SLOVAK REPUBLIC

INVESTOR PRESENTATION

ARDAL

January 2016

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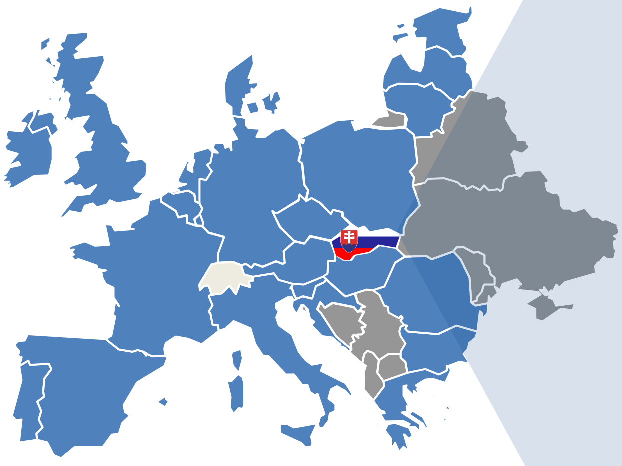
Summary

1. **Slovak Republic Overview**
2. Top Growth Performer
3. Public Debt
4. Debt Management and Funding
5. Credit Positioning of Slovakia and Peers Comparison

Slovak Republic at a Glance

Geographical location



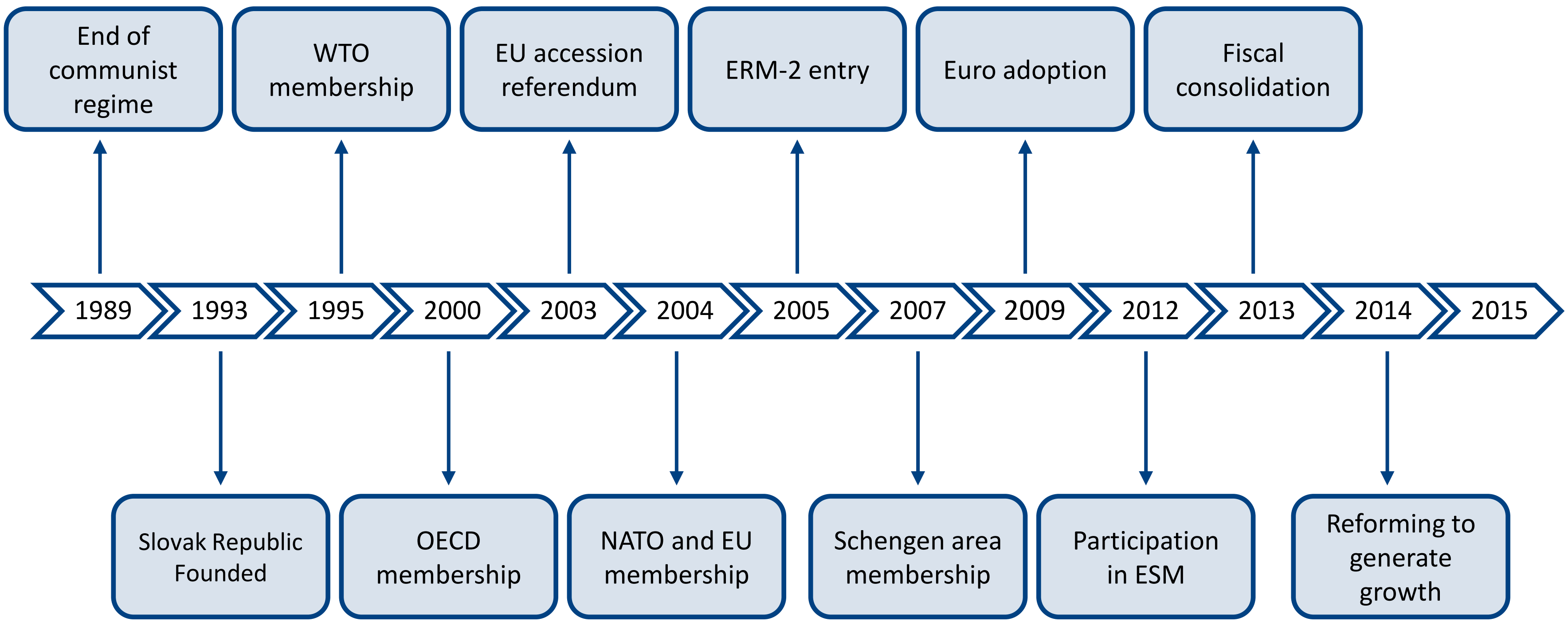
■ Members of the EU

Key facts

Ratings (Moody's / S&P / Fitch)	A2 (st.) / A+ (st.) / A+ (st.)
GDP (2014)	€ 75,560 million
GDP per capita	approx. € 13,900
Population	5.4 million
Average real GDP growth (2005-2014)	3.8 %
Inflation CPI (2014)	-0.1 %
Currency	Euro
Key economic sectors	Manufacturing, Construction, Wholesale & Retail Trade
Memberships	OECD, EU, EMU, NATO
General government debt to GDP (2014)	53.5 %
Capital	Bratislava
Territory	49,036 km²

Source: Eurostat, Ministry of Finance

Key Events and Milestones since 1989



Slovak Republic Key Strengths

Top Growth Performer

- # 1 real GDP growth in the EU for the last decade (2005-2014), averaging 3.8 %.
- Top Tier real GDP growth in 2014 in the EU, reaching 2.5 %.
- 3.2 % expected GDP growth in 2015.

Sound Macroeconomic Fundamentals

- Balanced current account (0.1 % of GDP in 2014) despite weaker external demand.
- Low inflation driven by low oil price and contracting regulated prices.
- Well capitalized and highly liquid banking sector without government assistance.
- Almost no exposure of corporates and private sector to FX loans.

Long Term Commitments to Fiscal Discipline

- Strong fiscal discipline based on multi-year targets, fiscal responsibility, and debt brakes.
- Private debt (71.1 % in 2014) and general government debt (53.5 % in 2014) levels well below the EMU average (82.2% in 2014).
- Government deficit safely below 3 % of GDP (2.78 % of GDP in 2014 and 2.74 % of GDP in 2015).
- Fiscal target in 2016 at 1.9 % of GDP and commitment to achieve balanced budget in 2018.

Export-Oriented Country

- Competitive export sector with high value niches in key industrial sector (machinery, equipment, vehicles, aircrafts, base metal products, etc.).
- Leading European producer in the automotive industry (approx. 1 million cars / year), with constant investments (VW, PSA, KIA). EUR 1.4 bn. investment from Jaguar Land Rover announced in Q4 2015.

An opportunity to invest in the highest rated sovereign Eurozone member from Central and Eastern Europe (A2/A+/A+)

Macroeconomic Forecast

	2013	2014	2015F	2016F	2017F
Real GDP Growth (in %)	1.4	**2.5**	3.2	3.1	3.6
Private Consumption (growth in %)	*-0.8*	***2.3***	*2.1*	*2.7*	*2.8*
Investments (growth in %)	*-1.1*	***3.5***	*7.6*	*-0.7*	*2.0*
Export (growth in %)	*6.2*	***3.6***	*6.1*	*5.6*	*6.3*
Import (growth in %)	*5.1*	***4.3***	*7.1*	*3.9*	*4.9*
Employment Growth (ESA 95, in %)	-0.8	**1.3**	1.9	1.0	0.7
Unemployment Rate (LFS, in %)	14.2	**13.2**	11.5	10.6	9.8
Current Account Balance (in % of GDP)	2.0	**0.1**	-0.6	0.9	1.8
Inflation (HICP)	1.4	**-0.1**	-0.2	0.9	1.8
Net FDI (in % of GDP)	0.3	**0.2**	1.5	2.7	2.6

Source: Eurostat; Ministry of Finance, September 2015

Post-crisis Focus on Fiscal Position Strengthening

Adopted consolidation measures set the public debt on declining trajectory, from a peak of 54.6% of GDP in 2013 to 52.5% of GDP expected in 2015.

Budgetary Measures

- Deficit safely below 3 % of GDP since 2013 (2.78 % in 2014, and an expected 2.74 % in 2015) .
- Total structural consolidation amounting to 5.1 % GDP between 2010 -2014.
- Effective measures against tax evasion - additional revenues of 0.7 % GDP in 2014, compared to 2012.
- Cost-savings by central government due to decreasing number of regional offices under the "ESO reform": Effective, Reliable and Open State Administration.

New Efficient Processes

- A constitutional fiscal responsibility law with a "debt brake" (measures to be implemented each time the debt/GDP ratio breaches certain thresholds – see details on slide 18) .
- Balanced budget rule adopted in 2014 (MTO: Medium Term Objectives).
- Transparent medium-term budgeting as required by the constitutional Fiscal Responsibility Act.
- Strong and independent Council for Budget Responsibility (CBR) is overviewing all budget decisions and execution.

Active Debt Management

- Conservative and long-term debt management strategy.
- General government debt (53.5% in 2014) well below EMU average (82.2%) and low private debt (71.1% in 2014).
- Healthy banking sector.

Long Term Policies Supporting Sustainable Growth

- **A stable and predictable political environment** with very broad support for conservative fiscal and economic policies, led by a social-democratic party with a solid electoral mandate.

- **A new institutional budget framework based** on the Fiscal Responsibility Act and the “debt brakes” , in full coordination with the European Commission’s Fiscal Compact.

- **Medium-term fiscal policy driven by spending reviews and improved tax collection,** maintaining focus on improved VAT collection and on controlling the public wage bill.

- **Managing conservatively the State’s balance sheet,** including the government’s cash reserve and expected windfalls from regular EU Fund disbursements and privatizations.

The Slovak Republic set ground for credible and sustainable growth, while already being one of EU top growth performers.

Deeper Reforms Under Way to Support Growth Potential

Reducing long-term unemployment with new or modified active labor market policies, training programs and decreased costs for low-skilled labor force.

Improving further the environment for startups and innovation: several policies in place to reduce regulatory burden for startups and tax incentives for research and development for private companies.

Increasing expenditures on infrastructure investment should also improve the conditions for foreign and domestic investors to create new job opportunities, as well as improve labor force mobility.

Getting better value for public money through periodic spending reviews of public expenditures and ex-post and ex-ante assessment of policies and regulations.

Government reforms commitment aims at further improving the Slovak growth potential, job market, investments, and research & development.

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Accelerating Growth & Top Historical Performer

Positive domestic factors

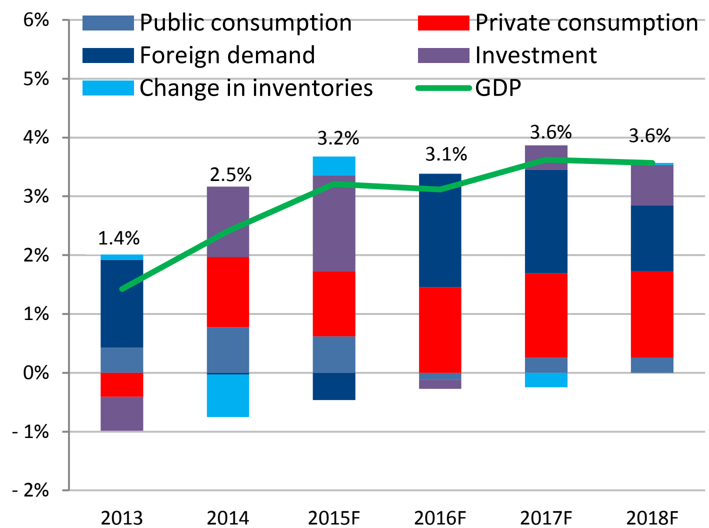
- Domestic demand contributed to GDP growth by 5.5 % in Q3-2015.
- Improving labor market conditions: unemployment rate fell to 11.6 % in Q3-2015 from over 14.5 % at the end of 2009.
- Investment benefits from favorable current financing conditions.

Positive external factors

- Deep economic and financial integration with core Europe (member of the EMU since 2009).
- Strong export sectors: automotive industry, machinery, equipment, base metal products…

Accelerating Growth

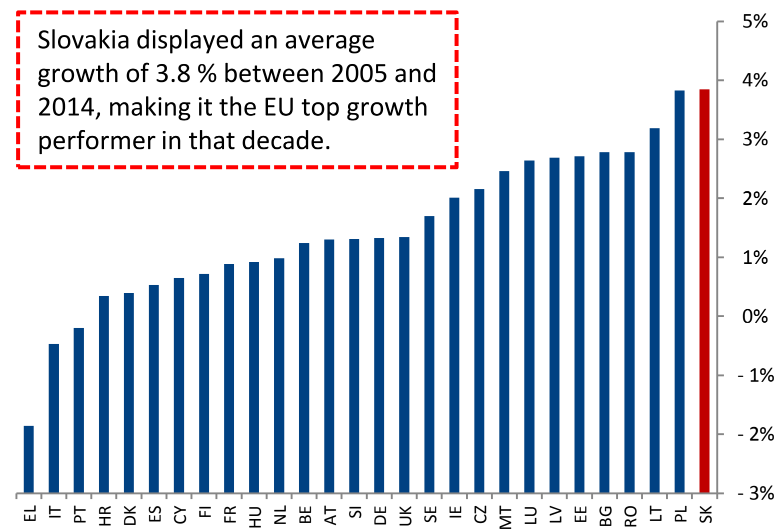
Slovak Republic recent GDP growth and forecast



Source: SUSR, Ministry of Finance

Growth is expected to accelerate further

EU members 2005-2014 growth average



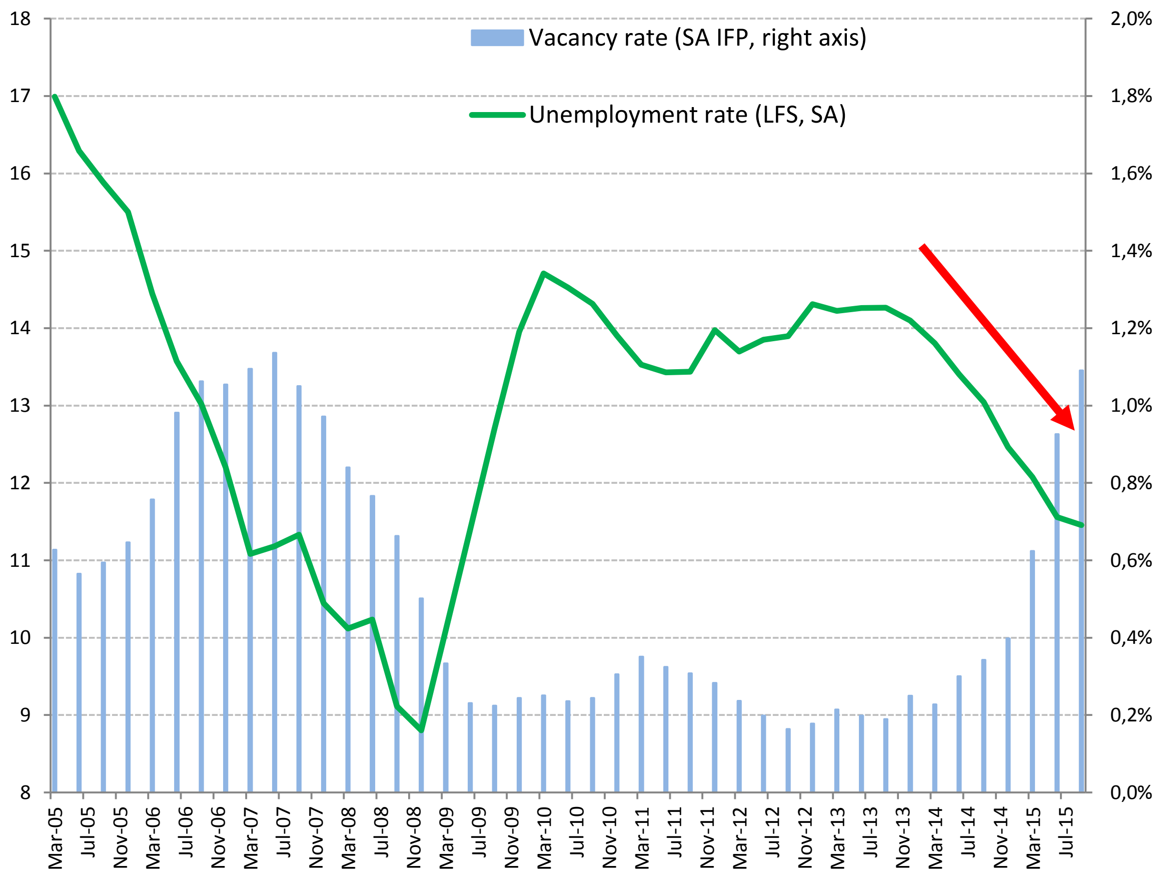
Source: Eurostat

Historical top growth performer within EU space

Efficiently Stimulating the Labor Market

- Overall unemployment estimated at 10.6% in 2016 according to the Slovak Ministry of Finance forecast.
- Employment has reached its pre-crisis level.
- With solid GDP growth expectations (estimated GDP growth 3.2% in 2015, and 3.1% in 2016) and positive effect of the government's measures, the unemployment rate is expected to decrease to single-digit level by 2017.
- Health contributions allowance for low income earners, higher active labor market expenditures and the continuing increase in women´s pension age helped to significantly increase the labor force: +0.6% in the first 3 quarters of 2015.
- Infrastructures development under way (West-East transport infrastructures) which will improve labor force mobility.

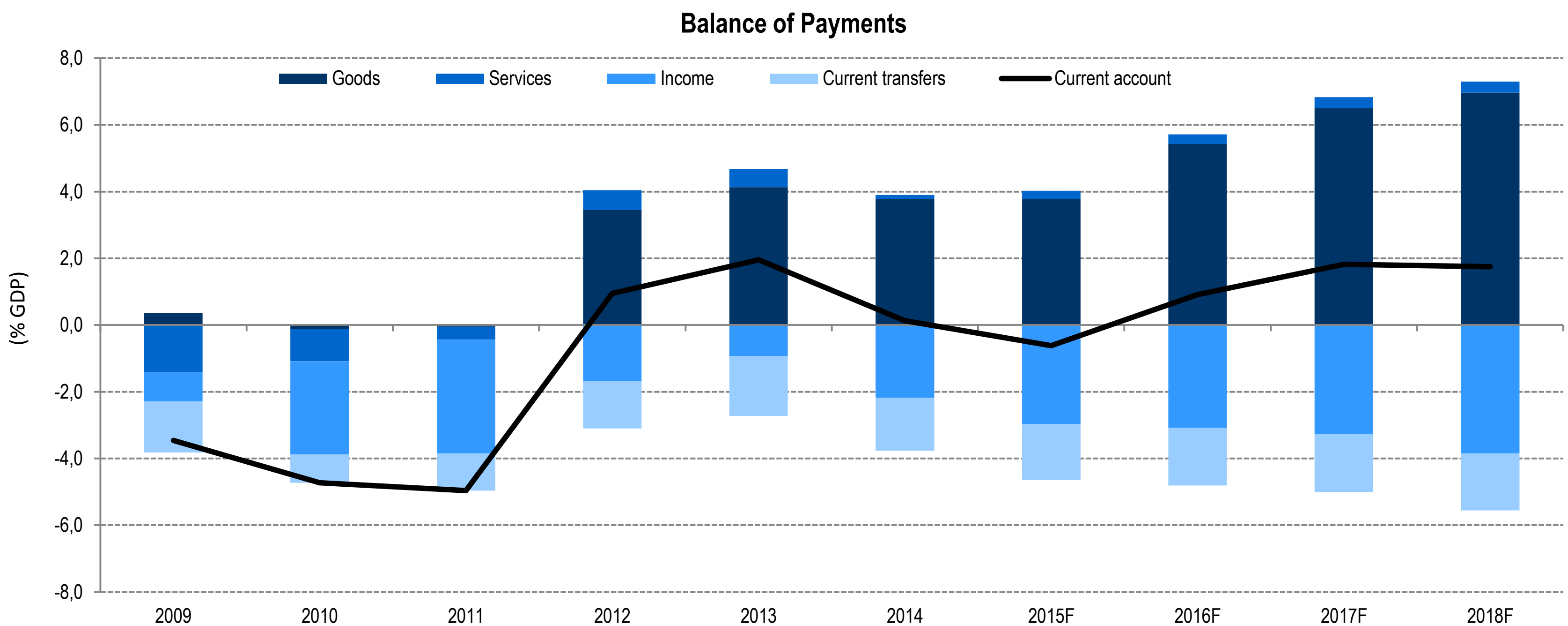
Decreasing unemployment thanks to efficient and proactive measures



Source: Eurostat, Ministry of Labor of SR

Balanced Current Account with Positive Trends

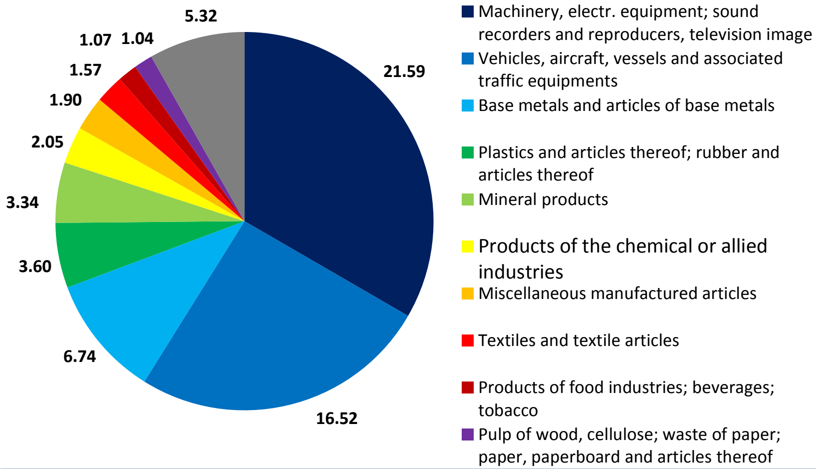
- The current account of the balance of payments has significantly improved in recent years and remained balanced (0.1% of GDP) in 2014.
- Positive trend in the current account is mainly due to the improved trade balance – strong export performance coupled with weaker domestic demand.
- New production capacities installed in the recent years, as well as the shift to domestic suppliers (reduced import intensity of exports) indicate that the current account should return to positive levels as foreign demand recovers.



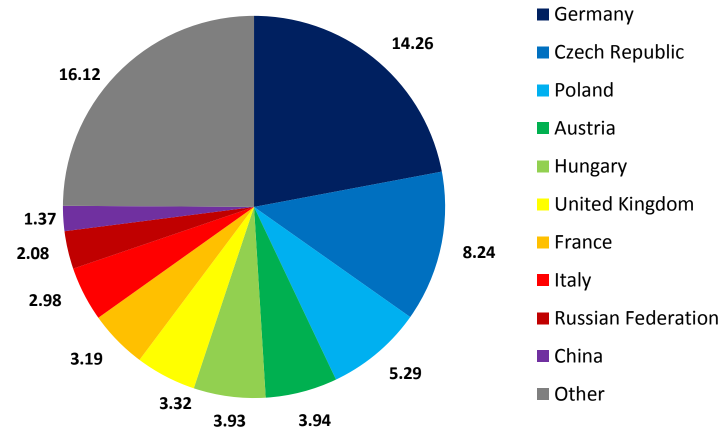
Source: Eurostat; Ministry of Finance, December 2015

Breakdown of Foreign Trade in 2014

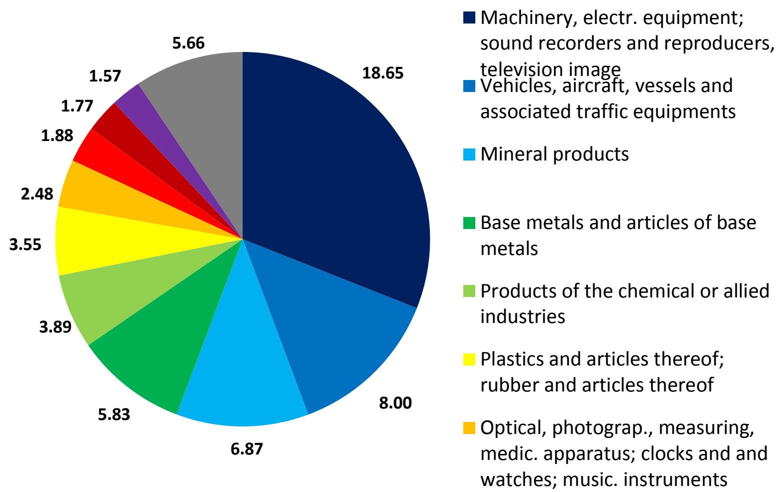
Export by product (mil. EUR)



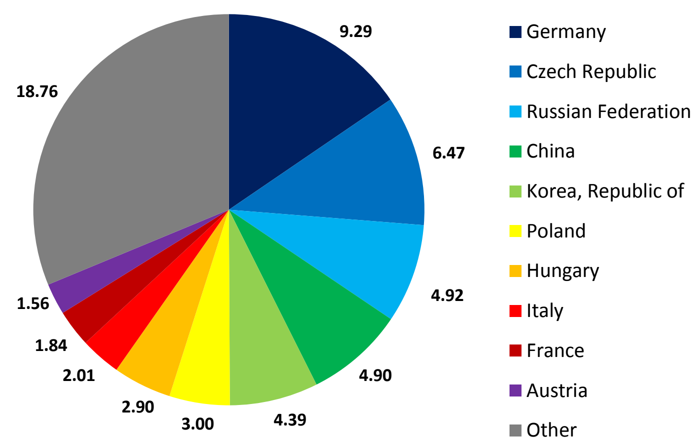
Export by country (mil. EUR)



Import by product (mil. EUR)



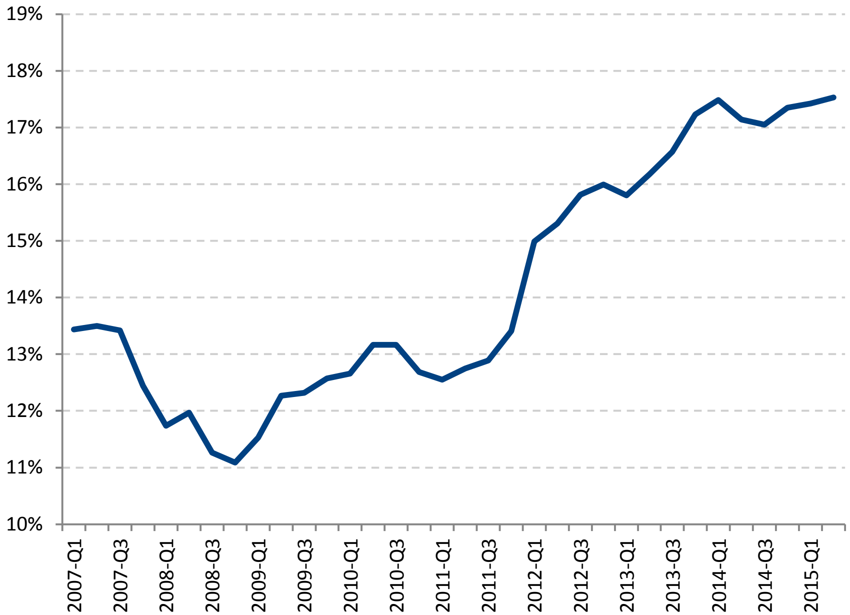
Import by country (mil. EUR)



Source: Ministry of Finance

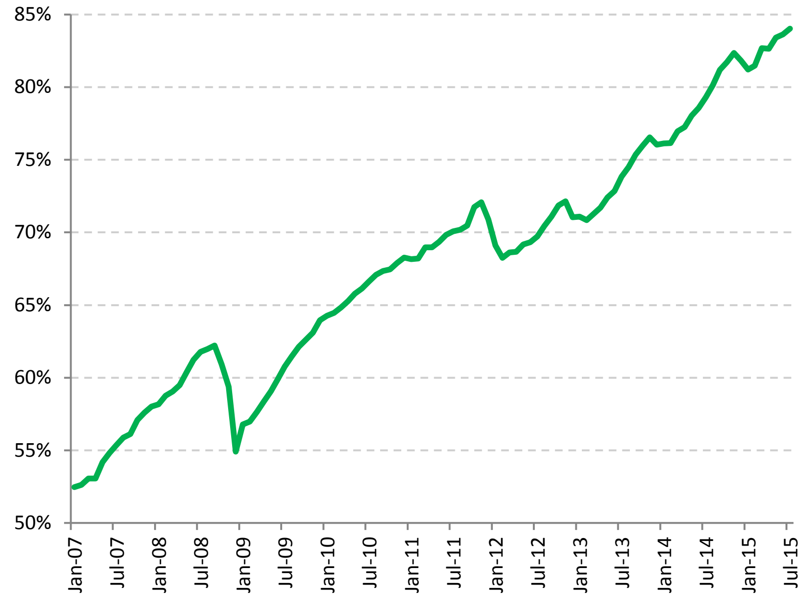
Well-capitalized Banking Sector

Capital adequacy ratio of the Slovak banking sector



Source: NBS

Households loan-to-deposit ratio



Source: NBS

- Well-capitalized banking sector and low households indebtedness:
  - average capital adequacy ratio of 17.5% at the end of August 2015;
  - low households loan-to-deposit ratio at 81.8% in 2014, below EU average of 94.8%.

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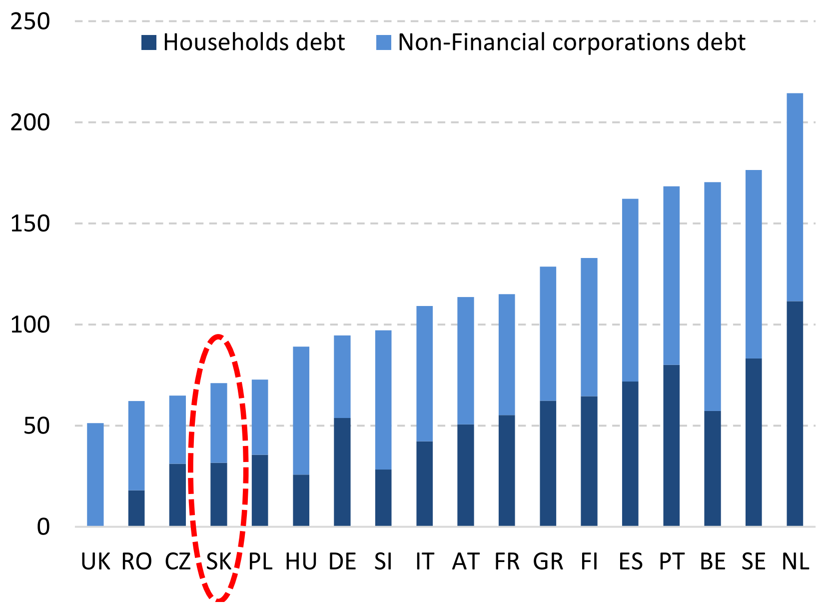
Low Private Debt with Healthy Structure

Low indebtedness level

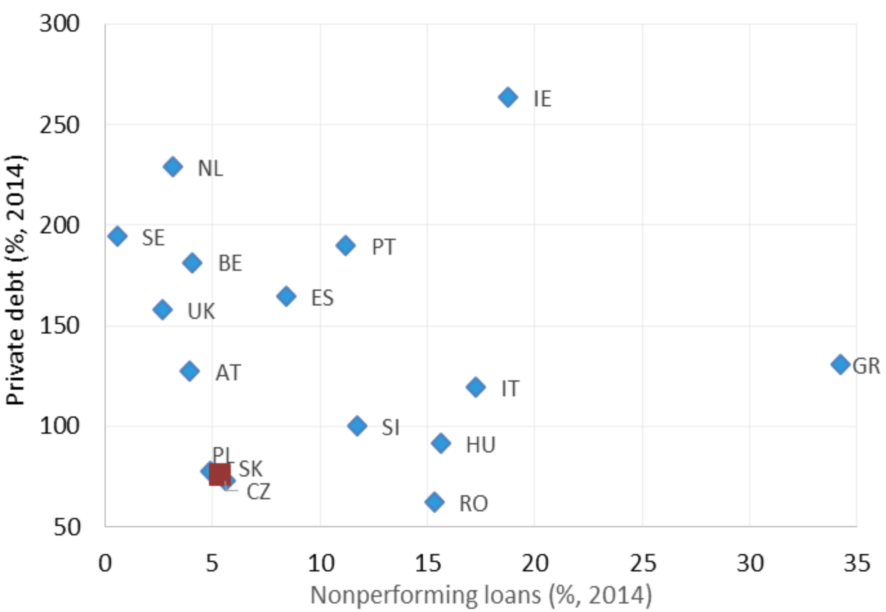
- Slovakia's private debt ratio (71.1% in 2014) is considerably below the EU 28 average (73.6% in 2014), but convergence in households debt still to continue.
- Share of NPLs at a low 5.5 % at the end of 2014, comparing very favorably to neighbouring countries in Central Europe.

Private debt (% of GDP)



Source: HAVER, IMF, 2014

Private debt (% of GDP) **vs. non-performing loans** (% of total loans)



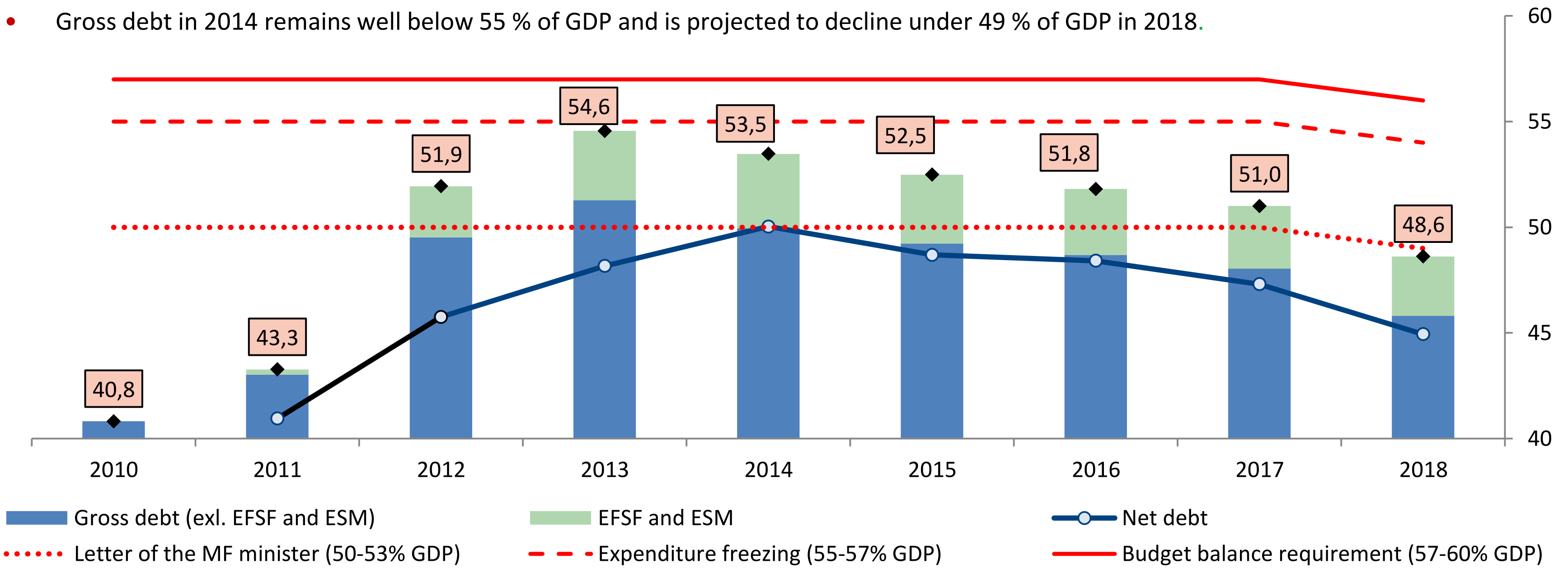
Source: Eurostat, October 2014

General Government Debt Forecast and Debt Brake

- Thresholds set by the constitutional Act on Fiscal Responsibility*:
  - 50 % of GDP – an explanatory letter from the Minister of Finance to the Parliament
  - 53 % of GDP – proposal of measures by the Government to cut the debt
  - 55 % of GDP – expenditure freeze
  - 57 % of GDP – balanced general government budget requirement
  - 60 % of GDP – upper limit, vote of confidence in the Parliament has to take place

  **Thresholds will be continuously lowered by 1 p.p. starting from 2018. The upper limit in 2027 will be 50 % of GDP.*

- Gross debt in 2014 remains well below 55 % of GDP and is projected to decline under 49 % of GDP in 2018.



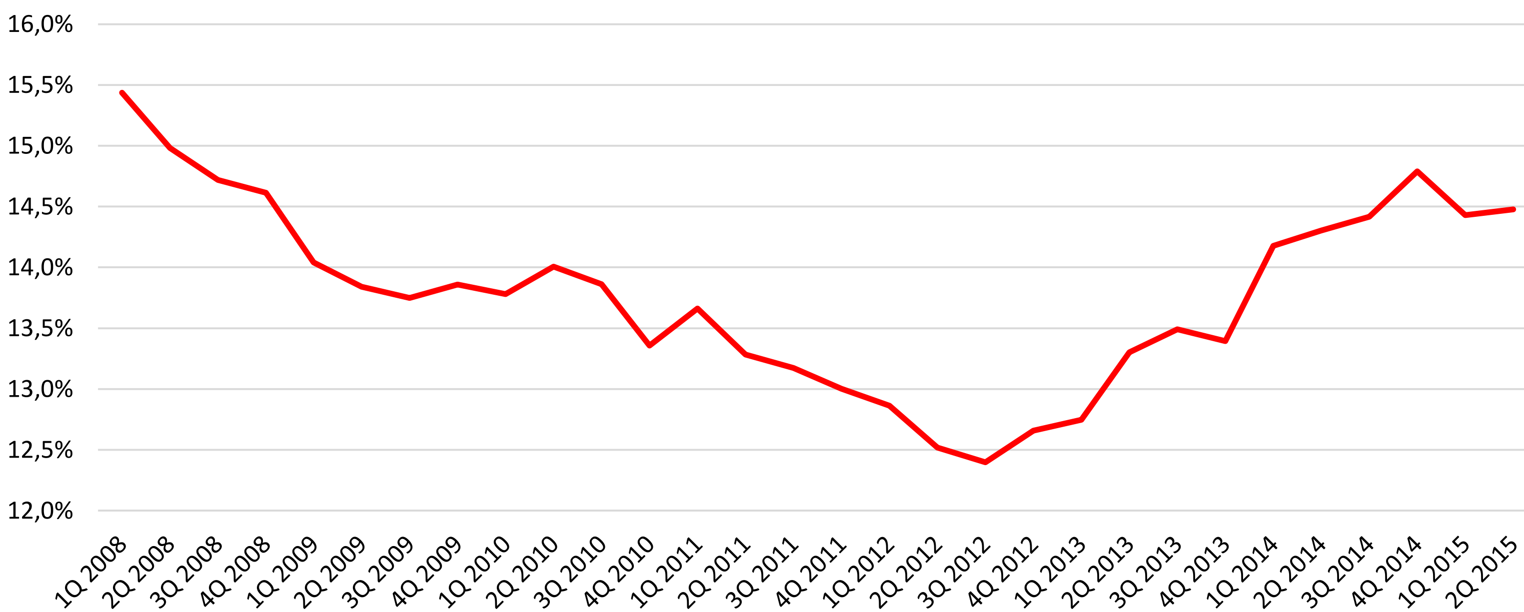
Source: Ministry of Finance, 2015

Legislative Measures Increased VAT Collection Efficiency

Action Plan to Fight Against Tax Fraud brought significant additional tax revenues

- Concentrated effort against tax evasion initiated in 2012 reversed the trend of decreasing Effective Tax Rate (ETR), indicator of VAT collection efficiency.
- The increase of VAT collection efficiency brought additional tax revenues in amount of EUR 219 million (0.3% of GDP) in 2013 and EUR 646 million (0.9% of GDP) in 2014 as compared to 2012.

VAT effective tax rate (%)



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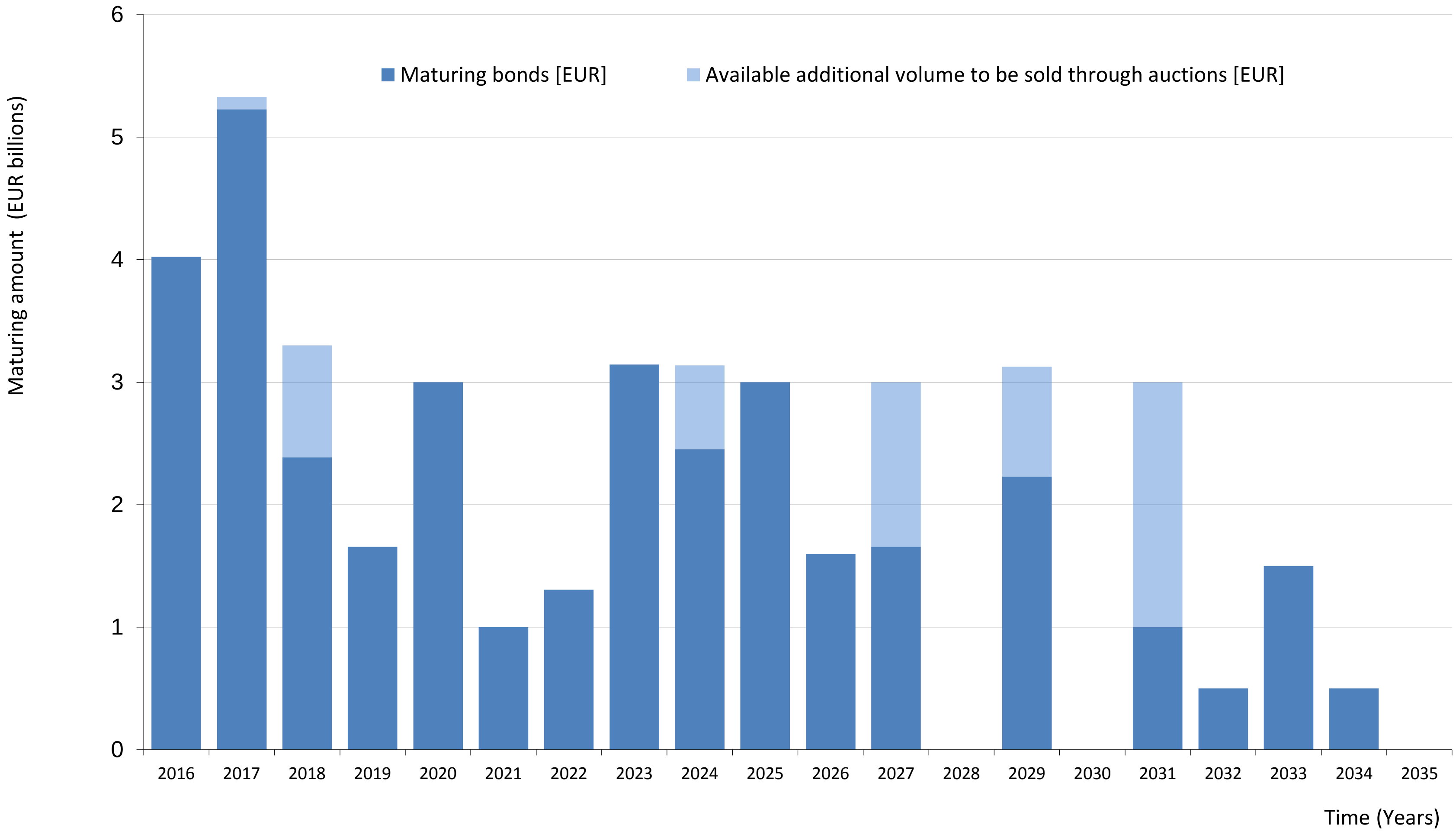
Central Government Bond Redemptions

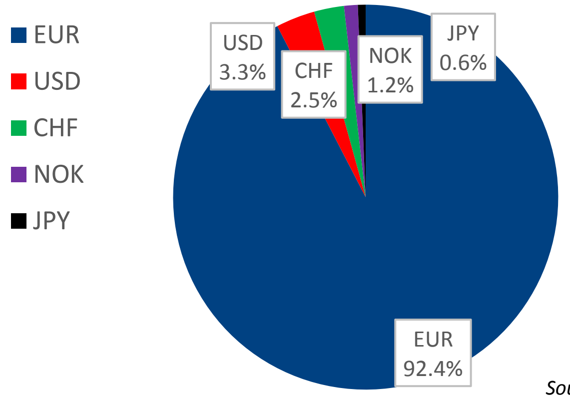


Source: ARDAL, January 2015

Government Debt Characteristics (1/2)

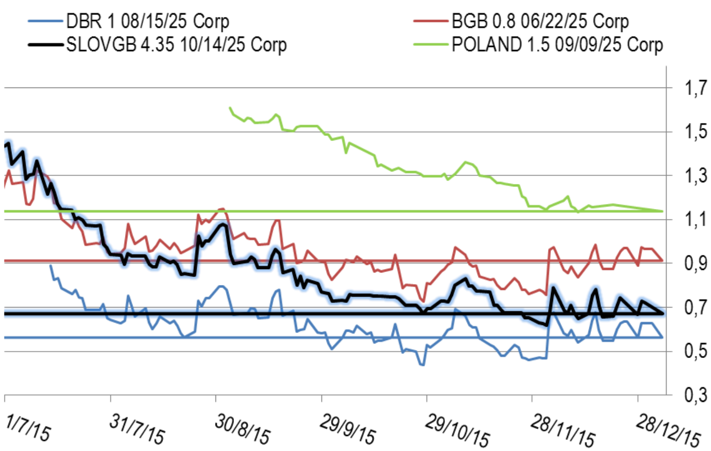
- Major part of outstanding public debt is euro-denominated. Part of debt issued in USD, CHF, NOK and JPY is fully hedged.
- Fixed coupon bonds share is 96 % of total bonds outstanding .
- Non-residents held approx. 53 % of debt as of the end of December 2015 (Bonds, T-Bills and Loans).
- Secondary market yields dropped significantly and among the core euro area countries.

Currency composition of bonds (in % of total, end 2015)



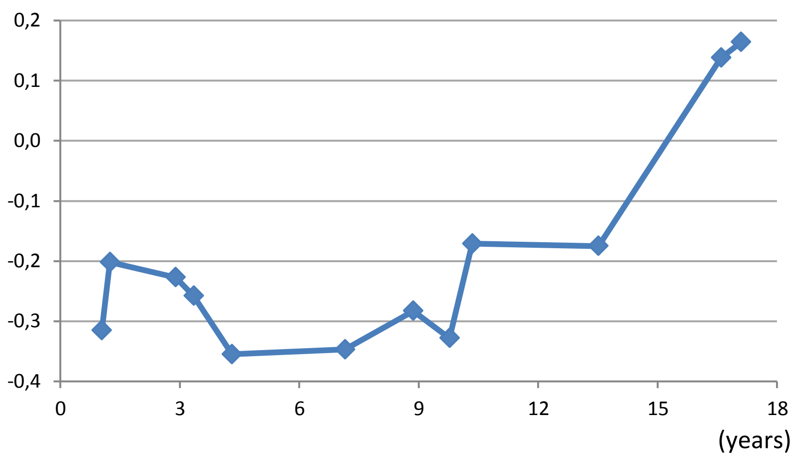
Source: Ardal

Yield Evolution of Selected Eurobonds (in % p.a.)



Source: Bloomberg

I – spread of Slovak Government bonds (as of 4.1.2016, % p.a.)

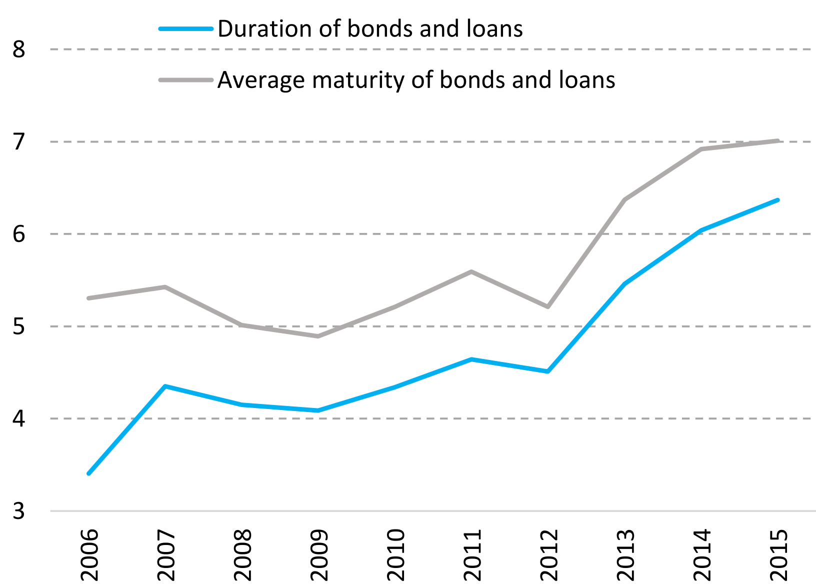


Source: Bloomberg

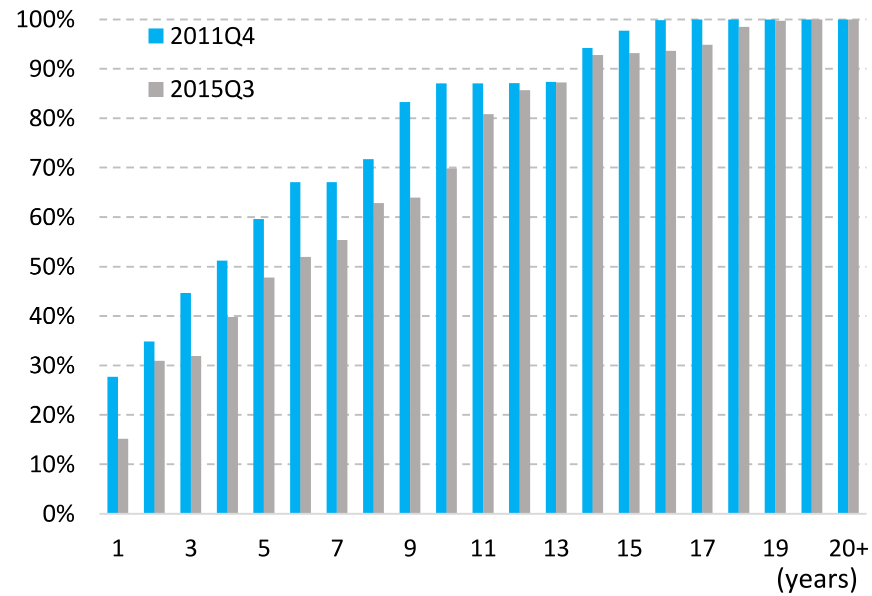
Government Debt Characteristics (2/2)

- Gradual increase in average maturity (from 4.9 years in 2009 to 7.0 years in 2015) and gradual increase of duration (from 4.1 years in 2009 to 6.4 years in 2015).
- Improvement of the risk parameters set in the debt management strategy (cumulative redemptions in the first 5 years decreased from 60% of total cumulative redemptions in Q4 2011 to 48% in Q3 2015).
- Improvement of the parameters in the last years as well, while there was no increase in the costs (increase in duration from 6.0 years at the end of 2014, to 6.4 years in Q3 2015.

Duration and maturity of bonds and loans (in years)



Refinancing risk (cumulative redemptions by years – cumulative, in %)



Source: ARDAL

Debt Financing in 2015 and 2016

Funding programme executed in 2015

- The originally expected refinancing need for 2015 was set at EUR 5.8 bn.
- 3 new bonds (issuances) were expected to be open: a 10-year, a 30-year, and a 5-year with floating rate of coupon.
- Eventually, only one bond was issued. It was the GB 228 maturing in 2027.
- A total nominal debt of EUR 3.6 bn (auctions, syndicated issues, loans) has been issued.
- The significant decline in new debt issuance compared to the initial funding programme was mainly due to:
    - privatization revenues (Slovak Telekom),
    - inflow of delayed EU funds,
    - money transfer from second pension pillar ,and
    - smaller than budgeted cash deficit of the State budget.
- The above-mentioned reasons also contributed to the fact that the other two planned bond lines have not been opened in 2015.

Funding programme for 2016

- The 2016 funding programme (covering both redemptions and budget deficit) should amount to EUR 5.8 bn.
- Two (or alternatively three) new bonds are expected to be issued (via syndicated sales):
    - a long-dated bond, at the beginning of 2016;
    - a bond with maturity of 10 years or more (up to 30 years) in the second half of the year, subject to market conditions;
    - a short-term bond with maturity 5 or 7 years.
- Auctions will continue to take place on the third Monday of each month alike in this year (with the exception of July, and probably August and December as well).
- Two bonds with different maturities will be offered on each auction day.
- The likelihood of T-bills issuance is small.

Source: ARDAL

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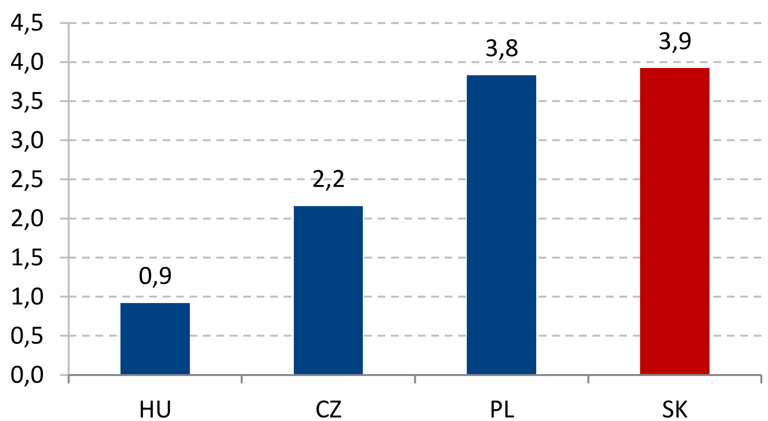
Slovakia's Fundamentals Compare Well vs. its Peer Group Inside and Outside of the Eurozone (1/2)

	Slovakia	Czech Republic	Poland	Slovenia	Belgium	Germany	Eurozone Average
Credit Ratings and outlook	A2/A+/A+ (st/st/st)	A1/AA-/A+ (st/pos/st)	A2/A-/A- (st/st/st)	Baa3/A-/BBB+ (st/pos/pos)	Aa3/AA/AA (st/st/neg)	Aaa/AAA/AAA (nst/st/st)	
Debt/GDP ('14 / '15F / '16F)	53.5 / 52.7 / 52.6	42.7 / 41.0 / 41.0	50.4 / 51.4 / 52.4	80.8 / 84.2 / 80.9	106.7 / 106.7 / 107.1	74.9 / 71.4 / 68.5	94.5 / 94.0 / 92.9
Deficit/GDP ('14 / '15F / '16F)	-2.8 / -2.7 / -2.4	-1.9 / -1.9 / -1.3	-3.3 / -2.8 / -2.8	-5.0 / -2.9 / -2.4	-3.1 / -2.7 / -2.6	0.3 / 0.9 / 0.5	-2.6 / -2.0 / -1.8
GDP growth ('14 / '15F / '16F)	2.5 / 3.2 / 2.9	2.0 / 4.3 / 2.2	3.3 / 3.5 / 3.5	3.0 / 2.6 / 1.9	1.3 / 1.3 / 1.3	1.6 / 1.7 / 1.9	0.9 / 1.6 / 1.8
CA/GDP ('14 / '15F / '16F)	-0.8 / 0.0 / -1.2	-2.0 / -2.5 / -2.4	-1.1 / -0.5 / -0.9	6.5 / 7.0 / 7.5	0.8 / 1.8 / 2.0	7.8 / 8.7 / 8.6	3.0 / 3.6 / 3.6

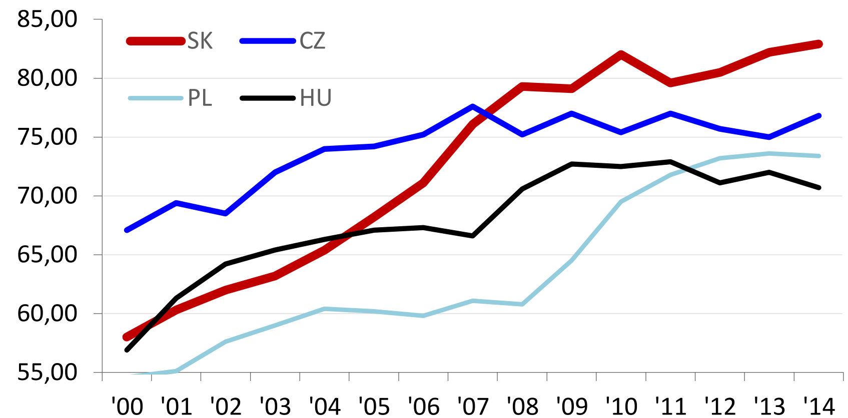
Source: Eurostat and EC Autumn forecast (2015)

Slovakia's Fundamentals Compare Well vs. its Peer Group Inside and Outside of the Eurozone (2/2)

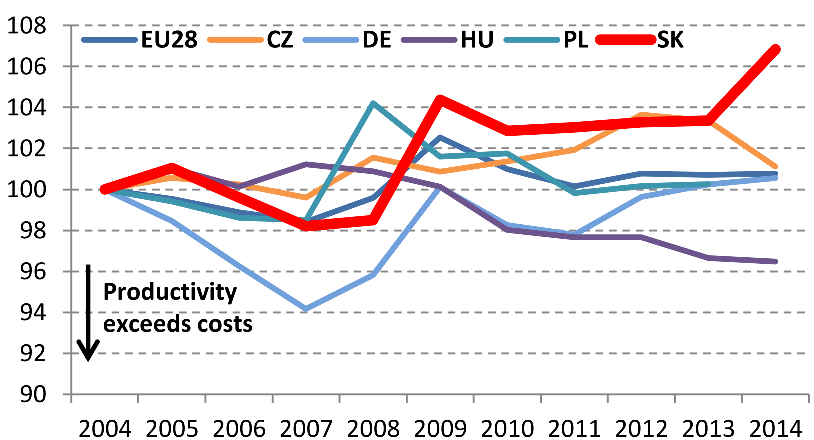
Average real GDP growth p.a. in CE4 countries (2005-2014, %)



Labor productivity in CE4 countries (EU28=100, in PPS)

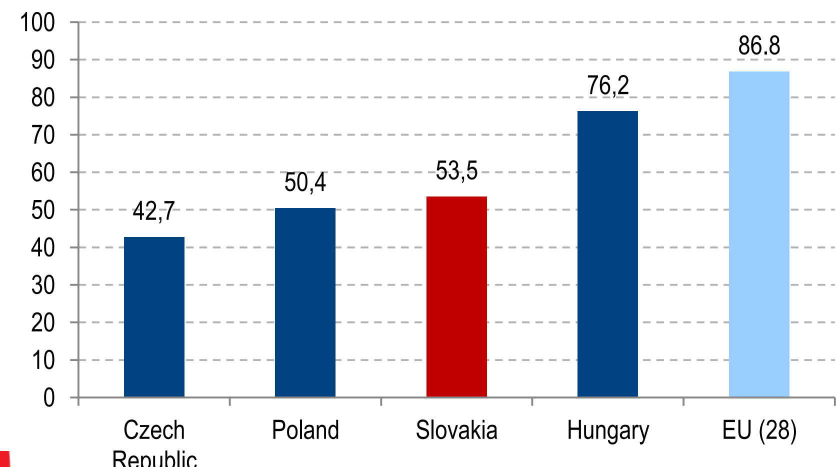


Nominal ULC index (wage bill/nominal GDP, last 10 years, 2004=100)



Source: Eurostat, April 2014

General government debt in CE4 and EU28 (end of 2014, as % of GDP)



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