ARDAL

Slovak Republic

Investor Presentation

January 2014

Table of Contents

1. Country Overview

Slovak Republic at a Glance

Territory:	49,036 km²
Population:	5.4 million
GDP per capita:	Approx. €13,200 in 2012 [1]
Credit ratings:	A2 (stable outlook) / A (stable outlook) / A+ (stable outlook)
Capital:	Bratislava

1989	End of the Communist regime
1992	WTO membership
1993	Slovak Republic founded
2000	OECD membership
2003	EU accession referendum
2004	NATO and EU membership
2005	ERM-2 entry
2007	Schengen area membership
2009	Euro adoption
2011	Continued economic and fiscal reforms
2012	Participation in ESM
2013	Fiscal consolidation

1) Source: Eurostat

Recent Political Developments

Social-democratic government has a strong mandate to maintain orthodox policies

- Over 55% of parliamentary seats allowed SMER to form a one-party government
- A simple but not a constitutional majority in parliament (8 votes short)

Strong support for EU fiscal rules (Fiscal Compact) and national rules (debt brake)

- The government is determined to achieve gradual improvements in its fiscal accounts and debt levels in line with the strictest requirements of the European Union
- Repeated public commitment and broad political consensus to cut the deficit to below 3.0% of GDP in 2013. Preliminary cash budget deficit for year 2013 is EUR 2,023 million.
- The National Council approved in 2011 a constitutional “debt brake”, which sets sanctions based on the level of gross debt
- Deficit targets for 2014 to 2016 reflect EU rules and national rules (upper debt limit of 57% of GDP)

Key Investment Highlights (1/2)

Solid Domestic Environment | Strong Fiscal Discipline | Sound Debt Management

I. Solid Domestic Environment

- Highest real GDP growth in the EU for the last 10 years (2003-2012), averaging 4.5%[1]
- Private (73.2%) and public (52.1%) debt levels are low in comparison to the EU average (year 2012)
- Almost no exposure of corporate and private sector to FX loans
- Highly integrated economy with low cost, skilled labour in manufacturing
- A competitive export sector with high-value niches in key industrial sectors (see details on slide 14)
- Current account balance of payment in 2012 became positive despite global crisis (GDP 2.2 % in 2012)
- Sound and highly liquid banking sector without government assistance
  - banking sector assets to GDP 81.9 % in 2012, well below EU average
  - banking sector loans to deposits currently at 89 %

1) Source: Eurostat, National Bank of Slovakia

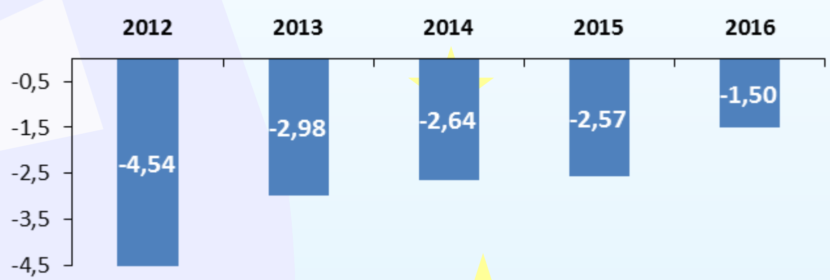
Key Investment Highlights (2/2)

Solid Domestic Environment | Strong Fiscal Discipline | Sound Debt Management

II. Strong Fiscal Discipline and commitment to meet its Medium Term Objective

- Significant fiscal tightening based on strong consolidation effort in 2013
- Fiscal deficit in 2012 at 4.5% of GDP, and strong commitment to reduce deficit further

Deficit targets (% of GDP)



- Meeting the medium-term objective (structural deficit of 0.5% of GDP) in 2018

III. Sound Debt Management

- Public debt well below the average of EMU countries (an estimated 52.1 % of GDP vs. 90.6 %[1] of GDP average in EMU in 2012)

Slovakia participates in Eurozone's European Stability Mechanism and remains amongst the highest rated countries in the CEE region

1) Source: EC Winter Forecast

A Strong, Credible and Balanced Fiscal Effort

Three-pillar strategy to secure fiscal and macroeconomic stability

Budgetary Measures

- Cumulative fiscal tightening worth 4.2% of GDP over 2011-2013
- Commitment to 3% deficit in 2013 achieved
- Higher dividends from State Enterprises
- Lowering corporate tax by 1 p.p. and introducing tax licences
- Savings by central government – ESO reform – decreasing of regional offices
- Prolonged levy on regulated businesses

Structural Decisions

- A fiscal responsibility law with a "debt brake"
- Independent fiscal council
- Pension system reform undertaken in 2012 improved long-term sustainability: linking the retirement age to life expectancy, less generous indexation of pensions, contributions partially shifted from second to first pillar

Liability Management

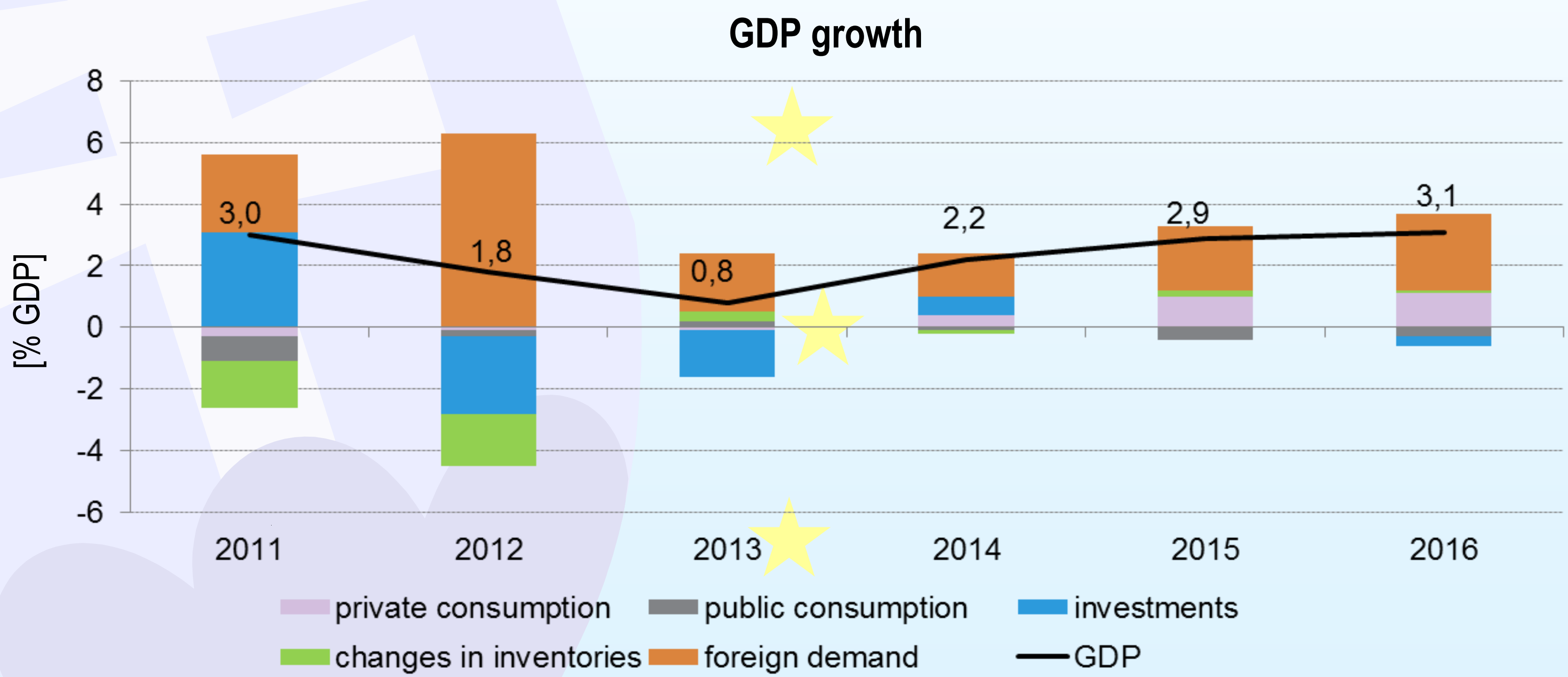
- Conservative multi-annual debt management strategy
- Public debt below half EMU average and low private debt
- Moderate bank contingency

- Measures to achieve a public deficit below 3% of GDP in 2013
- Low public debt of 52.1% of GDP in 2012 and low private debt 73.2% of GDP in 2012
- Low risk of debt surprises, with banks well capitalised and foreign-owned
- Strict constitutional fiscal rules (debt brake)

2. Strong Economic Performance

The Path to a Gradual Recovery

- Improved growth outlook due to better Q2 (2013) domestic and external performance, as well as higher expectations of external growth
- The unemployment rate is expected to peak in 2013, rising GDP will slowly bring it down in near future
- Given the structural reforms completed and the competitiveness of Slovakia's exports, the average annual GDP growth in the country is expected to be around 2.3% over 2013-16
- GDP per capita continues to rise and was 75% of EU-27 average in 2012, up from 50% in 2000

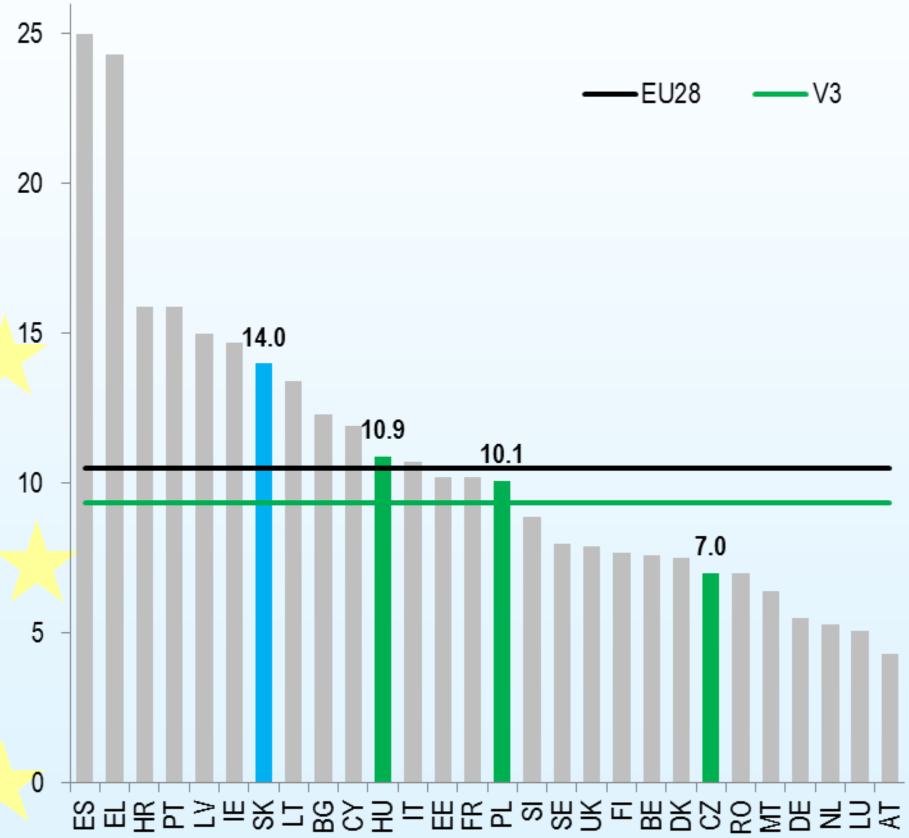


Source: Eurostat; Ministry of Finance, December 2013

Tackling Long-Term Unemployment

- Overall unemployment estimated at 14.5% in 2013 according to the Slovak Ministry of Finance forecast. With renewed growth in 2014 (2,2% estimate) and positive effect of the Government's measures to tackle unemployment, the unemployment rate is expected to decrease the course of next few years
- Targeted exemption from social security contributions up to 67% of average wage (€539 in 2014) for the long-term unemployed
- To tackle unemployment, the Government also plans to boost workforce mobility by: improving existing infrastructures, finalizing a West-East highway in order to boost employment in the Eastern regions of Slovakia, and thus attract more FDI to the country as a whole

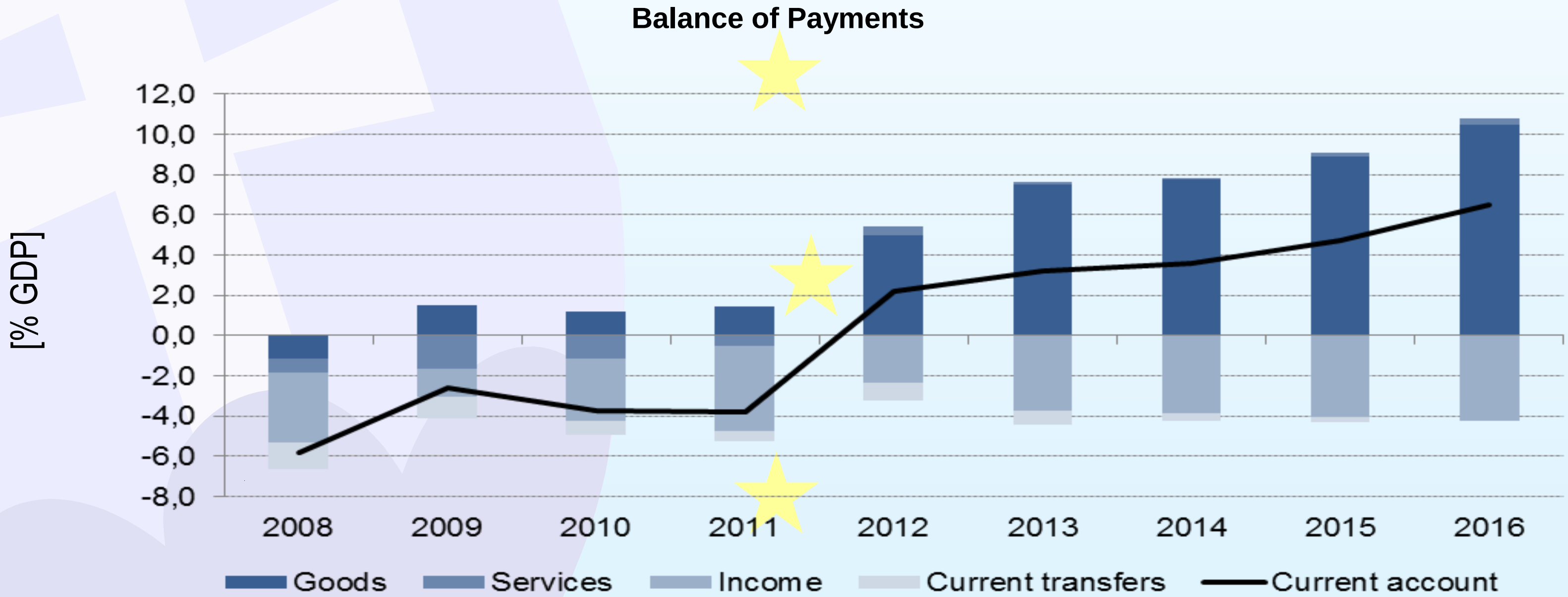
Unemployment rate (%, 2012)



Source: Eurostat, October 2013

Improving Balance of Payments

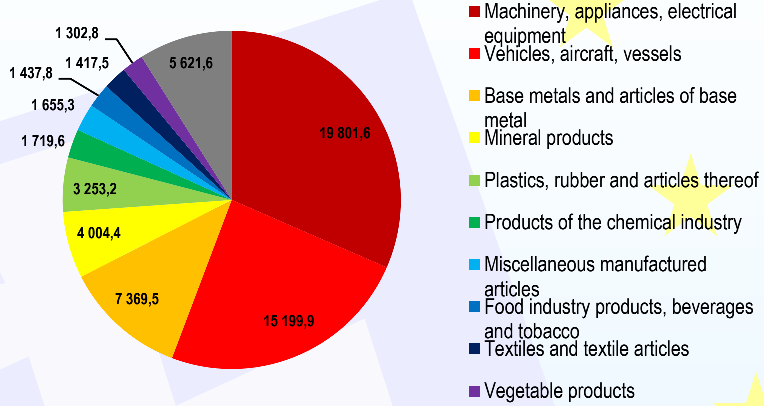
- The current account of the balance of payments has significantly improved in recent years and reached positive levels for the first time in 2012 at 2.2% of GDP
- Surplus of the current account is due mainly to the improved trade balance – strong export performance coupled with weak domestic demand
- 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 remain positive even with the eventual recovery of the domestic demand



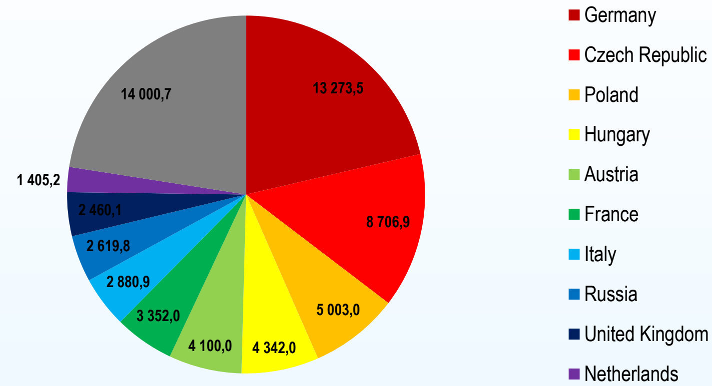
Source: Eurostat; Ministry of Finance, December 2013

Breakdown of Foreign Trade in 2012

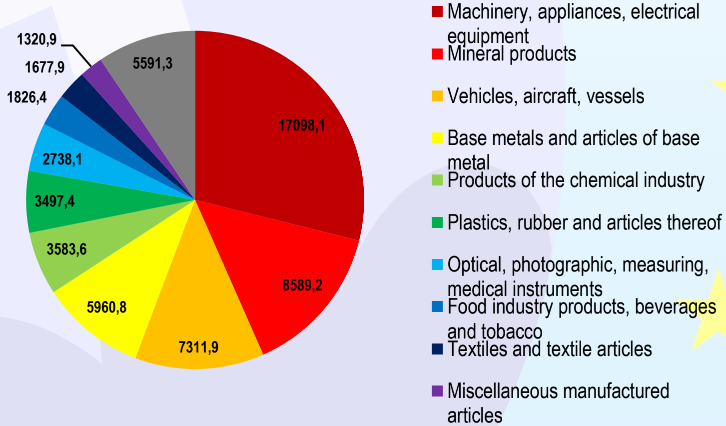
Export by product (mil. eur)



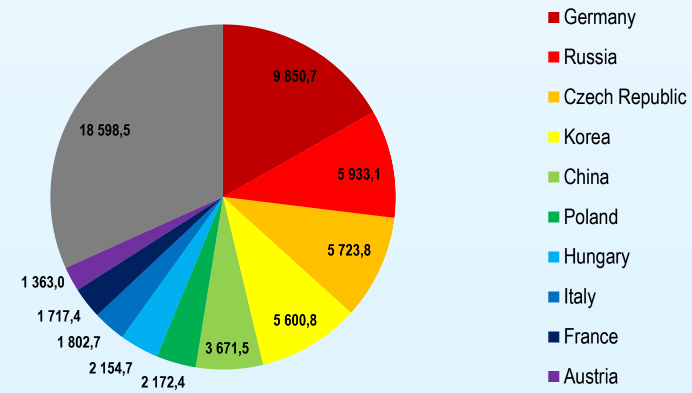
Export by country (mil. eur)



Import by product (mil. eur)



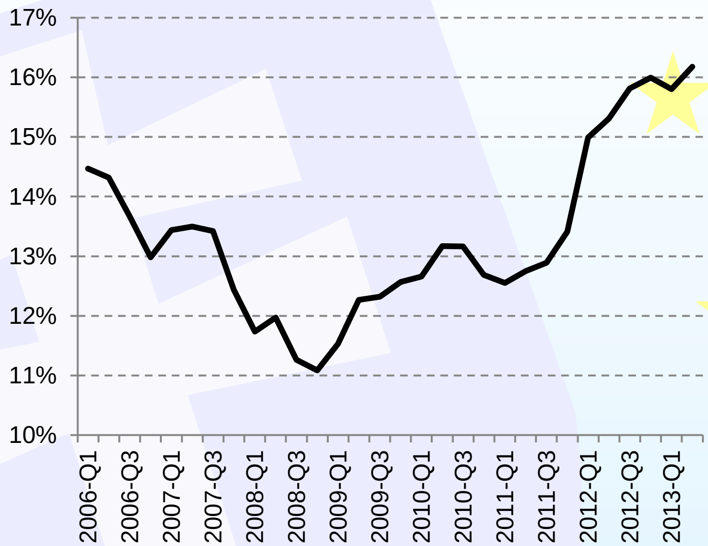
Import by country (mil. eur)



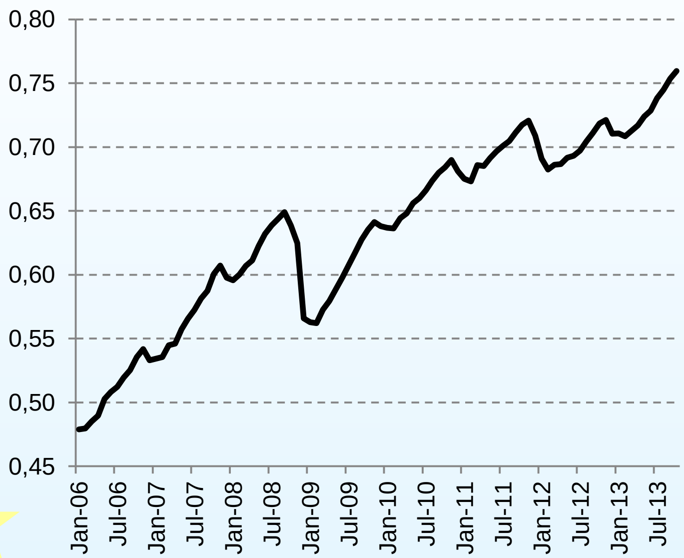
Source: Ministry of Finance

Sound Banking Sector

Capital adequacy ratio of the Slovak banking sector



Households loan-to-deposit ratio



- Solid banking financing and low households indebtedness
  - Current banking sector capital adequacy ranging from 12 % to 20 % with average at 16 %
  - Relatively low households loan-to-deposit ratio

1) Source: National Bank of Slovakia

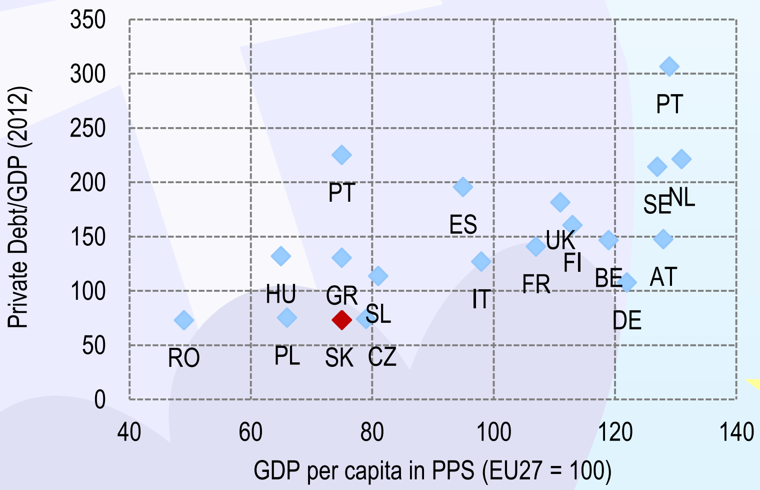
3. Public Debt

Low Public and Private Debt

Low indebtedness level

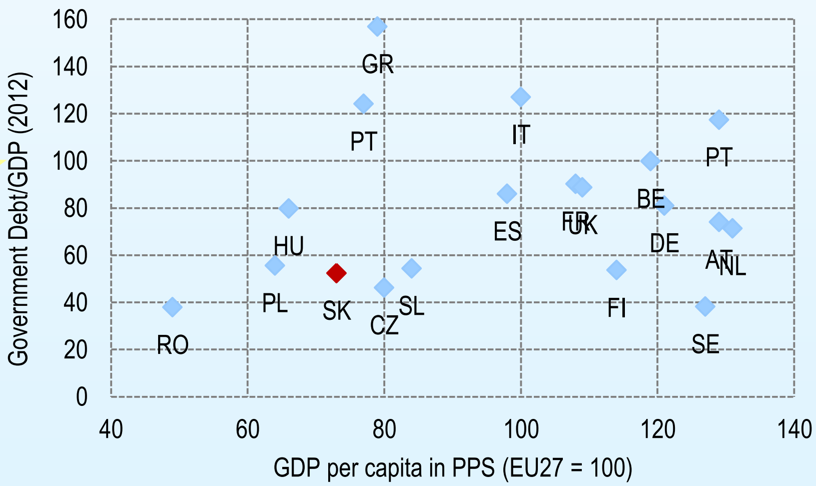
- Slovakia's public and private debt to GDP ratios are both considerably below the EU average
- Private debt ratio amongst the lowest in the EU
- As a Eurozone country, Slovakia participates in the European Stability Mechanism, which serves as a backstop should a participating country have problems with financing

Private Debt Ratio (% of GDP)



Source: Eurostat, October 2013

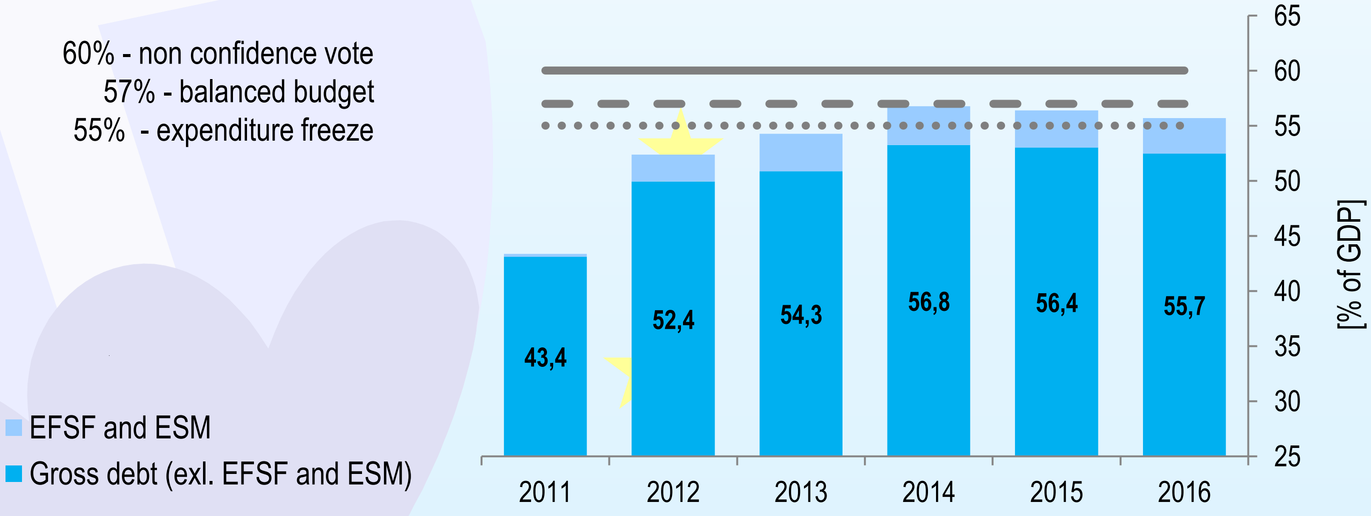
Government Debt Ratio (% of GDP)



Source: Eurostat, October 2013

General Government Debt Forecast and Debt Brake

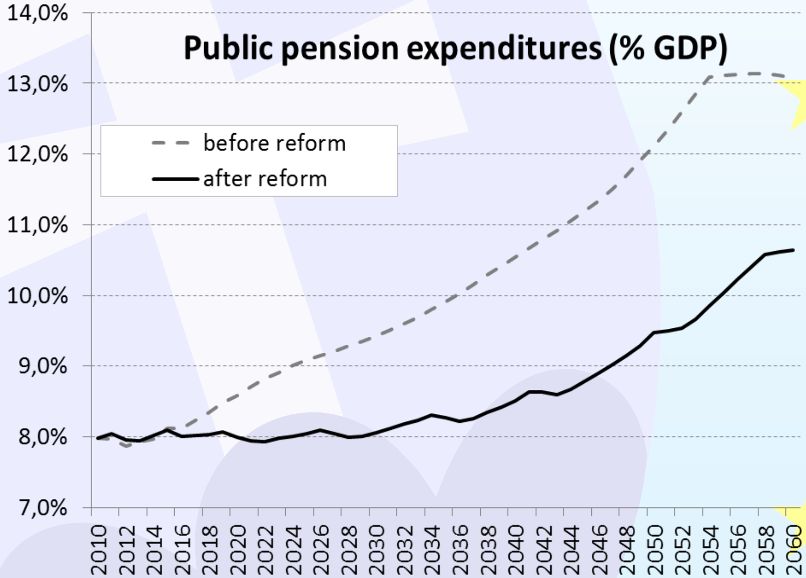
- Thresholds set by the constitutional act on fiscal responsibility:
  - 50% of GDP – an explanatory letter from the Minister of Finance to the Parliament
  - 53% of GDP – proposal of measures by the Government to cut the debt
  - **55% of GDP – expenditure freeze**
  - **57% of GDP – balanced general government budget requirement**
  - **60% of GDP – upper limit, vote of confidence in the Parliament has to take place**
- Starting from 2018, the thresholds will gradually decrease by 1 p.p., in 2027 the upper debt limit will be 50% of GDP
- Gross debt remains under 57% of GDP and is projected to decline after 2015

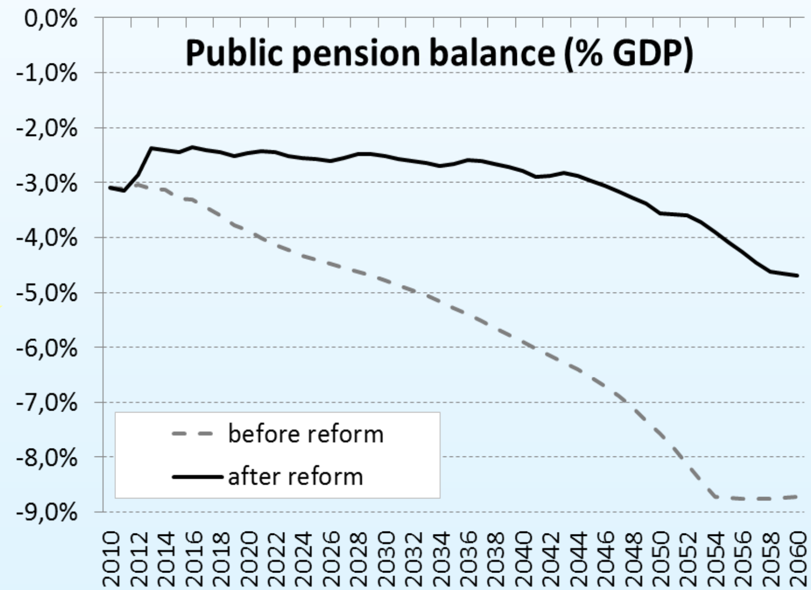


Source: Ministry of Finance, Draft Budgetary Plan October 2013

Pension Reform Reduced Long-Term Sustainability Risks

- 2012 reform: parametric changes to pay as you go first pillar and reduced fully funded second pillar
- Changes to the pension system decrease the pension expenditures by 2.6 p.p. and improve the balance of the system by 4 p.p. of GDP in 2060
- COM revised the assessment of Slovak long-term public finances sustainability from high risk to medium risk

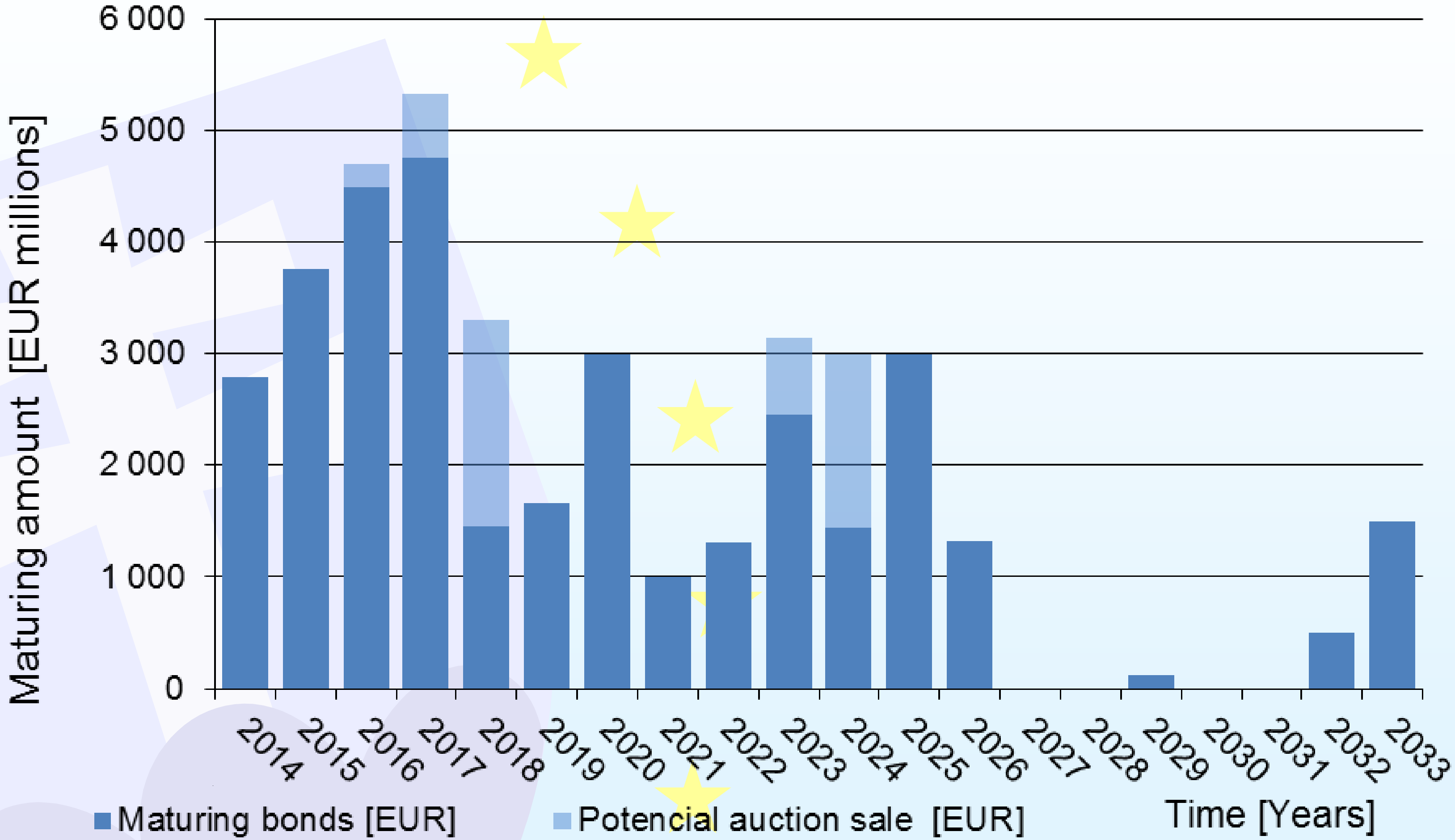




Source: Ministry of Finance

4. Debt Management and Funding

Central Government Bond Redemptions

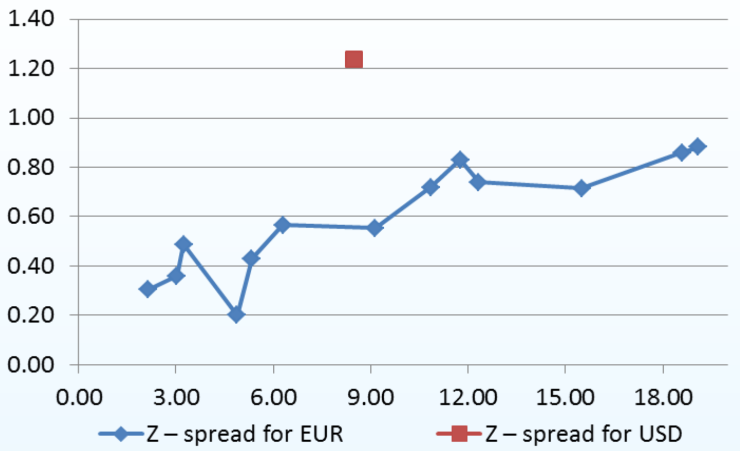


Source: ARDAL, December 2013

Government Debt Characteristics

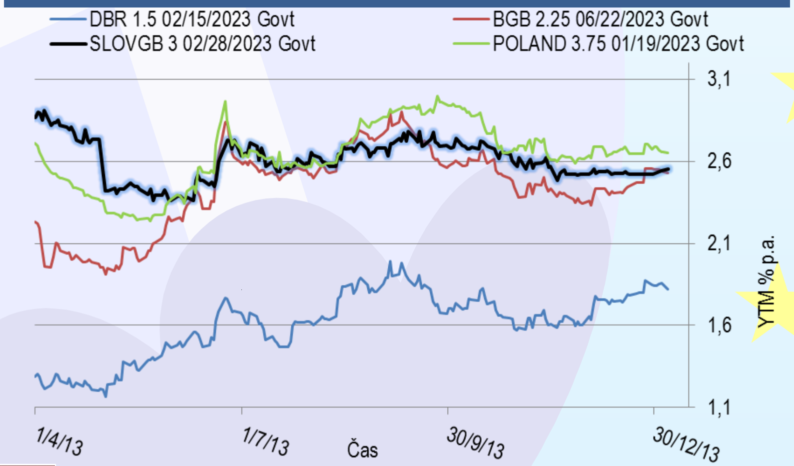
- No impact of currency fluctuations, as major part of outstanding public debt is euro-denominated. Small part of debt issued in USD, CZK, CHF and JPY in years 2012 and 2013 is fully hedged
- Fixed coupon bonds share is 89 % of portfolio
- Non-resident share above 53 % as of end of September 2013 (Bonds, T-Bills and Loans)
- Volatility smaller but comparable to peer group

Z – spread of Slovak bonds (in % p. a.)



Source: Reuters, January 7th, 2013

Bond Yield Development of Selected Eurobonds (in % p.a.)



Bond Yield Development of Selected USD bonds (in % p.a.)

Source: Bloomberg, January 2014

Debt Financing in 2012

- The main tasks for debt management in 2012 was **to broaden the base of investors**:
  - Marketing efforts to regional and institutional investors
  - Successful debut issues in CZK and CHF completed in Q1 and debut benchmark issue in USD launched in Q2 as a follow up of marketing effort overseas
  - Originally planned gross issuance of EUR 7.6 billion was achieved already during the first half of year 2012
  - With EUR 10.5 billion gross issuance not only backlog from 2011 was covered (EUR 2.2 billion) but also substantial cash reserve was created for 2013 (pre-financing)
  - Debt issued in 2012 was issued in line with the needs of the debt portfolio and contributed to extension of average tenor and average duration
  - Achieved average yield of debt portfolio was smaller then expected for 2012 and means historically lowest relative cost per issued debt unit weighted by tenor

Source: ARDAL

Debt Financing in 2013

- The **main tasks** for debt management in year 2013 were:
  - formal establishing of **Primary Dealership**
  - further **broadening** of **investors** base
- Total financing needs for 2013 were expected to be smaller than budgeted EUR 8.3 billion partially as a result of pre-financing in 2012 and smaller than expected amount of T-Bills issued in 2012 and maturing in 2013
- New bond line opened in 2013
  - with tenor 20Y
  - new benchmark bond with tenor 10Y
  - new two tranches of JPY bond
  - new benchmark bond with tenor 5,5 Y
  - and two tranches (6.5Y and 10.5Y) of new CHF bond
- As of end of December EUR 7.65 billion i.e. almost 100 % issuance for 2013 already done
- Despite historically lowest average yield (weighted by tenor) achieved by issuance - Slovakia offers nice pick-up against the „core“ Eurozone countries

Source: ARDAL

Debt Financing in 2014

- The **main tasks** for debt management in year 2014:
  - establishing of **secondary market e-platform** for PDs quoting Slovak government benchmark bonds with aim to achieve better liquidity of SlovGBs on secondary market
  - further **broadening** of **investors** portfolio
- Total financing needs for 2014 is budgeted to EUR 7.4 billion from which redemption of government bonds and T-Bills is EUR 3.76 billion (already lowered via buy back trades under EUR 3 billion that will be replaced with need to prefinance the beginning of year 2015) and planned cash budget deficit is EUR 3.33 billion
- Depending on market conditions we expect that almost half of financial needs can be covered by auctions and the rest by syndication
- Depending on the investors requirements possible new lines of bond that can be open in year 2014 (benchmark lines opened via syndication):

  new benchmark bond line with tenor 15 years

  new benchmark bond line with tenor 5 years

  potentially benchmark bond with tenor 7 years

Source: ARDAL

5. Credit Positioning of Slovakia and Peers Comparison

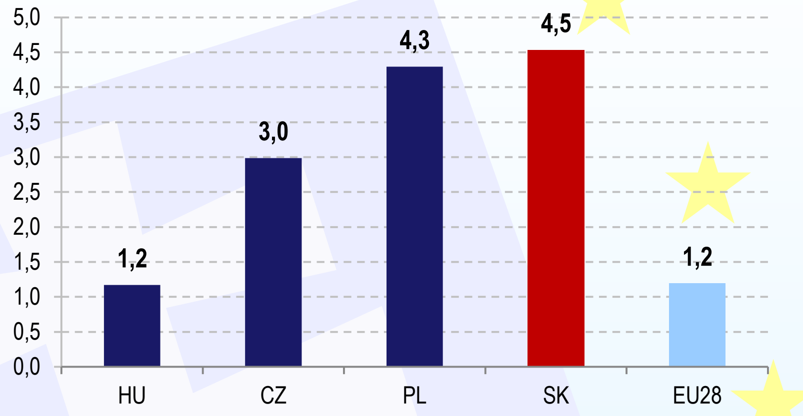
Slovakia's Fundamentals Compare Well vs. its Peer Group Inside and Outside of the Eurozone (1/2)

	Slovakia [3]	Czech Republic	Poland	Slovenia	Belgium	Germany	Eurozone Average
Credit Ratings and outlook	A2/A/A+ (st/st/st)	A1/AA-/A+ (st/st/st)	A2/A-/A- (st/st/st)	Ba1/A-/BBB+ (neg/st/neg)	Aa3/AA/AA (neg/neg/st)	Aaa/AAA/AAA (neg/st/st)	
Debt/GDP[1] ('12 / '13F / '14F)	52,4 / 54,8 / 56,8	46,2 / 49,0 / 50,6	55,6 / 58,2 / 51,0	54,4 / 63,2 / 70,1	99,8 / 100,4 / 101,3	81,0 / 79,6 / 77,1	90,6 / 95,5 / 95,9
Deficit/GDP[1] ('12 / '13F / '14F)	(4,5) / (3,0) / (2,8)	(4,4) / (2,9) / (3,0)	(3,9) / (4,8) / 4,6	(3,8) / (5,8) / (7,1)	(4,0) / (2,8) / (2,6)	0,2 / 0,0 / 0,1	(3,7) / (3,1) / (2,5)
GDP growth [2] ('12 / '13F / '14F)	1,8 / 0,8 / 2,2	(1,0) / 1,8 / 2,2	1,9 / 1,3 / 2,5	(2,5) / (2,7) / (1,0)	(0,1) / 0,1 / 1,1	0,7 / 0,5 / 1,7	(0,7) / (0,4) / 1,1
CA/GDP [1] ('12 / '13F / '14F)	2,2 / 3,2 / 3,5	(2,6) / (1,6) / (1,1)	(3,3) / (1,5) / (1,3)	3,1 / 5,0 / 6,0	(0,2) / 0,9 / 0,9	7,0 / 7,0 / 6,6	1,8 / 2,7 / 2,9

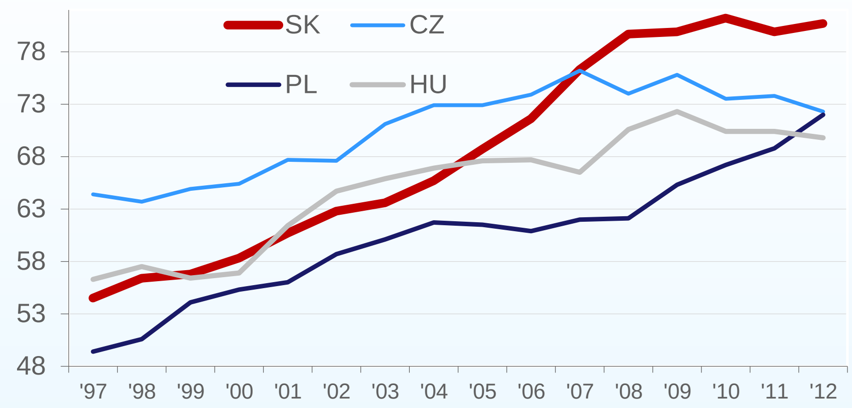
1) Source: Eurostat, Autumn Forecast 2013
2) Source: Eurostat, 5 November 2013
3) Source: Ministry of Finance, December 2013

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

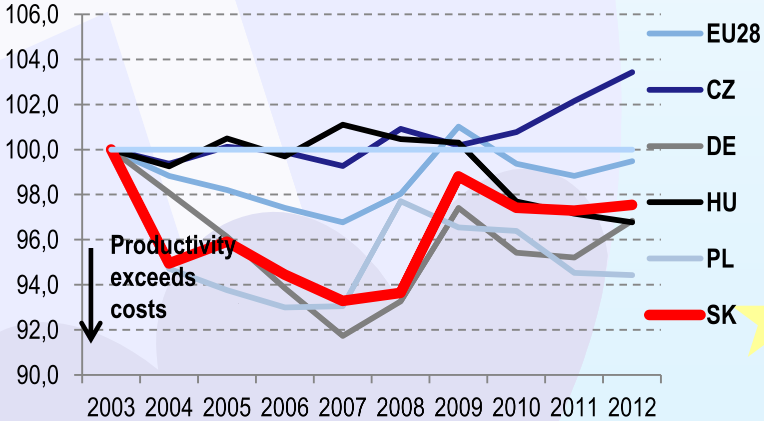
Average real GDP growth p.a. in CE4 countries (2003-2012, %)



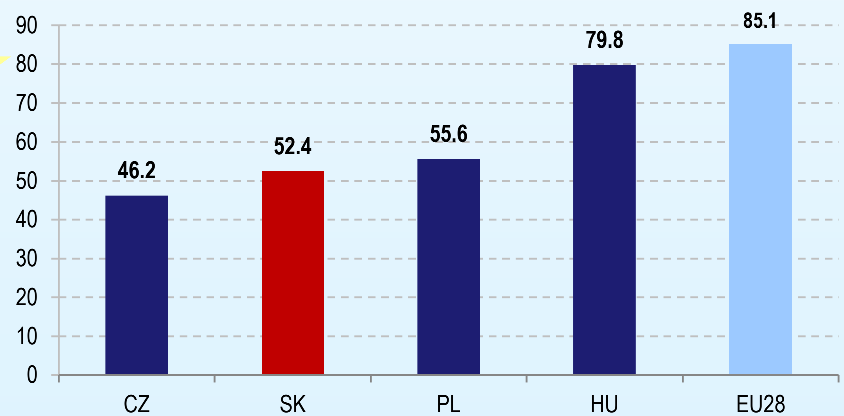
Labour productivity in CE4 countries (EU27=100, in PPS)



Nominal ULC index (wage bill/nominal GDP, last 10 years, 2003=100)



General government debt in CE4 and EU28 (end of 2012, as % of GDP)



Source: Eurostat

Macroeconomic Forecast – September 2013

	2012	2013F	2014F	2015F	2016F
Real GDP Growth [%]	***2.0***	*0.8*	*2.2*	*2.9*	*3.1*
Private Consumption (growth) [%]	***(0.6)***	*0.5*	*0.8*	*2.1*	*2.2*
Investments (growth) [%]	***(3.7)***	*(5.8)*	*2.9*	*(0.1)*	*(1.5)*
Export (growth) [%]	***8.6***	*4.8*	*4.3*	*4.5*	*5.1*
Import (growth) [%]	***2.8***	*1.7*	*3.3*	*2.9*	*3.3*
Employment Growth (ESA 95) [%]	***0.1***	*(1.0)*	*0.2*	*0.6*	*0.7*
Unemployment Rate (LFS) [%]	***14.0***	*14.5*	*14.3*	*13.6*	*12.7*
Current Account Balance (% of GDP)	***2.2***	*3.2*	*3.5*	*4.6*	*6.3*
Inflation (HICP)	***3.7***	*1.7*	*1.7*	*2.1*	*2.3*
Net FDI (% of GDP)	***3.2***	*2.2*	*2.5*	*2.6*	*2.7*

Source: Eurostat; Ministry of Finance, September 2013

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