ARDAL

Slovak Republic

Investor Presentation

October 2014

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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 (positive outlook) / A+ (stable outlook)

Capital: Bratislava

1989	End of the Communist regime
1993	Slovak Republic founded
1995	WTO membership
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. Cash budget deficit for year 2013 was EUR 2,023 million, down from EUR 3,811 million in 2012.
- The National Council approved in 2011 a constitutional “debt brake”, which sets sanctions based on the level of gross debt to GDP
- Deficit targets for 2015 to 2017 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 (2004-2013), averaging 4.1%[1]
- Private (73.1% in 2012) and public (55.4%) debt levels are low in comparison to the EU average
- 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 2013 remained positive despite the weak external demand (GDP 2.1 % in 2013)
- Sound and highly liquid banking sector without government assistance
  - banking sector assets to GDP 84.5 % in 2013, well below EU average
  - banking sector loans to deposits currently at 95 %

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 2013 at 2.77% of GDP, down from 4.5% of GDP in 2012
- Budget target in 2014 at 2.64% of GDP and strong commitment to reduce deficit further
- In structural terms, the consolidation effort reached a historical 2.4% of GDP in 2013
- Meeting the medium-term objective (structural deficit of 0.5% of GDP) in 2017

III. Sound Debt Management

- Public debt well below the average of EMU countries (an 55.4 % of GDP vs. 95.0 %[1] of GDP average in EMU in 2013)

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

1) Source: EC Spring Forecast

A Strong, Credible and Balanced Fiscal Effort

Three-pillar strategy to secure fiscal and macroeconomic stability

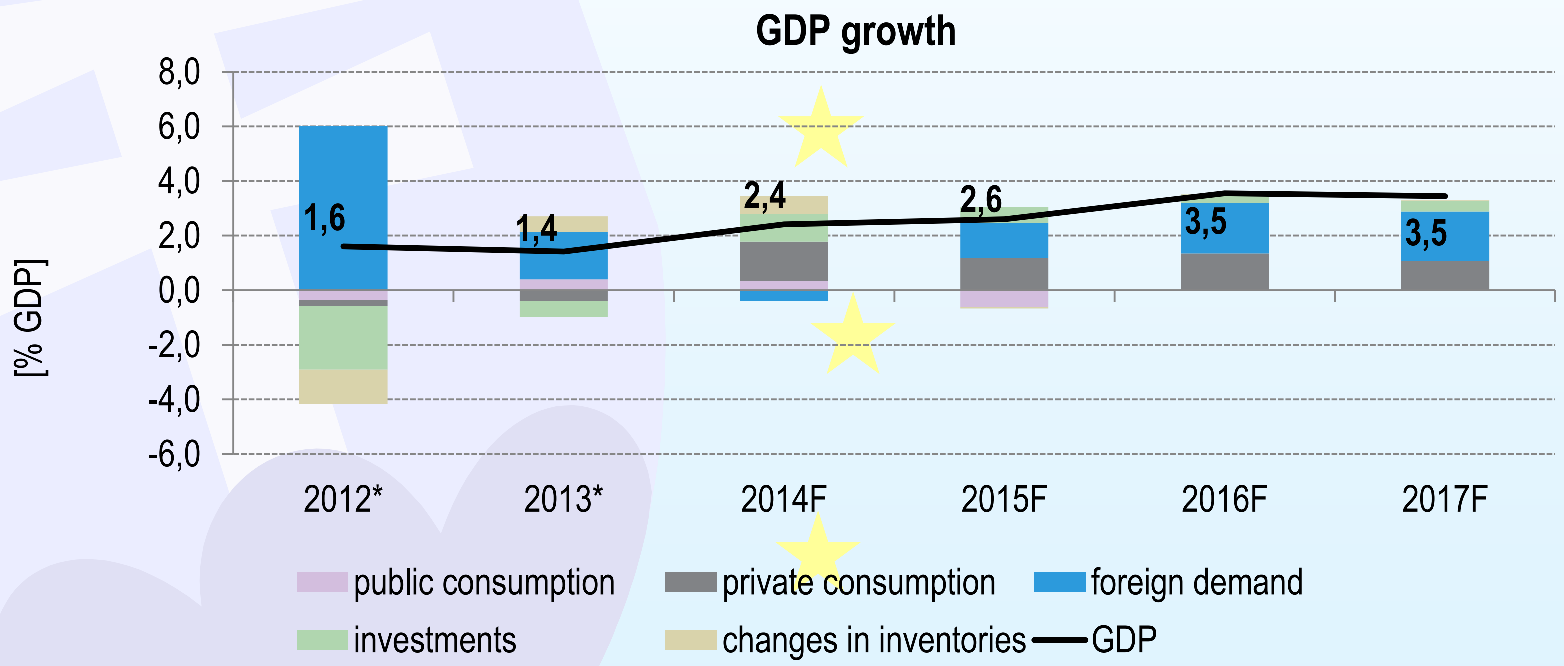
Budgetary Measures	Structural Decisions	Liability Management
• The annual average fiscal effort reached 1.8% of GDP over 2010-2013, well above the required 1% of GDP according to the EC • Commitment to reach 3% deficit in 2013 achieved • Lowering corporate tax by 1 p.p. and introducing tax licences in 2014 • Savings by central government – ESO reform – decreasing of regional offices • Prolonged levy on regulated businesses	• 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	• Conservative multi-annual debt management strategy • Public debt below half EMU average and low private debt • Moderate bank contingency

- Low public debt of 55.4% of GDP in 2013 and low private debt 73.1% 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

- Domestic demand is picking up, leading to a recovery on the labor market and falling unemployment
- Despite a slightly worse outlook for the external environment, exports will remain an important driver of growth
- Given the recovering domestic demand and the competitiveness of Slovakia's exports, the average annual GDP growth in the country is expected to be around 3% over 2014-17
- GDP per capita continues to rise and was 76% of EU-27 average in 2013, up from 50% in 2000



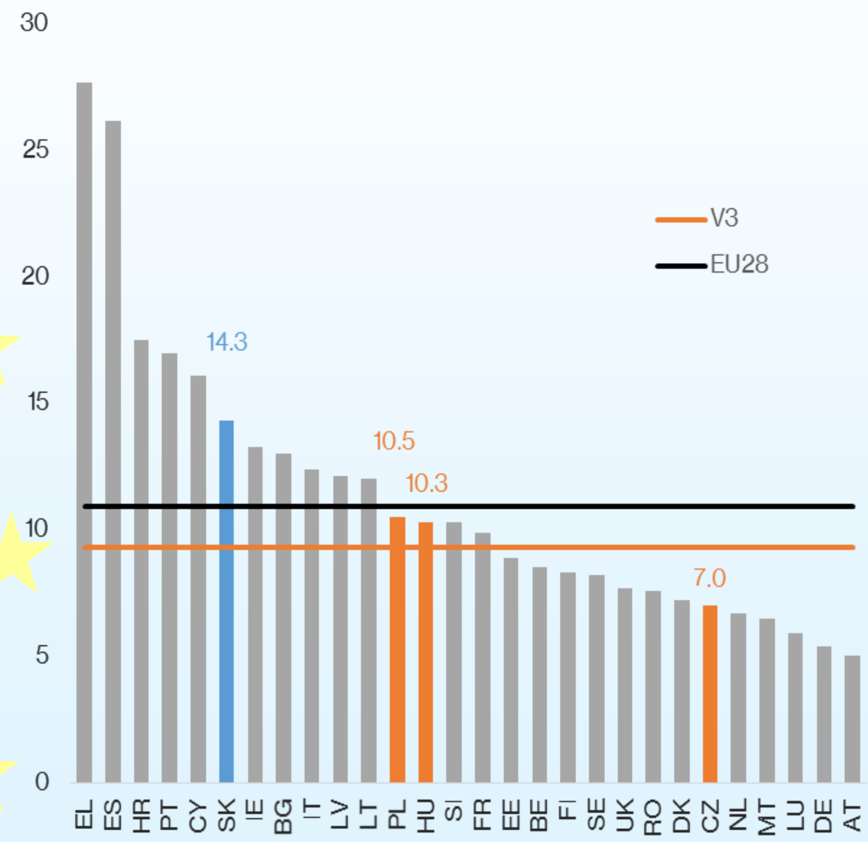
* According to ESA2010, preliminary data from the SU SR

Source: Eurostat; Ministry of Finance, October 2014

Tackling the Unemployment

- Overall unemployment estimated at 13.5% in 2014 according to the Slovak Ministry of Finance forecast.
- With modest recovery in 2014 (estimated growth 2.4%) and positive effect of the government's measures, the unemployment rate is expected to decrease over the course of next few years
- Targeted exemption from health and social security contributions for the long-term unemployed and for the youth will reduce the duration of unemployment and preserve job-seekers' skills
- Health contributions allowance for low income earners together with an increase in the minimum wage will increase workers' real income and thus labour supply

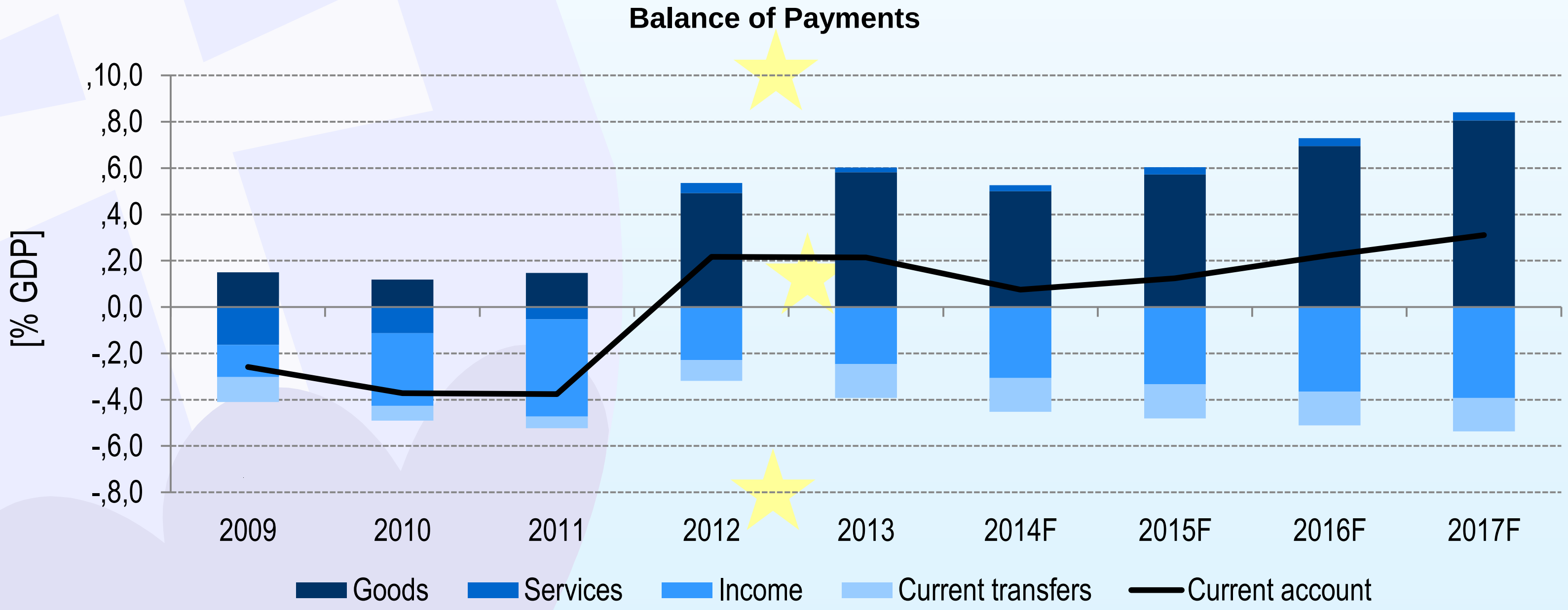
Unemployment rate (15-64 years, %, 2013)



Source: Eurostat, October 2014

Improving Balance of Payments

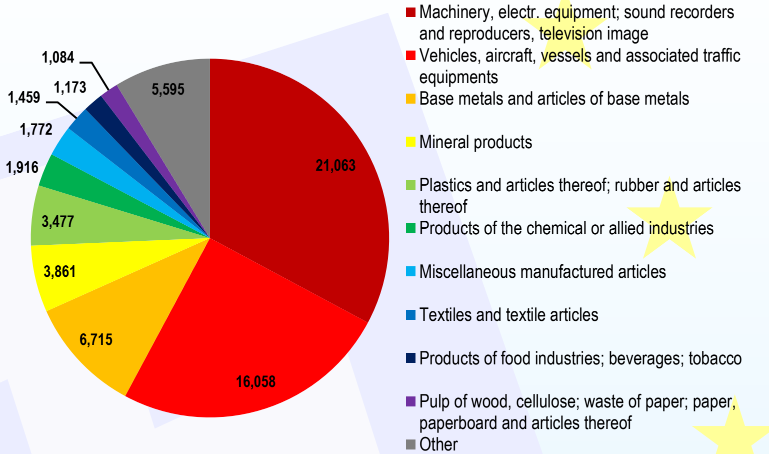
- The current account of the balance of payments has significantly improved in recent years and remained positive in 2013 despite the weaker performance of the external environment at 2.1% of GDP
- Surplus of the current account is due mainly to the improved trade balance – strong export performance 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 expected recovery of the domestic demand



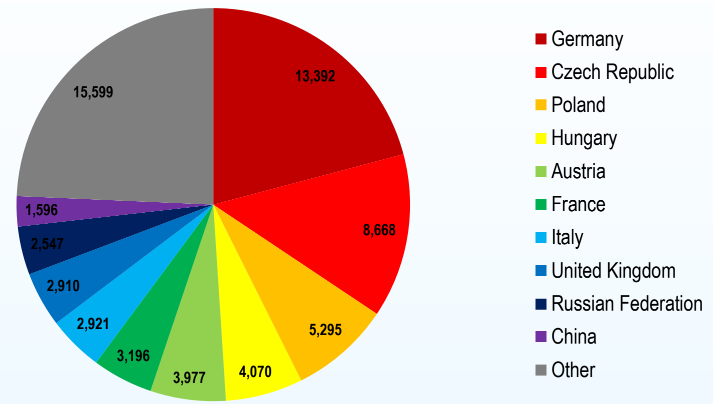
Source: Eurostat; Ministry of Finance, December 2013

Breakdown of Foreign Trade in 2013

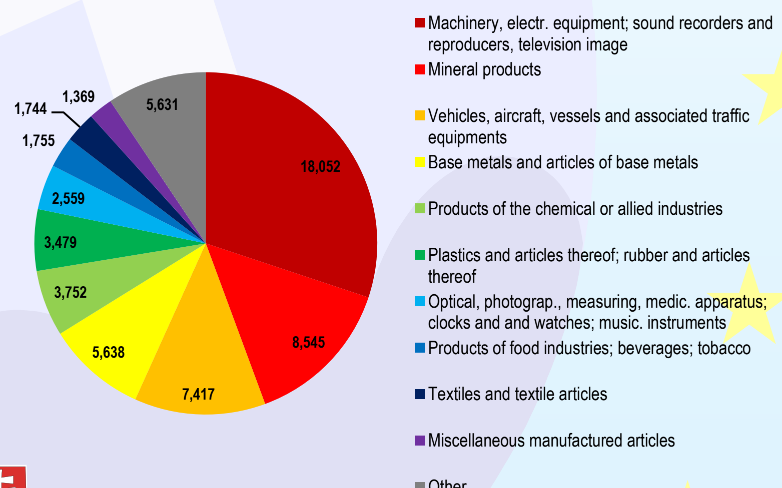
Export by product (mil. eur)



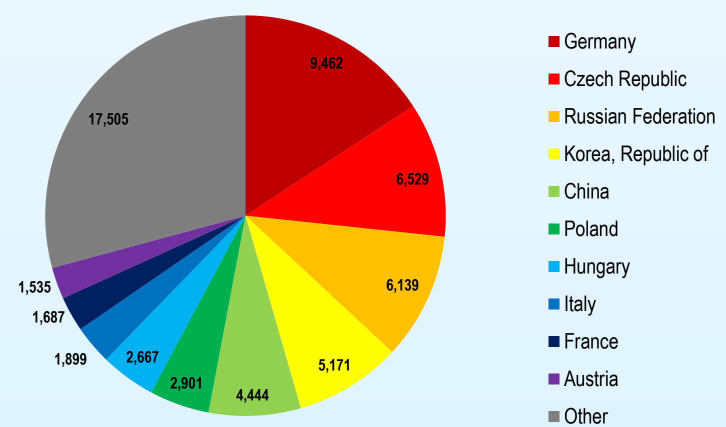
Export by country (mil. eur)



Import by product (mil. eur)



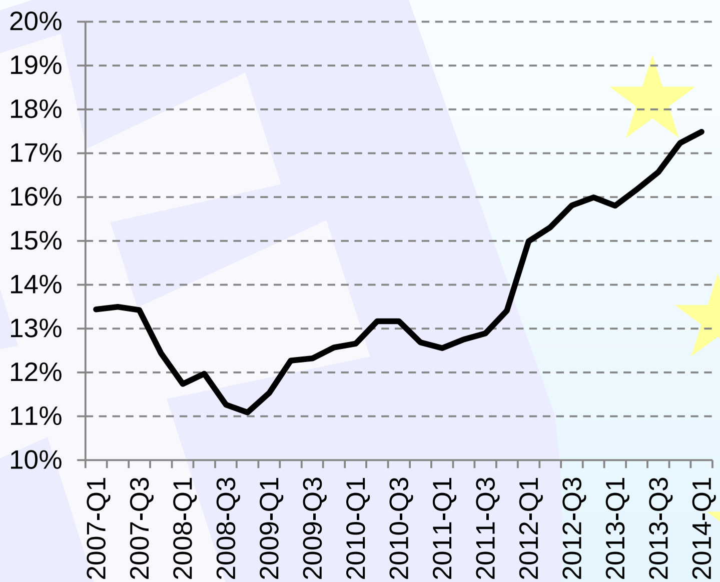
Import by country (mil. eur)



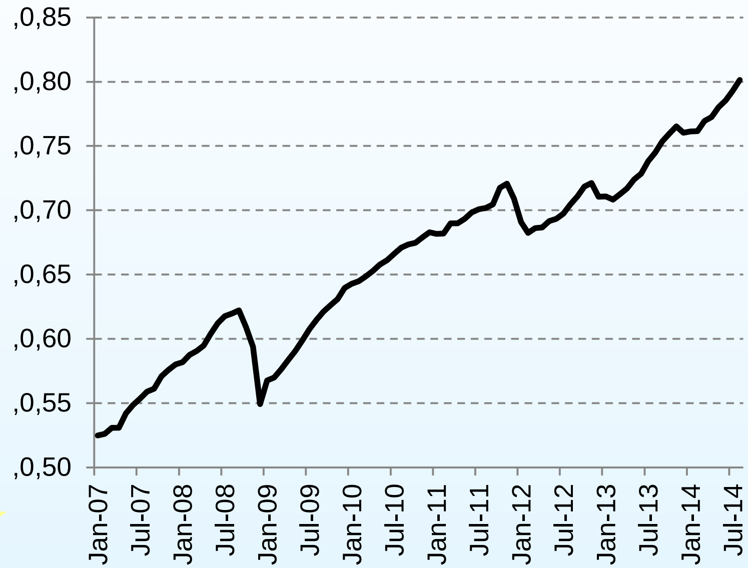
Source: Ministry of Finance

Sound Banking Sector

Capital adequacy ratio of the Slovak banking sector



Households loan-to-deposit ratio



- Solid banking financing and low households indebtedness
  - High average capital adequacy ratio
  - Low households loan-to-deposit ratio

1) Source: National Bank of Slovakia

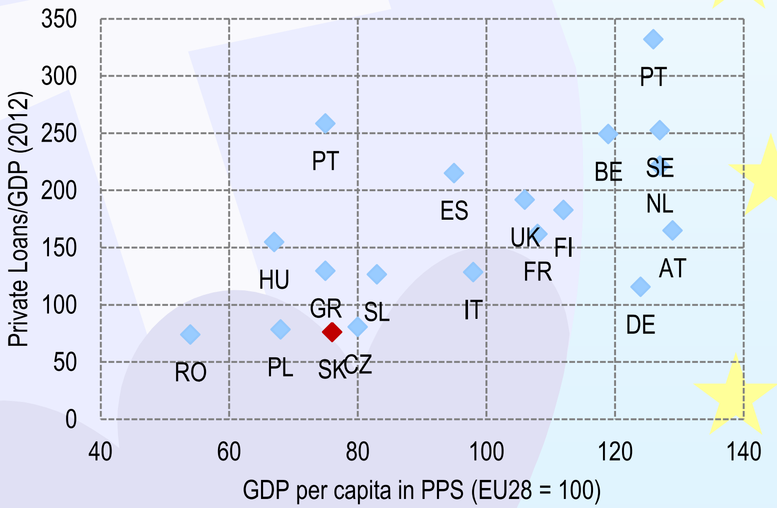
3. Public Debt

Low Public and Private Debt

Low indebtedness level

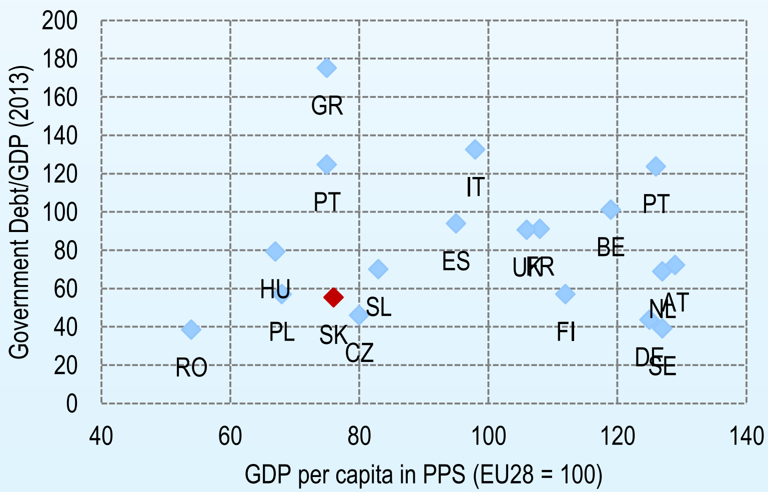
- Slovakia's public and private debt to GDP ratios are both considerably below the EU average
- Private debt ratio amongst the lowest in the EU
- As a Eurozone country, Slovakia participates in the European Stability Mechanism, which serves as a backstop should a participating country have problems with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

Private Debt Ratio (% of GDP)



Source: Eurostat, October 2014

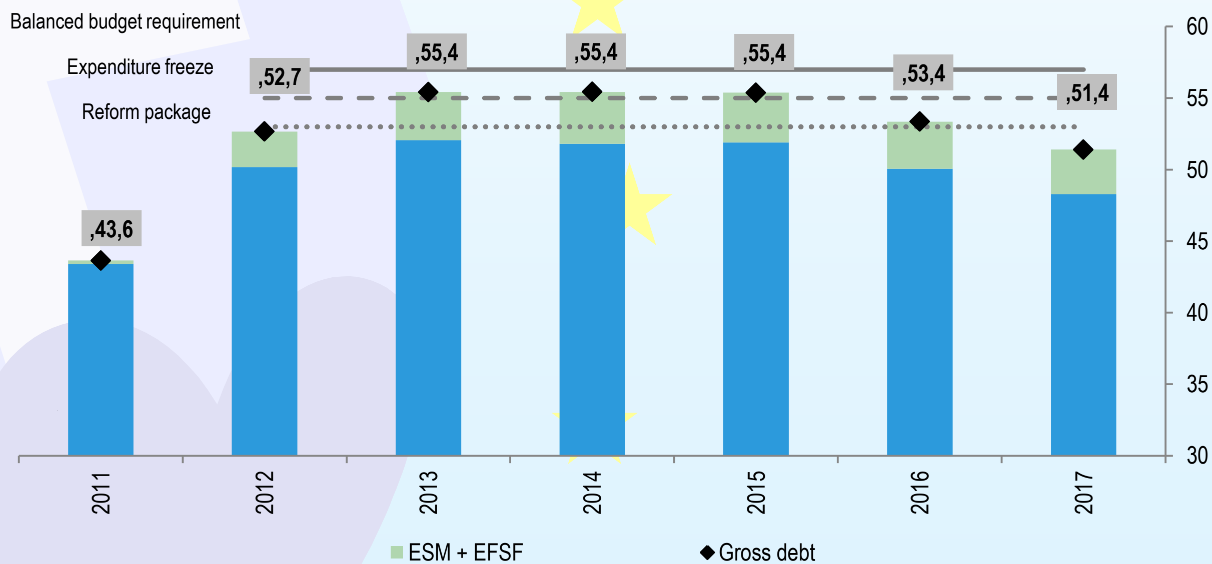
Government Debt Ratio (% of GDP)



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**
- The data for a ESA2010 projection are not finalized because of Eurostat's pending decisions
- Gross debt remains under 57% of GDP and is projected to decline after 2015

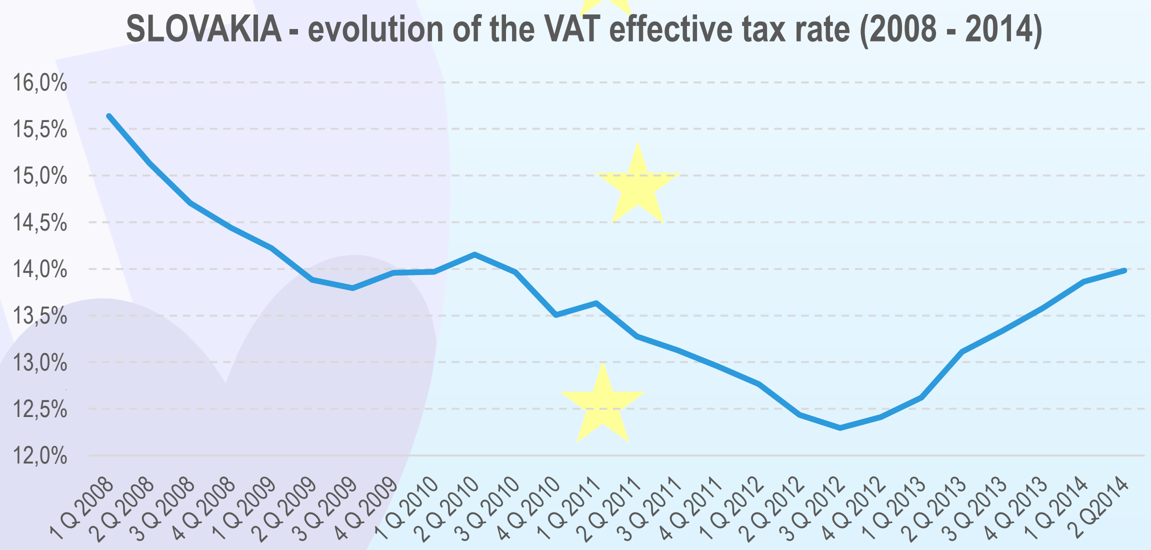


Source: Ministry of Finance, Draft Budgetary Framework August 2014

Legislative measures initiated in 2012 increased VAT collection efficiency

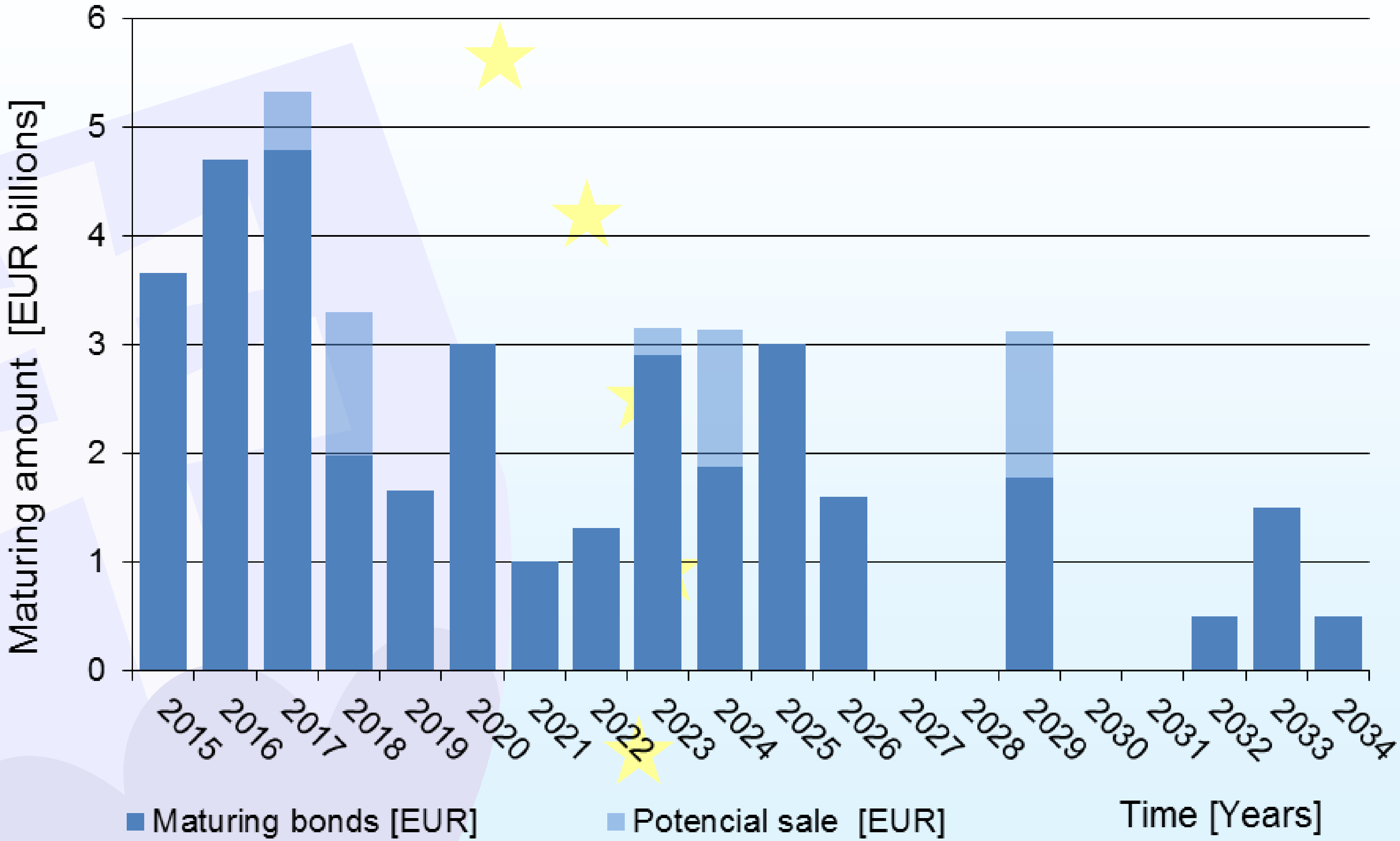
Action Plan to Fight Against Tax Fraud brought significant additional tax revenues

- The effective tax rate (ETR), indicator of VAT collection efficiency, has been decreasing since joining the EU in 2004. Concentrated effort against tax evasion initiated in 2012 reversed the trend.
- Since the fourth quarter 2012 the ETR has grown for seven consecutive quarters. The increase of VAT collection efficiency brought additional tax revenues in amount of EUR 241 million (0.3% of GDP) in 2013 and EUR 514 million (0.7% of GDP) in 2014 as compared to 2012



4. Debt Management and Funding

Central Government Bond Redemptions

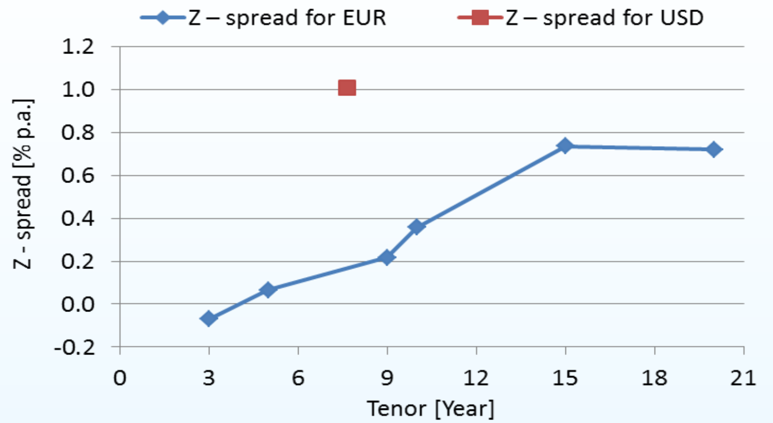


Source: ARDAL, September 2014

Government Debt Characteristics

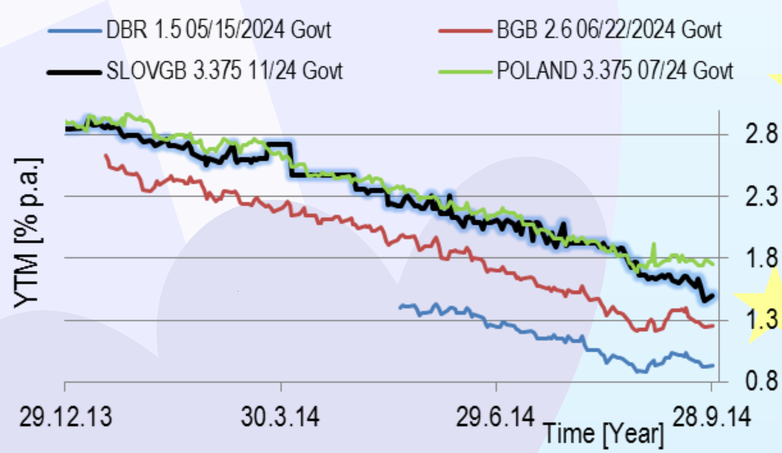
- Major part of outstanding public debt is euro-denominated. Part of debt issued in USD, CZK, CHF and JPY is fully hedged
- Fixed coupon bonds share is 91 % of portfolio
- Non-resident share approx. 60 % as of end of September 2014 (Bonds, T-Bills and Loans)
- Average weighted maturity 6.8 years
- Average weighted duration 6.0 years

Z – spread of Slovak bonds

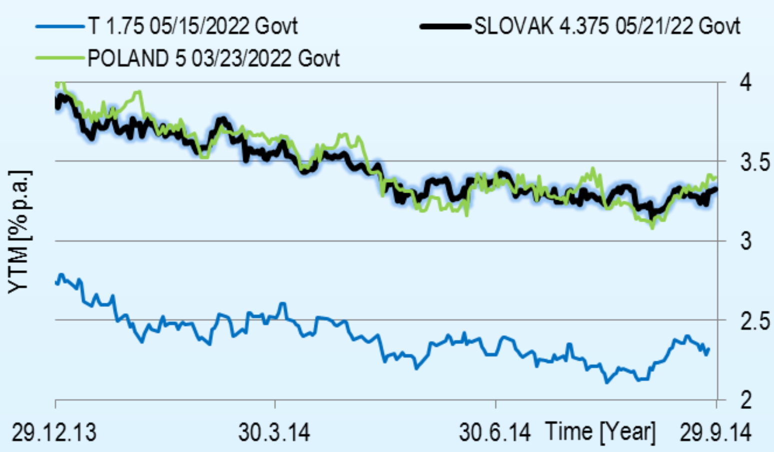


Source: Bloomberg, October 1th, 2014

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



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



Source: Bloomberg, October 2014

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
- As of end of December finished issuance for 2013 at EUR 7.65 billion
- Primary Dealership formally established
- New bond lines opened with different tenor (20, 10 and 5.5 years)
- Broadening of investors base:
  - two tranches of JPY bond
  - and two tranches (6.5Y and 10.5Y) of new CHF bond
- Despite historically lowest average yield (weighted by tenor) achieved by issuance - Slovakia offered nice pick-up against the „core“ Eurozone countries
- Significant portfolio performance improvement (Duration and ATTM)

Source: ARDAL

Debt Financing in 2014

- Total financing need for 2014 was budgeted to EUR 7.4 billion from which redemption of government bonds and T-Bills was EUR 3.76 billion (lowered via buy back trades) and corrected expectation of cash budget deficit is EUR 2.96 billion
- Real gross issuance in 2014 will be less than EUR 5 billion because of lower deficit in 2013 (by EUR 1 billion) and good State Treasury sources development
- Depending on market conditions ARDAL expects that almost half of financial needs can be covered by auctions and the rest by syndication
- New benchmark bond line with tenor 15 years opened in January 2014 (benchmark line opened via syndication)
- Broadening of investors base via Primary dealers
- Broadening of investors base via issuance in NOK
- Increased buy – backs toward the year end
- Significant portfolio performance improvement (Duration, ATTM and total cost of financing)

Source: ARDAL

Debt Financing in 2015

- Total financing need for 2015 is budgeted to EUR 5.4 billion from which redemption of government bonds and loans will be EUR 3.8 billion (ARDAL expects to lower the amount via buy back trades) and corrected expectation of cash budget deficit is EUR 2.5 billion
- Probably lower amount for issuance up to EUR 4.8 billion caused by positive change in other money sources (Loans, privatisation of Slovak Telecom, State Treasury balance, etc.)
- Depending on market conditions ARDAL expects that more than half of financial needs will 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 2015 (benchmark lines opened via syndication):

  new benchmark bond line with tenor 12 years

  potentially benchmark bond with tenor 7 years

  potentially benchmark bond with tenor 15 years

Source: ARDAL

5. Credit Positioning of Slovakia and Peers Comparison

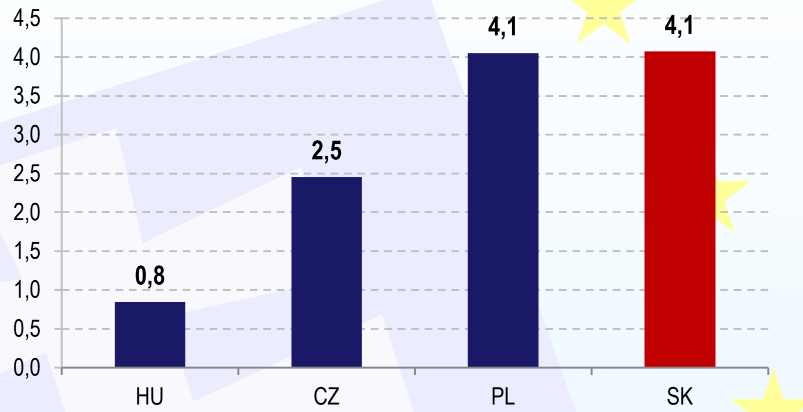
Slovakia's Fundamentals Compare Well vs. its Peer Group Inside and Outside of the Eurozone (1/2)

	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]	55,4 56,3 57,8 '13 '14F '15F	46,0 44,4 45,8 '13 '14F '15F	57,0 49,2 50,0 '13 '14F '15F	71,7 80,4 81,3 '13 '14F '15F	101,5 '13 '14F '15F	78,4 76,0 73,6 '13 '14F '15F	95,0 96,0 95,4 '13 '14F '15F
Deficit/GDP[1]	(,2,8) (,2,9) (,2,8) '13 '14F '15F	(,1,5) (,1,9) (,2,4) '13 '14F '15F	(,4,3) (,2,9) '13 '14F '15F	(,14,7) (,4,3) (,3,1) '13 '14F '15F	(,2,6) (,2,6) (,2,8) '13 '14F '15F	,0,0 ,0,0 (,0,1) '13 '14F '15F	(,3,0) (,2,5) (,2,3) '13 '14F '15F
GDP growth [2]	,1,4 ,2,4 ,2,6 '13 '14F '15F	(,0,9) ,2,0 ,2,4 '13 '14F '15F	,1,6 ,3,2 ,3,4 '13 '14F '15F	(,1,1) ,0,8 ,1,4 '13 '14F '15F	,0,2 ,1,4 ,1,6 '13 '14F '15F	,0,4 ,1,8 ,2,0 '13 '14F '15F	(,0,4) ,1,2 ,1,7 '13 '14F '15F
CA/GDP [1]	,2,1 ,0,7 ,1,2	(,1,2) (,0,4) (,0,2)	(,1,6) (,1,7) (,2,3)	,3,1 ,5,0 ,6,0	(,0,3) ,0,3 (,0,3)	,7,4 ,7,3 ,7,0	,2,6 ,2,9 ,2,9

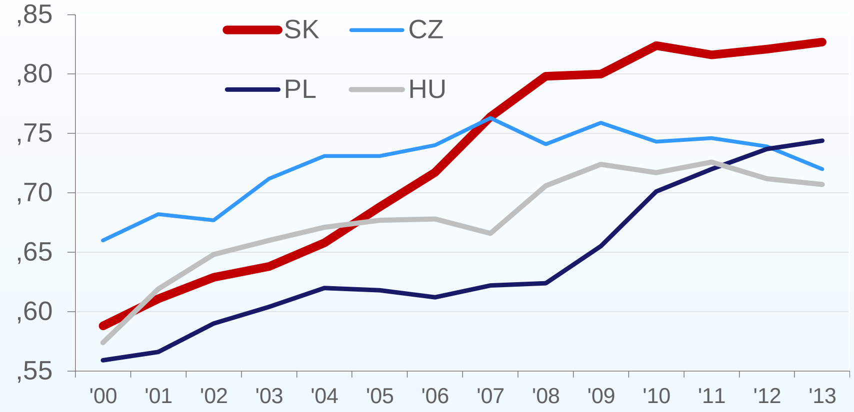
1) Source: Eurostat, Spring Forecast 2014
2) Source: Eurostat, 2 October 2014
3) Source: Ministry of Finance, October 2014

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

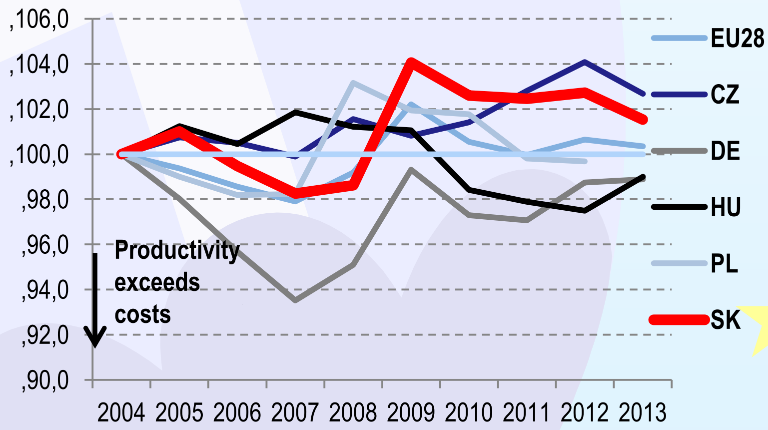
Average real GDP growth p.a. in CE4 countries (2003-2012, %)



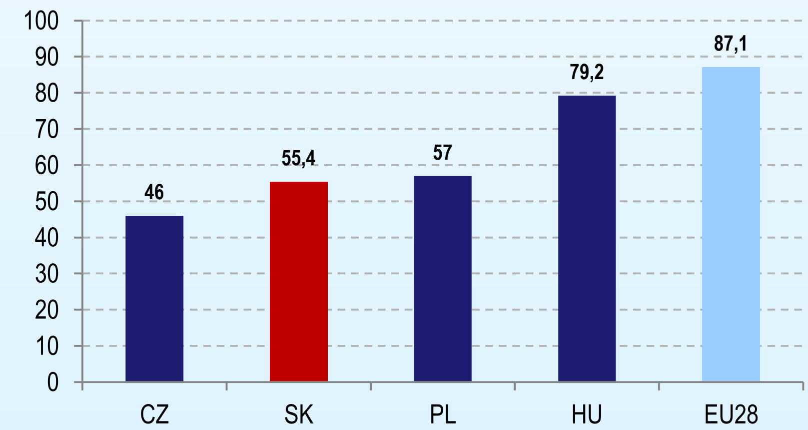
Labour productivity in CE4 countries (EU28=100, in PPS)



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



General government debt in CE4 and EU28 (end of 2013, as % of GDP)



Source: Eurostat, April 2014

Macroeconomic Forecast – September 2014

	2013	2014F	2015F	2016F	2017F
Real GDP Growth [%]	***1.4****	*2.4*	*2.6*	*3.5*	*3.5*
Private Consumption (growth) [%]	***(0.8)****	*2.9*	*2.4*	*2.7*	*2.2*
Investments (growth) [%]	***(2.7)****	*4.8*	*2.7*	*1.4*	*1.9*
Export (growth) [%]	***5.2****	*4.6*	*4.3*	*6.0*	*6.1*
Import (growth) [%]	***3.8****	*5.7*	*3.4*	*4.7*	*5.0*
Employment Growth (ESA 95) [%]	***(0.8)***	*1.1*	*0.4*	*0.5*	*0.6*
Unemployment Rate (LFS) [%]	***14.2***	*13.5*	*13.0*	*12.2*	*11.3*
Current Account Balance (% of GDP)	***2.1***	*0.7*	*1.2*	*2.2*	*3.0*
Inflation (HICP)	***1.5***	*0.1*	*1.0*	*1.9*	*2.1*
Net FDI (% of GDP)	***1.0***	*2.0*	*2.6*	*2.7*	*2.6*

* According to ESA2010, preliminary data from the SU SR

Source: Eurostat; Ministry of Finance, September 2014

Contacts

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