ARDAL

Slovak Republic

Investor Presentation

January 2015

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1. Country Overview

Slovak Republic at a Glance

Territory:	49,036 km²
Population:	5.4 million
GDP per capita:	Approx. €13,300 in 2013 [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
2012	Participation in ESM
2013	Fiscal consolidation
2014-	Reforming to generate growth

1) Source: Eurostat

Slovak Republic Investment Highlights

- One of highest rates of real GDP growth in the EU for the last 10 years (2004-2013), averaging 4.1%
- Private (74.8% in 2013) and public (54.6% of GDP in 2013) debt levels are well below the EU averages
- Highly integrated economy with low cost, skilled labour in manufacturing
- Strong Fiscal Discipline based on multi-year targets; fiscal responsibility and debt brakes
- Fiscal deficit in 2013 at 2.6% of GDP, down from 4.2% of GDP in 2012
- Budget deficit target in 2014 at 2.9% of GDP and strong commitment to reduce deficit further
- A competitive export sector with high-value niches in key industrial sectors
- Current account in surplus (2.1% of GDP in 2013) despite the weak external demand
- Sound and highly liquid banking sector without government assistance
    - assets to GDP at 80.8% and loans to deposits at 95% in 2013
- Almost no exposure of corporate and private sector to FX loans
- Limited exposure to Russia/Ukraine crisis via energy imports and goods exports (2% GDP)
- Participation in the Eurozone's European Stability Mechanism provides financial stability
- Amongst the highest rated countries in the CEE region (A2/A/A+)

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

A Decisive Economic Response to the Crisis

2010-2013 **– Confronted with a severe international crisis, the authorities took quick and coordinated actions to reduce the impact of the crisis on the Slovak economy**

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% of GDP deficit in 2013 achieved • Lowering corporate tax by 1 p.p. and introducing tax licences in 2014 • Savings by central government – ESO reform – decreasing number of regional offices • Prolonged levy on regulated businesses	• A fiscal responsibility law with a “debt brake” • Spending freeze of 3% of budget expenditure triggered when debt ratio is between 55% and 57% of GDP • Transparent medium-term budgeting as required by the constitutional fiscal responsibility act • Strong independent council for fiscal responsibility to overview all budget decisions and execution	• Conservative multi-annual debt management strategy • Public debt below half EMU average and low private debt • Moderate bank contingency • Pension reform undertaken in 2012 improved long-term sustainability: linking the retirement age to life expectancy, less generous indexation of pensions

From Crisis Response to Consolidating Macro Gains

2014 **– After exiting the EC's Excessive Deficit Procedure (EDP) in June 2014, one-off fiscal and economic measures are replaced with longer term policies**

The Slovak Republic is now in a position to turn the exceptional circumstances of the recent crisis into credible and sustainable long-term policies with a combination of:

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

2. ***A new institutional budget framework*** based on the Fiscal Responsibility Act and the "debt brakes" and in full coordination with the EC's Fiscal Compact

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

4. ***Managing conservatively the "balance sheet" of the state***, including the government's "cash reserve" and expected windfalls from regular EU Fund disbursements and privatizations

Deeper Reforms to Support Jobs and Sustainable Growth

2015 onwards **– As recent policies ensure medium-term fiscal and debt stability, the government can now rollout reforms aimed at creating jobs and improving growth**

Political and fiscal stability provide an ideal background for the government to further structural reforms aimed at improving the job market; competitiveness and the growth potential:

1. ***Structural reforms were led by the acquis communautaire,*** which has improved the technical and institutional capacity to EU levels in many key sectors of the economy

2. ***An improved framework for FDI***; raising the value-added of the existing stock and improving the business climate for attracting new FDI commitments

3. ***An increased focus on infrastructure investment*** should also improve the conditions for foreign and domestic investors to create new job opportunities

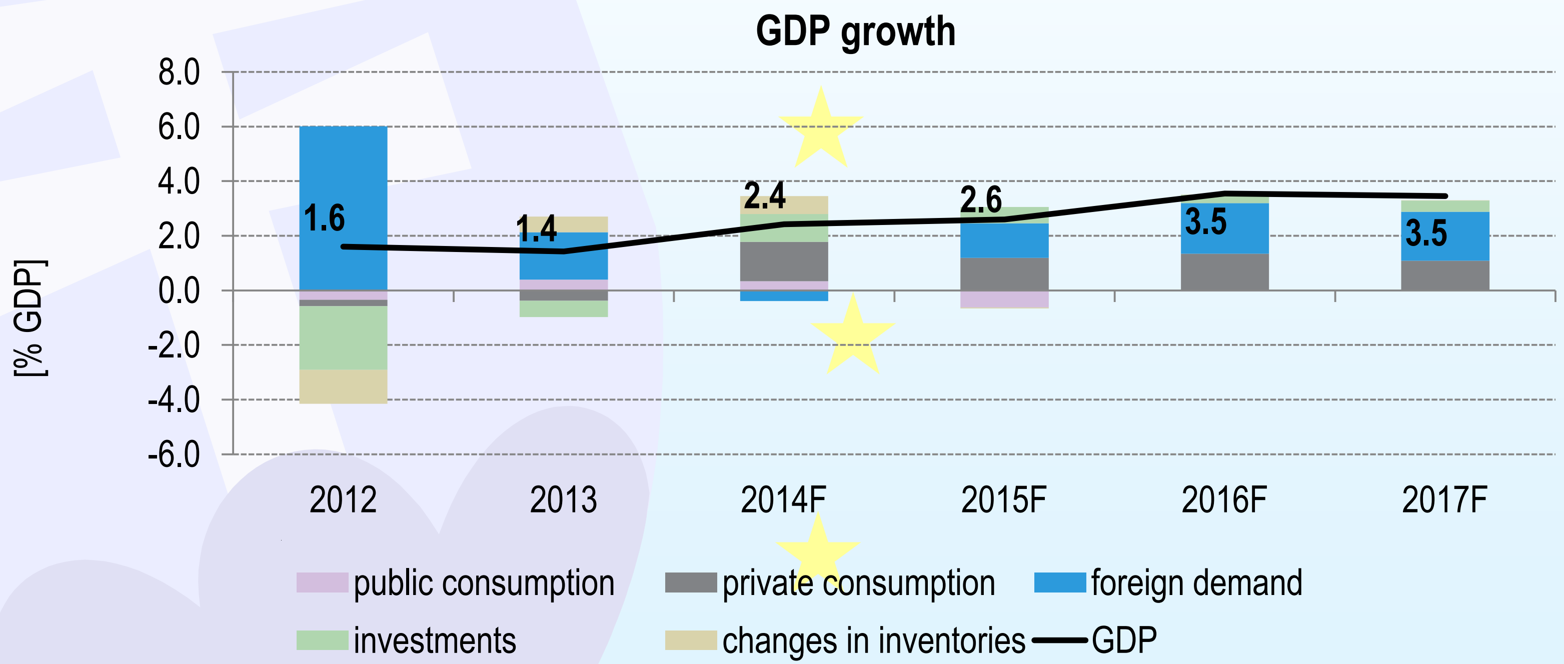
4. ***Reducing the regulatory burden is a key objective***, as it will cut operating costs and facilitate job creation and stronger growth going forward

5. **Fine-tuning the pension reform** in coming years will also improve the conditions for creating and maintaining quality employment

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

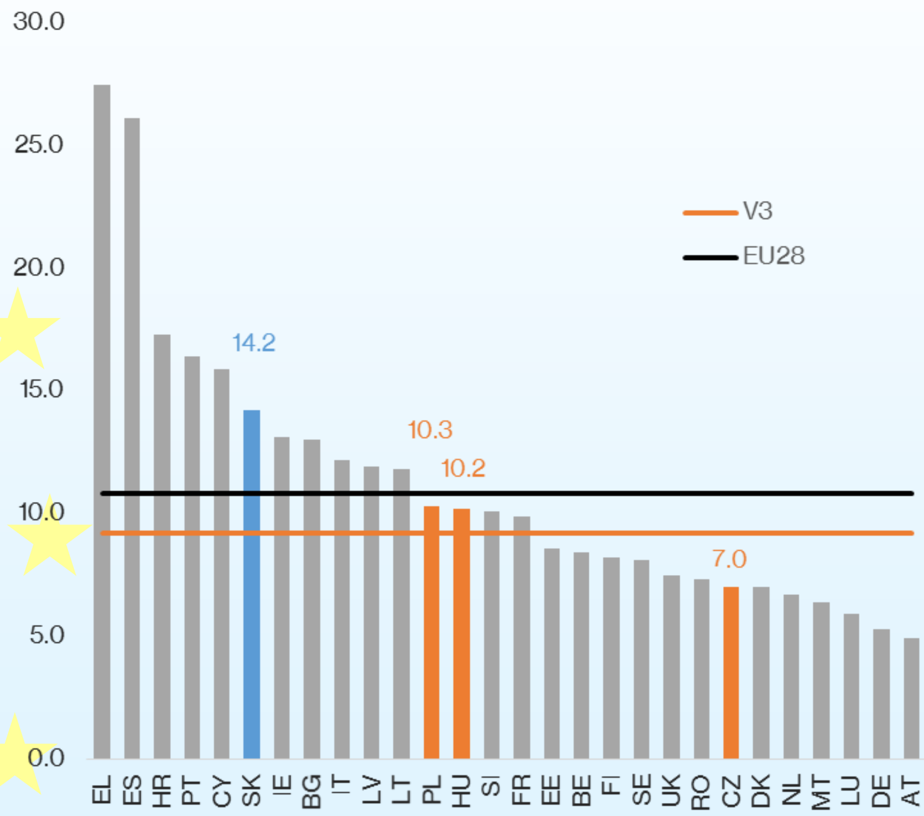


Source: Eurostat; Ministry of Finance, October 2014

Tackling the Unemployment

- Overall unemployment estimated at 13.5% in 2014 according to the Slovak Ministry of Finance forecast, against 14.2% in 2013
- With modest recovery in 2014 (estimated GDP growth of 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

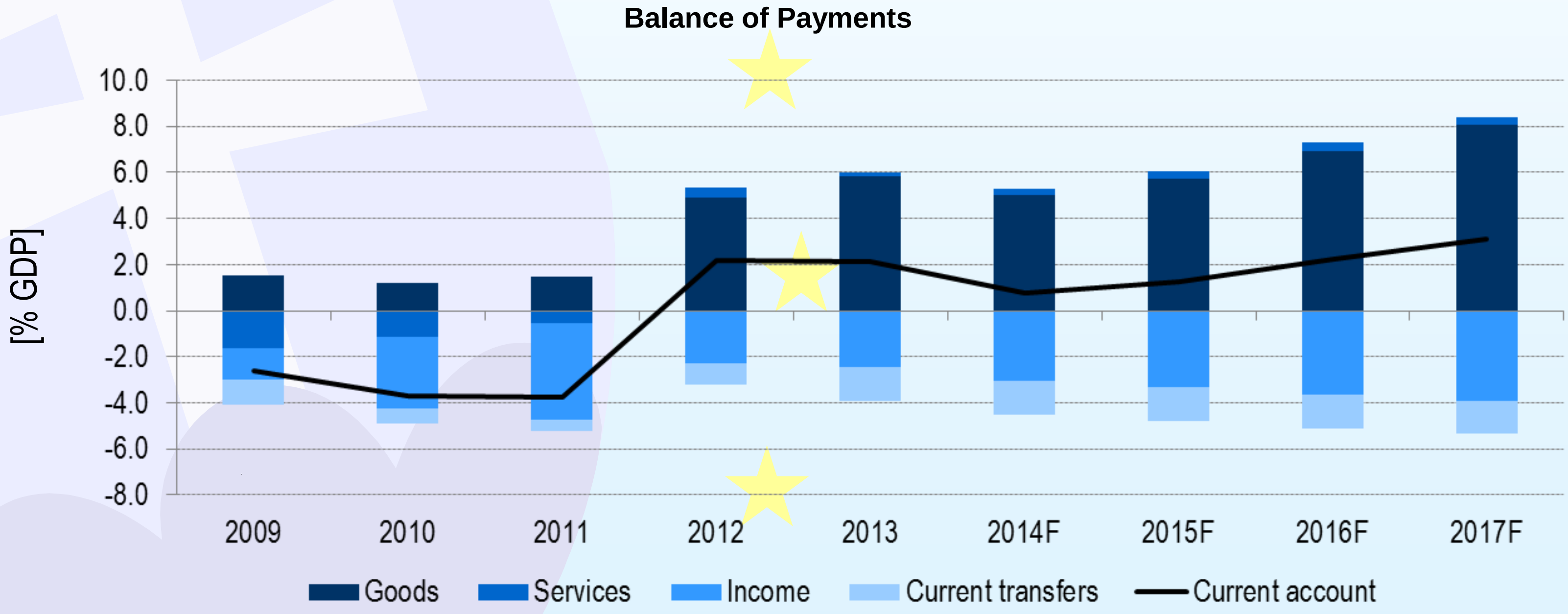
Unemployment rate (15-74 years, %, 2013)



Source: Eurostat, December 2014

Improving Balance of Payments

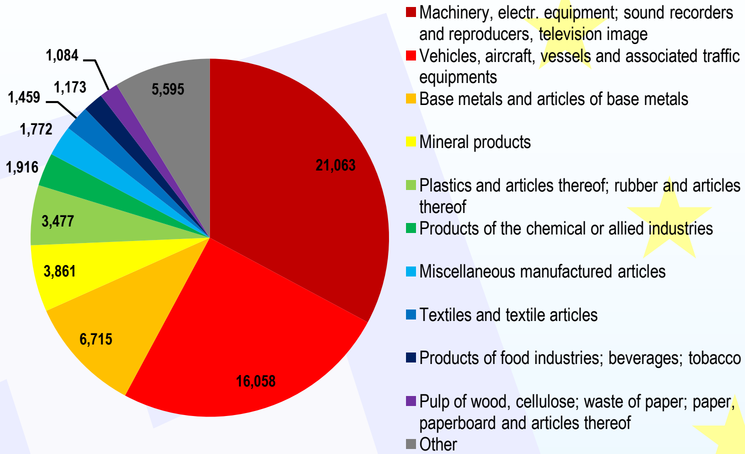
- The current account of the balance of payments has significantly improved in recent years and remained positive in 2013 despite the weaker performance of the external environment at 2.1% of GDP
- Surplus of the current account was due mainly to the improved trade balance – strong export performance coupled with weak domestic demand
- New production capacities installed in the recent years, as well as the shift to domestic suppliers (reduced import intensity) indicate that the current account should remain positive even with the expected recovery of the domestic demand



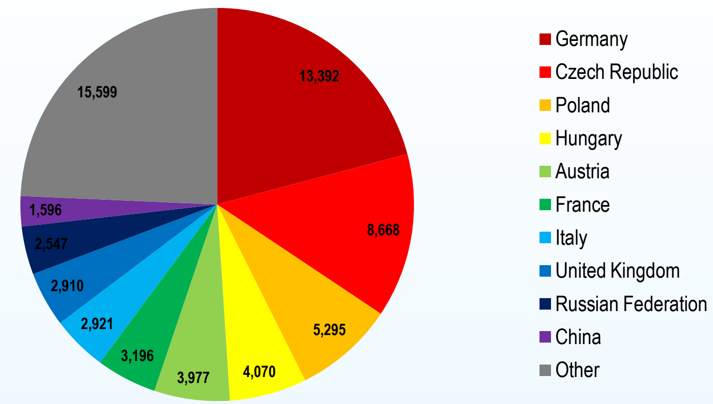
Source: Eurostat; Ministry of Finance, December 2013

Breakdown of Foreign Trade in 2013

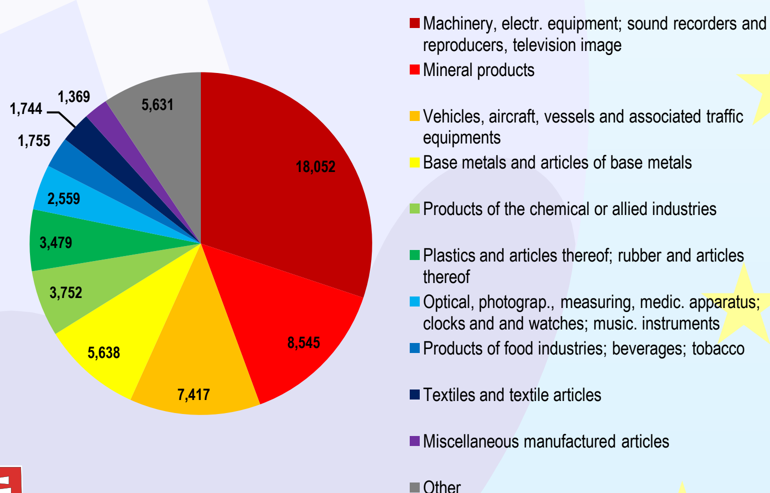
Export by product (mil. eur)



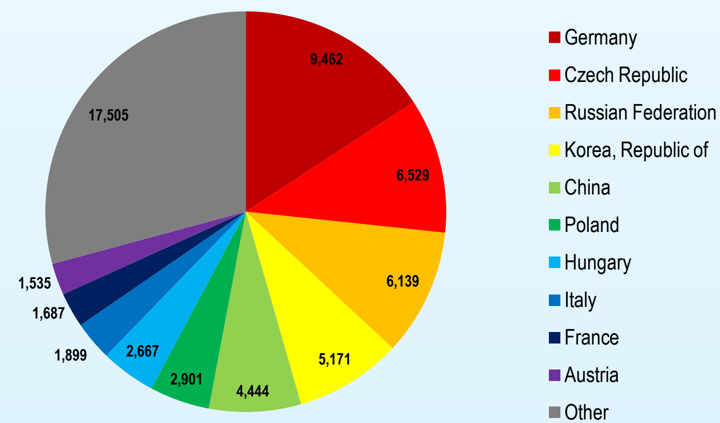
Export by country (mil. eur)



Import by product (mil. eur)



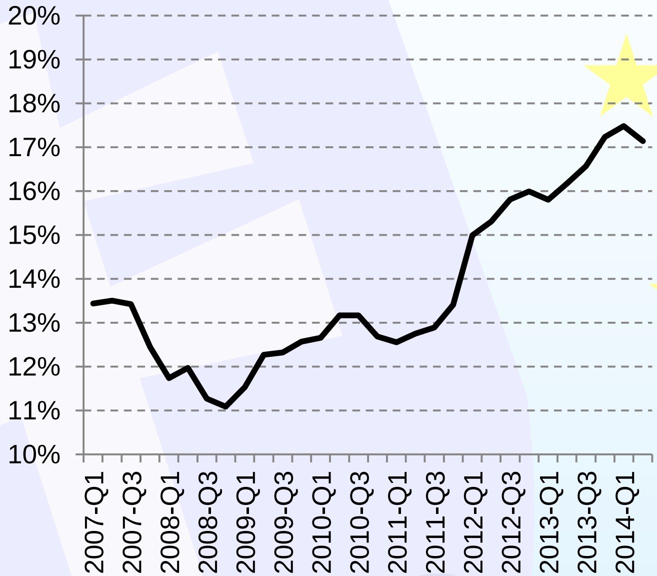
Import by country (mil. eur)



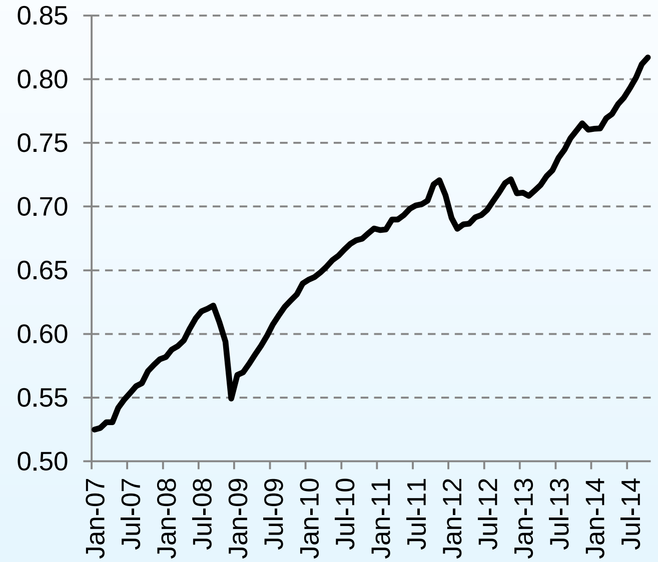
Source: Ministry of Finance

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

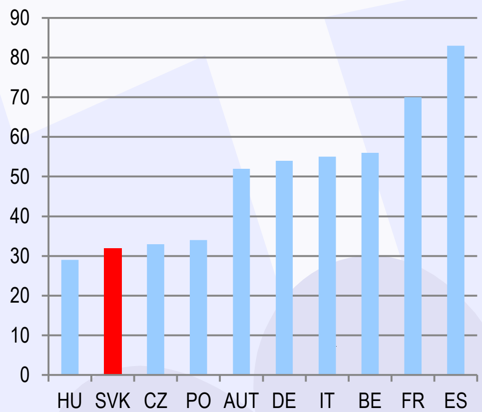
3. Public Debt

Low Public and Private Debt

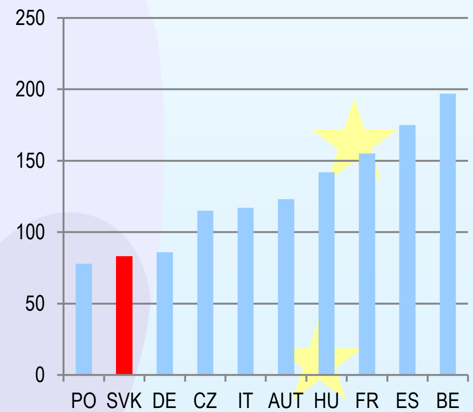
Low indebtedness level

- 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

Household Debt (% of GDP)

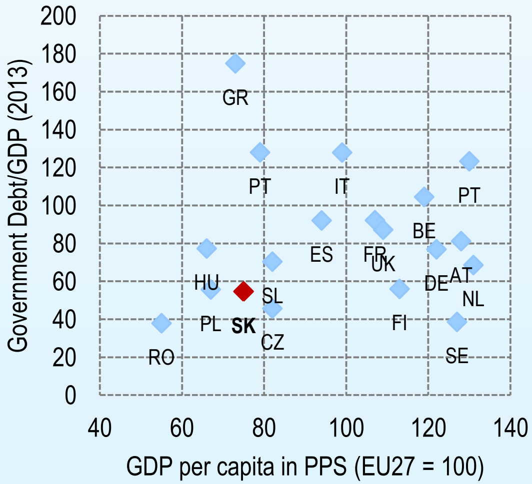


Corporate Debt (% of GDP)



Source: HAVER, IMF, 2014

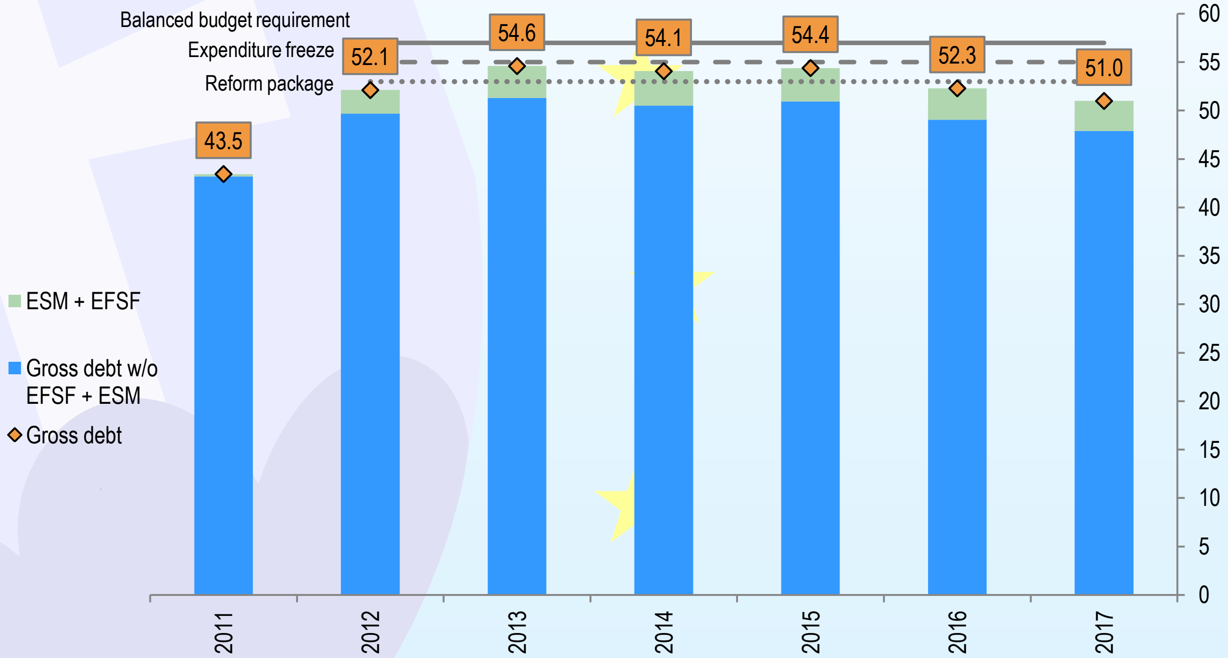
Government Debt Ratio (% of GDP)



Source: Eurostat, Dec 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**
- Gross debt remains under 55% of GDP and is projected to decline after 2015

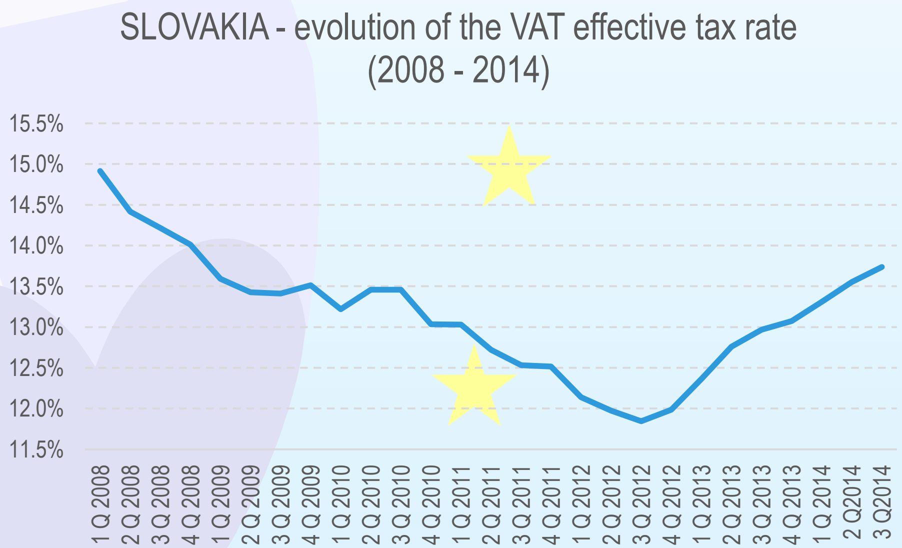


Source: Ministry of Finance, Draft Budgetary Framework October 2014

Legislative measures initiated in 2012 increased VAT collection efficiency

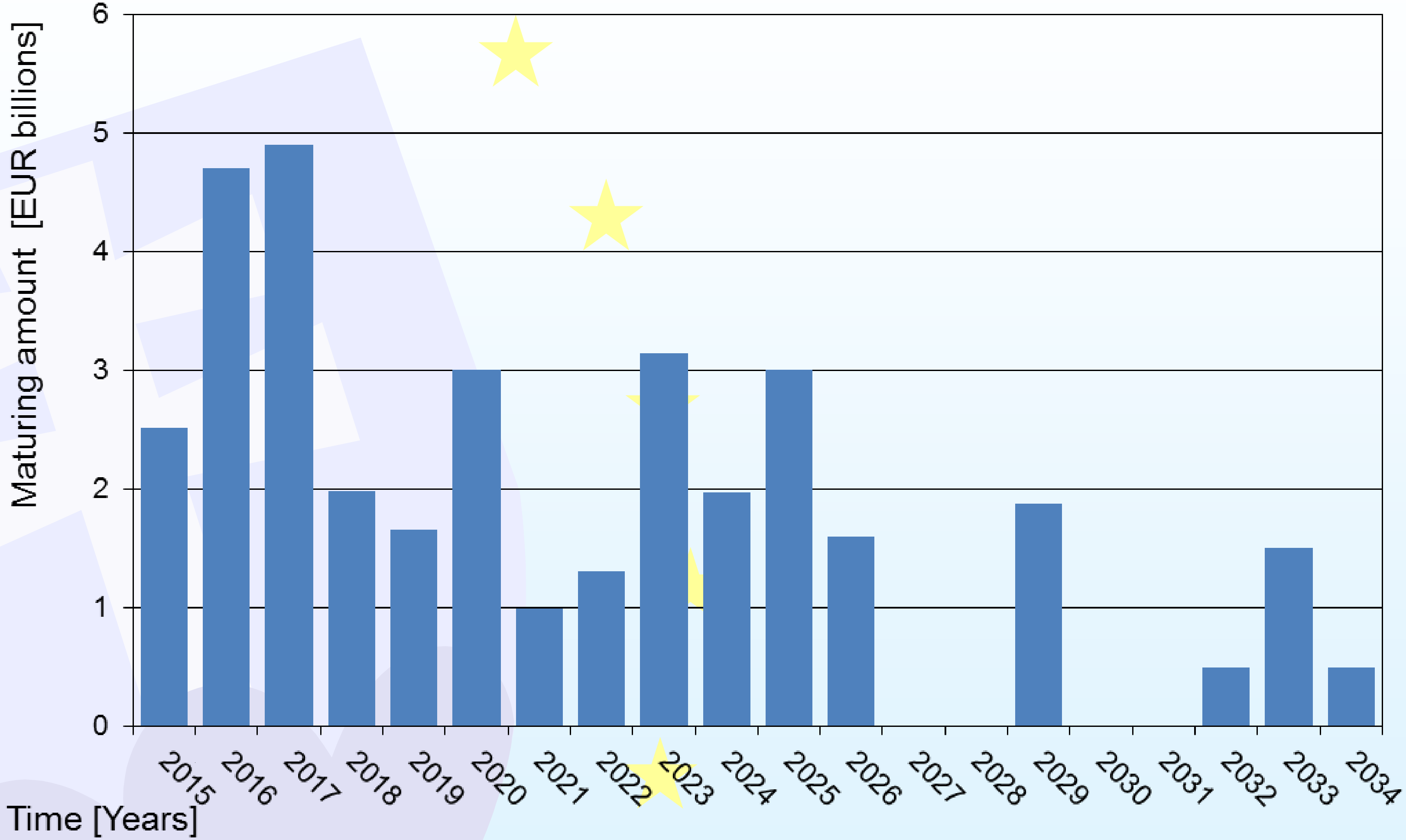
Action Plan to Fight Against Tax Fraud brought significant additional tax revenues

- 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

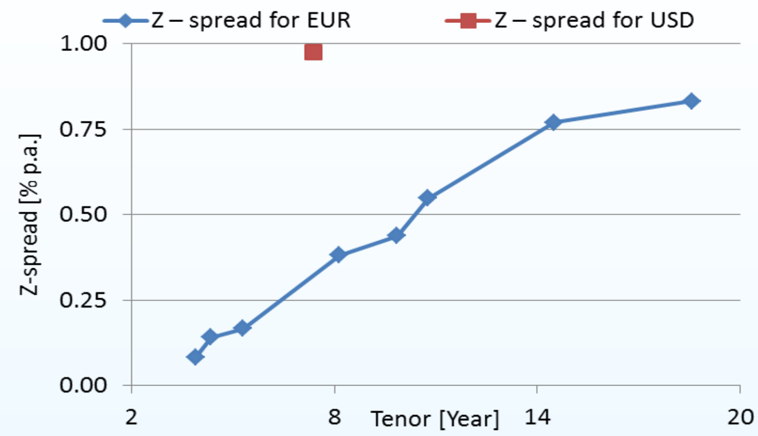


Source: ARDAL, December 2014

Government Debt Characteristics

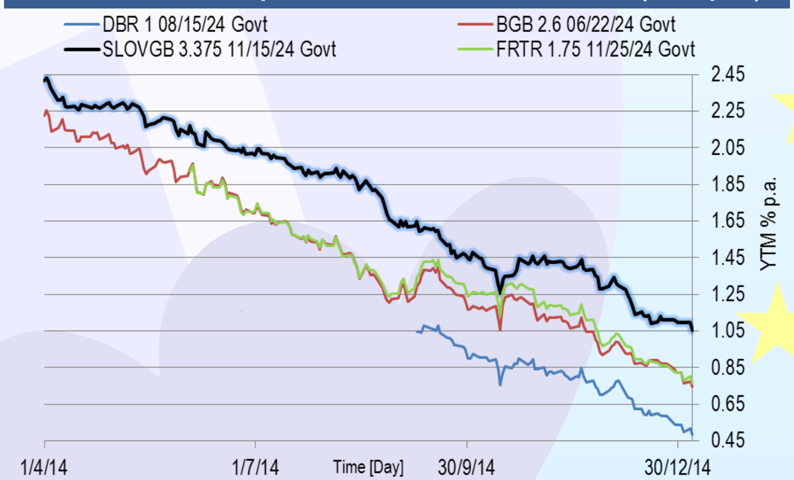
- Major part of outstanding public debt is euro-denominated. Part of debt issued in USD, CZK, CHF and JPY is fully hedged
- Fixed coupon bonds share is 91 % of portfolio
- Non-resident share approx. 60 % as of end of September 2014 (Bonds, T-Bills and Loans)
- Average weighted maturity 6.8 years
- Average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

Z – spread of Slovak bonds

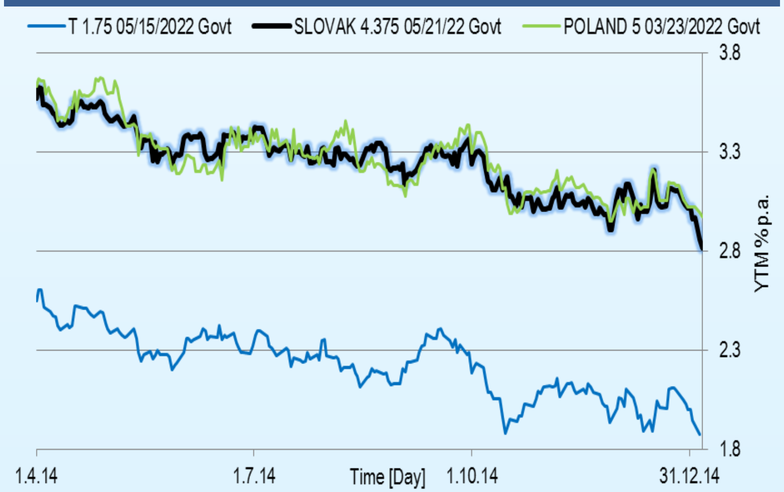


Source: Bloomberg, January 6th, 2015

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



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



Source: Bloomberg, January 6th, 2015

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 7,3 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 Average Tenure)

Source: ARDAL

Debt Financing in 2014

- Total financing need for 2014 was budgeted to EUR 7.5 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 was EUR 4.9 billion because of lower deficit in 2013 (by EUR 1 billion) and favourable State Treasury sources development
- Market conditions allows ARDAL to issue more than half of financial needs 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, Average Tenure and total cost of financing)

Source: ARDAL

Debt Financing in 2015

- Total financing need for 2015 is budgeted to EUR 5.1 billion from which redemption of government bonds and loans will be EUR 2.6 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:

  new benchmark bond line with tenor 12 years (benchmark line opened via syndication)

  potentially new benchmark bond line with tenor 7 years and/or with tenor 15 years

Source: ARDAL

5. Credit Positioning of Slovakia and Peers Comparison

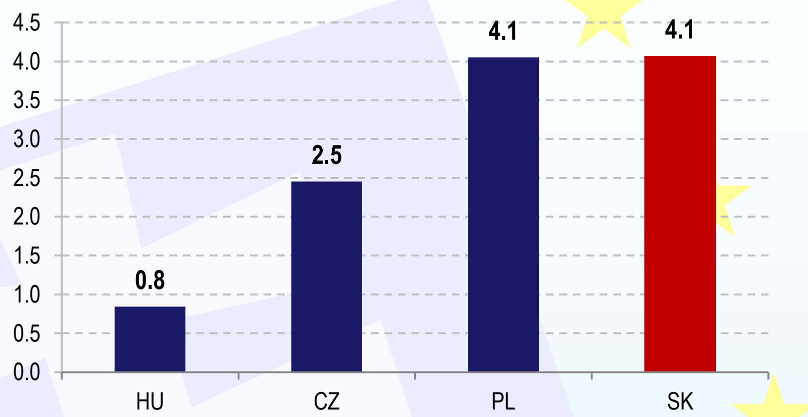
Slovakia's Fundamentals Compare Well vs. its Peer Group Inside and Outside of the Eurozone (1/2)

	Slovakia	Czech Republic	Poland	Slovenia	Belgium	Germany	Eurozone Average
Credit Ratings and outlook (M/S&P/F)	A2/A/A+ (st/pos/st)	A1/AA-/A+ (st/st/st)	A2/A-/A- (st/st/st)	Ba1/A-/BBB+ (st/st/st)	Aa3/AA/AA (st/st/neg)	Aaa/AAA/AAA (st/st/st)	
Debt/GDP[1] '13	54.6	45.7	55.7	70.4	104.5	76.9	93.1
Debt/GDP[1] '14F	54.1	44.4	49.1	82.2	105.8	74.5	94.5
Debt/GDP[1] '15F	54.9	44.7	50.2	82.9	107.3	72.4	94.8
Deficit/GDP[1] '13	(2.6)	(1.3)	(4.0)	(14.6)	(2.9)	0.0	(2.9)
Deficit/GDP[1] '14F	(3.0)	(1.4)	(3.4)	(4.4)	(3.0)		(2.6)
Deficit/GDP[1] '15F	(2.6)	(2.1)	(2.9)	(2.9)	(2.8)	0.0	(2.4)
GDP growth[2] '13	1.4	(0.7)	1.7	(1.0)	0.3	0.1	(0.5)
GDP growth[2] '14F	2.4	2.5	3.0	2.4	0.9	1.3	0.8
GDP growth[2] '15F	2.6	2.7	2.8	1.7	0.9	1.1	1.1
CA/GDP[1] '13	2.1	(2.2)	(1.4)	4.8	(1.5)	6.9	2.4
CA/GDP[1] '14F	0.7	(1.3)	(2.0)	6.2	(0.3)	7.1	2.5
CA/GDP[1] '15F	1.2	(0.9)	(2.4)	6.1	(0.5)	7.1	2.6

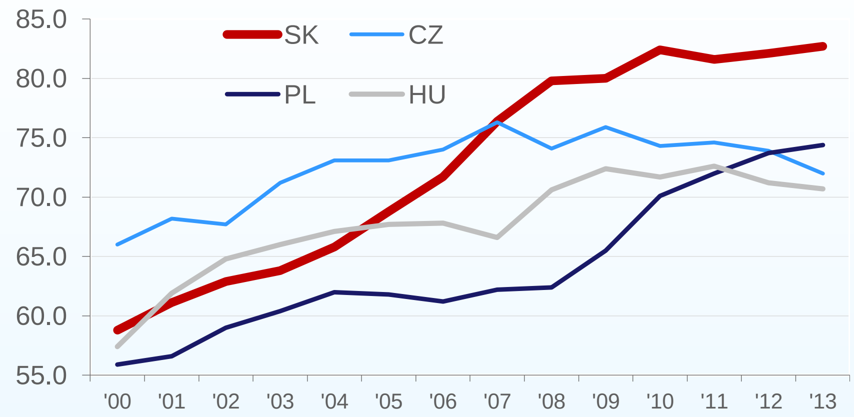
1) Source: Eurostat, Autumn Forecast 2014
2) Source: Eurostat, December 2014

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

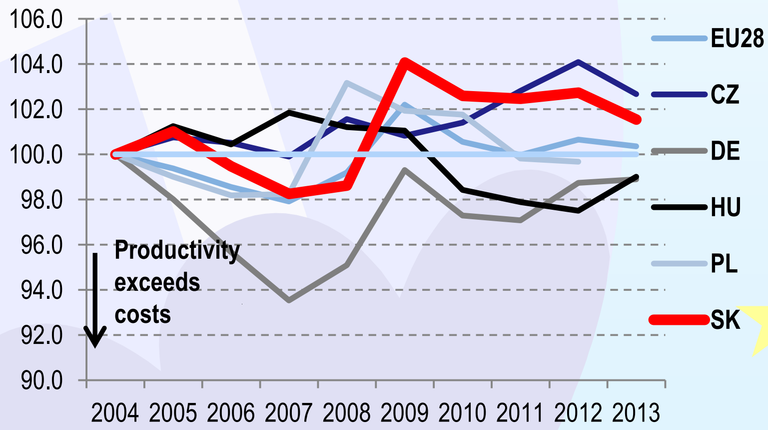
Average real GDP growth p.a. in CE4 countries (2003-2012, %)



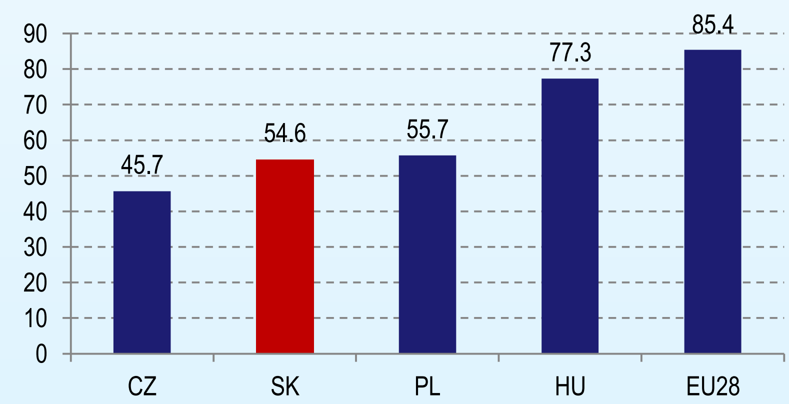
Labour productivity in CE4 countries (EU28=100, in PPS)



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, October 2014

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