

MARKET PROFILE SLOVENIA

2020

SKB banka d.d. Ljubljana
Global Securities Services



 **otpbank**

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SLOVENIA



MARKET INFORMATION

Key figures

Local currency	Euro (EUR)
Market GDP (2019)	USD 53.74 bn
Market capitalisation (Dec 2019)	EUR 34.97 bn
Number of listed companies (Dec 2019)	29
Stock Exchange turnover (2019)	EUR 329.51 mln
EU membership	Yes
Euro zone	Yes

Local Time

In wintertime	GMT+1
In summertime	GMT+2
Daylight Saving Time	same time as in EU countries

Credit Ratings

Agency	Rating	Outlook	Date
Moody's	Baa1	Positive	Apr 27 2019
Fitch	A	Stable	Jul 23 2019
S&P	AA-	Stable	Jun 15 2019

MARKET PARTICIPANTS

Market Regulator - National Bank of Slovenia

The Bank of Slovenia (BS) is the central bank of the Republic of Slovenia. It was established by the Bank of Slovenia Act, adopted on 25 June 1991. It has legal personality under public law, and freely and independently disposes of its own assets. The Bank of Slovenia is under exclusive state ownership, with autonomy in finances and governance. The Bank of Slovenia's financial statements are audited by an independent international auditor. The Bank of Slovenia and the members of its governing bodies are independent in performing their duties pursuant to the Bank of Slovenia Act, and are not bound by the resolutions, positions or instructions of government bodies or any other bodies, and may not refer to such bodies for guidance or instructions. Since 1 May 2004, when Slovenia joined the European Union, the Bank of Slovenia has been a member of the European System of Central Banks (ESCB). Slovenia joined the euro on 1 January 2007, since when the Bank of Slovenia has been part of the Eurosystem, to which responsibility for monetary policy was transferred at the same time. As of the day of the adoption of the euro as Slovenia's currency, the Statute of the ESCB and of the ECB has been applied in full in the performance of the Bank of Slovenia's tasks. As a member of the Eurosystem, the Bank of Slovenia performs the following tasks in accordance with the Treaty on the Functioning of the European Union and the Statute of the ESCB and of the ECB:

- implementing the Eurosystem's common monetary policy,
- managing the official foreign exchange reserves,
- ensuring the smooth functioning of payment systems, and
- issuing euro banknotes.
- The Bank of Slovenia also performs other tasks set out by law, including:
 - supervising banks and participating in the maintenance of financial stability;
 - managing the Central Credit Register, the central national database of the debts of individuals and business entities;
 - attending to the security of deposits and the resolution of banks;
 - ensuring the supply of cash throughout Slovenia;
 - managing accounts and providing payment services for the state, government bodies, public sector entities and banks;
 - collecting, processing and disclosing statistical data of importance to the functioning of the monetary and financial system.

The Bank of Slovenia is a member of the Eurosystem.

Internet website: <https://www.bsi.si/en>

Stock Exchange

Ljubljana Stock Exchange (LJSE) is the sole securities exchange in Slovenia. The only shareholder of the Ljubljana Stock Exchange is Zagrebacka burza d.d. (Zagreb Stock Exchange). Membership is granted to local market participants who possess a license to trade. The LJSE is a fully computerized exchange with members of the exchange being able to trade and execute deals from their own premises. Remote Membership for any foreign entity is possible, once rules and regulations of LJSE are accepted, and technical requirements are met.

Main stock exchange indexes of LJSE are SBITOP and ADRPR.

LJSE is a full member of the Federation of European Securities Exchanges (FESE).

Internet website: <http://www.ljse.si/cgi-bin/jve.cgi?doc=1468>

Central Depositories and Safekeeping (KDD)

Central Securities Clearing Corporation (KDD) is a company providing central securities custody services, clearance and settlement of securities transactions, and maintenance of the central registry of holders of dematerialised securities in the Republic of Slovenia. KDD was founded on 10 January 1995. KDD's founders and shareholders are banks, stockbroking firms, fund management companies, government funds, issuers and other shareholders. Share capital amounts to EUR 1,084,960.77 and is divided into 520 ordinary registered shares.

KDD has proved its reputation by successful integration into European capital markets and thus contributed significantly to increased efficiency and integration of capital markets. Namely, European Central Bank has proclaimed KDD's securities settlement systems as fully eligible for use in Eurosystem credit operations. In 2017 KDD successfully connected its infrastructure to uniform European securities settlement platform TARGET2-Securities (T2S). Furthermore, KDD has established links to some prominent CSDs in order to allow KDD is a member of the Central and Eastern European Central Securities Depositories and Clearing Houses Association (CEECSDA).

Internet website: <https://www-en.kdd.si/about-kdd>

TRADING AND SETTLEMENT

Trading environment

The Ljubljana Exchange (LJSE) is reachable via a XETRA link (T7 version for spot market) operated by the Wiener Börse while clearing activity is performed by KDD. LJSE Trading Hours 9:15 – 14:30.

Settlement cycle on the LJSE is T+2 for all types of securities.

OTC Market

OTC deals are agreed on a bilateral basis while settlement details are based on the agreement between the contracting parties. There is no settlement assurance for OTC trades therefore this type of trades is not covered by any guarantee fund in Slovenia.

Settlement

Settlement of LJSE trades for listed securities is mandatory and it is performed through KDD. The net securities positions are calculated by KDD once netted at the end of each trade date and then advised to participants. Securities that were sold on LJSE are blocked by KDD on trade date, so they cannot be used for purposes of OTC trades.

Settlement of LJSE deals is done the delivery versus payment principle. Considering that CSD members have to ensure sufficient balance of securities and cash for settlement at the latest at 10:00 CET, officially the batch can be executed between 10:00 and 13:00 CET on settlement day. The settlement of LJSE trades is possible until 15:00 on SD.

Over-the-counter (OTC) trades are settlement is on a continuous basis in real time. RVP/DVP securities transactions are settle between 7:00 – 15:50, FOP settlements are possible until 17:50 on a real-time basis within the CSD.

The pre-matching process is done manually (e-mail) by CSD members and it is done only for OTC trades. Process starts immediately after receiving the instructions, before the input of the instructions into the CSD system. The matching and settlement of deals takes place on the basis of the settlement amount tolerance according to T2S rules:

- 2 EUR for transactions under 100.000 EUR
- 25 EUR for transactions above 100.000 EUR

If there is a discrepancy between buy and sell amount, trade is settled at price indicated by seller.

Partial settlement is not applicable in the market.

Guarantee fund for settlement on LJSE

Guarantee fund for the settlement of stock exchange transactions is managed by KDD. The primary purpose of the guarantee fund is to reduce the risks related to the delayed performance or non-performance of the transactions concluded by the members of the LJSE.

KDD may only transfer assets of the guarantee fund into the following types of investments:

- a deposit held by the Bank of Slovenia;
- debt securities or other debt financial instruments, issued by:
 - o the Republic of Slovenia, the Bank of Slovenia or
 - o any other country, central bank, the European Community or other international financial institution which is ranked amongst entities with 0 % credit risk pursuant to regulations of the Bank of Slovenia on bank risk management.

KDD may only perform the following payments from the guarantee fund:

- to settle net financial claims of net creditor system members;
- for buy-in pursuant to the Rules hereunder;
- to cover costs of management of the guarantee fund.

Buy-Ins, Sell-outs

Buy-in and sell-out are applicable in the market and is performed automatic by the CSD. The buyer has a chance to withdraw from the trade before the CSD initiates buy-in procedure.

Settlement depends on the method of purchase or sale.

KDD may decide on one of the following methods of purchase or sale:

1. Sale or purchase on the organized market;
2. Sale or purchase at a public auction;
3. Sale or purchase based on collecting binding or non-binding bids;

4. Direct sale or purchase.

KDD will notify its members regarding initiation of buy-in procedure.

Buy-in fees:

- Cost of buy-in procedure 10% of trade value
- Fine 20% of trade value

Default procedures:

SD 10:00	KDD verifies if the securities and cash positions on accounts are sufficient
SD after 10:00	KDD informs its member that position on account is not sufficient
SD 13:00	KDD declares default event and initiates buy-in or sell-out procedure

MARKET INSTRUMENTS

The Slovenian stock market is open to both foreign and local investors. All LJSE listed equity shares and bonds that were held in physical form were dematerialized in 1999. All LJSE is fully dematerialized. Foreign investors can also hold bearer form securities in addition to registered ones.

Type of instruments

- Bonds
- Stocks
- Commercial papers
- T-Bills
- Structured Products
- ETFs

Securities Identification

ISIN is the standard code for identification of securities in Slovenia. The Central Securities Clearing Corporation (KDD) is responsible for allocating the ISIN numbers and they are member of the ANNA (Association of National Numbering Agencies).

TARGET2-SECURITIES IN SLOVENIA

The Slovenian market migrated to T2S on February 6, 2017 (Wave 4). Since its migration no problems with settlement were detected in Slovenian market.

ANTI-MONEY LAUNDERING REQUIREMENTS

As an EU member state, Slovenia has implemented the EU AML directives (incl.2015/849) and is fully compliant on the prevention of the use of the financial system for the purposes of money laundering or terrorism financing.

The Act on the Prevention and Combating of Money Laundering and Terrorist Financing contains the detailed rules of the “Know Your Customer” procedures. Prior to establishing a business relationship, service providers shall apply due diligence measures for identifying the customer, the customer’s agent, proxy or other authorized representative and verifying their identity.

Counter - Terrorism Financing Measures

In line with the provisions of Act LII of 2017 on the implementation of the financial and asset restrictive measures imposed by the European Union and the UN Security Council, as well as the requirements of the EU, UN and OFAC, all clients, transactions and SWIFT messages are subject of embargo screening against the applicable lists.

DISCLOSURE REQUIREMENTS FOR INVESTORS

Foreign investors are free to invest on the Slovenian market and are treated equally as the local investors and the same market entry and investment regulations apply for them.

Investors (i.e. shareholders or the holder of the voting right attached to the shares) must

disclose and report when their voting rights in a company reach, exceed or fall below the established qualifying thresholds. This applies to shareholders with positions in companies that have shares traded on the LJSE or to shareholders with positions in companies that do not have shares traded on the LJSE but have at least 250 shareholders or more than EUR 4 million share capital as published in their Annual Report. The obligation to disclose falls on the shareholder and the beneficial owner.

There are no general ownership restrictions in the Slovenian securities market with regard to publicly available equities. But some companies may set special conditions or restrictions on some categories or classes of shares or (when the acquisition of ownership for credit institutions, investment services, insurance companies etc. causes them to exceed a 10%, 20%, 33 $\frac{1}{3}$ % or 50% qualifying holding threshold) request that the beneficial owner secure a license from the public authorities.

Applicable to shareholders with positions in companies where:

- Beneficial owners are required to report the crossing of a threshold in voting rights to the Securities Market Agency (SMA) and to the issuer within the fourth trading day.
- Shareholders' voting rights in the company reach, exceed or fall below the 5%, 10%, 15%, 20%, 25%, 33 $\frac{1}{3}$ %, 50% and 75% thresholds.

For a cross-over one third of the voting rights in a company takeover bid is necessary.

The provisions of the Bank of Slovenia require all direct participants (including SKB banka d.d.) to disclose, on a monthly basis and for localization purposes only, all client holdings in the different securities eligible in KDD. This disclosure includes a report by type of instrument and resident nationality of security holder - the identity of holders and of the underlying beneficial owners, remains undisclosed.

Shareholder Rights Directive II (SRD II)

SRD II has not been transposed into Slovenian law yet.

PROXY VOTING

The peak season for general meetings (GM) is from March till June. Shareholder meetings shall be held once a year, extraordinary meetings can be held any time during the year.

According to Companies Act companies have publish the announcements of GMs on their website in the Official Journal and in the daily newspaper available across Slovenia at 30 days prior to the meeting date.

Public companies listed on LJSE have follow Rules and Regulations available which also cover public announcements and are available on:

http://www.ljse.si/media/Attachments/Oborzi/PRAVILA_NAVODILA/Pravni_akti_2019/Pravila_XetraT7/T7_LJSE_Rules_clean_27nov2019.pdf

In order to vote, usually physical attendance is required by the companies. In case of proxy representation a Power of Attorney (PoA) has to be issued and signed by the registered shareholder.

The names of shareholders and proxy representatives wishing to participate in the general meeting must be entered into the register of shareholders at least four business days prior to the meeting.

All corporate action entitlements – including GM participation/voting – are based on the end of day settled position on record date.

TAXATION

Withholding Tax

Interest and dividend payments to shareholders are subject to 27,5% withholding tax liability except domestic institutional investors who have full tax exemption.

The standard tax rates applied for Slovenian instruments are:

Interest income*	
- Domestic legal entities	not subject to withholding tax over interest payments.
- Foreign legal entities	15% (may be reduced by double taxation agreement)
- Domestic private Individual	27,5%
- Foreign private Individual	27,5% (may be reduced by double taxation agreement)
Dividend income	
- Domestic legal entities	not subject to withholding tax over dividend income
- Foreign legal entities	15% (may be reduced by double taxation agreement)
- Domestic private Individual	27,5%
- Foreign private Individual	27,5% (may be reduced by double taxation agreement)
Capital Gains	
- Domestic private Individual	27,5% of the net income realized in the tax year over stock exchange transactions

*Bonds issued in accordance with the law governing public finances or bonds by companies listed on a regulated market in the EU are subject to tax exemption.

Tax Reclaim

If tax is withheld at the non-treaty rate either due to refusal or late application for Relief at Source, the client may reclaim the difference from the Slovenian Tax Authority. Only those final beneficiaries can benefit from tax reclaim who are either directly registered in the registrar or have disclosed their identity.

Refunds are possible within 5 years after the payment date. In practice, assuming that documentation provided is complete, the tax refund claim procedure takes 2 to 3 months. Payment date is usually 30 day after Slovenian Tax Authority issues its final decision.

Documents needed for tax reclaim process:

- Tax reclaim request form
- Certificate of Tax Residency of the beneficial owner
- Declaration of Tax Beneficiary or Beneficiary Owners Certificate – may vary according to related DTT agreements
- Power of Attorney issued for the entity reclaiming the tax on behalf of the beneficial owner
- Proof on receipt of the income

Foreign financial intermediaries can lower tax rate (relief at source) in the following cases:

- The foreign intermediary, which receives dividends and interest on behalf of underlying clients, acquires a status of an Authorized Foreign Intermediary (AFI) and discloses final beneficial owners of underlying securities.
- The foreign intermediary, which receives dividends and interest for its own account, provides a statement that it is the beneficial owner of the underlying securities

GLOSSARY OF ABBREVIATIONS

AML	Anti-Money Laundering
ANNA	Association of National Numbering Agencies
LJSE	Ljubljana Stock Exchange
CEECSDA	Central and Eastern European Central Securities Depositories and Clearing Houses Association
DTT	Double Taxation Treaty
FESE	European Securities Exchanges
GM	General Meeting
BS	Bank of Slovenia
KDD	Central Depositories and Safekeeping
OTC	Over-the-counter
SMA	Securities Market Agency
POA	Power of Attorney
SRD II	Shareholder Rights Directive II

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