ARDAL

Slovak Republic

Investor Presentation

May 2013

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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 and for fiscal rules contained in Fiscal Compact

- 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 and an additional 0.5% cut in the structural deficit from 2014 onwards
- The National Council approved in 2011 a **constitutional "debt brake" starting at 60% of GDP until the end of 2017, gradually declining to reach 50% of GDP** by 2027
- 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 4.6 %[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 2.3 % in 2012)
- Sound and highly liquid banking sector without government assistance, banking sector assets to GDP 88.4 % at the end of 2012, well below EU average

1) Source: Eurostat, National Bank of Slovakia

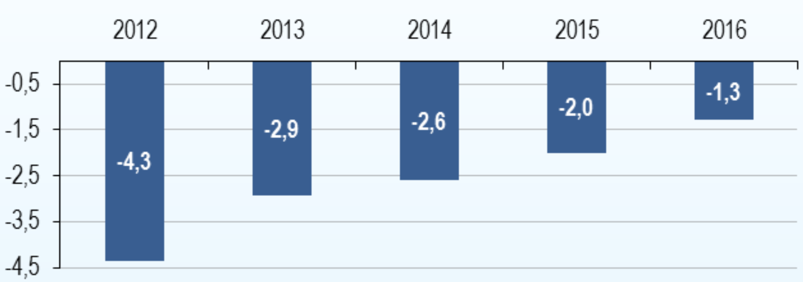
Key Investment Highlights (2/2)

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 of 1.2 % of GDP in 2013
- Fiscal deficit in 2012 at 4.3% of GDP, and strong commitment to reduce deficit further
- Meeting the medium-term objective (structural deficit of 0.5% of GDP) in 2018

Deficit targets (% of GDP)



III. Sound Debt Management

- Public debt well below the average of EMU countries (an estimated 52.1% of GDP in vs. 91.5% 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: Eurostat

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
- 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 have been approved
- Low public debt of 52.1% of GDP and low private debt of 45% of GDP in 2011
- Low risk of debt surprises, with banks well capitalised and foreign-owned
- Strict constitutional fiscal rules (debt brake)

2. Strong Economic Performance

Firm Recovery, but More Gradual Than Expected

- Lowered overall growth due to worsened external demand and further fiscal consolidation
- Weaker GDP growth translates into worse performance of the labour market, but the unemployment rate is expected to peak 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 2.5 % over 2013-16
- GDP per capita continues to rise and was 73% of EU-27 average in 2011, up from 50% in 2000

	2011	*2012*	*2013F*	*2014F*	*2015F*
Real GDP Growth	3.2	2,0	*1.2*	*2.9*	*3.3*
Private Consumption (growth)	(0.5)	(0.6)	*(0.1)*	*1.5*	*2.6*
Investments (growth)	14.2	(3.7)	*2.3*	*3.3*	*2.4*
Export (growth)	12.7	8.6	*3.3*	*4.9*	*4.8*
Import (growth)	10.1	2.8	*3.5*	*4.1*	*4.0*
Employment Growth (ESA 95)	1.8	0.1	*(0.5)*	*0.5*	*0.7*
Unemployment Rate (LFS)	13.5	14.0	*14.3*	*13.8*	*13.0*
Current Account Balance (% of GDP)	(2.1)	2.3	*1.2*	*1.7*	*2.4*
Inflation (HICP)	4.1	3.7	*2.4*	*2.5*	*2.5*
Net FDI (% of GDP)	1.7	1.0	*2.2*	*2.6*	*2.6*

Source: Ministry of Finance, January 2013

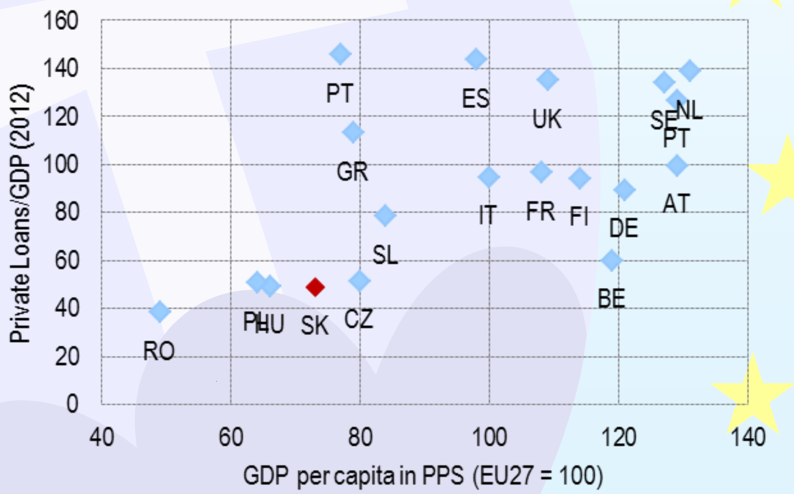
3. Public Debt

Low Public and Private Debt

Low indebtedness level

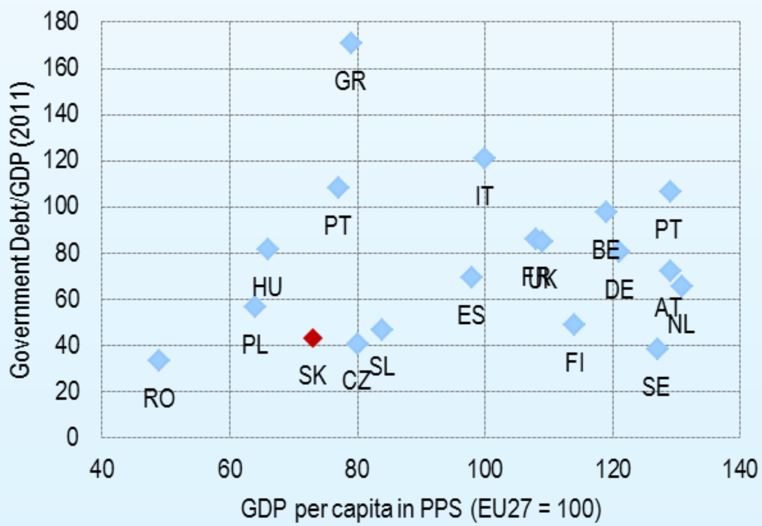
- Slovakia's public and private debt to GDP ratios are both considerably below the EU average
- Private debt ratio amongst the lowest in the EU
- As a Eurozone country, Slovakia participates in the European Stability Mechanism, which serves as a backstop should a participating country have problems with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

Private Debt Ratio (% of GDP)



Source: ECB, Eurostat, February 2013

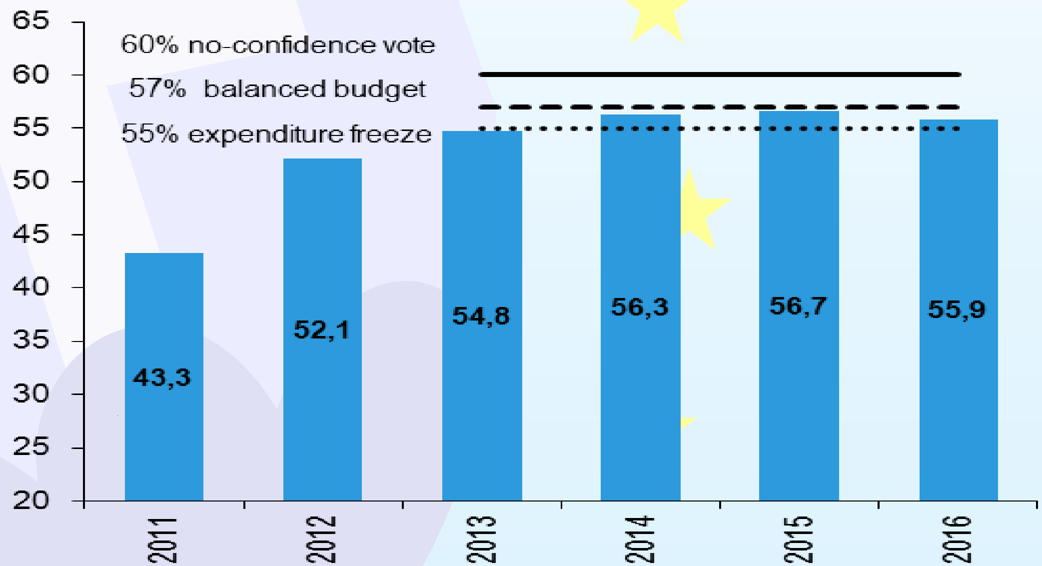
Government Debt Ratio (% of GDP)



Source: Eurostat, February 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 , April 2013

4. Banking Sector

Conservative and Sound Banking Sector

- As of 31 December 2012, 14 banks, 14 branches of foreign credit institutions and 3 representative offices of foreign banks were operating in the Slovak banking sector.
- Most Slovak banks are fully or majority owned by international banking groups
- Rating of banks is linked to state and also to foreign mother companies. Generally rating of Slovakia is not the limiting factor for rating of local branch banks that in some cases are rated better than mother

Bank	**Moodys´** Longterm		**FITCH** Longterm	
	rating	outlook	rating	outlook
CITI bank (CITI)	A3	stable	A	stable
ING bank (ING)	A2	negative	A+	stable
Tatra bank (RZB)	A3	negative		
Slovenska sporiteľňa (ERSTE)			A	stable
Unicredit bank (Unicredit)	Baa2	stable	A+	stable
VUB (Intesa)	A3	stable	BBB+	negative

- Because except of one bank all others are part of international banking groups all the rules including models for evaluation of credit risk came from mother companies

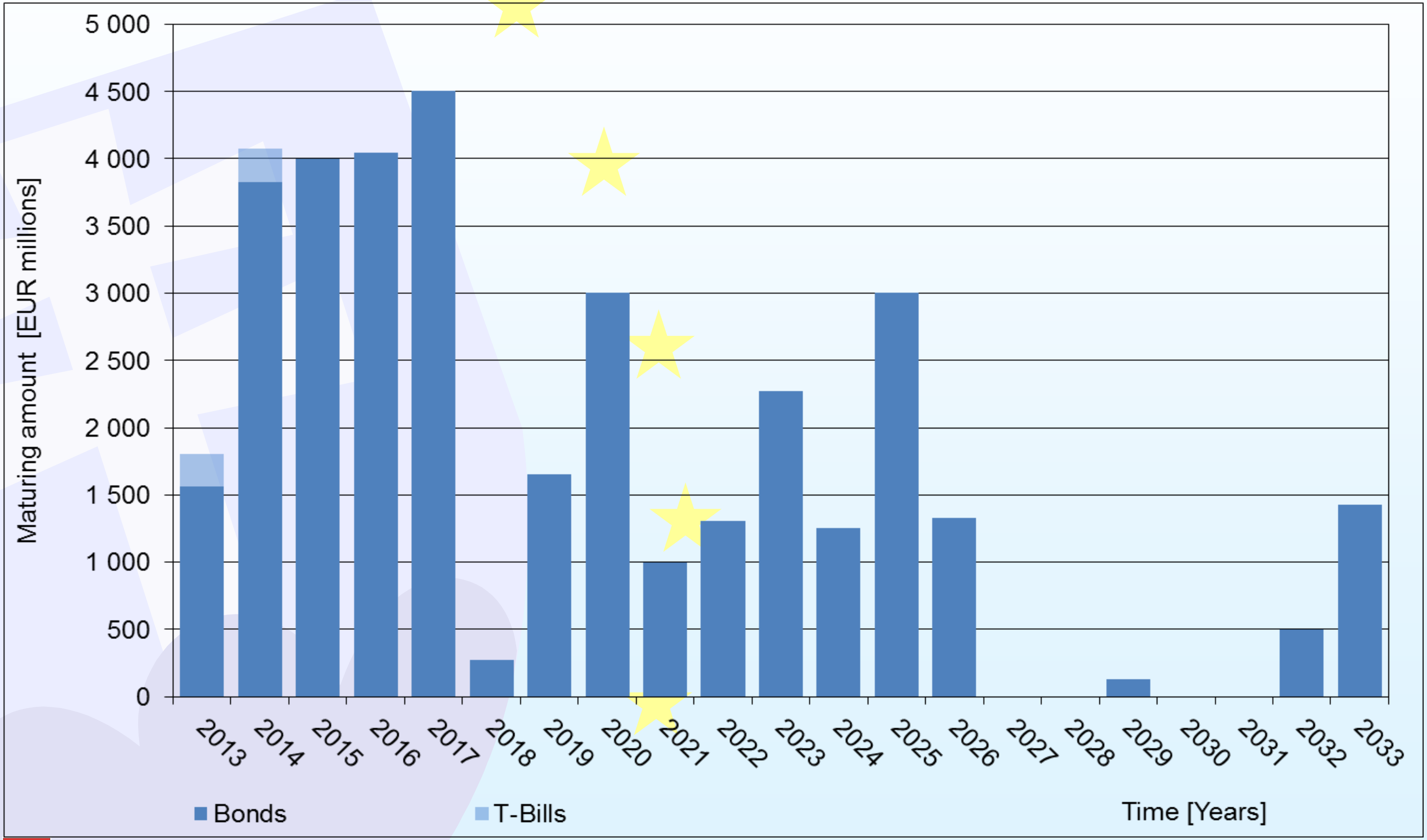
Banking sector not a source of risk

- The share of non-performing loans as a percentage of total loans decreased to 5.41% as of 31 December 2012 from 5.75% as of 31 December 2011, this measure decreased further to 5.31% as of 28 February 2013
- At the beginning of 2013, the growth of the banks' loan portfolio has reached the same level as during the last quarter of 2012 but was substantially lower than during 2011 and the first half of 2012
- The overall Tier 1 ratio of the Slovak banking sector remained unchanged at the level of 14.7% as of 31 January 2013
- The size of the banking sector’s assets as a percentage of GDP was approximately 85.3% as of the end of 2012
- The foreign exchange risk in the loan portfolios of Slovak banks is limited as the share of foreign currency loans in the Slovak banking sector was only at 1.4% as of February 2013
- The loan-to-deposit ratio in the Slovak banking sector was 87.84% as of 31 December 2012
- The amount of loans as a percentage of GDP is slowly growing and stood at 52.1% as of 31 December 2012

5. Debt Management and Funding

Redemption Profile

ARDAL's effort extended and smoothed the debt redemption profile

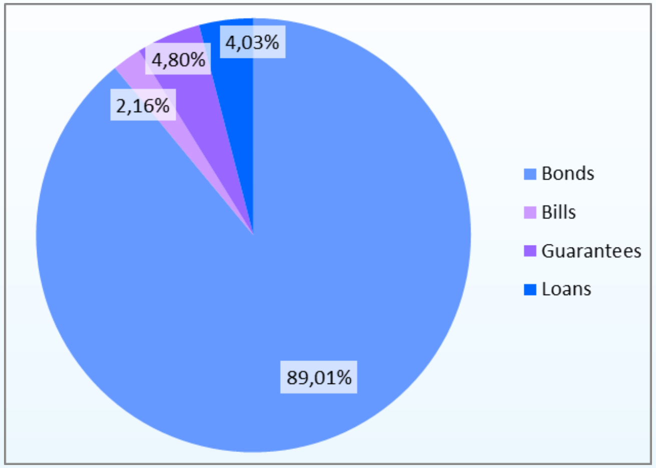


Source: ARDAL, April 2013

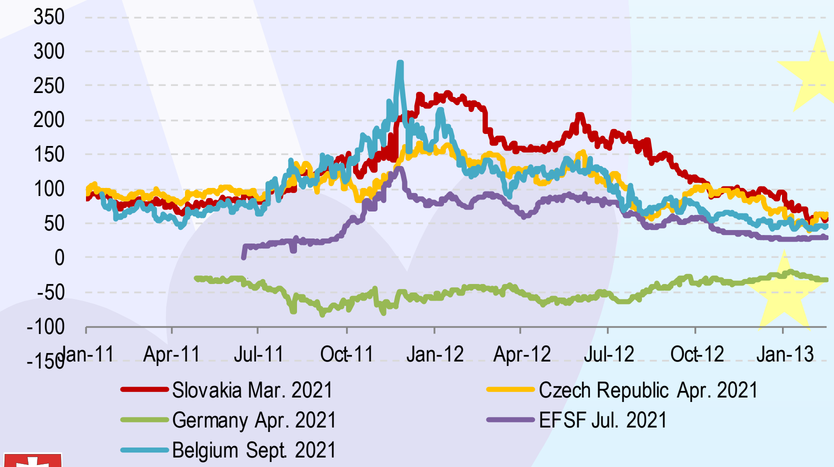
Government Debt Characteristics

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

Government Debt by Instrument

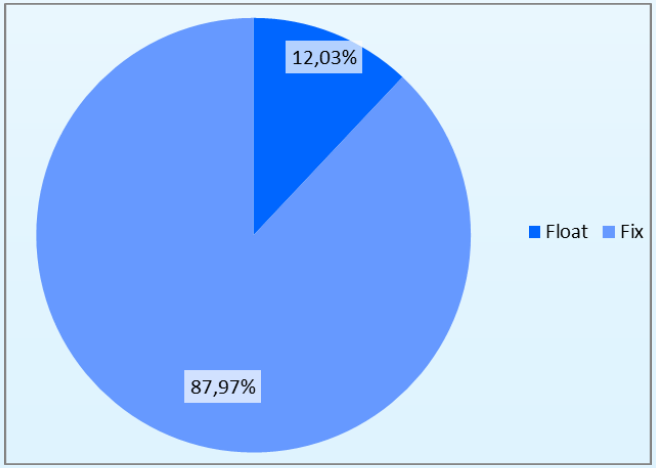


Asset Swap Spread Development of Selected Eurobonds (in bps)



Source: Bloomberg, February 2013

Government Bond Portfolio by Coupon Type



Source: ARDAL, April 2013

Debt Financing in 2012

- The main area of interest 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 prolongation 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
  - further **diversifying** the portfolio of **instruments**
- 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 (pre-financing for 2014)
- We have already opened new bond with tenor 20Y, new benchmark bond with tenor 10Y and two tranches (6.5Y and 10.5Y) of new CHF bond
- Still to open new lines of bond with tenor 5 years and 15 years and new FRN
- As of end of April EUR 5.4 billion i.e. 65 % of the budgeted issuance for 2013 has already been issued
- Despite historically lowest average yield achieved by issuance (weighted by tenor) and for whole portfolio Slovakia offers nice pick-up against the core countries

Source: ARDAL

6. Credit Positioning of Slovakia and CE4 Comparison

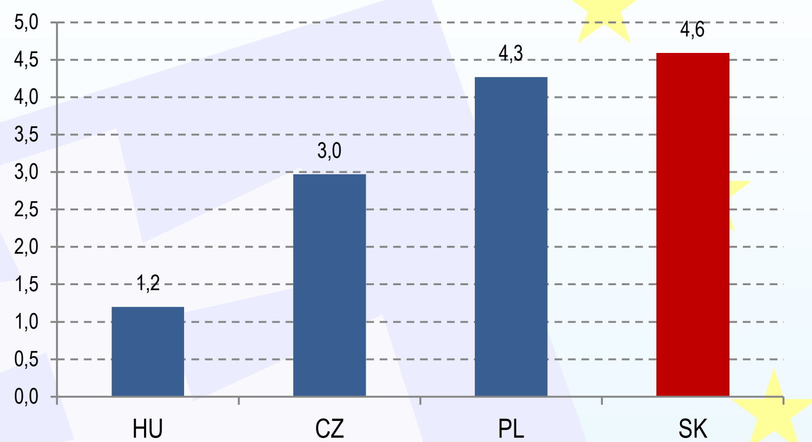
Slovakia's Fundamentals Compare well vs. its Peer Group Inside and Outside of the Eurozone (1/2)

	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)	Baa2/A-/A- (neg/st/neg)	Aa3/AA/AA (neg/neg/st)	Aaa/AAA/AAA (neg/st/st)	
Debt/GDP	'11: 43,3; '12: 52,1; '13F: 54,6	'11: 40,8; '12: 45,8; '13F: 48,3	'11: 56,4; '12: 55,6; '13E: 57,5	'11: 46,9; '12: 52,1; '13F: 59,5	'11: 97,8; '12: 99,6; '13F: 101,4	'11: 80,4; '12: 81,9; '13F: 81,1	'11: 88,0; '12: 92,7; '13F: 95,5
Deficit/GDP [1]	'11: (5,1); '12: (4,3); '13F: (3,0)	'11: (3,3); '12: (4,4); '13F: (2,9)	'11: (5,0); '12: (3,9); '13F: (3,9)	'11: (6,4); '12: (4,0); '13F: (5,3)	'11: (3,7); '12: (3,9); '13F: (2,9)	(0,8) (0,2)	'11: (4,2); '12: (3,7); '13F: (2,9)
GDP growth [2]	'11: 3,2; '12: 2,0; '13F: 1,2	'11: 1,9; '12: (1,3); '13F: 0,0	'11: 4,3; '12: 2,0; '13F: 1,2	'11: 0,6; '12: (2,3); '13F: (2,0)	'11: 1,8; '12: (0,2); '13F: 0,2	'11: 3,0; '12: 0,7; '13F: 0,5	'11: 1,4; '12: (0,6); '13F: (0,3)
CA/GDP [1]	'11: (2,1); '12: 2,3; '13F: 1,2	'11: (3,9); '12: (2,9); '13F: (2,7)	'11: (4,5); '12: (3,6); '13F: (2,7)	'11: 0,1; '12: 1,9; '13F: 3,8	'11: 1,0; '12: 1,5; '13F: 2,0	5,6 6,0	'11: 0,2; '12: 1,5; '13F: 2,2
10yr ASW Spread [3] bps	101	65	112	360	58	-19	N/A

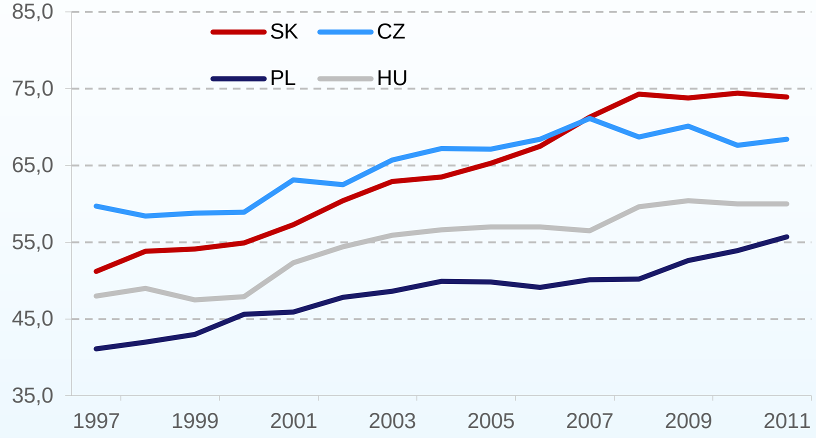
1) Source: EC Spring Forecast April 2013
2) Source: Eurostat 17 April 2013
3) Source: Bloomberg, April 2013
4) Source: Ministry of Finance, January 2013

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

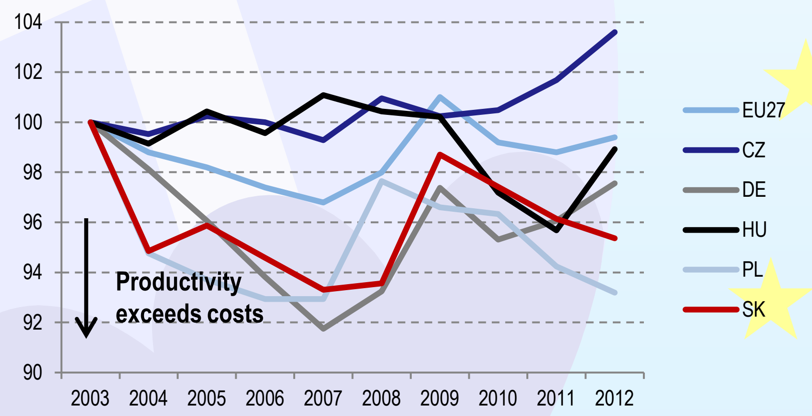
Average Real GDP Growth in CE4 Countries (2003-2012, %)



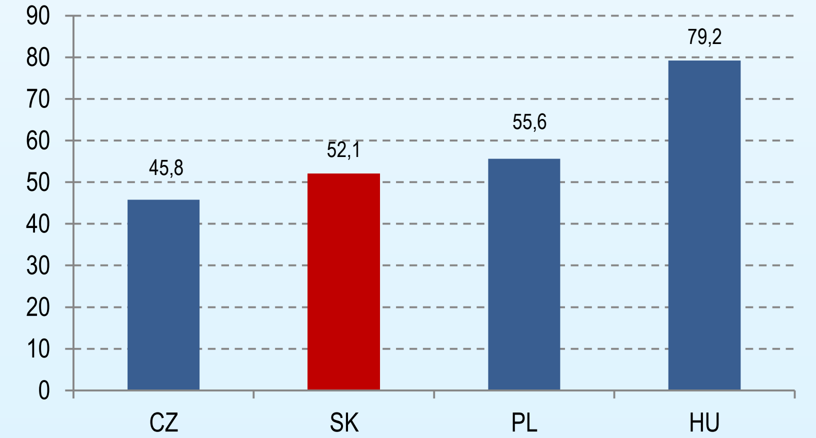
Labour Productivity in CE4 Countries (EU27=100, in PPS)



Nominal ULC Index (Wage Bill / Nominal GDP, 2003=100)



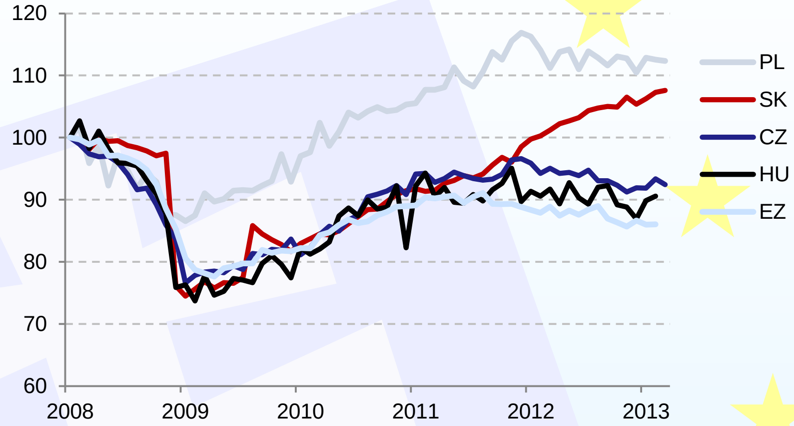
General Government Debt in CE4 Countries (2012, % of GDP)



Source: Eurostat

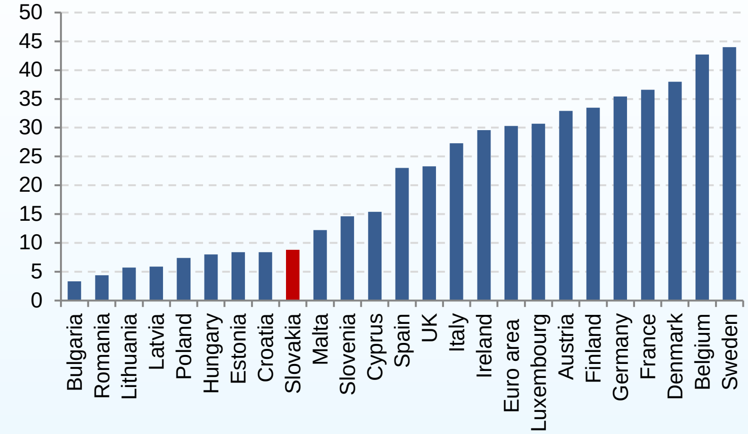
Slovakia's industrial sector is very competitive and is gaining market share outside of Europe

Index of Industrial production (Jan 2008=100)



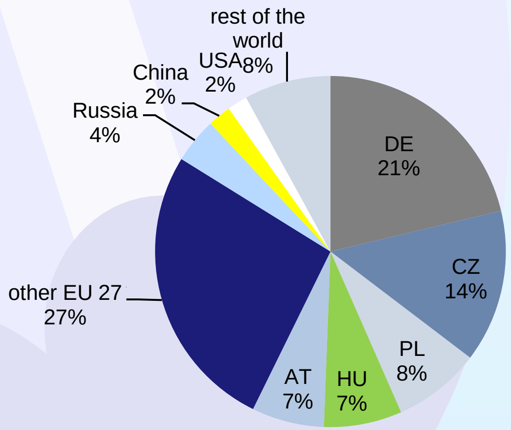
Source: Eurostat

Total Labor Cost in Industry (EUR/hour)



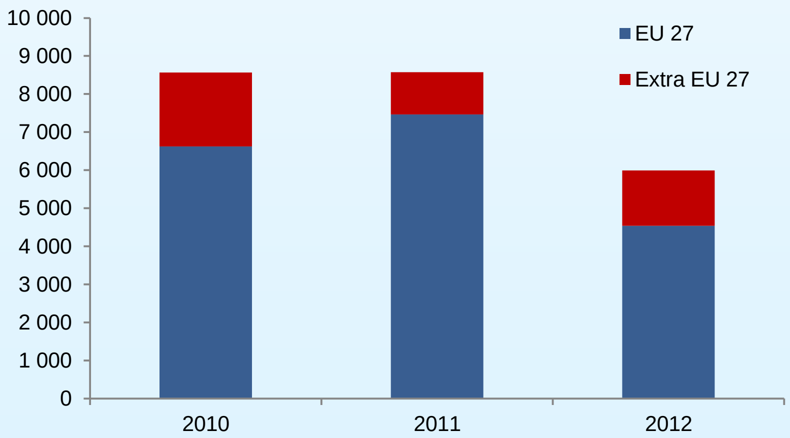
Source: Eurostat

Export destination in 2012



Source: Statistical Office of the SR

Increase in Slovak export by destination (mil. EUR)



Source: Statistical Office of the SR

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