by primarily providing financial services in segments where market gaps occur or have been observed. Pursuant to Article 12 of the Act, SID bank may perform, in order to carry out the tasks set out in Article 11, all services allowed under the law governing the banking industry and may also perform other services, such as counselling and education, as well as provide different development funding schemes and carry out different action programs of the Republic of Slovenia and other programs and projects which comply with the EU regulations, including in co-operation with different European financial institutions in various forms. Article 12 of the Act also provides that, in provision of its services, SID bank may use all financial instruments available under financial legislation, such as loans, guarantees and other forms of security, factoring, financial leasing, concession credits and other international development cooperation instruments, other forms of funding, grants, subsidies, capital investments and other forms of undertaking risk and that SID bank may obtain the financing necessary for the performance of its tasks set out in Article 11 and for the use of instruments set out in Article 12 by borrowing, including by borrowings in the form of loans and issuance of debt securities. Accordingly, SID bank is engaged in general banking activity and also acts as an agent of the Republic of Slovenia, including in insurance and guarantee schemes (for further details on the principal activities of SID bank see "*Activities*" below). The objective of SID bank is to support long term financing for the sustainable development of the Slovenian economy.

SID bank performs all transactions envisaged under the Act Governing Insurance and Financing of International Commercial Transactions (*Zakon o zavarovanju in financiranju mednarodnih gospodarskih poslov* ("**ZZFMGP**"), Uradni list RS, Nos. 2/2004, 56/08 – ZSIRB and 82/2015). This consists mainly of insurance activities. The only financing activity that can be performed thereunder is financing of international trade and investment financing (i.e. credit transactions, by which SID bank provides participants in international trade and financial institutions with financing for international economic transactions).

SID bank is a private joint stock company with its registered office located at Ulica Josipine Turnograjske 6, 1000 Ljubljana, Republic of Slovenia. SID bank has no branches and operates exclusively at the registered office of the bank.

Rating

SID bank is currently rated by Standard & Poor's Global Ratings ("**S&P**"). As at the date of this Information Memorandum S&P has assigned SID bank a long-term rating of AA- and a short-term rating of A-1+, with a stable outlook (this is equal to the rating and outlook of the Republic of Slovenia by Standard & Poor's, which were last confirmed on 12 June 2020).

Ownership

SID bank was registered on 27 October 1992, but it began operating under the Act on 18 September 2008. Since its establishment in 1992, the major shareholder of SID bank has been the Republic of Slovenia. When SID bank was established, the Republic of Slovenia held 91.15 per cent. of the shares, with the remainder of the shares being held by major Slovenian companies, including insurance companies and banks. Since 18 September 2008 the Republic of Slovenia has been the sole shareholder of SID bank, as prescribed by Article 4 of the Act. Any amendment of the shareholder structure of SID bank would therefore require an amendment of the Act by the parliament of the Republic of Slovenia. The share capital of SID bank amounts to EUR 300,000 thousand as at 31 December 2019 and is fully paid up.

History

In 1992 the Republic of Slovenia, in co-operation with major Slovenian companies, established the Slovenian Export Corporation, corporation for Insurance and Financing of Slovenian Export, Inc., Ljubljana (Slovenska izvozna družba, družba za zavarovanje in financiranje izvoza Slovenije, d.d., Ljubljana) ("**SID Inc.**") to serve as an ECA. SID Inc. was established for the purpose of conducting activities that are additional and complementary to those conducted by private financial institutions, with an emphasis on assuming risks that the private market is not prepared to assume. At the time, the ZDZFI determined that the share of the Republic of Slovenia in SID Inc. should not be lower than 51 per cent. When SID Inc. was established, the actual share of the Republic of Slovenia amounted to 91.15 per cent.

On 2 October 2002, SID Inc. bought a 50 per cent. ownership stake in factoring company Prvi Faktor which is a joint venture with Nova Ljubljanska banka, d.d., Ljubljana.

On 5 May 2004, SID Inc. established a company for out of court settlements and recovery of debts, Pro Kolekt, which is solely owned by SID Inc. Pro Kolekt has a network throughout south-eastern Europe, including Croatia, Bosnia and Herzegovina, Serbia, Macedonia, Romania and Bulgaria. In February 2016, Pro Kolekt was acquired by KF Finance, Valuations and Financial Advisory, Ltd.

As a result of the decision about the status of SID Inc. and the accession of the Republic of Slovenia to the European Union ("**EU**"), the ZZFMGP, which was enacted to harmonise the laws covering SID Inc.'s activities, determined that the SID Inc.'s status had to be changed from that of a general corporate to a bank.

The ZZFMGP obliged SID Inc. to fully harmonise its operations with EU banking regulations. SID Inc. obtained its banking licence on 18 October 2006 and commenced its banking operations on 1 January 2007 under the full company name SID – Slovenska izvozna in razvojna banka, d.d., Ljubljana (SID – Slovenian export and development bank Inc, Ljubljana). Furthermore SID Inc. was obliged to harmonise its status and activities, relating to its own account insurance business, in line with EU regulations governing activity of insurance companies by no later than 31 December 2004. As a result, at the end of 2004, SID Inc.'s insurance business for its own account was organised in the newly established insurance company SID – First Credit Insurance. SID bank signed a sale and purchase agreement with Coface SA for the sale of its entire holding in its subsidiary SID-First Credit Insurance in September 2018. Ownership was transferred against the payment of consideration in April 2019.

In 2007, SID bank co-founded the Centre for International Cooperation and Development ("**CMSR**") with the Republic of Slovenia.

With the entry into force of the Act, SID bank was empowered to act not just as an export bank, but rather as a bank which promoted export and development. It also enabled the Republic of Slovenia to squeeze out the other shareholders of SID bank. Since 18 September 2008, the Republic of Slovenia has been the sole shareholder of SID bank as required under the Act.

Pursuant to the Act, SID bank has authority to perform promotional and development tasks and services in the areas of international trade, economic and development cooperation, entrepreneurial activities, promotion of innovation through research and education, ecology, energy and construction of infrastructure as well as in other areas of significance for the development of the Republic of Slovenia.

In addition to banking, the Act empowered SID bank to act as an authorised institution and to perform all transactions under the ZZFMGP, namely to provide insurance cover for medium and long term business transactions against non-marketable risks in the name and for the account of the Republic of Slovenia. Funds for the liabilities, which SID bank is obliged to pay, are drawn from contingency reserves. The

contingency reserves are formed from premiums paid, fees, recoveries and other revenues that are used to provide coverage to participants in international trade. Contingency reserves are also formed from assets generated by SID bank through management of those assets and risks underwritten (drawn from the budget of the Republic of Slovenia as well as other sources and assets). If the funds drawn from these sources are not sufficient to cover the liabilities which are to be paid by SID bank as agent on behalf of the Republic of Slovenia, then payment shall be made directly from the budget of the Republic of Slovenia.

The SID bank activities as at 31 December 2019 are set out below:

	<u>Own account</u>	<u>In the name and for the account of the Republic of Slovenia</u>
SID bank		
Refinancing	✓	
Direct financing	✓	
Co-financing.....	✓	
Risk sharing.....	✓	
Guarantees.....	✓	
Short term insurance outside the OECD countries.....		✓
Medium and long term insurance		✓
Investment insurance against non-commercial risks		✓
Guarantee schemes.....		✓
Prvi Faktor		
Factoring	✓	
CMSR Centre for International Cooperation and Development		
Bilateral ODA		✓
Country analysis and Rating.....	✓	
Market analysis	✓	

In the above table, reference to risk sharing represents transactions in which commercial banks conclude a loan agreement or issue a guarantee, and after such transaction is concluded the commercial banks approach SID bank to participate in the transaction indirectly. If SID bank approves the transaction and takes on some of the risk then a separate agreement is concluded with the commercial banks, of which the original debtor is not informed.

Insurance transactions performed by SID bank in the name of and for the account of the Republic of Slovenia are separated from the transactions in its own account as shown by the balance sheet and the annual reports of SID bank.

Dividends

Pursuant to Article 4 of the Act, the accumulated profit of SID bank shall not be distributed to the shareholders as a dividend and shall instead be transferred to the reserves arising from profits.

Statutory Guarantee of SID bank liabilities

Under Article 13 of the Act, the Republic of Slovenia unconditionally and irrevocably guarantees the liabilities incurred by SID bank arising out of transactions entered into in accordance with Articles 11 and 12 of the Act. Pursuant to this statutory guarantee the Republic of Slovenia is obliged to settle due liabilities of SID bank to its creditor promptly upon the written request of such creditor. In accordance with the Constitution of the Republic of Slovenia, the Act may not be amended retrospectively. The proceeds of the Notes will be used by SID bank in accordance with the Use of Proceeds section above, including for lending operations and activities in accordance with the Act in support of SMEs, research and development initiatives, environmental protection and energy efficiency, regional development, infrastructure and internalisation, and therefore the obligations of SID bank in relation to the Notes will be guaranteed by the Republic of Slovenia. In accordance with the Slovenian Constitution, the Act may only be amended retroactively if amended by another law and if such amendment is in the public interest and does not prejudice the acquired rights.

Relationship with the Government of the Republic of Slovenia

SID bank has been appointed as the sole Slovenian export and development bank to promote activity pursuant to the Act and to perform all transactions envisioned under the Act on Insurance and Financing of International Commercial Transactions. Where SID bank carries out the activities of an export and development bank such business is performed in the name and for the account of SID bank while the

insurance business is performed in the name and for the account of the Republic of Slovenia. These represent the majority of SID bank's activities.

Since 2009, SID bank has also been acting as an agent of the Republic of Slovenia under several guarantee schemes. The role of SID bank in the guarantee schemes is exclusively in the administrative supporting function of the measure. Aid provided in the form of guarantees on loans under the measure is granted by the Ministry of Finance and administered by SID bank. SID bank carries out, on behalf of the Slovenian State, all transactions related to the liquidation of guarantees, monitoring and implementation of all necessary measures for enforcement of recourse receivables, and to verify after the payment of the guarantee that the conditions under the law on the basis of which the commercial bank approved the loan are respected.

Activities - general

In line with its aforementioned role, purpose and tasks, SID bank primarily provides financial services within the framework of mandates foreseen by the Act. The main service is the provision of loans, which to a large extent flow via commercial banks and savings banks, the remaining part representing direct lending to final beneficiaries. Wherever possible, SID bank aims to implement roughly half of its activity via commercial banks since this enables for a cost-efficient covering of some market gaps. In cases of direct lending SID bank seeks for cooperation with other commercial banks, mostly in the form of bank syndicates.

SID bank is also expected to play a pronounced role in conditions of macroeconomic cyclical downturns, as is enshrined in its mandate of targeting cyclical market gaps. It prepares for this role by withdrawing a large part of its activity in good macroeconomic conditions so that it can benefit from a large capital adequacy ratio and liquidity buffers in the occurrence of a crisis. Therefore, SID bank endeavours to manage its risk on a through-the-cycle basis in such a way, that it keeps an adequate capital adequacy ratio at any point in time during a business cycle or in even in conditions of a protracted economic crisis.

The financial engineering funds co-financed by the State are carried out as on-balance-sheet activities and are part of direct lending. SID bank provides a prevailing part of its loans, especially for the SME sector, via financial engineering funds co-funded by the government. The tranche of the government, on average around a quarter of the fund size, serves as the first loss tranche at portfolio level, while the remaining risk, should the materialisation of risk be larger than the government tranche, is absorbed by SID bank's tranche. SID bank is remunerated by a management fee to manage these funds.

A minor part of financing is implemented through equity instruments. SID bank and EIF launched in 2017 the Slovene Equity Growth Investment Program (SEGIP) of EUR 100 million to provide Slovenian companies financing in form of equity and quasi-equity. Each party has contributed EUR 50 million. SEGIP will be active for at least 15 years, the investment period being 5-6 years. The equity financing is primarily used for funding growth/expansion with value creation.

The financial services which SID bank provides, in accordance with the Act, included the following:

- Granting credits/loans and financing of business transactions;
- Issuing guarantees and other warranties;
- Operating in foreign means of payment, including foreign exchange transactions, foreign currency and interest linked financial instruments, transferable securities;
- Operating in money market instruments (such as deposits and money-market lines) and managing the securities portfolio (for liquidity reserve purpose); and
- Credit rating services: collection, analysis and provision of information on creditworthiness.

The financial services which SID bank provides under the Republic of Slovenia authorisation include:

- Insurance against non-marketable risks;
- Management of the Fund of Funds - European cohesion funds that are available to Slovenia within the 2014 – 2020 financial framework until 2023;
- Operating guarantee schemes as agent on behalf of the Republic of Slovenia; and
- Management of emission allowances and Kyoto units.

Activities related to COVID-19

(A) Instruments of SID bank in place in response to COVID-19

In response to COVID-19, and in line with its counter-cyclical mandate, SID bank has increased its lending and insurance operations through its existing instruments and launched a number of new instruments, including products which enable risk sharing with commercial banks. SID bank has made EUR 300 million available in direct loans and EUR 600 million available in indirect loans; out of this total EUR 900 million of loans that have been made available, to date EUR 200 million has been deployed. In addition, EUR 150 million has been provided through SID bank's insurance business. SID bank has used the following main instruments:

- on-lending via commercial banks under adapted terms and conditions in order to better address COVID-19 needs of final beneficiaries;
- direct lending via a special new COVID-19 loan facility for companies of all sizes;
- direct lending via a special and adapted loan programme for tourism;
- increased direct lending via other (existing) loan programmes; and
- loan/guarantee/insurance facility for medical supplies and healthcare sector financing.

In addition to the activities undertaken directly, SID bank has also:

- amended its existing products providing insurance for working capital (for example by relaxing some product conditions and changing certain eligibility criteria such as longer loan repayment periods, more flexibility collateral provisions, and less restrictive criteria for acceptable beneficiaries and national content requirements, etc.);
- amended its existing products providing insurance of bank guarantees (for example by extending cover to payment guarantees, and less-restrictive conditions and eligibility criteria);
- provided new products relating to insurance of advance payments for import transactions (healthcare equipment);
- extending short term export-credit insurance to cover temporary non-marketable risk;
- introduced new products as a part of the management of the Fund of Funds – European cohesion funds portfolio guarantees for SMEs (where three participant financial institutions have been selected); and
- enabled payment moratoria for direct client companies in accordance with the Intervention Measure Act on Deferred Payments of Borrowers' Obligations ("**ZIUOPOK**").

To ensure SID bank can implement these instruments despite social distancing measures, SID Bank has continued to optimise certain business processes, gradually shifting towards the digitalisation of its operations.

(B) Further instruments in preparation in response to COVID-19

In order to mitigate the impact of COVID-19 by means of extending further support to companies and economy, SID bank is setting up several other instruments/facilities:

- special loan programme for financing SMEs affected by COVID-19 (subject to final approvals);
- increase of the Fund of Funds budget for micro-loans to small and micro companies and Research, Development and Innovation ("**RDI**") loans;
- portfolio guarantees for RDI for large companies and portfolio guarantees for RDI for SMEs;
- expansion of existing loan fund for financing investments that support circular economy; and
- new loan fund for financing of commercial transport of freight and people by road.

These programmes are being set in place and should be available to final recipients in the forthcoming weeks or months. SID bank is to implement additional financing programmes and extend the scope of the

existing ones if needed. Whenever possible, such financing programmes are to be set in place in the form as financial engineering.

(C) Guarantee Schemes mandate on behalf of the Republic of Slovenia

In addition to existing mandates on behalf of the Republic of Slovenia SID bank was mandated in 2020 for managing two new guarantee schemes introduced in response to COVID-19 crisis. SID bank will handle the operative tasks on behalf of the Republic of Slovenia and will receive management fee for both guarantee schemes.

The first guarantee scheme was introduced in accordance with Article 65 of the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy ("**ZIUZEOP**") in April this year for the payment moratoria applied by the banks under the Intervention Measure Act on Deferred Payments of Borrowers' Obligations ("**ZIUOPOK**"). Under the scheme the Republic of Slovenia provides 25 per cent. or 50 per cent. guarantee on delayed credit obligations for one year totalling EUR 200 million.

The second guarantee scheme was introduced in May this year in accordance with the Act on Additional Liquidity to the Economy to Mitigate the Effects of the COVID-19 ("**ZDLGPE**") for new lending by the banks. Under this scheme the Republic of Slovenia provides guarantee on new liquidity loans with tenors up to five years totalling EUR 2 billion with the following features:

- It covers 70 per cent. of the principal of an individual loan provided to a large enterprise (as defined in Commission Regulation (EU) No 651/2014);
- It covers 80 per cent. of the principal of an individual loan provided to an SME (as defined in Commission Regulation (EU) No 651/2014).
- The guarantee is granted "*ex lege*" (provided that conditions are met).
- Fulfilment of the guarantee will be either by payment from the State budget, or in the case of loans to large enterprises, by delivery of bonds issued by SID bank, or in the case of loans to SMEs, by the State.
- The bonds to be issued by SID bank under the ZDLGPE shall be irrevocably and unlimitedly guaranteed by the State, issued in adherence to the conditions of the European Central Bank ("**ECB**") for financing of financial institutions and EU rules relating to adequate credit risks coverage of banks. The issuance of such bonds shall be subject to a decree to be issued by the Government in order that they can be used as a collateral instrument for security of the bank's obligations towards the ECB.
- The Republic of Slovenia plans to regulate further details with a decree.

Documents relating to the guarantees can be found on the "General Documents" section of the Issuer's website (<https://www.sid.si/en/documents/general-documents>). Please note that such information does not form part of this Information Memorandum.

(D) Measures taken by the Republic of Slovenian in response to COVID-19

In response to the crisis caused by the COVID-19 pandemic, the Republic of Slovenia has taken a number of measures to manage the health consequences of the crisis, maintain the potential for economic growth, ensure relatively stable household incomes and help vulnerable population groups. Fiscal policy measures are predominantly covered by the following three legislative packages.

- (i) "*The Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy*"

Most of the measures under this act were valid from 13 March 2020 to the end of May 2020 and included:

- (a) arrangements for the co-financing of employees whose working activity had been temporarily suspended for reasons of force majeure (compensation was 80 per cent. of the worker's salary and at least equal to the minimum wage, and the Republic of Slovenia reimbursed, refunded and aligned contributions for social security up to the level of the average Slovenian salary in 2019); (b) for

those working in the private sector, the Republic of Slovenia covered pension contributions; (c) monthly basic income and payment of contributions for the self-employed; (d) solidarity allowance for vulnerable populations (retiree with a pension of up to EUR 700, beneficiaries of monetary social assistance and some others).

The combined financial implications of these measures are estimated to amount to EUR 3.1 billion (approximately 6.4 per cent. of GDP).

(ii) *"The Act on Additional Liquidity to the Economy to Mitigate the Effects of the COVID-19"*

This act has introduced a loan guarantee scheme for companies with loans from commercial banks in Slovenia. The available quota for principal loans is EUR 2 billion. The guarantee covers 70 per cent. of the principal for large enterprises, and 80 per cent. of the principal loan for micro and SMEs (for further information please see *"Guarantee Schemes mandate on behalf of the Republic of Slovenia"* above).

(iii) *"The Act on intervention measures to mitigate and eliminate the consequences of the COVID-19 epidemic"*

This act is valid from 1 June 2020, and the measures include; (a) maintaining co-financing of employees whose working activity has been temporarily suspended in June; (b) a new measure of subsidisation of full-time work, valid from 1 June until 31 December 2020, in respect of employees that are working at least half of their full-time work; (c) vouchers to improve the economic situation in the field of domestic consumption of tourist services, which can be redeemed for accommodation or accommodation with breakfast (for all persons residing in the Republic of Slovenia; for adults EUR 200, for people under 18 years of age EUR 50). The financial implications of these measures are estimated to amount to EUR 1 billion (approximately 2 per cent. of GDP).

Economic Impact of COVID-19 on the Republic of Slovenia

The Ministry of Finance of the Republic of Slovenia has forecasted a general government deficit at 8.1 per cent. of GDP and a level of government debt at 82.4 per cent. of GDP as at 31 December 2020, according to its assessment published on 12 May 2020 (*Source: Statistical Office of the Republic of Slovenia <https://www.stat.si/StatWeb/en/News/Index/8824>*).

According to Bank of Slovenia's forecast published in June this year a profound contraction in economic activity is expected in 2020, but the situation is expected to stabilise over the next two years. The baseline scenario forecasts a 6.5 per cent. decline in GDP in 2020, before growth resumes, reaching 4.9 per cent. and 3.6 per cent. in 2021 and 2022 respectively. A sharp downturn is expected in the labour market, before a gradual recovery in 2021 and 2022. Similar to the Ministry of Finance, Bank of Slovenia predicts fiscal deficit to exceed 8 per cent. of GDP in 2020, and expects the general government debt to rise to around 82 per cent. of GDP (*Source: Bank of Slovenia www.bsi.si/en/media/1513/stabilisation-over-the-next-two-years-following-this-years-contraction-in-the-economy*).

Authorisations

The Management Board transferred certain decision-making rights to collective decision-making bodies, such as the Credit Committee, the Government Operations Committee, the Distressed Investment Management Committee and the Asset-Liability and Liquidity Management Committee. The main powers and responsibilities and the methods of work of the committees are set out in the Committees' Rules of Procedure. In addition, the Management Board transferred certain decision-making powers with regard to transactions to individual employees at SID bank on the basis of the Rulebook on Authorisations.

Furthermore, according to SID bank's articles of association revised on 6 July 2016 ("**Articles of Association**"), the Supervisory Board is also the competent body for:

- issuing prior consent for the conclusion of a legal transaction with an entity in a special relationship with SID bank, in accordance with the Banking Act – ZBan-2 (Official Gazette of the Republic of Slovenia (*Uradni list RS*), Nos. 25/15, 44/16 – ZRPPB, 77/16 – ZCKR, 41/17, 77/18 – ZTFI-1, 22/19 – ZIUJSOL in 44/19 – odl. US) (the "**Banking Act**"),

- issuing prior consent for the conclusion of a legal transaction or approval for a limit to the exposure on the basis of which a major exposure of SID bank to an individual client or a group of related persons or a risk of a further increase of the exposure could occur, in accordance with the Banking Act and the Act,
- issuing consent for the conclusion of a legal transaction or approval for a limit to the exposure on the basis of which the overall exposure of SID bank to an individual client or a group of related persons would reach or exceed:
 - 25 (twenty-five) per cent. of SID bank's capital or every additional 25 (twenty-five) per cent. of SID bank's capital, in the event of an investment in a bank or a state with an internal credit rating equal to, or higher than, BBB-,
 - 10 (ten) per cent. of SID bank's capital or every additional 10 (ten) per cent. of SID bank's capital, in the event of an investment in a bank or a state with an internal credit rating lower than BBB-,
 - 10 (ten) per cent. of SID banks capital or every additional 10 (ten) per cent. of SID bank's capital, in the event of an investment in an entity which is not a bank or a state with an internal credit rating equal to or higher than BBB-,
 - 10 (ten) per cent. of SID bank's capital or every additional 5 (five) per cent. of SID bank's capital, in the event of an investment in an entity which is not a bank or a state with an internal credit rating lower than BBB-,
- issuing consent for the conclusion of an individual legal transaction which:
 - exceeds EUR 10,000,000 in the event of an investment in an entity, which is not a bank or a state, with the internal credit rating lower than BBB- and higher than C+,
 - exceeds EUR 5,000,000 in the event of an investment in an entity which is not a bank or a state with an internal credit rating lower than B-,
 - is insured with an insurance policy in accordance with the Act Governing Insurance and the Financing of International Commercial Transactions,
- issuing consent for the conclusion of a legal transaction of long-term borrowing by SID bank, because of which the total long-term borrowing by SID bank from the latest consent of the Supervisory Board would increase by more than 25 (twenty-five) per cent. of SID bank's capital,
- issuing consent for financing transactions that exceed 85 per cent. of support for the planned transaction or project if so determined by the Articles of Association,
- issuing consent for a capital investment in another legal entity that exceeds 1 (one) per cent. of SID bank's share capital,

The determination of credit ratings referred to in the preceding paragraph is regulated in detail by the internal act of SID bank, which is adopted by the Management Board with the consent of the Supervisory Board.

Notwithstanding what is stated in the preceding paragraphs, the Supervisory Board shall consent to any individual transaction or to an approval or increase in the limit of exposure to an individual client or a group of related persons in all cases when SID bank is concluding a deal related to contingency reserves due to which 10 (ten) per cent., or every additional 5 (five) per cent. of the entire amount of contingency reserves is reached or exceeded, while contingency reserves placed in the current account in a commercial bank will not be deemed an individual transaction and will not be considered in the calculation of the total exposure to the commercial bank or group of related persons.

Pursuant to the provisions of the Act, and after the date of its implementation, SID bank utilised the abovementioned services and financial instruments to support economic, structural, social and other policies in the areas specified in Article 11, point 1, of the Act, as follows:

- International business transactions and international economic cooperation;
- Economic incentives, with particular emphasis on SMEs, entrepreneurship, and venture capital;
- Research and development;

- Education and employment;
- Preserving the environment and energy efficiency;
- Regional development;
- Residential issues; and
- Commercial and public infrastructure.

Under a legal authorisation provided for in the Act, SID bank enjoys the status of an authorised institution under the Act Governing Insurance and Financing of International Commercial Transactions. For the account of the Republic of Slovenia, SID bank provides:

- Short term export credit insurance and reinsurance against non-commercial and other non-marketable risks;
- Investment insurance against non-commercial risks; and
- Medium term export credit insurance against commercial and/or non-commercial risks.

In respect of the insurance transactions, SID bank acts as an agent of the Republic of Slovenia and receives an annual agency fee. In the event that contingency reserves are insufficient to cover the payments necessary, the additional amounts are paid directly by the Republic of Slovenia out of the budgetary expenditure.

In performing its activities, SID bank uses various financial instruments with the aim of providing various forms of financing or related activities and promoting international development cooperation. SID bank, through the CMSR institute (see below – "*CMSR Institute*"), also acts as an agent for the Republic of Slovenia in its framework for international development cooperation, which involves the giving of grants from the Republic of Slovenia in order to support Slovenian exporters, as well as in respect of the guarantee schemes as described above.

Corporate Governance

SID bank's corporate governance is carried out by the Management Board and the Supervisory Board. Members of the Supervisory Board are appointed by the government of the Republic of Slovenia. In accordance with the Act, the Supervisory Board consists of seven members. The term of office of each member of the Supervisory Board is five years, and members can be re-appointed. Current members of the Supervisory Board are:

Ms. Monika Pintar Mesarič	appointed 22 February 2018 (for the second term)	Chair
Mr. Marko Tišma	appointed 28 July 2016	Deputy Chair
Mr. Marjan Divjak	appointed 18 May 2017 (for the second term)	Member
Mr. Zlatko Vili Hohnjec	appointed 18 May 2017	Member
Mr. Leo Knez	appointed 22 February 2018 (for the second term)	Member

There are no conflicts between the private and professional interests of the members of the Supervisory Board. The Supervisory Board monitors and supervises the management and operations of SID bank. It operates on the basis of its rules of procedure, which set out in detail the principles, procedures and work methods, while its principal powers and responsibilities are set out by SID bank's Articles of Association and laws governing SID bank's operations, most notably the ZGD-1, the ZBan-2 and the Act.

The Supervisory Board's role includes approving SID bank's strategic policy, reviewing the annual reports and other financial reports and formulating an opinion thereof, explaining to the general meeting its opinion of the annual report by the internal audit department and its opinion of the annual report by the Management Board, approving the annual report and the Management Board's proposal for the use of the distributable profit, and discussing any findings made in supervisory procedures by the Bank of Slovenia, tax inspectors and other supervisory authorities. In addition, the Supervisory Board is responsible for giving its consent to the Management Board in relation to the Bank's business policy, financial plan, remuneration policy, the organisation of the system of internal controls, the internal audit department's annual programme of work, and the compliance department's annual programme of work. The Supervisory Board is also responsible

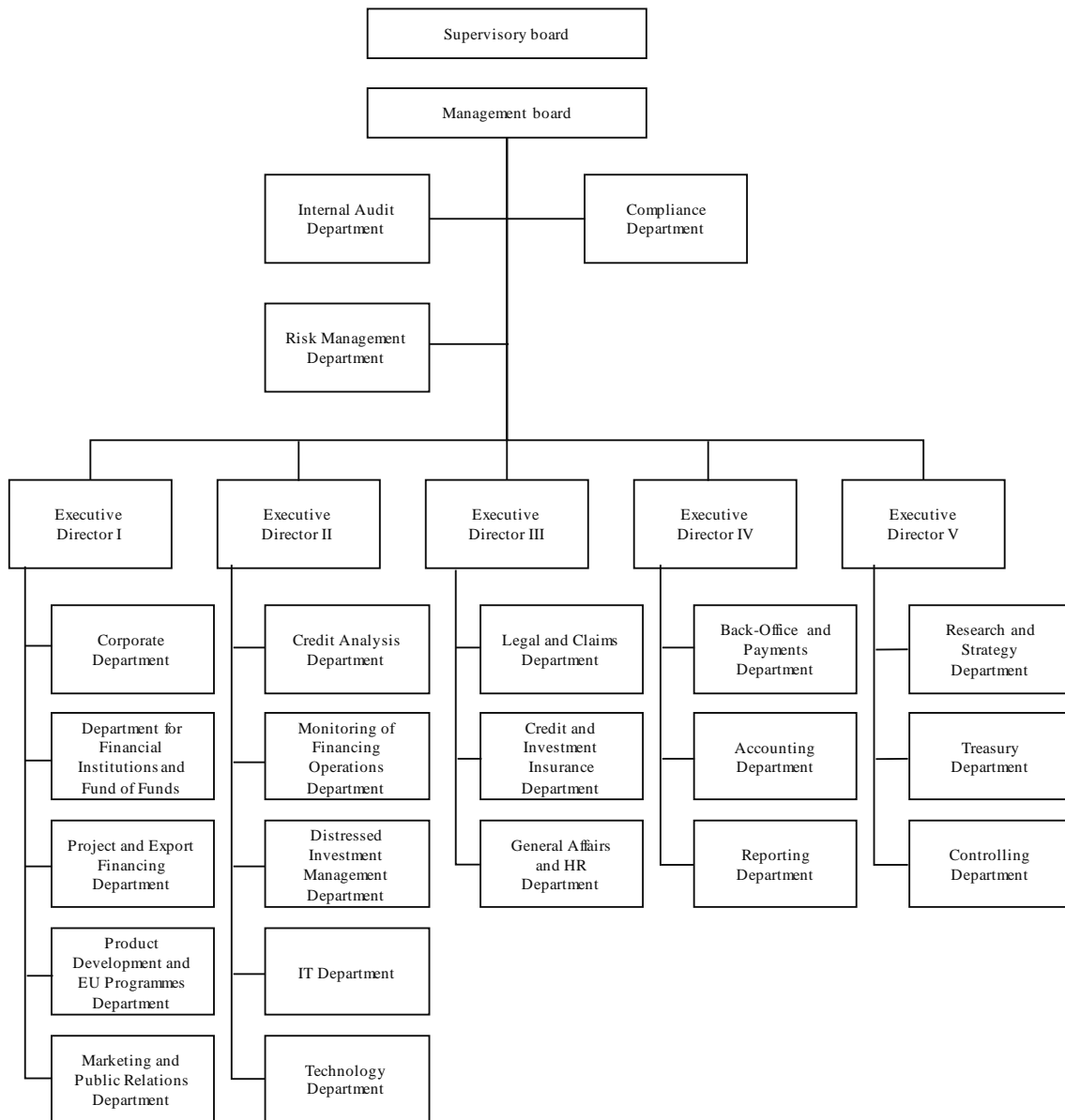
for issuing prior consent for the conclusion of financing, borrowing and capital investment transactions (see the "*Authorisations*" section above for the authorisation thresholds for such transactions). The Supervisory Board has appointed an audit committee, a risk management committee and a nomination and remuneration committee as advisory bodies. Each committee's tasks and powers are set out in its own rules of procedure.

The Management Board is appointed by the Supervisory Board for a term of five years; members may be reappointed. In accordance with the Articles of Association, the Management Board can only have a maximum of three members, one of whom is appointed president. The number of members of the Management Board is determined by the Supervisory Board.

Present members of the Management Board were both appointed on 1 January 2017, Mr. Sibil Svilan, as president for the third term and Mr. Katušin, as member for the first term. There are no conflicts between the private and professional interests of the members of the Management Board.

The Management Board represents SID bank in public and legal matters and directs the business independently and at its own liability. Its activity is governed by the rules of procedure of the Management Board. The Management Board regularly briefs the Supervisory Board on the most important issues in SID bank's operations, on its business policy, its financial position and other significant issues relating to its activity. On 3 March 2020, the Management Board approved the financial statements of SID Bank and the annual report for the year ending 31 December 2019. These financial statements have been compiled in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU.

The organisational structure of SID bank is as follows:



The objective of internal audit is to promote a prudent and well-ordered evaluation of risk management, as well as to improve the efficiency of risk management through providing independent and objective assurance and consulting services. Internal audit is organised as an independent department, which reports directly to the Management Board of SID bank. The chief audit executive reports directly to the Management Board as well as to the Audit Committee of the Supervisory Board.

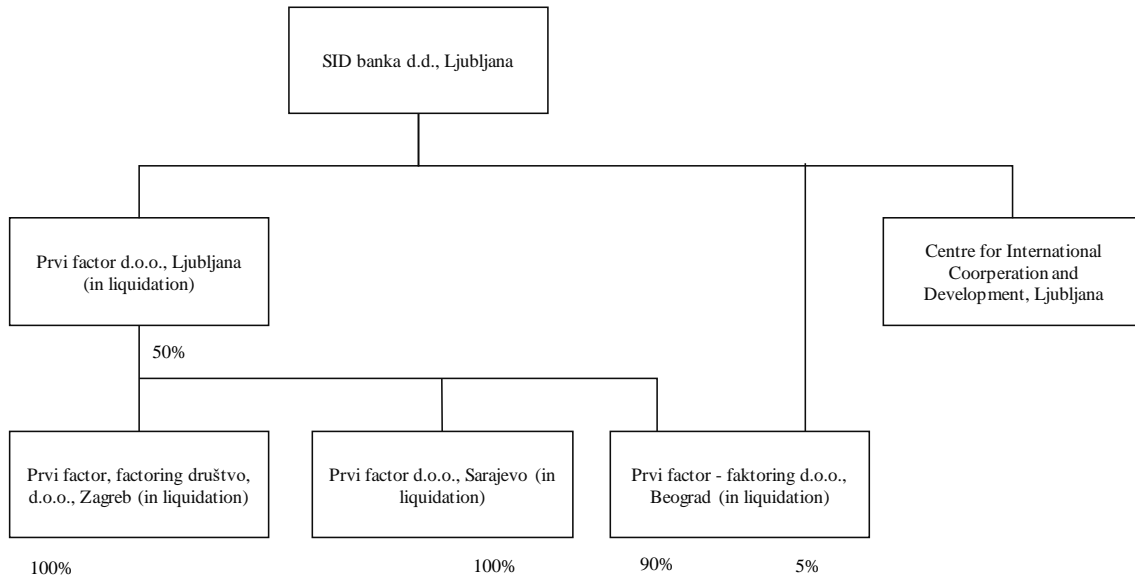
The compliance function is an integral part of the internal control system of SID bank and identifies, assesses and monitors the compliance risk to which the bank is or could be exposed. The organisation of the compliance function is consistent with international standards (including Basel and standards established by The Committee of European Banking Supervisors) and national regulation. The compliance management function is currently comprised of two full-time compliance officer who reports directly to the Management Board and reports to the Supervisory Board at least every six months and the information security officer. The compliance officer has full access to all information and personnel. The information security management function monitors and controls information security procedures for the purpose of preventing unauthorised access to information in storage, during processing or during transfer, and changes thereto, including the management of related risks and the production of analysis of these risks on each occasion for the purposes of the internal capital adequacy assessment process ("ICAAP"). The information security officer has direct access to Supervisory Board and Management Board whenever their topics relate to information security.

Legal status of SID bank

The role, authorities, activities, ownership and organisation of SID bank are regulated by the Act, while its insurance activity as a state agent is regulated by the ZZFMGP. Except as set out in Article 14(3) of the Act, SID bank is subject to normal banking regulation and operates under the supervision of the Bank of Slovenia (*Banka Slovenije*) and the Ministry of Finance.

SID bank

The chart below shows the organisational structure of SID bank as at 31 December 2019:



Prvi faktor, faktoring družba, d.o.o. (in liquidation)

SID bank acquired a 50 per cent. interest in the nominal capital and half of the voting rights of the company in 2002. The other partner was Nova Ljubljanska banka d.d., Ljubljana ("**NLB**").

The nominal value of SID bank's interest in the company stood at EUR 1,584,209.50 as at 31 December 2019.

The main activity of Prvi faktor, faktoring društvo, d.o.o., Ljubljana (in liquidation) was the provision of factoring services. On 28 December 2016 the company's general meeting passed a decision to initiate voluntary liquidation proceedings, and to appoint the two previous directors as liquidators. The company's liquidators in 2019 were Klemen Hauko and Marcel Mišanović Osti until 23 May 2019, and then just Klemen Hauko from that moment on. SID bank was represented at the general meeting in 2019 by its proxies Saša Keleman and Branko Jerak.

Prvi faktor, Ljubljana (in liquidation) is also the founder and:

- 100 per cent. owner of Prvi faktor, faktoring društvo, d.o.o., Zagreb (in liquidation). The company was established on 17 December 2003. Its share capital stood at HRK 19,466,600 (or EUR 2,615,571.48 according to the middle exchange rate of the CNB as at 31 December 2019). The company has been in liquidation since 31 December 2016. The liquidators of the company in 2019 were Jure Hartman and Marko Ugarkovic until 10 July 2019, and then just Jure Hartman from that moment on. The chair of the company's Supervisory Board is Klemen Hauko, while Igor Jarc and Matjaž Jevnišek are the other members;
- 100 per cent. owner of Prvi faktor d.o.o., Sarajevo (in liquidation). The company was established on 27 February 2006. The company's share capital stood at KM 2,838,162 (or EUR 1,451,129.18 according to the middle exchange rate of the Central Bank of Bosnia and Herzegovina as at 31 December 2019). The company has been in liquidation since 29 December 2016. The previous director and current liquidator of the company is Đenan Bogdanić;

- 90 per cent. owner of Prvi faktor – faktoring d.o.o., Beograd (in liquidation). The company was established on 24 February 2005. The company has been in liquidation since 3 August 2017. The company's share capital stood at RSD 299,196,366 (or EUR 2,544,342.57 according to the middle exchange rate of the NBS as at 31 December 2019). With the conversion of cash and receivables into equity in the company by NLB and SID bank, changes were made in the company's ownership structure at the end of July 2017, with both owners each gaining a 5 per cent. direct interest. The company was managed by liquidator Željko Atanasković in 2019. SID bank was represented at the general meeting in 2019 by SID bank's Management Board or its proxies Saša Keleman and Branko Jerak.

Centre for International Cooperation and Development

SID bank is a co-founder of the CMSR together with the Republic of Slovenia. On the basis of the International Development Cooperation and Humanitarian Aid of the Republic of Slovenia Act, the CMSR carries out technical and operational work in the field of international development cooperation, as well as macroeconomic, political and other analysis of sovereigns, assessments of country risk and publicity activities.

The CMSR's management bodies are the director and the council. The institute is represented by its director Klemen Potisek. The council had six members as at 31 December 2019. SID bank's representatives on the council are Bojan Pecher, who is also chair of the council, and Igor Jarc.

Strategy

As Slovenia's central financial institution in the areas of promotion and development, SID bank develops and provides long-term financial services to complement the market, thereby promoting economic competitiveness, the creation of new quality jobs, social inclusiveness and sustainable development. Through its actions and its dedication to its mandate, SID bank is consolidating its role as a major factor in Slovenia's sustainable development. SID bank's development strategy for the period of 2020 to 2023 pursues two fundamental objectives: a high multiplicative and sustainability effects in society and in business, and SID bank's own performance which ensures its long-term financial viability. Over the forthcoming medium-term period SID bank will direct its actions towards increasing the visibility of its role and the scale of its activities in market gaps.

SID bank provides firms with growth and development potential by ensuring financial products target all their phases of development. A large majority of financing is conducted in the form of debt instruments, while a minor part involves equity. In designing its products SID bank prioritises financial engineering, which involves risk sharing with state funds, the state tranche typically representing around a quarter of a fund's financial structure and serving as first loss absorber. This enables SID bank to effectively cover market gaps, especially by extending loans of longer maturities and lower collateral requirements as compared to commercial banks. A growing part of SID bank's activities focuses on project and export financing, and on financing sustainable infrastructures. From the aspect of internal processes and capabilities, SID bank strives to provide high-tech support for its business processes, which are capable of adapting quickly to market and internal needs, and providing high-quality support for clients in all their development phases. SID bank devotes particular attention to monitoring financial and developmental impact of individual transactions.

The COVID-19 pandemic broke out following the end of the financial year, exposing activity in the global economic environment to serious risk, affecting the Slovenian economy to a large degree. SID bank reacted swiftly and prepared a framework of anti-crisis financing programmes. Given the current outlook, SID bank will increase the volume of funds placed in the real sector in 2020 and if needed in the years to come. The focus in 2020 will also be on using mechanisms to increase the intermediation of development funds via banks, including various forms of co-financing in all transactions where this is possible and where the banks show suitable interest.

In parallel with its intervention role, SID bank will also continue the activities associated with its role of promoting sustainable development. To the extent possible, SID bank favours financing firms with business models aligned with long-term environmental sustainability requirements. To this end, SID bank conducts systematic assessments of business models of firms that apply to its financing programmes and focuses especially on promoting circular economy. Although the increase in its activity primarily arises from counter-cyclical needs, SID bank endeavours to use this additional financial effort to simultaneously

accelerate the transformation of the Slovene economy towards fulfilling its long-term environmental sustainability goals.

SID bank will also strive to further strengthen its partner relations (through bilateral cooperation and as member of peer associations) with foreign export credit agencies, remain an active member of the Berne Union, and respond to the initiatives for coordinated support to joint projects in third markets.

Funding activity

Borrowing activities are based on SID bank's business strategy and the annual financial borrowing plan, which is drafted as part of the annual operational plan. The purpose of borrowing is to ensure appropriate funding for the execution of SID bank's asset-side transactions. Adequacy is assessed with regard to maturity, currency, interest-rate type, costs of borrowing and any other characteristics. SID bank borrows for the purposes set out in the Act.

In raising funds, SID bank focuses on selecting flexible borrowing instruments that can be fully tailored to meet various customers' needs. SID bank has a diversified portfolio of borrowings and funds of varying maturity, size and dynamics of disbursements. SID bank aims to obtain sources of funding with different maturities matching its balance sheet asset structure and to borrow at rates as close as possible to the borrowing rates for the Republic of Slovenia.

SID bank's medium and long term funding policy includes:

- Market loans (syndicated, bilateral, Schuldscheins);
- Institutional loans from national development institutions and supranational organisations;
- National budget funds from the Ministry for Economic Development and Technology and European Cohesion Funds;
- International bond issues (including green bonds); and
- European Central Bank loans (TLTRO, LTRO).

Loans from non-banking customers accounted the largest portion of total liabilities in 2019 and stood at EUR 827,545 thousand. They consist of long term loans from financial institutions other than banks, loans from Ministry of Economic Development and Technology and Fund of Funds (European Cohesion Funds).

At the end of 2019, deposits and loans from banks (including loans from Central Bank) stood at EUR 777,912 thousand. A large majority of liabilities to banks relates to long term loans from development banks. SID bank places special emphasis on the development of relationships with national and supranational development institutions (such as the Council of Europe Development Bank, the European Investment Bank, the KfW bank, the European Investment Fund, etc.). Liabilities to central bank totalled EUR 171,201 thousand at end 2019.

SID bank has been a regular issuer in the international bond market. In 2019 SID bank issued an international bond with a nominal value of EUR 200 million maturing in 2026. In addition to the aforementioned bond, securities also include a green bond issued in 2018 in the nominal amount of EUR 75 million and registered bonds issued in 2009 in the nominal amount of EUR 48 million.

Asset-Liability Management

Within the scope of its powers of managing SID bank's liquidity, the Asset-liability and liquidity management committee manages liquidity risk and structural liquidity. To that end, it makes decisions on the raising of funding and placements on the money and capital markets, on the use of Bank of Slovenia and ECB instruments, and approves and supervises the exchange rate and interest rate policy. The committee is also responsible for managing the liquid assets of financial instruments funded via the European structural and investment funds, and the management of assets earmarked for corporate equity financing.

In the area of asset-liability management the committee sets out, modifies and monitors the implementation of the strategy and policy of the balance sheet structure, defines and monitors the implementation of the pricing, liquidity, interest rate and exchange rate policy, decides on proposals regarding asset-liability risk management, approves the financing programme and products relating to treasury operations and changes

thereto, monitors SID bank's capital adequacy, approves the treasury investment policy, and monitors and discusses the stress test results. The committee also manages liquidity and manages assets and liabilities (balance sheet) in relation to SID bank's operations under Republic of Slovenia authorisation, primarily managing liquidity risk and structural liquidity, and in the area of asset-liability management adopts the policy for contingency reserve investments and assesses the impact of new programmes of insurance up to the amount of contingency reserves.

Treasury-Liquidity

The treasury department is responsible for managing, achieving and maintaining daily liquidity, concluding transactions for the purpose of managing liquid assets and carrying out borrowing activities within the context of the adopted policy of taking up and managing liquidity risk, the authorisations put in place and the decisions of the competent bodies. It is actively involved in the process of assessing the liquidity adequacy of SID bank. In addition to measuring and monitoring the liquidity position, liquidity ratios and regulatory ratios in the area of liquidity, liquidity risk management at SID bank also includes, in particular, the regular planning and monitoring of liquidity flows, including an assessment of the impacts of new transactions on the liquidity ratio and the regular verification of SID bank's liquidity position and the scope of liquidity reserves for the coming periods in both the baseline scenario and taking into account internally defined liquidity scenarios. Strict daily monitoring of operational liquidity is provided for, while structural liquidity is ensured through the management of assets, particularly liquidity reserves, and/or through access to additional sources. With the aim of raising additional reserves of daily liquidity from the central bank or from other banks, SID bank has a portfolio of securities available to serve as collateral for such claims. SID bank manages structural liquidity through the assessment of its long-term liquidity position.

SID bank measures, supervises and monitors exposure to liquidity risk on the basis of the daily calculation of liquidity ratios in the manner prescribed by the Bank of Slovenia. SID bank has internal liquidity ratios that are higher than those recommended by the law, which provides additional buffer. SID bank's liquidity risk management policy also defines the procedures for taking action in the event that the internally set minimum liquidity ratio values are achieved. SID bank maintained the liquidity ratios above the recommended threshold on a daily basis in 2019.

SID bank calculates the value of the liquidity coverage ratio on a monthly basis and the net stable funding ratio on a quarterly basis. The calculated ratios, the changes over time and the compliance of the above ratios with the adopted internal limits are discussed on a regular basis by the Asset-Liability and Liquidity Management Committee. At the end of 2019, SID bank's net stable funding ratio amounted to 140 per cent. (end of 2018: 140 per cent.) and is reported by SID bank for information purposes only. At the end of 2019, the liquidity coverage ratio amounted to 1,832 per cent. (end of 2018: 458 per cent.). SID bank actively monitors and maintains an adequate buffer of unencumbered, high-quality liquid assets to be held as a contingency against adverse liquidity conditions.

In 2019, SID bank continued to maintain an appropriate level, quality and structure of liquid assets for covering its expected and unexpected liquidity outflows and for business continuity in all circumstances. SID bank's liquidity reserves amounted to EUR 835,663 thousand at the end of 2019, which was similar to the level at the end of 2018 (2018: EUR 836,519 thousand), which represent 34.7 per cent. of total assets of SID bank. Investments in debt securities (EUR 658,019 thousand) accounted for the largest proportion of liquid assets at the end of 2019 (compared to EUR 650,871 thousand at the end of 2018), followed by short-term interbank deposits in the amount of EUR 104,915 thousand (compared to EUR 64,465 thousand at the end of 2018), balances at the central bank and demand deposits at banks in the amount of EUR 72,729 thousand (compared to EUR 121,184 thousand at the end of 2018).

At the end of 2019, 97.0 per cent. of debt securities were investment grade (BBB- or higher, of which 73 per cent. of debt securities were rated between A+ and A-, 15 per cent. between AA+ to AA- and 9 per cent. from BBB+ to BBB-). The highest proportion of the entire portfolio (69.5 per cent. as at 31 December 2019; 65.0 per cent. at the end of 2018) comprises debt securities issued by EU Member States (central government) and classed as investment grade (BBB- or higher). Slovenian government debt securities account for 47.2 per cent. (end of 2018: 39.5 per cent.) of the portfolio of debt securities. All the debt securities are measured at fair value through other comprehensive income as at end 2019.

Statement of financial position of SID bank by maturity as at 31 December 2019 and 2018 (in EUR thousand)

SID bank	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial assets as at 31 December 2019	187,592	66,312	254,983	1,133,959	841,241	2,484,087
Financial liabilities as at 31 December 2019	18,240	15,568	42,238	681,841	1,214,711	1,972,598
Liquidity gap as at 31 December 2019	169,352	50,744	212,745	452,118	-373,470	511,489
Liquidity gap as at 31 December 2018	128,913	18,802	205,734	306,344	-183,991	475,802

Loan Portfolio

As at 31 December 2019, SID bank disclosed gross exposure from financial assets measured at amortised cost and off-balance-sheet liabilities of EUR 1,947,996 thousand. This was an increase of EUR 132,803 thousand relative to 31 December 2018. This change in the gross exposure from financial assets measured at amortised cost and off-balance-sheet liabilities was due to an increase in loans and advances to customers, loans and advances to banks and other financial assets, while the gross exposure from off-balance-sheet items was down due to a decrease in the amount of undrawn loans and guarantees given.

As at 31 December 2019, 93.0 per cent. of financial assets measured at amortised cost and off-balance-sheet liabilities had been assigned rating grades of A and B. That proportion was unchanged relative to the situation as at 31 December 2018.

The proportion of financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of A also increased and stood at 53.2 per cent. as at 31 December 2019 (31 December 2018: 30.8 per cent.). The main reasons for the increase in the proportion of financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of A was the reclassification of loans and advances to banks and loans and advances to customers from rating grade B, and the approval of new transactions *vis-à-vis* customers with a rating grade of A. The proportion of financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of B was down primarily due to the reclassification of loans and advances to banks and loans and advances to customers to rating grade A and the reclassification of loans and advances to customers to rating grade C. The proportion of financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of C was up due to the reclassification of loans and advances to customers from rating grade B.

As at 31 December 2019, 1.8 per cent. of financial assets measured at amortised cost and off-balance sheet liabilities had been assigned rating grades of D and E. This was a decrease of 8.4 per cent. compared to the situation as at 31 December 2018. Gross exposure from financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of D amounted to EUR 17,960 thousand as at 31 December 2019, an increase of EUR 977 thousand relative to 31 December 2018. Contributing to the increase in gross exposure from financial assets measured at amortised cost and off-balance-sheet liabilities assigned to rating grade D were new default events and the resulting reclassification of performing exposures to non-performing exposures, while the decrease in gross exposure was the result of received repayments, the latter partly as a result of the successful outcome of forbearance procedures, the reclassification of exposures to rating grade E, and fewer shifts for POCI items that reduce the gross carrying amount of financial assets. Gross exposure from financial assets measured at amortised cost and off-balance-sheet liabilities assigned a rating grade of E amounted to EUR 16,998 thousand as at 31 December 2019, a decrease of EUR 4,170 thousand relative to 31 December 2018, primarily as the result of the sale and write-off of financial assets, payments received from the liquidation of collateral and inflows from a bankruptcy estate.

Classification of SID bank's loan portfolio:

	SID bank loans and off-balance sheet liabilities as at 31 December	
	2019	2018
	<i>(per cent.)</i>	
A-rated.....	53.2	30.8
B-rated.....	39.8	62.2
C-rated.....	5.2	4.9
D-rated.....	0.9	0.9
E-rated.....	0.9	1.2

SID bank held allowances for credit losses and provisions in the amount of EUR 45,184 thousand as at 31 December 2019. As at 31 December 2018 SID bank held allowances for credit losses and provisions in the amount of EUR 37,530 thousand. Allowances for credit losses on loans granted and other financial assets measured at amortised cost amounted to EUR 43,652 thousand, while provisions for off-balance-sheet liabilities amounted to EUR 1,532 thousand. Allowances for credit losses on loans granted and other financial assets measured at amortised cost were up by EUR 6,542 thousand relative to 31 December 2018, while provisions for off-balance-sheet liabilities were up by EUR 1,112 thousand.

Contributing most to the increase in allowances for credit losses on loans granted and other financial assets measured at amortised cost and provisions for off-balance-sheet liabilities in 2019 was a significant increase in the credit risk of individual financial assets in the period from initial recognition, and their consequent assignment to stage 2, where allowances and provisions for credit losses are measured on the basis of the lifetime expected credit losses on the financial instrument, the recognition of new financial assets, new default events and the resulting reclassification of performing exposures to non-performing exposures, and weaker macroeconomic outlooks resulting in changes to the weight associated with individual scenarios (increased probability of the realisation of the adverse scenario), which in turn impacts individual parameters of the calculation of expected credit losses, i.e. probability of default and loss given default.

Allowances for credit losses on loans and other financial assets measured at amortised cost and assigned to stage 3 (non-performing financial assets), where impairments for credit losses are measured on the basis of the lifetime expected credit losses on the financial instrument, were down by EUR 822 thousand in 2019. The main reason for the decrease in allowances for credit losses was the derecognition of POCI items that were sold in 2019 and for which the associated allowances for credit losses amounted to EUR 4,098 thousand at the end of 2018. New loss events and the resulting reclassification from performing exposures to non-performing exposures and the increase in allowances for credit losses on existing non-performing exposures led to an increase in total allowances for credit losses.

Non-performing loans:

SID bank's definition of non-performing loans is harmonised with the definition used by the European Banking Authority ("**EBA**"). In determining the default of a debtor, SID bank applies the definition of a default of a debtor set out in Article 178 of the Capital Requirements Regulation (the "**CRR**"), namely:

- the debtor is more than 90 days past due on any material credit obligation to SID bank; and
- it is unlikely that the debtor will settle its credit obligations to SID bank in full, without recourse by SID bank to actions such as liquidation of collateral or other procedures.

Non-performing loans/exposures ("**NPL/NPE**") are loans which are classified as D or E according to the Bank of Slovenia "*Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks*", where A represent the highest creditworthiness rating and E represent the lowest creditworthiness rating (further explained in the risk management section).

	SID bank	
	as at 31 December	
	2019	2018
	<i>(EUR thousand)</i>	
Gross carrying values of non-performing exposures.....	68,863	96,951
	<i>(per cent.)</i>	
Non performing loans as per cent. of portfolio	4.0	6.1
Non performing exposures as per cent. of portfolio.....	2.5	3.7

The quality of the credit portfolio improved in 2019, primarily as a result of a larger proportion of A-rated exposures, and a decline in the proportion of NPEs. The proportion of A-rated exposures amounted to 53.2 per cent. at the end of 2019 (31 December 2018: 30.8 per cent.). The proportion of non-performing loans / exposures and other non-performing financial assets to classified loans claims and other financial assets amounted to 4 per cent. at the end of 2019. The proportion of non-performing loans and other non-performing financial assets to classified on-balance-sheet and off-balance-sheet exposures amounted to 2.5 per cent. at the end of 2019. The coverage of NPLs/NPEs remains relatively high and at the end of 2019 stood at 60.3 per cent. (at the end of 2018: 66.5 per cent.) and was still above the average of the Slovenian banking system. The majority of the non-performing loans are in the corporate sector.

Despite all measures taken by the Republic of Slovenia and the Bank of Slovenia to reduce the consequences of the COVID-19 pandemic, deterioration of credit portfolio is expected. As in others EU countries, sectors that have been impacted the most include tourism, the automotive industry and accommodation and food service activities.

Loan Portfolio by sectors

The following table shows the net loan portfolio of SID bank as at 31 December 2018 and 2019:

	as at 31 December 2019		as at 31 December 2018	
	<i>(EUR millions)</i>	<i>(per cent.)</i>	<i>(EUR millions)</i>	<i>(per cent.)</i>
Financial and insurance activities.....	1,106	41.8	1,175	45.8
Manufacturing.....	344	13.0	283	11.0
Public administration and defence.....	597	22.6	554	21.6
Whole sale and retail trade.....	122	4.6	129	5.0
Transport and storage.....	156	5.9	157	6.1
Professional, scientific and technical activities	60	2.3	52	2.0
Electricity, gas, steam and air conditioning supply	139	5.3	122	4.8
Others	121	4.6	93	3.6
Total.....	2,646	100.0	2,565	100.0

The tables illustrate the breakdown of net exposure to credit risk by sector. At the end of 2019, SID bank was again most heavily exposed to financial and insurance activities, as the majority of its assets comprise loans and advances to banks established in Slovenia, which transfer the funding thus obtained to the final beneficiaries. At the end of 2019, the exposure to financial and insurance activities accounted for 41.8 per cent. (end of 2018: 45.8 per cent.) of the total exposure from financial assets and off-balance-sheet liabilities, with the decrease in that proportion relative to the end of 2018 primarily due to a decrease in balances at the central bank. This was followed by exposure to the public administration and defence sector, with its proportion amounting to 22.6 per cent. at the end of 2019 (end of 2018: 21.6 per cent.). This increase was the result of new loans to customers and an increase in exposure from debt securities.

Risk management

The main purpose of risk management is to reduce the likelihood of risks being realised and to reduce losses in the event of any risk being realised. In risk management, SID bank prioritises the security and stability

of its operations, which helps to increase the value of its equity in the long term, the maintenance of SID bank's reputation and the maximisation of benefits for users of its services and other stakeholders.

SID bank's risk management system is based on an effective risk management process that includes identifying, measuring or assessing, managing and monitoring risks, and internal and external reporting of risks. The key strategic focuses relating to risk, which pay due regard to SID bank's business model and business strategy, are defined in the risk capacity and risk appetite.

Risk absorption capacity is the maximum level of risk that SID bank is able to take up, having regard to its available regulatory capital, liquidity needs, risk management measures, control environment, stress test results and other restrictions on the take-up of risks.

Additionally, SID bank takes up risk within the scope of *the adopted overall risk appetite* that it is still willing to take in order to realise its business objectives, strategies, policies and plans, having regard to SID bank's risk absorption capacity, risk strategy and policies for the take-up and management of risks, and its capital, liquidity and remuneration policies. In keeping with the mandate of a development bank, the risk appetite of SID bank is higher than other commercial banks, as it operates in the realm of market gaps. The risk appetite is approved on an annual basis by the Management Board and Supervisory Board when adopting the business strategy, business policy and risk strategy within the framework of the annual operational plan. Regular monitoring of risk appetite indicators is provided for on SID bank's Management Body (composed of both the Management Board and the Supervisory Board, the "**Management Body**").

The bank assesses *the risk profile* on an annual basis, in a broad assessment of risk areas, business processes and the control environment. The risk profile is a tool for the comprehensive risk management process, in terms of SID bank's governance, the management of financial risks and organisation of business processes. To ensure a comprehensive and comparable overview of risks and control environment by individual business process, the risk profile is the fundamental basis for planning of internal auditing and compliance procedures, and serves as the basis of the ICAAP. The risk profile assessment also represents one of the key strategic metrics of success in implementing SID bank's strategy. The main risks SID bank is exposed to are credit risk, interest rate risk, liquidity risk, profitability risk, currency risk, operational risk, strategic risk, capital risk and reputation risk. In addition, SID bank also conducts stress tests on the basis of its own scenarios and scenarios submitted by the supervisor. Based on the results of the stress tests, SID bank is able to identify in advance those areas where it is most vulnerable, and to mitigate the risks and improve its performance by means of appropriate measures.

SID bank manages other material risks, among which it highlights strategic risk, reputation risk and profitability risk, and risks that are difficult to measure, such as certain subtypes of operational risk, i.e. compliance risk, cyber risk, business continuity risk, the risk of money laundering and terrorist financing and other unethical business practices, through qualitative risk management measures and internal control mechanisms. SID bank's appetite to take up risks that are difficult to measure and reputation risk is low, with a focus on minimising their impact on its performance. The management of these risks is carried out, in particular, through set internal rules and controls over the implementation of the Bank's organisational, operational and work procedures, and additional monitoring by independent functions and internal control departments. Notwithstanding the above, other material risks and risks that are difficult to measure are subject to qualitative measurement within the process of formulating a risk profile and are quantified in accordance with the predetermined criteria. SID bank manages other material risks by defining an internal capital requirement. Where necessary, or depending on the assessment of residual risk, the internal capital requirement and the appropriate coverage by capital are also determined in the case of risks that are difficult to measure.

SID bank has put in place *the risk strategy, seven risk policies* and additional *bylaws* (like methodologies and instructions) that define the procedures for identifying, measuring or assessing, managing and monitoring all types of risks to which the bank is or could be exposed in its operations. These documents take into account the applicable legislation and regulations governing risk management and SID bank's special features proceeding from its status as an authorised institution under the Act. The risk strategy and policies are updated at least once a year, having regard to the adequate compliance of SID bank's business objectives and business strategy.

Regular quarterly reports on performance, on risks and on movements on financial markets are produced to provide the Management Board and Supervisory Board with comprehensive information regarding risk management issues. The risk reports contain information regarding SID bank's exposure to credit risk at

the level of the entire credit portfolio, including a detailed analysis of individual and sectoral concentration of the credit portfolio, the credit portfolio structure by geographical area, credit rating, currency risk, liquidity risk and interest rate risk, and an assessment of any other risks. The Management Board and the Supervisory Board discuss and approve the result of the ICAAP and the internal liquidity adequacy assessment process ("**ILAAP**"), and SID bank's capital adequacy and liquidity with regard to its risk profile on an annual basis. In addition, SID bank's Management Board is regularly briefed on and discusses the operational risk report, and the Management Body is briefed on and discusses the report on the engagement of service providers. The Management Body discusses individual exposures or proposals to increase exposure requiring approvals from the Management Body, or in the event of any major changes in the risks identified in accordance with SID bank's Articles of Association.

The Management Board and Supervisory Board are responsible for adopting the risk profile assessment, determining risk appetite, regularly reviewing and approving the risk strategy and policies and managing the risks to which SID bank is or could be exposed in its operations, including risks inherent in the macroeconomic environment in which SID bank operates, taking into account the current credit and business cycle. Once a year the Management Body approves the report ICAAP and ILAAP. These are mandatory documentation for Slovenian regulator (Bank of Slovenia) for the purpose of carrying out the regular annual supervisory review and evaluation process.

Risk management begins with the establishment of an appropriate organisational structure and work processes, allowing for business targets to be met while operations remain secure and compliant with regulations. In the implementation of risk management measures, the key objective is to achieve proper awareness of risks at all levels of SID bank's activities.

Risk management department is responsible for preparing internal and external reports for the purpose of supervising, monitoring and briefing on all types of risk at SID bank's aggregate level, while not being directly involved in the credit process or in the assessment of individual loan transactions. However, risk identification begins in commercial organisational units, and continues with measurement and assessment of risks and formulation of risk management measures in organisational units separate from the commercial units, and proceeds all the way up to the Management Board, thereby ensuring the independence of the risk management function.

SID bank has not set up a separate risk management committee. Risks are dealt with by three committees at SID bank, which are of key importance in the area of risk management: the asset-liability and liquidity management committee, the credit committee, and the distressed investment management committee. Committee meetings are typically held on a weekly basis.

Open foreign currency position and liquidity indicators are calculated daily and different scenario analyses for liquidity indicators are prepared monthly. Reports on interest rate risk in the banking book and liquidity gaps are prepared on a monthly basis. All reports are submitted to, discussed and monitored by the asset-liability and liquidity management committee. In relation to direct lending SID bank considers the credit of the borrower, while in relation to funds to be on-lent SID bank will assess the credit risk of the bank that will on-lend such funds.

Credit risk management begins before entering into a contractual relationship by determining the credit rating of a client and by securing appropriate collateral. Larger credit exposures are approved by the Credit Committee. During the course of a transaction, credit risk is managed by closely monitoring and managing the credit portfolio, limiting the concentration of credit risk with a client, a group of clients, a sector and a country, by classifying and creating provisions for anticipated losses, and by providing sufficient capital when losses exceed expectations. Impairments and provisions constitute an important element of managing the risk of loss arising from credit transactions. For the estimation of expected credit losses, SID bank has put in place its own methodology in accordance with IFRS 9, which is defined in the internal rulebook, and includes:

- the classification of exposures into stages for the purpose of estimating expected credit losses, including the definition of a methodology for assessing a significant increase in credit risk;
- the segmentation of the portfolio for the calculation of expected credit losses (PD and LGD segments);
- the modelling of probability of default (PD) and loss given default (LGD);

- the calculation of expected credit losses; and
- back-testing.

SID bank writes off receivables from investment operations when recovery has failed (generally after the exhaustion of all legal remedies and after the end of the statute-barring periods), or in the event that the customer no longer possesses any assets with which the debt from the investment operation could be repaid. In so doing the SID bank takes account of Article 32 of the Bank of Slovenia's regulation on credit risk management at banks and savings banks, which regulates the write-off of problem exposures for reason of failed recovery. The write-off of an exposure in full nevertheless occurs on the basis of a final court order on the completion of bankruptcy proceedings administered against the customer. Proposals for writing-off loans, prepared in cooperation between several organisational units, are discussed by the Management Board or Supervisory Board.

A large proportion of SID bank's credit portfolio is exposed to the banking sector as a significant amount of its assets are earmarked for banks established in the Republic of Slovenia, which transfer funding to the final beneficiaries in accordance with the Act. Nevertheless, portfolio distribution in terms of sector shows that the ultimate borrowers come predominately from the following sectors: manufacturing; transportation and storage; wholesale and retail trade; repair of motor vehicles and motorcycles; electricity, gas, steam and air conditioning supply. In terms of credit portfolio diversification, exposure towards non-banking borrowers is subject to certain internal limitations.

Credit ratings are defined according to the internal methodology of SID bank. SID bank has developed separate methodologies for assigning ratings to clients and for assessing credit quality: a methodology for assessing corporates, sole traders and cooperatives, which includes a methodology for assessing investment projects and newly established corporates, and a methodology for assessing banks and savings banks. The credit ratings of domestic public-sector entities are derived from Slovenia's sovereign credit rating. SID bank uses an internal rating scale comprising 21 ratings; 18 ratings are performing and three non-performing. For example a "AAA" rating is given to first-class customers with high debt repayment capability, excellent financial condition and strength while "C" and "C+" rating are risk levels (poor financial condition). Clients in "C" and "C+" rating groups are still treated as performing. Some of them need restructuring to modify their business model and loan repayment schedule.

SID bank retained its strong capital position and sound liquidity position in 2019. SID bank disclosed a high total capital ratio of 34 per cent. as at 31 December 2019. It also recorded a leverage ratio of 16.5 per cent., which is significantly higher than the prescribed regulatory figure and allows SID bank to operate stably in the future. The good liquidity position is also reflected in high liquidity ratios and a high liquidity coverage ratio, well above the regulatory limits. The latter stood at 1.832 per cent. at the end of 2019. SID bank's capital is comprised solely of the highest quality Common Equity Tier 1 capital. SID bank does not hold any additional Tier 1 capital or Tier 2 capital. The ownership of SID bank is prescribed by law, with the sole shareholder in SID bank being the Republic of Slovenia (Article 4 of the Act). In accordance with Article 4 of the Act, SID bank's distributable profit may not be used for distribution to shareholders and is instead allocated to other profit reserves. The quality of the credit portfolio improved in 2019, primarily as a result of a larger proportion of A-rated exposures, and a decline in the proportion of NPEs. The proportion of A-rated exposures amounted to 53.2 per cent. at the end of 2019 (compared to 30.8 per cent. as at the end of 2018). The proportion of non-performing loans and other non-performing financial assets to classified claims and other financial assets amounted to 4 per cent. at the end of 2019. The coverage of NPEs remains relatively high and at the end of 2019 stood at 60.3 per cent. (compared to 66.5 per cent. as at the end of 2018) and was still above the average of the Slovenian banking system.

Risk management of operations under Republic of Slovenia authorisation

SID bank also provides credit and investment insurance against non-marketable risks of a commercial and non-commercial nature on behalf of and for the account of the Republic of Slovenia. In addition, SID bank manages the funds from the European cohesion policy (funds from the Fund of Funds).

To prevent conflicts of interest and to maximise efficiency, credit and investment insurance operations are executed in a special department that is organisationally segregated from banking operations all the way to the level of the executive director and Management Board, while a special committee for operations under Republic of Slovenia authorisation decides on and discusses these types of operations. This committee decides on exposure limits for individual clients, and on the payment of insurance and reinsurance claims, discusses requests to call government guarantees, and regularly monitors and oversees the execution of all

operations under Republic of Slovenia authorisation. All transactions of EUR 5 million or more are decided on by the international trade promotion commission. The government operations committee also plays a significant role in adopting business plans and strategic programme documents in connection with the establishment of financial instruments funded via the European cohesion policy.

SID bank manages the risks inherent in operations under Republic of Slovenia authorisation in accordance with its bylaws in a similar way as in the banking segment. The responsible committees discuss reports on interest rate risk, currency risk, liquidity risks, operational risks (via loss events) and credit risk (monitoring the limits on investment operations by the treasury department and concentration of exposure by country).

In the area of credit and investment insurance against non-marketable risks of a commercial and non-commercial nature, SID bank uses a risk management model (value-at-risk technique or VaR) to calculate potential claims on the basis of data on insurance concluded on behalf of and for the account of the Republic of Slovenia, to assess whether the assets of the contingency reserves are adequate to cover these claims, and to estimate the maximum potential claim and the impact of new insurance operations on potential claims. While losses are offset using the contingency reserve, higher losses on these transactions could bring contingency funds down to a level at which the Act on Insurance and Financing of International Commercial Transactions requires additional funds to be appropriated from the budget of the Republic of Slovenia.

The COVID-19 outbreak could impact the operations under Republic of Slovenia authorisation in the segment where SID bank also provides credit and investment insurance against non-marketable risks of a commercial and non-commercial nature on behalf of and for the account of the Republic of Slovenia. Risks of the non-repayment of already insured credits (loans) and investments could increase, while there is also a possibility of an increase in high-risk operations in the insurance portfolio due to the potential implementation of economic measures to mitigate the effects of the COVID-19 outbreak.

FX risk management:

SID bank identifies, measures, manages and monitors currency risk in accordance with the adopted currency risk management policy. When taking up and managing currency risk, SID bank takes into account the adopted currency risk appetite. The process of managing currency risk includes both the setting of internal limits and the regular measurement, monitoring and reporting of exposure to currency risk on the basis of the calculation of the overall net position in foreign currencies.

SID bank mostly operates in Euros and it is not materially exposed to currency/foreign exchange rate risk as it has an almost closed net FX position (at the end of 2019 the open net FX position was EUR 0.034 million, representing 0.008 per cent. of SID bank's capital). SID bank manages exposure to currency risk mainly by matching asset and liability positions in foreign currencies and if necessary by concluding derivatives in significant foreign currencies. SID bank has a limit system in place for limiting currency risk via limits on open net FX positions. The daily open net foreign exchange position in 2019 was within the internally set limits.

Credit risk management:

As far as credit risk is concerned, SID bank's operations are most exposed to the risk of losses arising from a counterparty's inability to settle contractual liabilities by the originally agreed deadline without the liquidation of collateral. SID bank has established Credit Risk Management Policy that defines the credit risk appetite, having regard to SID bank's business objectives and strategies, risk appetite, mechanisms and procedures for identifying, measuring or assessing, monitoring, managing and reporting on credit risks, and the powers and responsibilities of the Management Body, the relevant committees and individual organisational units in relation to the management of credit risk.

The level to which credit risk can be assumed is determined in accordance with the adopted risk appetite, which is reflected through the limits placed on exposure to credit risk. The scope of the take-up of credit risk is monitored annually by the Management Body as part of the process of monitoring the annual operational plan and the risk management strategy, and upon the introduction of every new product.

From the point of view of the identification and assessment or measurement of credit risk, credit risk management at SID bank comprises activities connected with assessing debtors' creditworthiness, compiling credit-rating reports and assigning debtors to the appropriate rating grades. The credit committee

or another competent body approves any exposure in line with the authorisations for approval of transactions as set out in SID bank's bylaws and Articles of Association and in accordance with the value of an investment and the existing exposure. As regards the limits on exposure to credit risk, they first take account of the regulatory limits under the applicable banking legislation concerning the exposure to individual clients, groups of connected clients or persons in a special relationship with SID bank. Credit risk take-up is also limited by SID bank's Articles of Association and its internal limits. SID bank assesses clients' credit quality after making an assessment of the relevant quantitative and qualitative elements. It places them in one of 21 internal rating grades, which are then combined into five rating pools from A to E, in accordance with Bank of Slovenia criteria.

SID bank carries out regular and in-depth monitoring of credit risk. Regular monitoring of credit risk includes daily monitoring to ensure that the debtor's rating grade remains appropriate, the monitoring of financial and other contractual commitments, verification of the adequacy and amount of collateral, and the monitoring and updating of groups of connected clients. SID bank carries out in-depth monitoring when it detects a serious breach of contractual obligations, a deterioration in the debtor's financial and asset position, an increase in the risk derived from the purpose-specific use of the loan, or other circumstances that affect or may affect the debtor's business operations and the successful conclusion of the investment transaction. SID bank regularly carries out in-depth monitoring on the basis of a list approved by the credit committee. When creating a watch list, the amount and maturity of an investment transaction, the debtor's rating grade and other criteria that entail a debtor being placed on a watch list and that affect the credit risk are taken into account. SID bank has put in place an early warning system ("EWS") as part of its credit risk management system. The EWS facilitates the early detection of increased credit risk for any exposure and potential defaulter.

Problematic exposures that have been classified to non-performing investments based on a decision of the responsible committee are assigned to a special organisational unit that manages non-performing investments. SID bank has in place a special strategy for managing and reducing non-performing exposures that includes time-based definitions of quantitative targets (increased repayments, reduced losses, reduced stock of non-performing exposures, etc.), supported by an appropriate comprehensive operational plan to meet these targets.

The largest category within direct lending to corporates and other customers in 2019 was financing in the scope of financial engineering funds, which are carried out in a partnership between SID bank and the Ministry of Economic Development and Technology, while lending is carried out on the basis of notified state aid schemes and de minimis aid. SID bank manages four loan funds set up in conjunction with the Ministry of Economic Development and Technology. A first loss clause was contractually agreed with the Ministry of Economic Development and Technology for all four funds. In other words, any loss on the part of the funds is first covered by the priority participation of the Ministry of Economic Development and Technology in loan fund risks by reducing the liabilities to the Ministry of Economic Development and Technology. SID bank is paid a fee to manage these funds, which is independent of the interest margin at the fund level.

Liquidity risk management:

SID bank takes up liquidity risk in accordance with the business strategy, its risk absorption capacity and its risk appetite and the risk management strategy, with the primary objective of ensuring the prudent and secure operations of SID bank.

SID bank is exposed to liquidity risk especially in ensuring refinancing of its liabilities in support of its activities. SID bank retained its sound liquidity position in 2019. The good liquidity position is also reflected in high liquidity ratios and a high liquidity coverage ratio, which was well above the regulatory limits. The refinancing risk is currently estimated as low due to low concentration of repayments in the following years. The average remaining maturity of purpose-specific funding was 6.1 years at the end of 2019. This type of funding is available to SID bank in all market conditions with original maturity between 5 and 15 years.

SID bank's liquidity reserves amounted to EUR 835,663 thousand at the end of 2019. Investments in debt securities (EUR 658,019 thousand) accounted for the largest proportion of liquid assets at the end of 2019, followed by short-term interbank deposits (EUR 104,915 thousand), balances at the central bank and demand deposits at banks (EUR 72,729 thousand). In investing in debt securities, SID bank follows a conservative and prudent strategy, as the majority of the portfolio consists of marketable, liquid debt

securities with an investment-grade credit rating eligible as collateral at the central bank, thereby ensuring adequate diversification with regard to the type and location of the issuer. All the debt securities are measured at fair value through other comprehensive income in 2019.

The process of the take-up and management of liquidity risk is conducted in line with the adopted liquidity risk management policy, which is discussed and adopted at least once a year by SID bank's Management Body. SID bank's Management Body discusses and adopts the report on the ILAAP on an annual basis. The liquidity risk management action plan includes the framework for the management of liquidity and the securing of funding, procedures for identifying, measuring and managing liquidity risk, including the methods used to monitor and report on SID bank's liquidity position, and procedures for carrying out liquidity risk management measures. Exposure to liquidity risk is discussed and monitored on a regular basis through weekly and monthly reports at the asset-liability and liquidity management committee, and through quarterly reports at meetings of the Management Body. SID bank has adopted internal rules that provide a framework for contingent liquidity risk management in adverse liquidity conditions. SID bank regularly verifies the adequacy of liquidity reserves in internally defined stress scenarios, which represent various adverse conditions (market scenarios), in an institution-specific scenario and in a combined scenario, which is defined as a combination of the institution-specific scenario and the most adverse market scenario. SID bank does not accept deposits from the public and is therefore not exposed to any potential outflows arising from retail and corporate deposits in the event of adverse liquidity conditions. This fact and the specific role of SID bank also affects the structure of the funding and means that there is higher concentration with regard to funding than is the case with commercial banks. The fact that SID bank obtains long-term funding supported by Slovenian government guarantees mainly on international financial markets and at related financial institutions increases the stability of SID bank.

At the end of 2019, SID bank's net stable funding ratio amounted to 140 per cent. and the liquidity coverage ratio amounted to 1,832 per cent.

Operational risk management:

SID bank uses a basic indicator approach for operational risk. SID bank devotes particular attention to the management of operational risks, as they are present in all areas of SID bank's operations. The system for managing operational risk includes the recording of loss events in the software database, and the analysis and resolution thereof with the aim of effectively identifying, assessing and managing operational risk. Control of the entered loss events is carried out by the risk management department, which regularly reports to the Management Board.

SID bank has also put in place two other mandatory internal control functions. The internal audit department regularly, independently and comprehensively audits the functioning of internal controls and the implementation of the adopted risk management measures, and provides recommendations to improve the system of internal controls and risk management procedures. The compliance department, which includes the information security function, identifies, assesses and monitors compliance risks to which SID bank is exposed in its operations, and reports its findings to SID bank's Management Board and Supervisory Board.

Interest rate risk management:

Identifying, measuring, managing and monitoring interest rate risk is carried out in accordance with the current interest rate risk management policy, which is based on the Basel standards for managing interest rate risk in the banking book and the EBA Guidelines on the management of interest rate risk arising from non-trading book activities. SID bank's interest rate risk management policy defines the methods and assumptions for identifying and measuring interest rate risk, and scenarios for measuring interest-rate sensitivity. The interest rate risk management policy also defines the responsibilities of individual organisational units in the area of interest rate risk management, and procedures in the event that internally set thresholds are exceeded. SID bank's Management Body (Management Board and Supervisory Board) reviews and adopts the interest rate risk management policy at least once a year.

SID bank measures exposure to interest rate risk that derives from the mismatch of interest sensitive items in the banking book based on interest rate gaps and an analysis of interest sensitivity and through the use of derivatives to hedge against interest rate risk. If the derivatives (interest rate swaps) meet the conditions, these are dealt with by applying hedge accounting with the aim of achieving the lower volatility of profit or loss resulting from changes to the fair value of derivatives. As at 31 December 2019, SID bank held two

interest rate swaps as fair value hedges of assets with a total contractual/nominal value of EUR 15,000 thousand. All hedging relationships were effective under hedge accounting at the end of 2019.

The level of interest rate risk has been mitigated through the introduction of a limit system and the determination of the internal capital requirements. SID bank has a limit system in place for mitigating interest rate risk via indicative limits on interest rate gaps. Due to low exposure in foreign currencies, interest sensitive items in foreign currencies are added to items in euros.

SID bank does not accept demand deposits from the public and therefore does not use an internal model of movements of deposits with no maturity. In 2019 SID bank updated its methodology for measuring changes in the economic value of equity in the prescribed interest rate scenarios by including an assessment of option risk that derives from embedded automatic interest rate options based on the standardised approach in accordance with Basel standards for the management of interest rate risk in the banking book, and taking into account the provisions of the EBA guidelines on the management of interest rate risk arising from non-trading book activities.

The SID bank thus measures changes in the economic value of equity on a monthly basis, taking into account six prescribed interest rate scenarios, and the impact of changes in market interest rates on net interest income in the context of a parallel shift in interest rates by +/- 200 basis points. On a monthly basis, the asset-liability and liquidity management committee discusses exposure to interest rate risk, including an analysis of interest rate gaps and an analysis of interest sensitivity. The Management Body discusses exposure to interest rate risk quarterly in the scope of the risk report.

SID bank measured changes in the economic value of equity in the prescribed interest rate scenarios as at 31 December 2019 in accordance with its updated methodology. That measurement showed that SID bank would incur the most severe decrease in the economic value of equity in the scenario of a parallel shift in interest rates by +200 basis points, by EUR 16,661 thousand, which represents 3.9 per cent. of capital for the needs of capital adequacy.

Litigation

Whilst SID bank and its subsidiaries are involved in litigation from time to time, no such litigation is currently pending that would be material in the context of the issue of the Notes.

SELECTED FINANCIAL INFORMATION

FINANCIAL HIGHLIGHTS

	As at 31 December	
	2019	2018
	<i>(EUR thousands)</i>	
- Equity	463,860	422,051
- Net profit	32,040	14,314
- CET1 ratio	34.0%	34.2%
- ROE after tax	7.2%	3.4%
- ROA after tax	1.4%	0.6%
- Total capital ratio	34.0%	34.2%
- Leverage ratio	16.5%	16.3%

ASSETS STRUCTURE

	As at 31 December	
	2019	2018
	<i>(EUR thousands)</i>	
Cash, cash balances at central banks and other demand deposits at banks	72,729	121,184
Non-trading financial assets mandatorily at fair value through profit or loss	17,685	15,667
Financial assets measured at fair value through other comprehensive income	664,566	662,688
Financial assets measured at amortised cost	1,644,654	1,502,323
- Loans and advances to banks	835,770	809,350
- Loans and advances to customers	803,623	691,120
- Other financial assets	5,261	1,853
Property, plant and equipment	4,618	4,922
Intangible assets	980	999
Tax assets	468	2,271
- Current tax assets	18	0
- Deferred tax assets	450	2,271
Other assets	464	367
Non-current assets and disposal groups classified as held for sale	0	8,413
Total Assets	2,406,164	2,318,834

As at 31 December 2019, total assets of SID bank stood at EUR 2,406,164 thousand, showing an increase of 3.8 per cent. compared to 31 December 2018.

As at 31 December 2019 the cash, cash balances at central banks and other deposits at banks decreased by EUR 48,455 thousand from EUR 121,184 thousand to EUR 72,729 thousand or by 40 per cent. compared to the end of 2018.

As at 31 December 2019, loans and advances to banks represented 34.7 per cent. of total assets, compared to 34.9 per cent. as at 31 December 2018, and loans and advances to customers represented 33.4 per cent. of total assets, as compared to 29.8 per cent. as at 31 December 2018.

The financing is based on purpose-specific loans to commercial banks, corporate loans with or without the status of state aid (primarily in the form of financial engineering instruments and Fund of Funds), loans to municipalities, export credits, project financing, the purchase of receivables, accession to debt and other forms of risk take-up, etc. The scope and method of financing by SID bank is complementary by nature given the identified market gaps, market needs and activity of other financial institutions.

The change of non-current assets and disposal groups classified as held for sale relates to the sale of SID bank's subsidiary in 2019.

LIABILITY STRUCTURE

SID bank		
As at 31 December		
	2019	2018
	<i>(EUR thousands)</i>	
Financial liabilities measured at amortised cost.....	1,938,463	1,889,321
- Deposits from banks and central banks.....	8,944	43,293
- Deposits from customers.....	0	39,210
- Loans from banks and central banks.....	768,968	1,162,951
- Loans from customers.....	827,545	509,242
- Debt securities.....	330,279	132,601
- Other financial liabilities.....	2,727	2,024
Derivatives - hedge accounting.....	841	2,898
Provisions.....	2,374	1,130
Tax liabilities.....	451	3,294
- Current tax liabilities.....	451	3,294
Other liabilities.....	175	140
TOTAL LIABILITIES.....	1,942,304	1,896,783

SID bank, as an authorised institution under the Act on Insurance and Financing of International Commercial Transactions and under the Act, strives to obtain favourable sources of financing in international markets and also in the Republic of Slovenia.

In raising funds SID bank focuses on selecting flexible borrowing instruments that can be fully tailored to meet various customers' needs. Accordingly, it has a diversified portfolio of borrowings and funds of varying maturity, size and dynamics of disbursements.

SID bank aims to obtain sources of funding with different maturities matching balance sheet asset structure and to borrow at rates as close as possible to the borrowing rates of the Republic of Slovenia.

In 2019, SID bank issued a bond in the nominal amount of EUR 200 million and in 2018 a green bond in the nominal amount of EUR 75 million. In 2009, SID bank issued registered bonds in the nominal amount of EUR 48 million.

SID bank is cooperating successfully with different multinational development financing institutions such as EIB, CEB and also the KfW bank for several years. Funds are allocated to different promotional programmes and credit lines to support SID bank's mandates (according to the laws governing SID bank).

TAXATION

The following is a general description of certain Slovenian, Luxembourg and EU 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 the Notes should consult their own tax advisers as to the consequences under the tax laws of the country in which they are resident for tax purposes, and under the tax laws of the Republic of Slovenia, Luxembourg and the EU, of acquiring, holding and disposing of the 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 Information Memorandum and is subject to any change in law that may take effect after such date.

Investors should also note that the appointment by an investor in Notes or any person through which an investor holds the Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

The Republic of Slovenia

1. **Taxation of Interest Income**

General

Taxation of interest income derived from the Notes will differ depending on whether, at the time when the Issuer will make payments of interest 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 interest under the Notes, the Notes do not qualify as Listed Securities, then:

- (a) such payment may be subject to withholding tax payable by the Issuer at the maximum rate applicable under Slovenian taxation law (currently being 27.5 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 may 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 (currently being 19 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 27.5 per cent., legal persons who beneficially received such interest will be entitled to claim a refund of 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 the Republic of Slovenia will be subject to Slovenian Personal Income Tax (*dohodnina*) assessed on the income so derived at the rate of 27.5 per cent., which tax is the final tax imposed by the Republic of 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 the Republic of 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 the Republic of Slovenia will be subject to Slovenian Personal Income Tax assessed on the income so derived at the rate of 27.5 per cent., which tax is the final tax imposed by the Republic of Slovenia on interest on the Notes. An individual resident for taxation purposes outside the Republic of Slovenia may benefit from a reduced tax rate under applicable law or double taxation treaty.

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 28th February for the period of the previous calendar year; and (ii) pay the amount of tax in accordance with the relevant decision of the tax authorities.

2. **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 (currently levied at the rate of 19 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, 102/2012, 52/2013, 96/2013, 29/2014, 50/2014, 94/2014, 23/2015, 55/2015, 102/2015, 104/2015, 63/2016, 69/2017, 21/2019, 28/2019, 66/2019, 49/2020, and 80/2020), capital gains from the sale or other disposition of debt securities held as non-business assets are taxed at the rate of 27.5 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.

3. **Value Added Tax**

Pursuant to Article 44/4(e) of the Value Added Tax Act (Zakon o davku na dodano vrednost (ZDDV-1) Uradni list RS, No. 13/2011-UPB3, 18/2011, 78/2011, 38/2012, 40/2012, 83/2012,

14/2013, 46/2013, 101/2013, 86/2014, 90/2015, 77/2018, 59/2019, 72/2019, and 61/2020), transactions with securities are VAT-exempt in the Republic of Slovenia. According to the law, interest on debt securities is not subject to VAT, thus VAT is neither charged nor payable.

4. **Inheritance and gift taxations**

Natural persons and private law entities, within the meaning of the Slovenian Inheritance and Gift Tax Act (*Zakon o davku na dediščine in darila (ZDDD)*, Uradni list RS no. 117/06, 36/2016) may be subject to Slovenian inheritance and gift tax in case of the transfer of the Notes mortis causa or inter vivos. The value of all transfers by the same person in one year is considered when ascertaining the taxable amount for such purposes.

Inheritance tax and gift tax is assessed by reference to the market value of property subject to taxation at the time of the occurrence of tax liability, decreased by debts, costs and charges relating to this property. In the case of movable property (such as the Notes), the tax base for inheritances and gifts is decreased by €5,000.

Tax on inheritance and gifts is not paid by the heir or recipient of a gift of a first hereditary order (children and spouse).

Tax rates are progressive and differ depending on the hereditary order. Tax rates for inheritance and gift tax range:

- (a) from 5 per cent. up to 14 per cent. for the second hereditary order (parents, siblings and their descendants);
- (b) from 8 per cent. up to 17 per cent. for the third hereditary order (grandparents); and
- (c) from 12 per cent. up to 39 per cent. for all subsequent hereditary orders (others).

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Deutsche Bank AG, London Branch and J.P. Morgan Securities plc (the "**Joint Lead Managers**") have, in a subscription agreement dated 6 July 2020 (the "**Subscription Agreement**") made between the Issuer and the Joint Lead Managers, upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Notes at their issue price of 99.920 per cent. of their principal amount less any applicable commissions and expenses as agreed between the Issuer and the Joint Lead Managers. The Issuer has agreed to pay the Joint Lead Managers certain customary fees and reimburse certain of their expenses incurred in connection with the issue of the Notes. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

Certain of the Joint Lead Managers have, directly or indirectly through affiliates, provided investment and commercial banking, financial advisory and other services to the Issuer, the Guarantor and their respective affiliates from time to time, for which they have received monetary compensation. Certain of the Joint Lead Managers and their affiliates may from time to time also enter into swap and other derivative transactions with the Issuer, the Guarantor and their respective affiliates. In addition, certain of the Joint Lead Managers and their affiliates may in the future engage in investment banking, commercial banking, financial or other advisory transactions with the Issuer, the Guarantor or their respective affiliates in the ordinary course of business.

United Kingdom

Each Joint Lead Manager has further represented, warranted and undertaken that:

- (a) *Financial promotion*: it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (as amended, "**FSMA**")) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

United States of America

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, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code of 1986 and regulations thereunder.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons substantially to the following effect:

"The Notes covered hereby have not been registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the issue date of the Notes, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

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

General

No action has been or will be taken in any jurisdiction by the Issuer or the Joint Lead Managers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of the Information Memorandum, in any country or jurisdiction where action for that purpose is required.

Accordingly, each Joint Lead Manager has represented, warranted and undertaken that, to the best of its knowledge and belief, it will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes this Information Memorandum or any related offering material. Persons into whose hands this Information Memorandum comes are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Information Memorandum or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

The creation and issue of the Notes has been authorised by the Supervisory Board of the Issuer on 3 June 2020 and by the Asset-Liability and Liquidity Management Committee of the Issuer on 25 May 2020.

Legal and Arbitration Proceedings

There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Information Memorandum, a significant effect on the financial position or profitability of the Issuer.

Significant/Material Change

Other than as disclosed in "*Risks relating to the Issuer*" and "*Risks relating to the Guarantor*" sections of this Information Memorandum, there has been no material adverse change in the prospects of the Issuer, nor has there been any significant change in the financial or trading position of the Issuer since 31 December 2019. See also generally, "*Activities relating to COVID - Economic Impact of COVID-19 on the Republic of Slovenia*" above.

Auditors

The financial statements of the Issuer, incorporated by reference herein, have been audited without qualification for the years ended 31 December 2019 and 2018 by Deloitte revizija d.o.o., Dunajska cesta 165, 1000 Ljubljana, Slovenija.

Documents on Display

Following the issue of the Notes, copies of the following documents may be inspected during normal business hours at the specified office of the Paying Agent and the Luxembourg Listing Agent:

- (a) Slovenian language version of Article 13 of the Act along with an English translation;
- (b) the Fiscal Agency Agreement; and
- (c) the Deed of Covenant.

Following the issue of the Notes, copies of the following documents will be available during normal business hours at the specified office of the Paying Agent and the Luxembourg Listing Agent:

- (a) the consolidated and non-consolidated financial statements of the Issuer for the year ended 31 December 2018, including the audit report relating to such financial statements;
- (b) the non-consolidated financial statements of the Issuer for the year ended 31 December 2019, including the audit report relating to such financial statements; and
- (c) the Articles of Association of the Issuer along with an English translation.

A copy of this Information Memorandum will be available on the Issuer's website at <https://www.sid.si/>.

Yield

On the basis of the issue price of the Notes of 99.920 per cent. of their principal amount, the yield of the Notes is 0.141 per cent. on an annual basis. It is not an indication of future yield.

Legend Concerning US Persons

The Notes and any Coupons appertaining thereto will bear a legend to the following effect: Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.

ISIN and Common Code

The Notes have been accepted for clearance and settlement through Euroclear and Clearstream, Luxembourg. The ISIN is XS2194917949 and the common code is 219491794.

Legal Entity Identifier ("LEI")

The LEI number of SID bank is 549300BZ3GKOJ13V6F87.

Listing

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade them on the Luxembourg Stock Exchange's regulated market.

THE ISSUER

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The Republic of Slovenia

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