ARDAL

Slovak Republic

Investor Presentation

October 2013

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Introduction of Presenters

- Vazil Hudák, State Secretary of the Ministry of Finance
- Martin Filko, Director of Financial policy institute
- Tomáš Kapusta, Head of Debt Management Department, Debt and Liquidity Management Agency

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1. Country Overview

Slovak Republic at a Glance

Territory:	49,035 km²
Population:	5.4 million
GDP per capita:	Approx. €13,200 in 2012 [1]
Credit ratings:	A2 (negative 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 government (8 votes short)
- Prime Minister Robert Fico is an experienced politician (PM when the Slovak Republic joined the EMU in 2009)

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
- 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 (structural deficit reduction by 0.5% of GDP annually) 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]
- Low private and public debt levels compared 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
- Current account balance of BoP 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

1) Source: Eurostat, National Bank of Slovakia

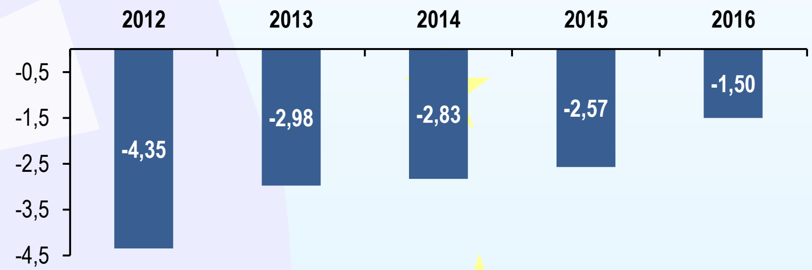
Key Investment Highlights (2/2)

Solid Domestic Environment | Strong Fiscal Discipline | Sound Debt Management

II. Strong Fiscal Discipline and commitment to meets its MTO

- Significant fiscal tightening based on strong consolidation effort in 2013
- Fiscal deficit in 2012 at 4.3% 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 in vs. 93.1%[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 3.5% of GDP over 2011-2012
- Commitment to 3% deficit in 2013
- Higher income taxes
- Higher dividends from State Enterprises
- Higher corporate tax – tax on politicians
- Higher caps on social contributions
- Savings by state administration
- New levy on bank liabilities

Structural Decisions

- A fiscal responsibility law with a “debt brake”
- Independent fiscal council
- Pension system reform: linking the retirement age to life expectancy, less generous indexation of pensions, contributions partially shifted from second to first pillar
- Phasing out preferential social contribution regimes for self-employed and “work-by-agreement”

Liability Management

- Conservative multi-annual debt management strategy
- Public debt under 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 of 49% 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 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 below 13% in 2013
- 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

	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

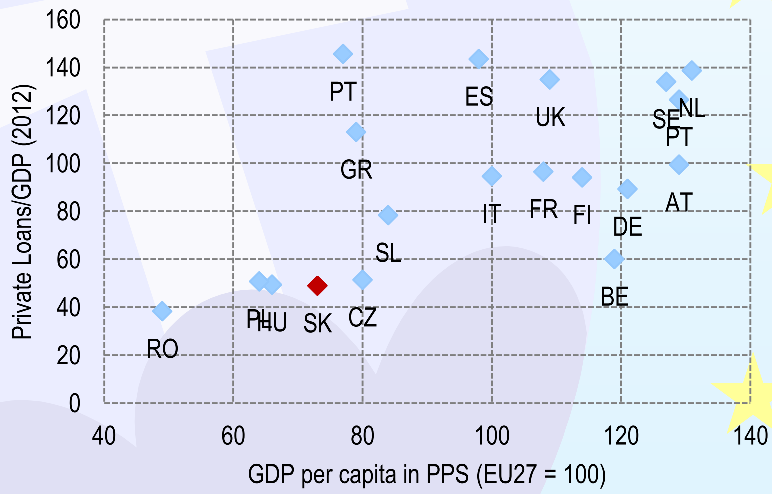
3. Public Debt

Low Public and Private Debt

Low indebtedness level

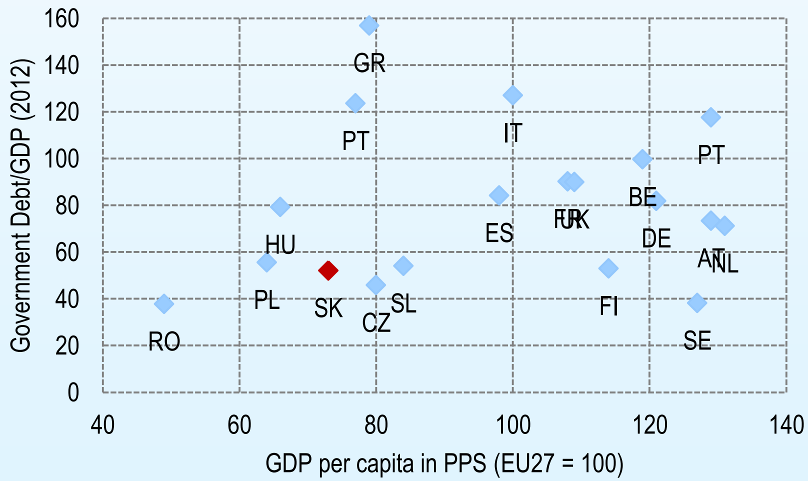
- Slovakia's public and private debt to GDP ratios are both considerably below the EU average
- Private debt ratio amongst the lowest in the EU
- As a Eurozone country, Slovakia participates in the European Stability Mechanism, which serves as a backstop should a participating country have problems with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

Private Debt Ratio (% of GDP)



Source: ECB, Eurostat, February 2013

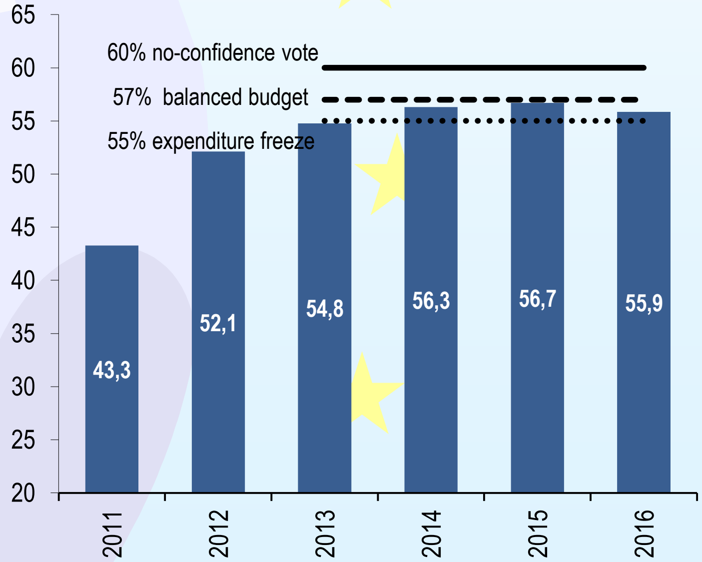
Government Debt Ratio (% of GDP)



Source: Eurostat, April 2013

General Government Debt Forecast and Debt Brake

- Thresholds set by the constitutional act on fiscal responsibility:
  - 50% of GDP – a 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

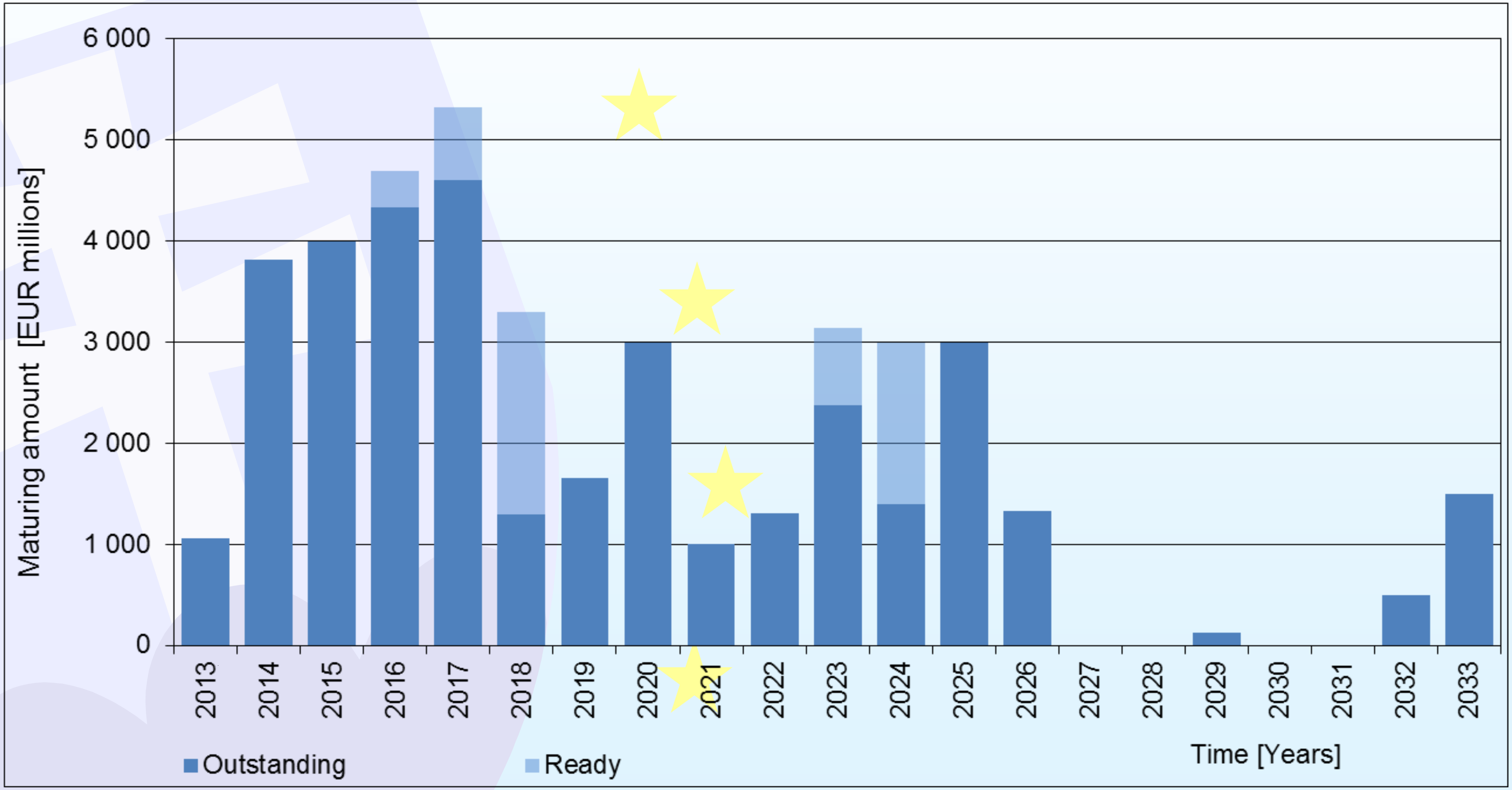


Source: Ministry of Finance, Stability Programme April 2013

5. Debt Management and Funding

Central Government Bond Redemptions

Central Government bond portfolio redemption profile was influenced by the financial market crisis resulting in a shift of investor's interest to shorter maturities

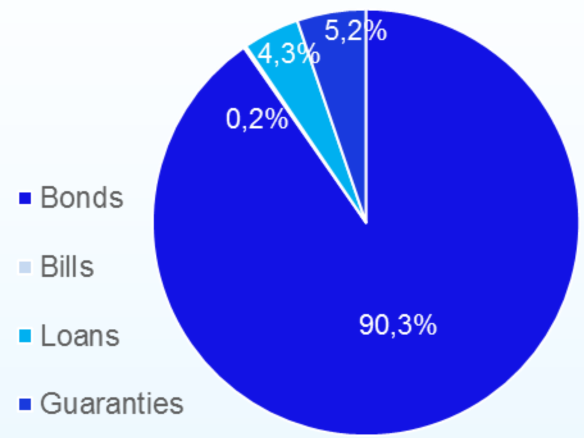


Source: ARDAL, as of September 2013

Government Debt Characteristics

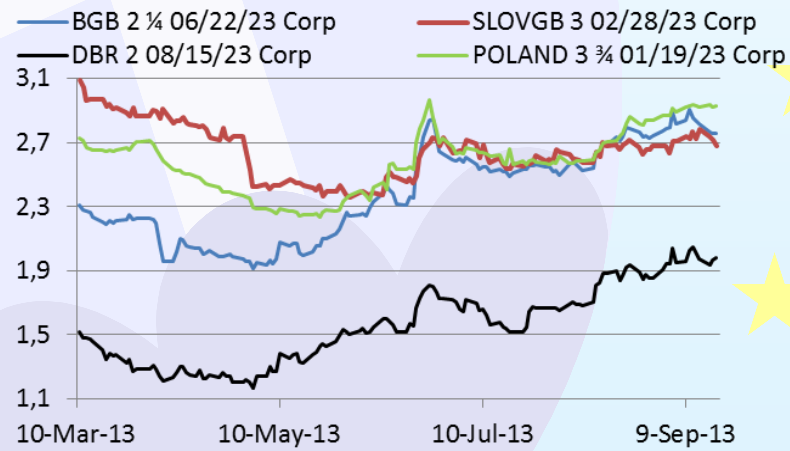
- No impact of currency fluctuations, as major part of outstanding public debt is euro-denominated. Small part of debt issued in USD, CZK, CHF and JPY in 2012 and 2013 is fully hedged
- Fixed coupon bonds 89 % of portfolio
- Non-resident share above 50 % as of end of April 2013 (Bonds, T-Bills and Loans)
- Volatility smaller but comparable to peer group

Government Debt by Instrument

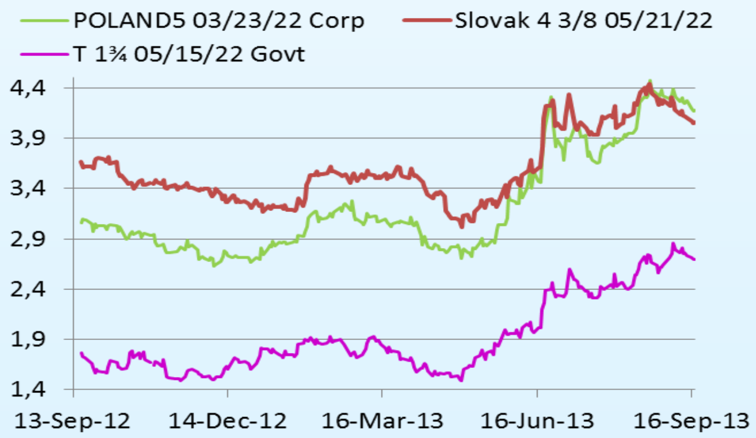


Source: ARDAL, September 2013

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



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



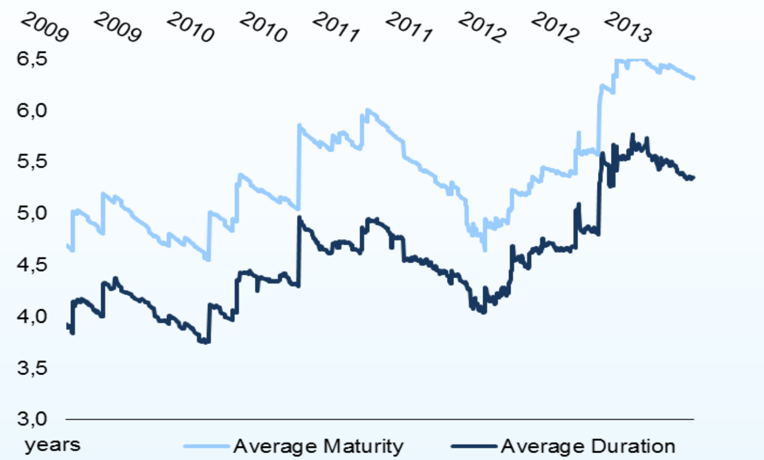
Source: Bloomberg, September 2013

Government Debt Characteristics

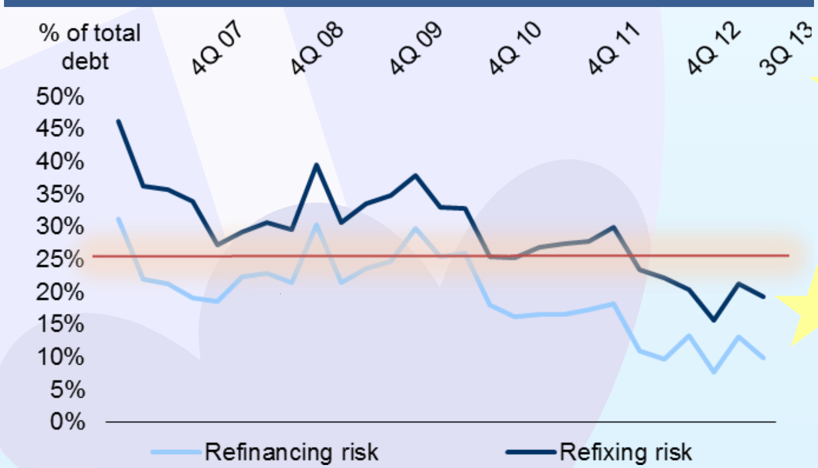
Development of market interest yields and good economic results of Slovakia allowed decreasing of debt portfolio risk together with decreasing of cost

- Continuous increase of average maturity and average duration
- Shift of portfolio parameters to area of smaller refinancing risk and smaller refixing risk

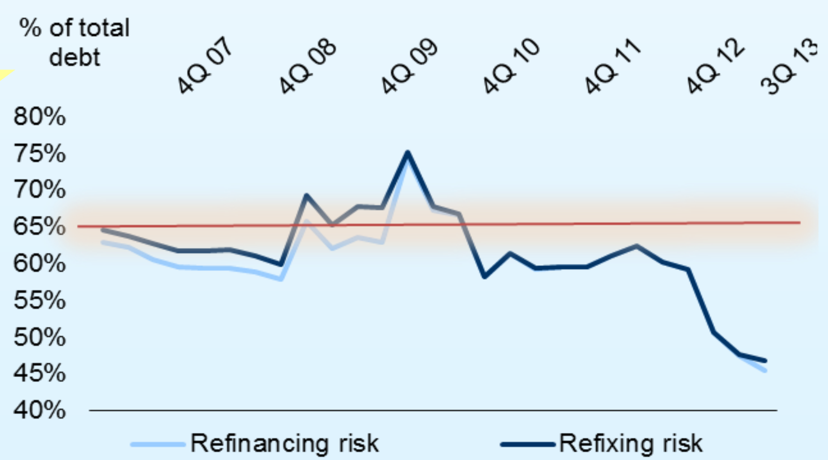
Average Duration and Average Maturity Development



Risk Indicators of the Debt Portfolio for 1st year



Risk Indicators of the Debt Portfolio for 5 years



Source: ARDAL, September 2013

Debt Financing in 2012

- The main tasks for debt management in 2012 was **to broaden the portfolio 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 follow up marketing effort overseas
  - Originally planned gross issuance EUR 7.6 billion was achieved already at 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 was below expected one 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:
  - formal establishing of **Primary Dealership**
  - further **broadening** of **investors** portfolio
- Total financing needs for 2013 are expected to be lower 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 benchmark bond with tenor 5,5 Y
  - and two tranches (6.5Y and 10.5Y) of new CHF bond
- As of end of September EUR 7.4 billion i.e. almost 100 % issuance for 2013 already done
- Despite historically lowest average yield (weighted by tenor) achieved by issuance for whole portfolio Slovakia offers nice pick-up against the core 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 of Slovak government benchmark bonds
  - further **broadening** of **investors** portfolio
- Total financing needs for 2014 are expected to be EUR 7.18 billion from which redemption of government bonds and T-Bills is EUR 3.96 billion and planned budget deficit is EUR 3.22 billion
- Depending on market conditions almost half of financial need 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

  new USD bond with tenor 10 years

  new float rate bond with 7 years (mostly for local investors)

6. Credit positioning in the USD market and CE4[1] comparison

1) The Czech Republic, Hungary, Poland and Slovakia are often referred to as “the CE4 countries”

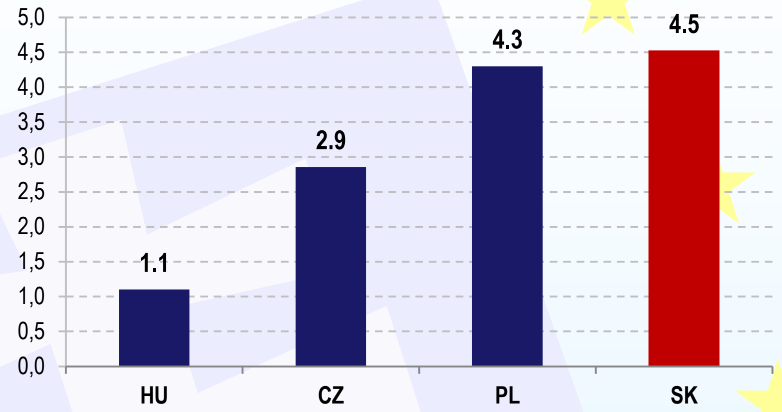
Slovakia's Fundamentals Compare well vs. its Peer Group Inside and Outside of the Eurozone (1/2)

	Slovakia [4]	Czech Republic	Poland	Slovenia	Belgium	Germany	Eurozone Average
Credit Ratings and outlook	A2/A/A+ (neg/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)	52,1 / 54,6 / 56,7	45,8 / 48,3 / 50,1	55,6 / 57,5 / 58,9	54,1 / 61,0 / 66,5	99,6 / 101,4 / 102,1	81,9 / 81,1 / 78,6	90,6 / 95,5 / 96,0
Deficit/GDP[1] ('12 / '13F / '14F)	(4,3) / (3,0) / (3,1)	(4,4) / (2,9) / (3,0)	(3,9) / (3,9) / (4,1)	(4,0) / (5,3) / (4,9)	(3,9) / (2,9) / (3,1)	0,0 / (0,2)	(3,7) / (2,9) / (2,8)
GDP growth [2] ('12 / '13F / '14F)	2,0 / 0,8 / 2,2	(1,0) / (0,4) / 1,6	1,9 / 1,1 / 2,2	(2,5) / (2,0) / (0,1)	(0,1) / 0,0 / 1,2	0,7 / 0,4 / 1,8	(0,6) / (0,4) / 1,2
CA/GDP [1] ('12 / '13F / '14F)	2,2 / 3,2 / 3,6	(2,6) / (2,4) / (2,5)	(3,3) / (2,5) / (2,4)	2,7 / 4,8 / 4,7	0,9 / 1,4 / 1,4		1,8 / 2,5 / 2,7
10yr ASW Spread [3] bps	60	28	17	381	47	-28	N/A

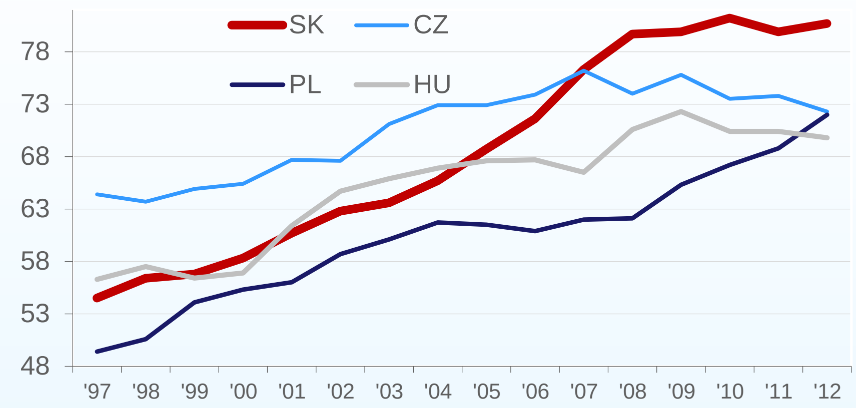
1) Source: Eurostat, EC Spring Forecast 2013
2) Source: Eurostat , 2 October 2013
3) Source: Bloomberg, October 2013
4) Source: Ministry of Finance, September 2013

Slovakia's fundamentals compare well vs. its peer-group inside and outside of the Euro-zone (2/2)

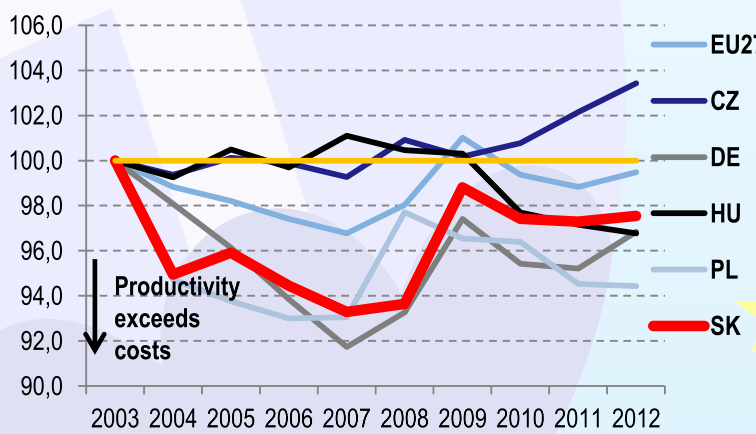
Average real GDP growth p.a. in CE4 countries (2003-2012, %)



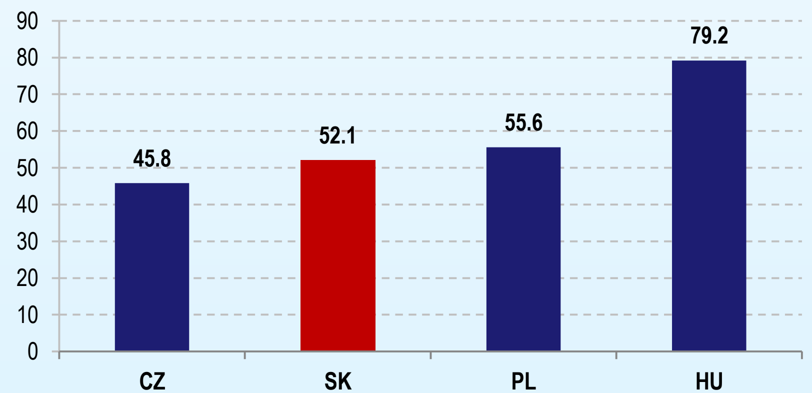
Labour productivity in CE4 countries (EU27=100, in PPS)



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



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



Source: Eurostat

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