

SLOVAK REPUBLIC

Investor Presentation

April 2019

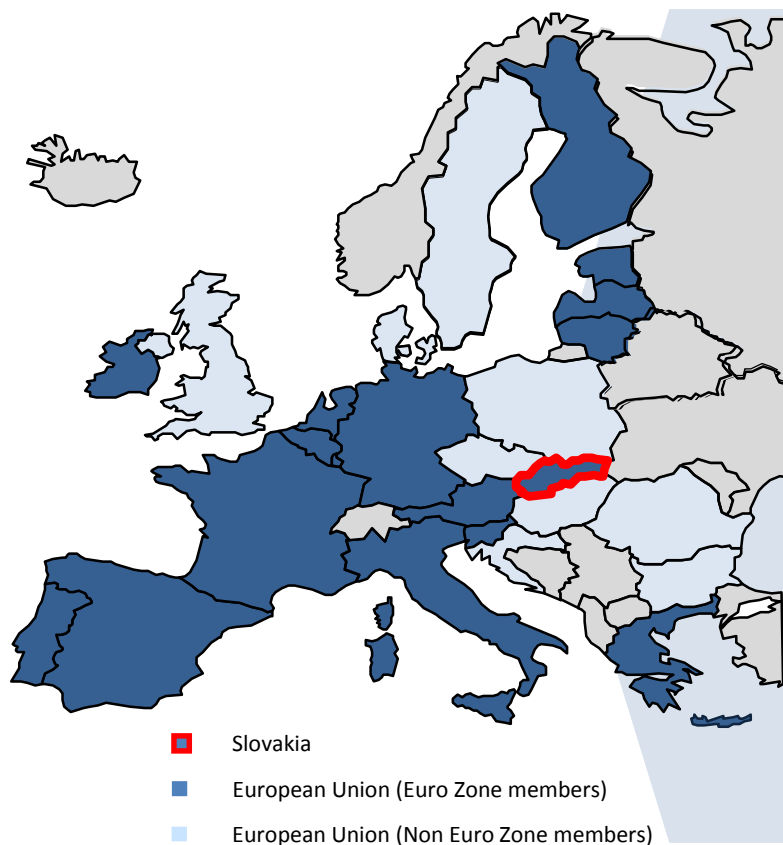


Slovakia: A Robust Credit Story

Slovakia – At a Glance



Geographical location

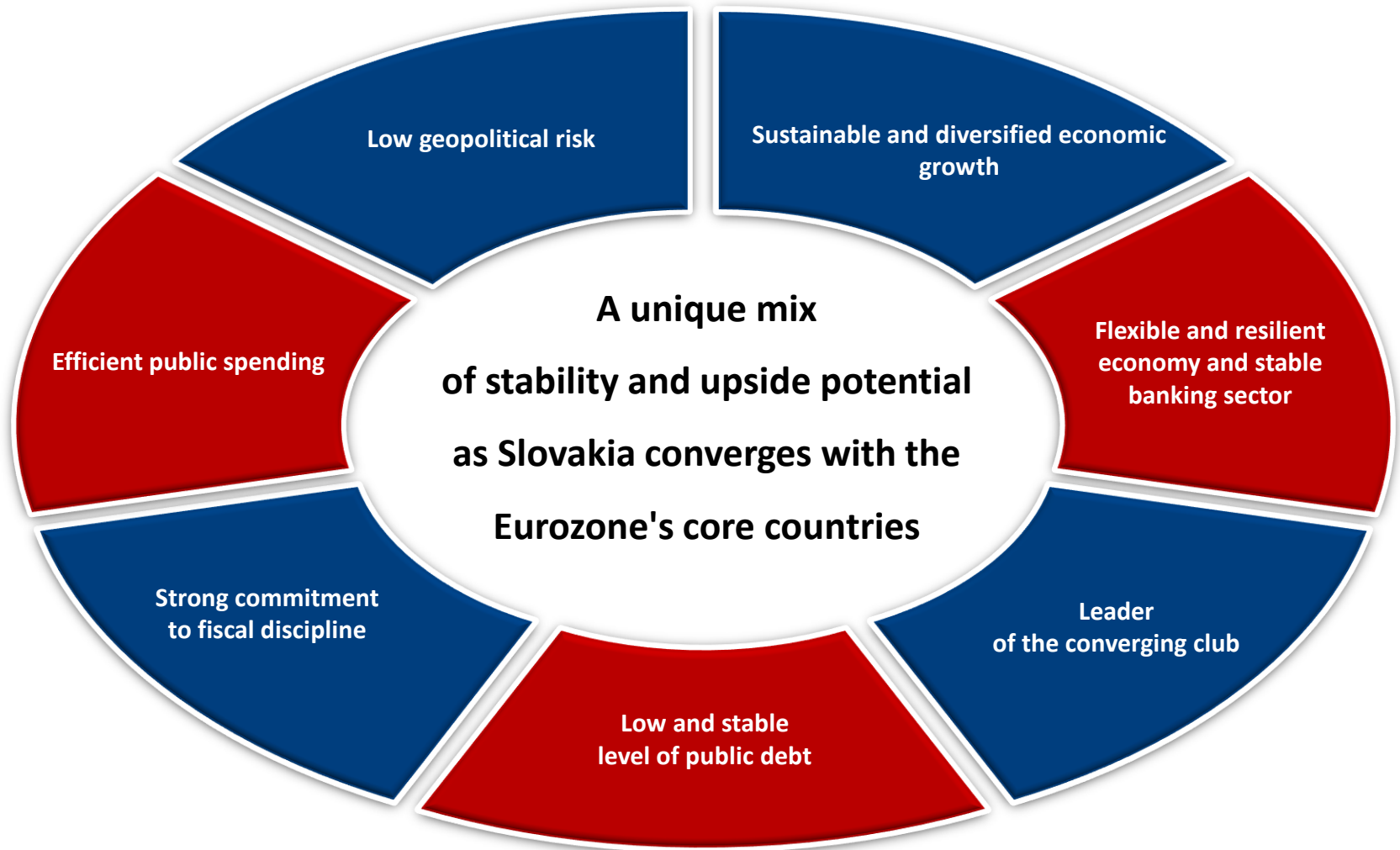


Key facts

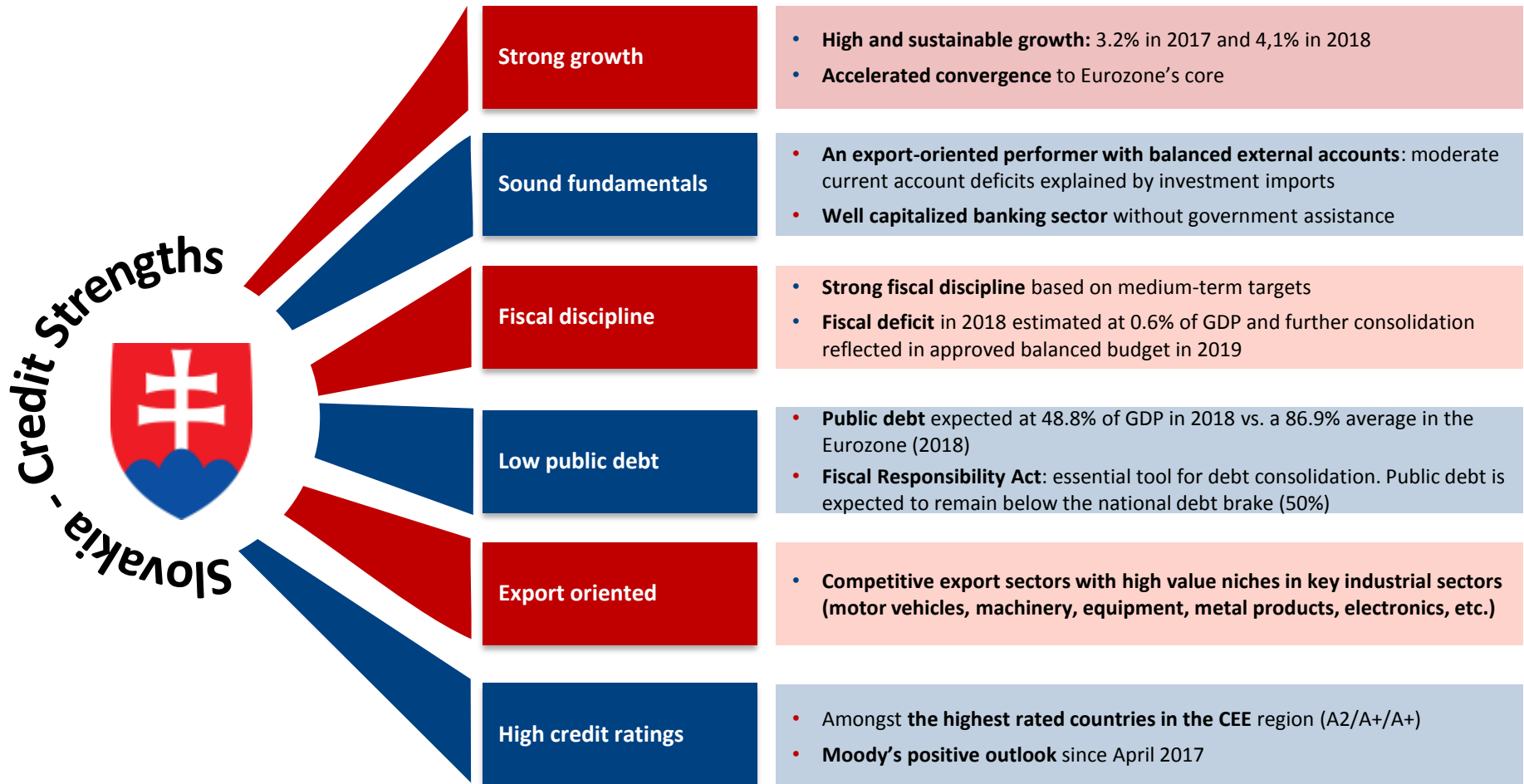
Ratings (Moody's/S&P/Fitch)	A2 (positive)/A+ (stable)/A+ (stable)
GDP (2018)	€ 90,2 billion
GNI per capita (2017)	€ 14,700
Population (2018)	5.4 million
Real GDP growth (2018)	4.1%
Inflation (HICP – 2018)	2.5%
Currency	EUR
Key economic sectors	Services, Manufacturing, Wholesale & Retail Trade, Construction
Memberships	OECD, EU, EMU, NATO, Schengen Area
Head of State	President Andrej Kiska
Capital	Bratislava
Territory	49,034 km ²



Source: Eurostat, Ministry of Finance, NBS



Slovakia – Credit Strengths in Detail



Transformation Success Story

- ✓ Small and effective government
- ✓ Sustainably robust GDP growth
- ✓ Commitment to fiscal discipline
- ✓ High share of investment to GDP
- ✓ Export-oriented economy
- ✓ Low debt and stable external account

SLOVAKIA	2015	2016	2017	2018	2019e	2020e
Real GDP Growth (in %)	4.2	3.1	3.2	4.1	4.1	3.5
<i>Private Consumption</i>	2.2	2.9	3.5	3.0	3.2	3.0
<i>Public Consumption</i>	5.4	1.6	1.7	1.9	1.4	1.6
<i>Gross fixed capital formation</i>	21.9	(9.4)	3.4	6.8	2.2	3.0
<i>Exports (goods and services)</i>	6.0	5.5	5.9	4.8	8.0	7.0
<i>Imports (goods and services)</i>	8.0	3.4	5.3	5.3	6.8	6.3
GNI (real growth in %, adjusted by GDP deflator)	2.9	3.8	3.1	4.6 (e)	4.1	3.5
Employment Growth (% p.a.)	2.0	2.4	2.2	1.7 (e)	1.0	0.6
Unemployment rate (% of labour Force)	11.5	9.6	8.1	6.6	6.3	6.0
Inflation (HICP) (% p.a.)	(0.3)	(0.5)	1.3	2.5	2.5	2.4
General government balance (% of GDP)	(2.6)	(2.2)	(0.8)	(0.6) (e)	(0.3)	(0.1)

Sources: Eurostat, EC Autumn Forecast 2018, EC Winter (interim) Forecast for forecasts of GDP and inflation
 *last available value for GNI is for 2017



The Slovak government continues to implement structural reforms to boost competitiveness; key areas include *pensions, tax policy and the Value for Money initiative*

✓ **Pension Reform saving 3% of GDP in the long run:**

- Retirement age linked to life-expectancy
- Pensions linked to inflation performance
- Introduction of private pension schemes

✓ **Improving Tax Collection and Combating Tax Evasion**

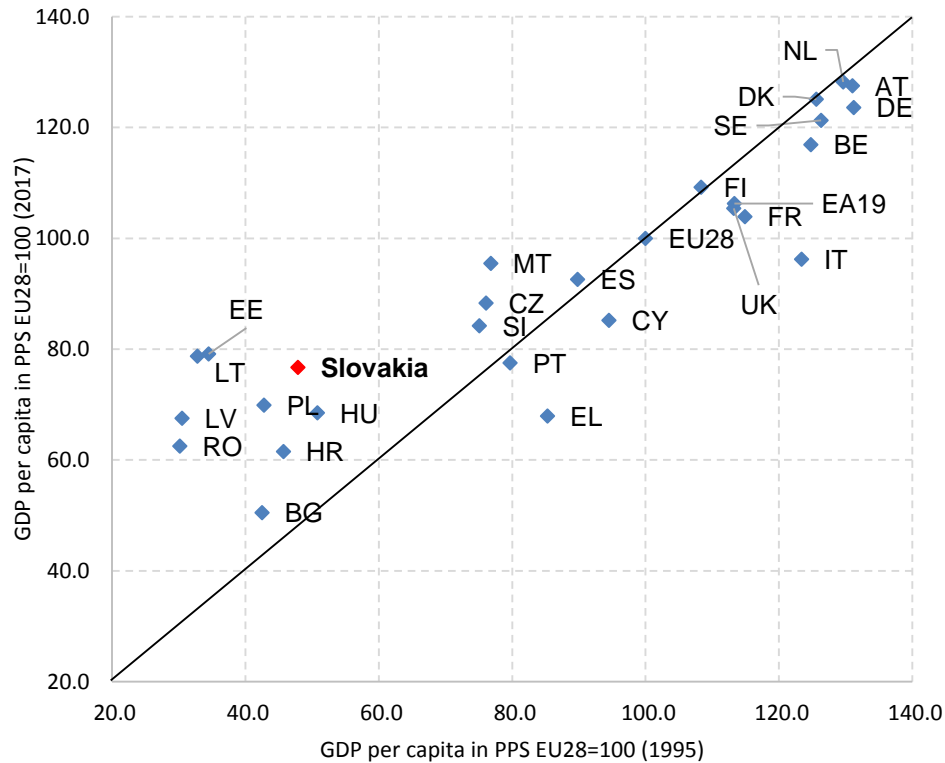
- VAT revenues have increased by 39% since 2012 primarily due to more effective tax collection
- Law regulating offshore companies' participation in the public procurement process

✓ **Value for Money Initiative**

- Government initiative to raise public spending efficiency (started in 2016)
 - Compulsory spending reviews of at least 50% of government expenditures within the electoral cycle
 - Public Investment projects evaluation (for projects over EUR 10m in the IT sector & over EUR 40m in other sectors)
- Past spending reviews:
 - Healthcare, transport and informatization completed in 2016
 - Education, social policies and environment sector completed in 2017
 - Public wage bill, agriculture, culture, marginalized groups and healthcare 2 to be finished in 2019



Fast and Ongoing Convergence



- ✓ **Leading convergence player**
- ✓ **Currently: 77% of the EU27 GDP/per capita**
- ✓ **Convergence: 30 p.p. in 20 years**
- ✓ **Continued fast convergence pace**

Source: Eurostat



Slovakia – A top performer among EZ countries

- ✓ Slovakia's growth at more than double the euro area average compares favorably with most peers
- ✓ Convergence is almost complete for the unemployment and inflation rates
- ✓ A healthy and competitive external sector suggests a high growth potential for the country
- ✓ Slovakia's public debt ratio is among the region's lowest at almost half the euro area average and the country has a strong commitment to keep the ratio below 50% of GDP

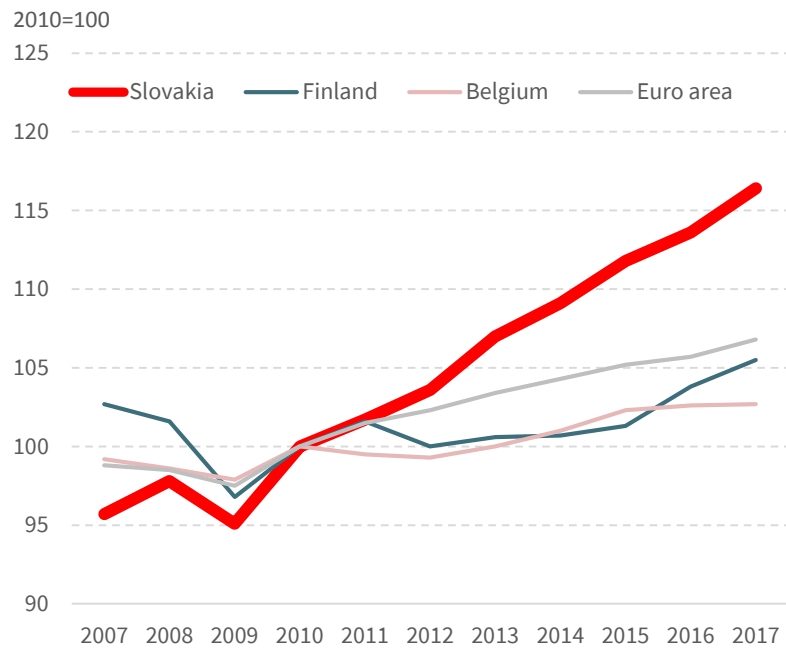
2019e	Slovakia	Belgium	Finland	Eurozone
Real GDP growth (%)	4.1	1.3	1.9	1.3
Inflation – HICP (%)	2.5	1.9	1.4	1.4
Unemployment rate (%)	6.3	6.1	7.2	7.9
Current Account Balance (% of GDP)	1.2	1.1	1.1	3.6
Budget Balance (% of GDP)	-0.3	-1.1	-0.2	-0.8
Structural Budget Balance (% of pot. GDP)	-0.8	-1.3	-0.6	-1.0
General Government Gross Debt (% of GDP)	46.4	99.8	58.5	84.9

Source: EC Autumn Forecast 2018, EC Winter Forecast 2019 for GDP growth and inflation

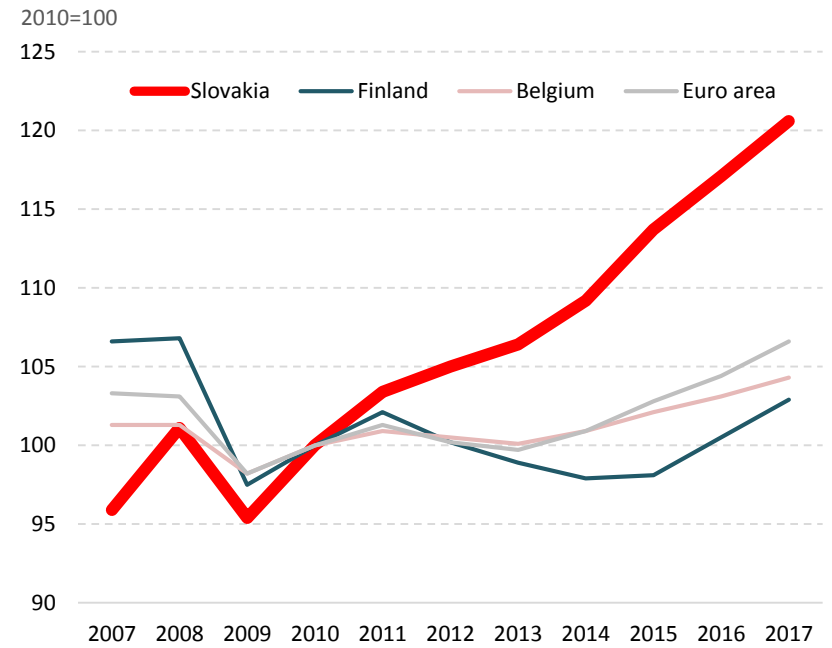


Strong Productivity and GDP Growth

Real labor productivity per hour worked



GDP per capita (chain-linked volumes)

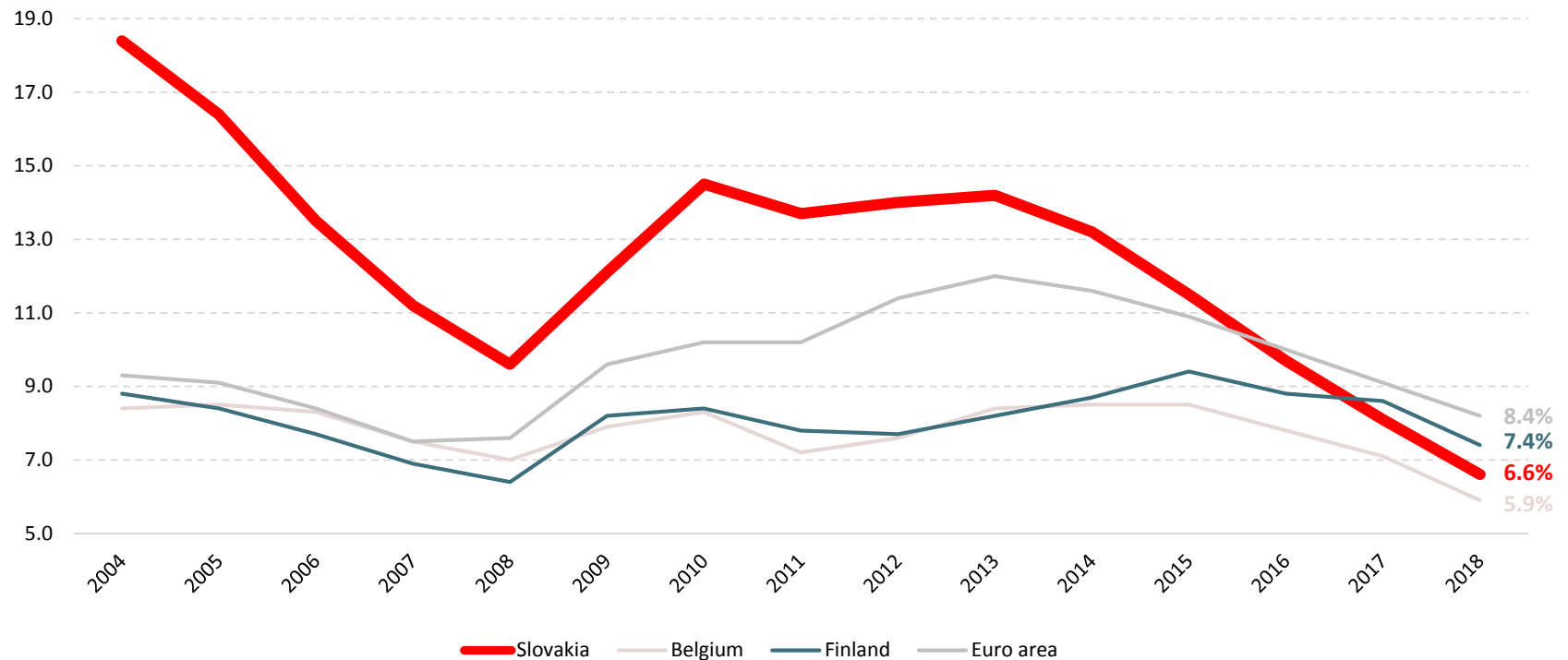


Source: Eurostat



Unemployment Rate at All Time Low

✓ New industries and services translated into new jobs (automotive industry, shared services, IT sector)

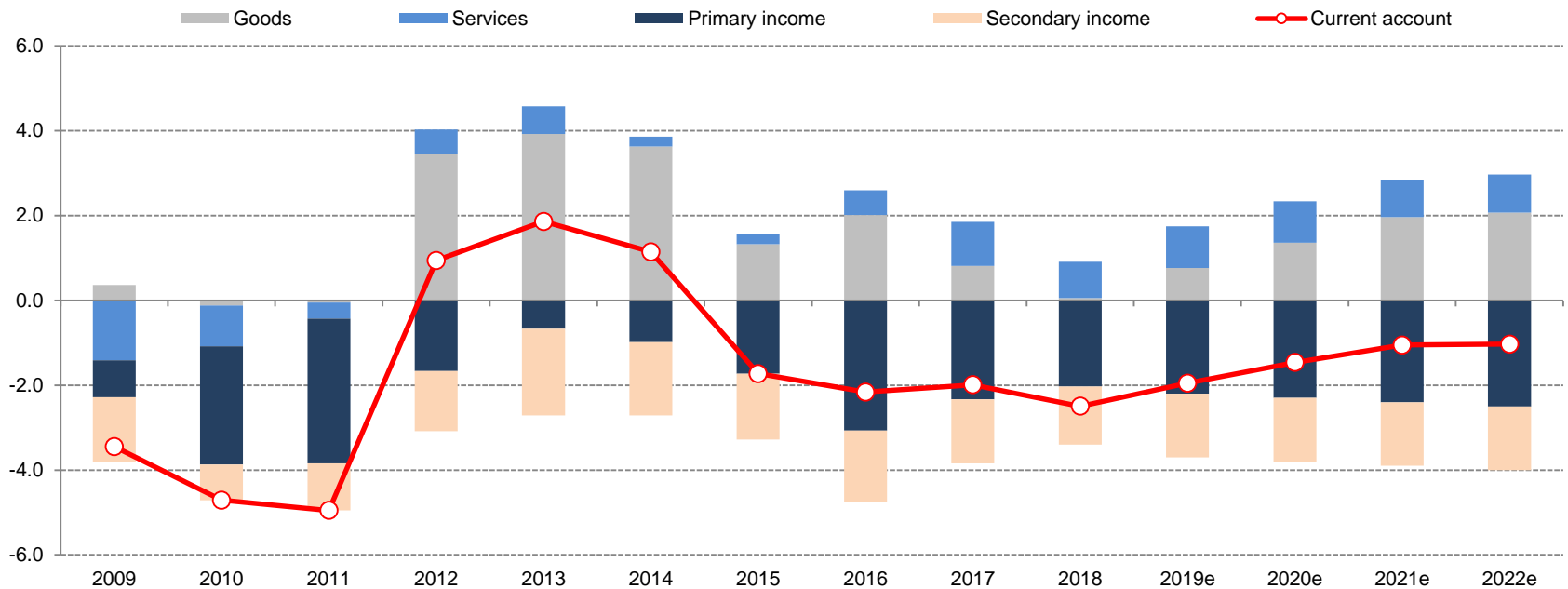


Source: Eurostat



Open, Export – Oriented Economy

✓ From trade deficit (importing technologies) to trade surplus (export performer)



Source: NBS; Ministry of Finance February 2019 Forecast

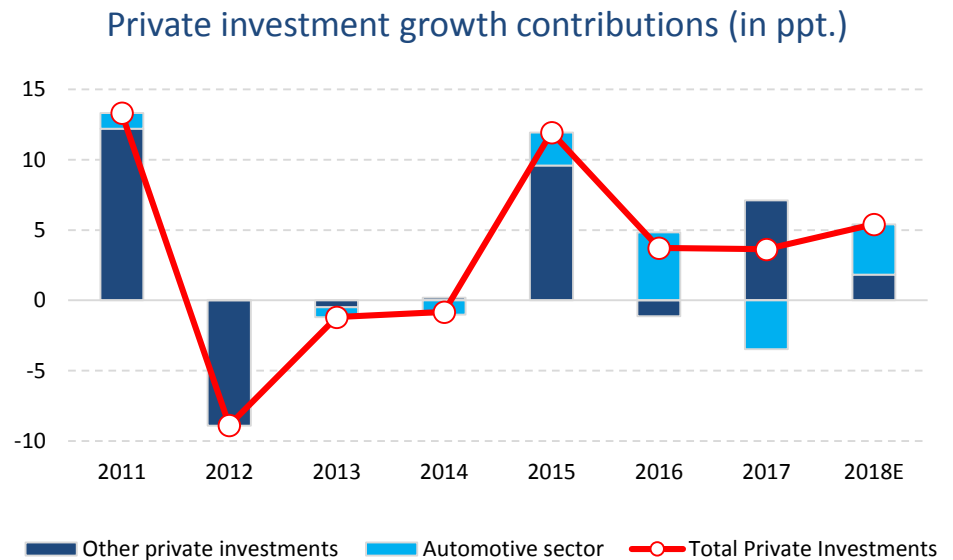


Slovakia continues to attract value-added direct investment

✓ Automotive companies lead private investment in Slovakia

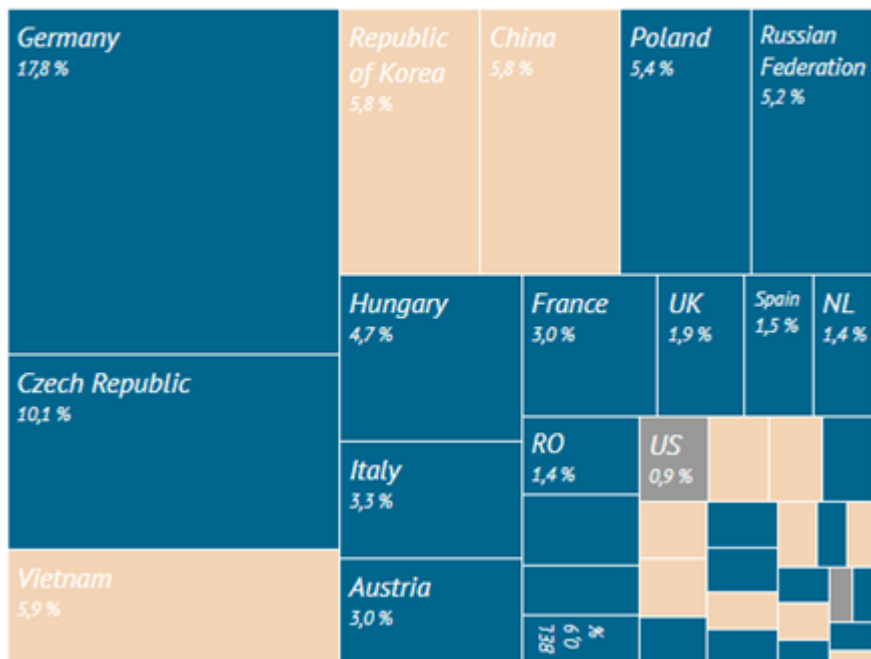
Cumulative investment in mil. EUR		period
Car producers		
Jaguar Land Rover Slovakia	1 400	2016-2019
Volkswagen Slovakia	2 670	2010-2017
Kia Motors Slovakia	847	2010-2017
PCA Slovakia	391	2010-2017
Largest automotive suppliers		
Continental Matador Rubber	512	2011-2017
Schaeffler Slovensko	300	2014-2017
Electronics		
Samsung Electronics Slovakia	337	2010-2017

Source: Top Trend 200

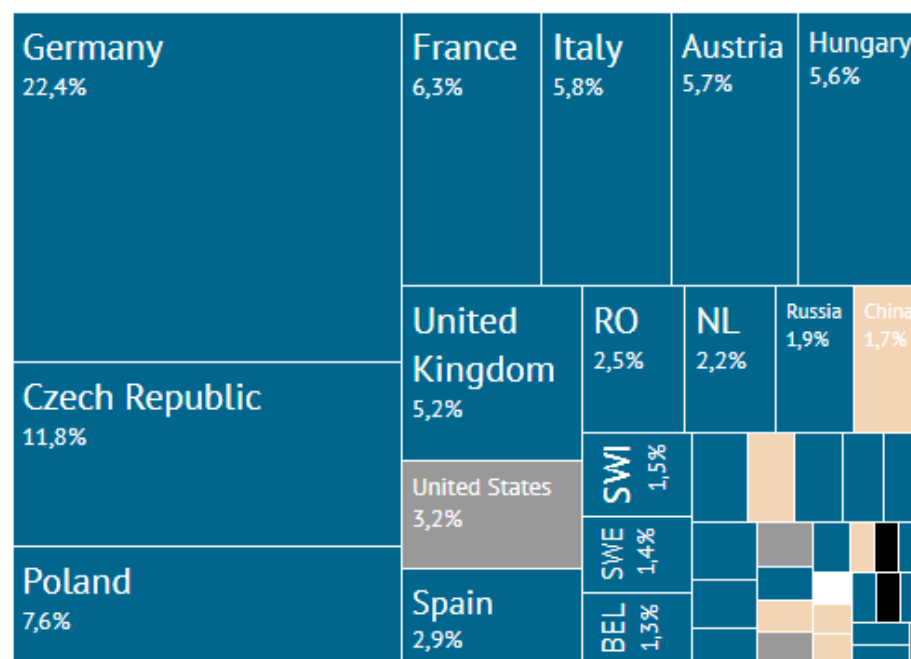


Key Trading Partners in 2018

Imports Geographical Structure (%)



Exports Geographical Structure (%)

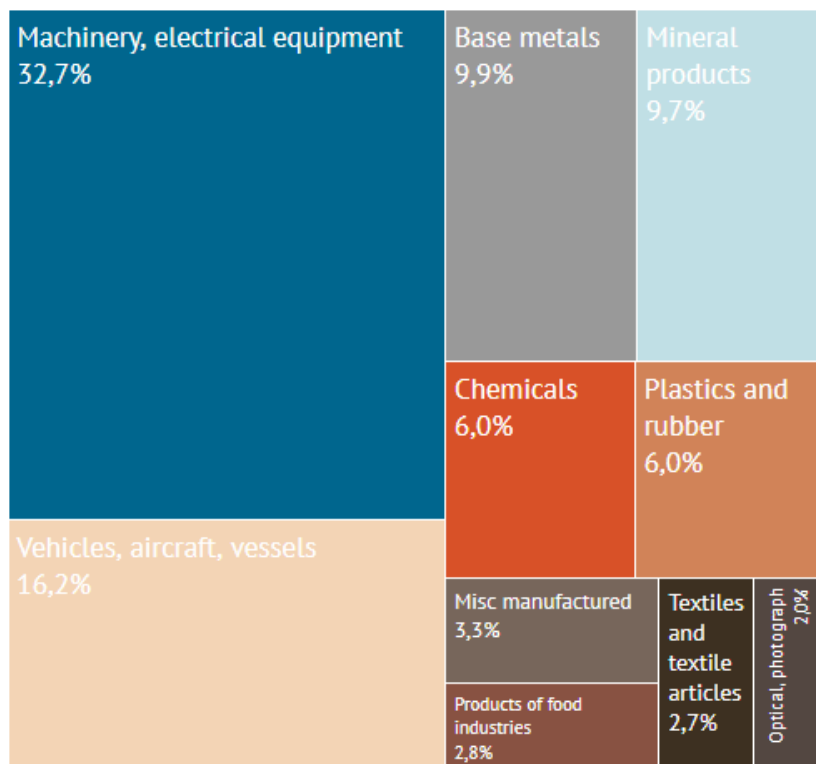


Source: Statistical Office of the Slovak Republic

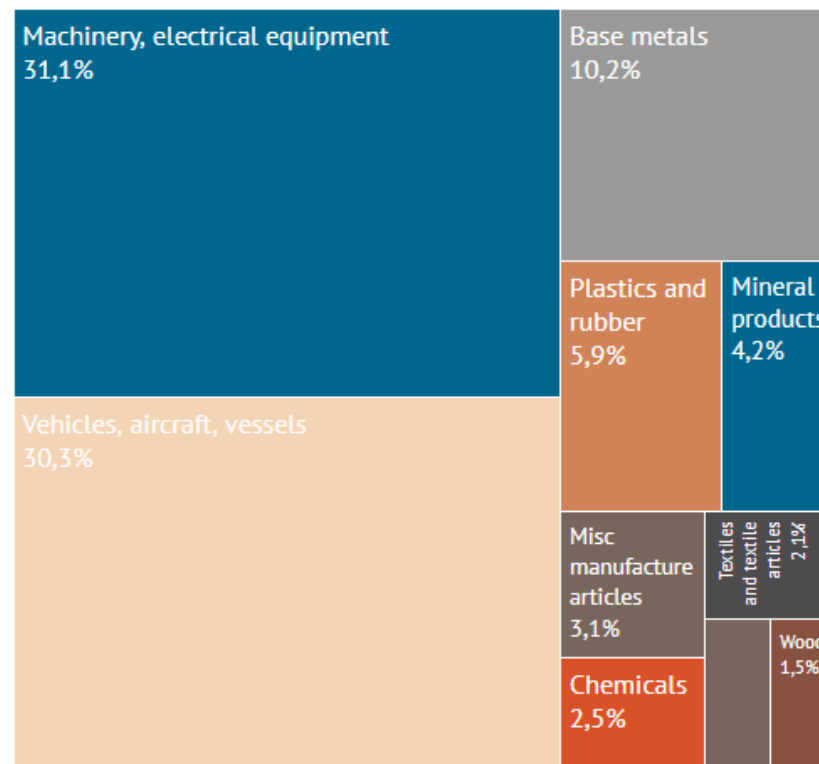


Key Export and Import Products in 2018

Imports by Product (%)



Exports by Product (%)



Source: Statistical Office of the Slovak Republic



Ratings Reflect a Solid Credit Profile



Rating Agency	Rating	Comments
	A2 Positive	<i>" ... the key credit strengths of Slovakia are: (1) Slovakia's continued strong economic growth prospects in the coming years, and (2) Anticipated pick-up in the pace of public sector debt reduction supported by robust growth and continued fiscal consolidation"</i>
	A+ Stable	<i>" ... positively evaluated the low debt burden of the public sector, sustainable public finances, the stable volume of foreign investments and the well-capitalised banking sector with a low incidence of troublesome credits (5%). According to its estimates, the Slovak public debt should decline to about 48 percent of GDP by 2020"</i>
	A+ Stable	<i>"... Slovakia's 'A+' ratings reflect its robust and credible economic framework, including its solid banking sector, eurozone membership and ability to attract foreign investment. EU membership supports political stability and institutional strength"</i>

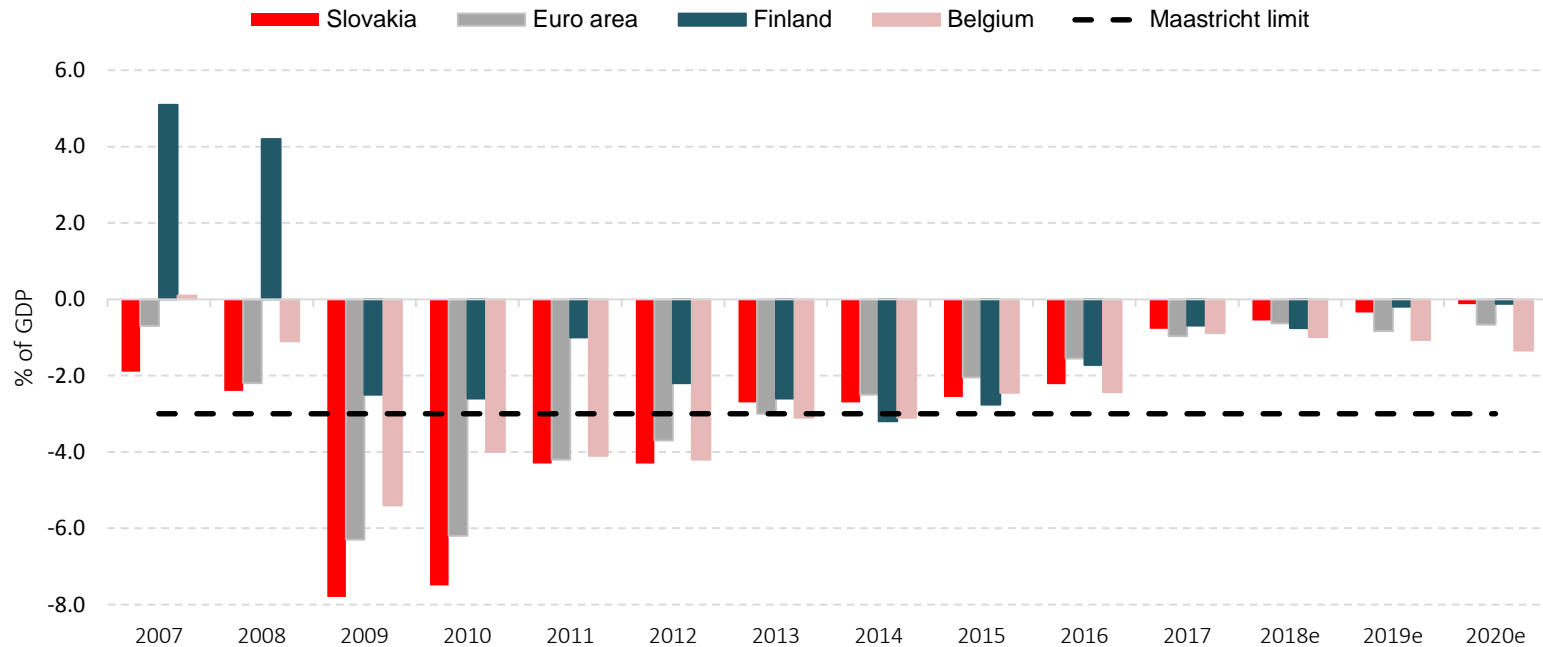
- ✓ **Stable outlook by S&P and Fitch**
- ✓ **Positive outlook by Moody's since April 2017**

Sources: Moody's, S&P and Fitch



- ✓ The approved 2019 Budget anticipates a balanced Budget this year
- ✓ Since 2009 Slovakia consolidated the budget deficit by 8% of GDP

General Government balance



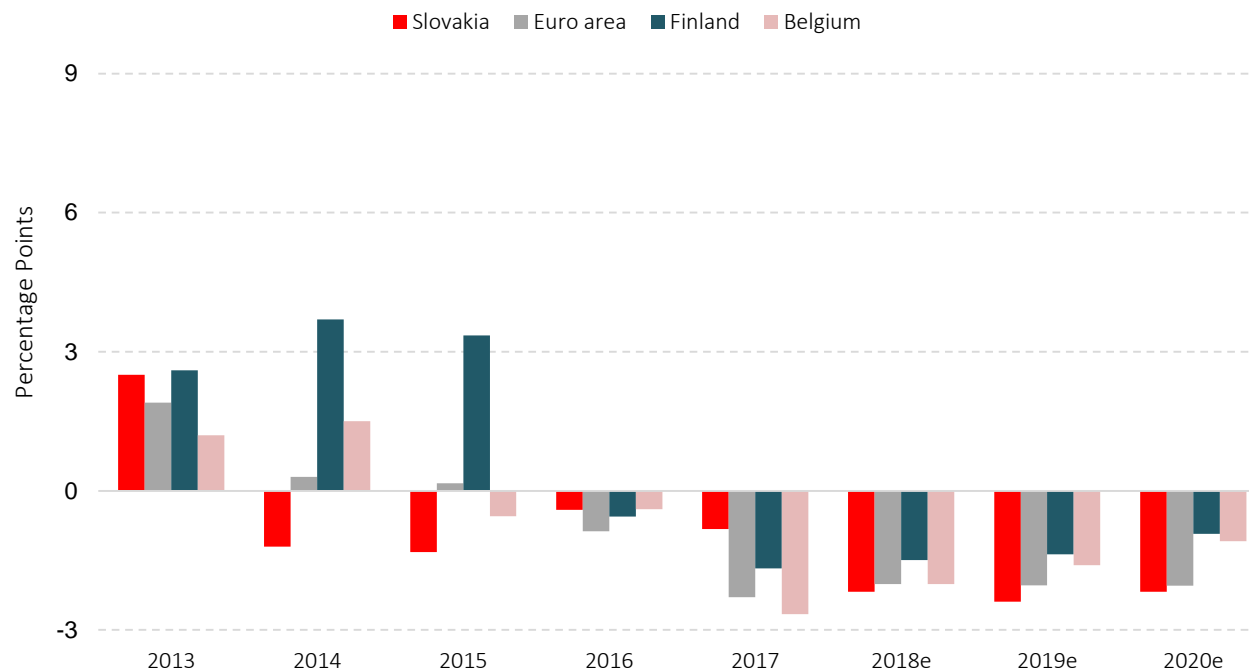
Source: Eurostat, EC Autumn forecast 2018



Public Debt Trending Downwards

- ✓ Public debt on a declining trajectory since 2014, with cumulative decline of 8.7% of GDP until 2020
- ✓ Debt to GDP ratio decrease driven by macroeconomic growth, inflation rebound and primary surpluses

Change in the Public Debt to GDP Ratio

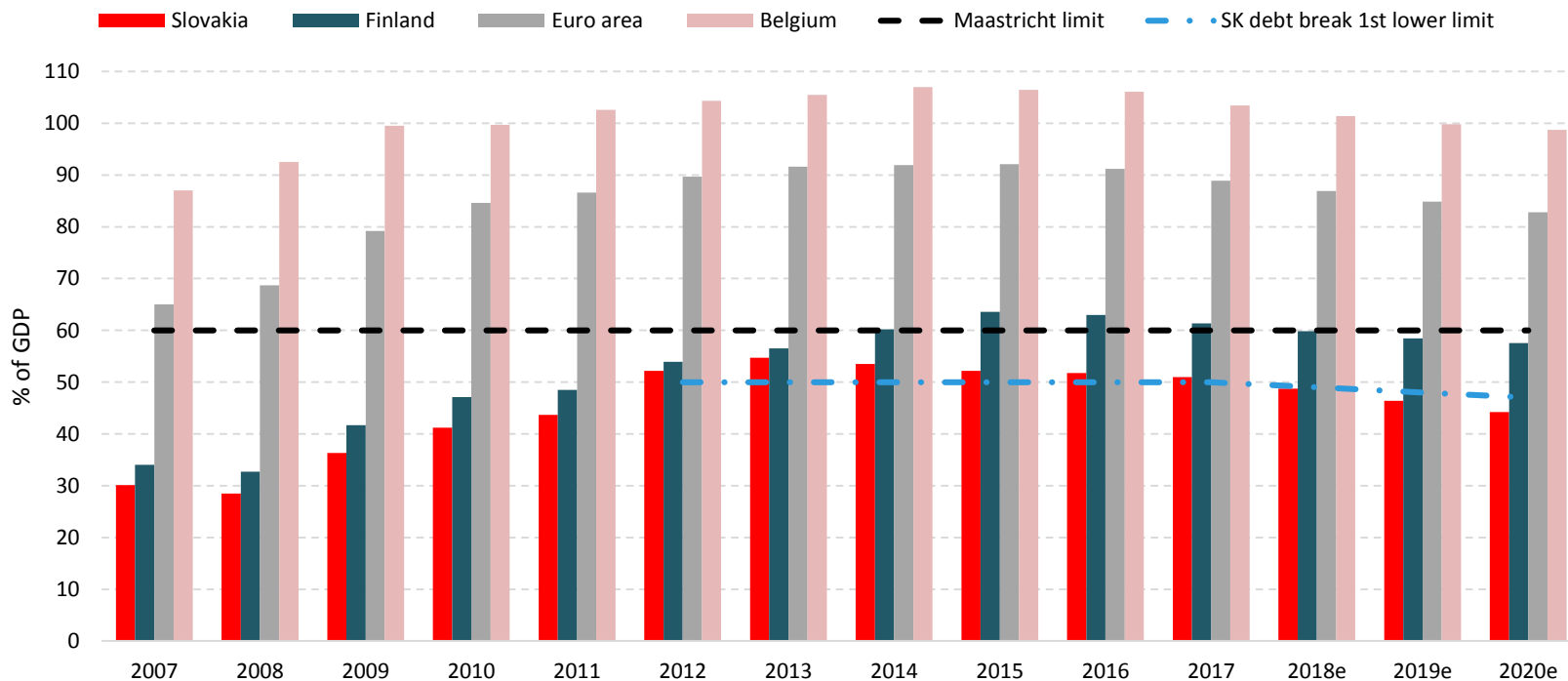


Source: Eurostat, EC autumn forecast 2018



Favorable Debt Position

- ✓ Strong commitment to keep public debt below 50% of GDP “debt brake” (well below euro area average)
- ✓ Fiscal responsibility act (national debt brake) has become stricter from 2018:
 - ✓ debt level expected to leave the sanction thresholds in 2018 at the level of 48.8% of GDP
 - ✓ by 2028 the lowest threshold of the debt brake will fall to 40% of GDP

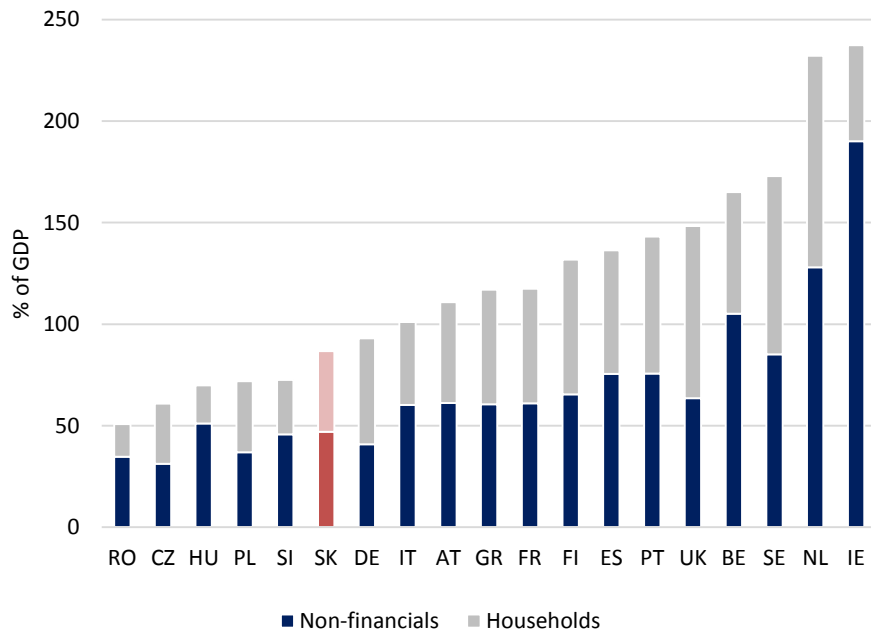


Source: Eurostat, EC autumn forecast 2018



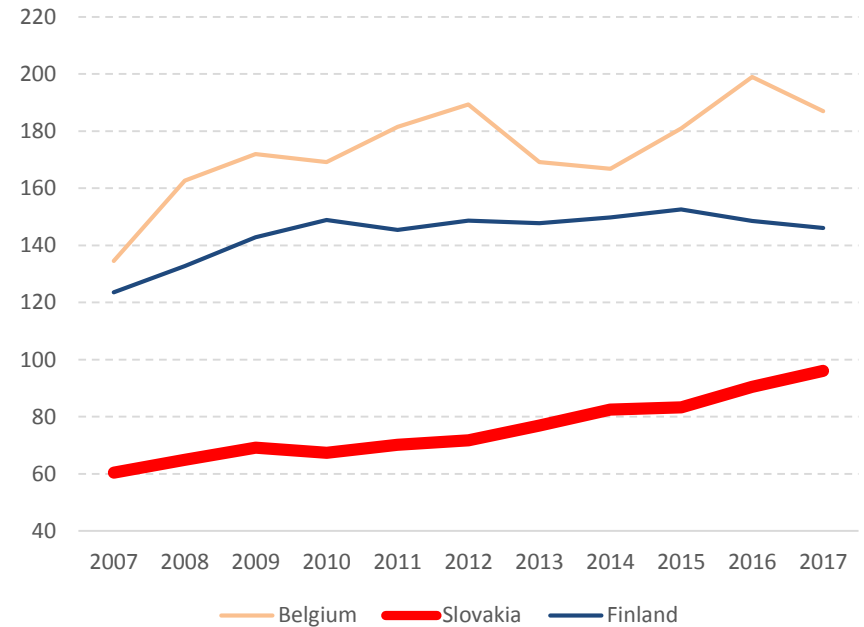
Low Household, Corporate and Private Debt

Household and Corporate Debt



Source: Eurostat, data as end of 2017

Private Debt - % of GDP



Source: Eurostat

✓ **Low debt dynamics reflects high GDP growth**



Prudent Debt Management Strategy

2018 Funding

- ✓ Total funding at EUR 3.9bn (originally planned EUR 4.5bn)
- ✓ Only one benchmark redemption of EUR 3.0bn in November
- ✓ T-bills issuance of EUR 0.8bn
- ✓ One syndicated bond transaction - dual-tranche: EUR 1.0bn 10 year bond and EUR 0.5bn 50 year bond

Secondary market improvements

- ✓ Implementation of MTS platform in February 2018
- ✓ Adjustments in primary dealers evaluation – secondary market performance

2019 Funding outlook

- ✓ Total funding needs at EUR 4.4bn
- ✓ Small redemptions – EUR 1.3bn in May (originally SKK bond) and EUR 0.3bn equivalent in October (CHF bond); 0.8bn T-bills
- ✓ 1 – 2 syndicated deals (one deal with maturity of 11 years and possibly other with maturity based on market conditions)





Slovak Republic EUR 1.5bn Dual Tranche 2028 & 2068 Issue

Slovakia impressively extends its benchmark curve to 2068 with a landmark half century bond

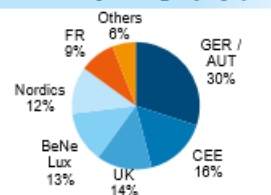
Terms & Conditions

Issuer	The Slovak Republic, acting through the Ministry of Finance and the Debt and Liquidity Management Agency (ARDAL)	
Issuer Rating	A2 / A+ / A+ (positive / stable / stable) (Moody's / S&P / Fitch)	
Format	Reg S, Bearer	
Amount	EUR 1 billion	EUR 500 million
Trade Date	5 June 2018	5 June 2018
Settlement Date	12 June 2018	12 June 2018
Maturity	12 June 2028	12 June 2068
Coupon	1.000% p.a. fixed Act/Act	2.250% p.a. fixed Act/Act
Re-offer Spread vs. DBR	+65.6bps (vs. DBR 0.5% Feb-2028)	+117.2bps (vs. DBR 1.25% Aug-2048)
Re-offer Spread vs. Mid-Swaps (MS)	+10bps	+80bps
Re-offer Yield	1.021% p.a.	2.254% p.a.
Re-offer Price	99.801%	99.881%
Denomination	EUR 1	
Governing Law	Slovak Law	
Listing	Bratislava Stock Exchange	
ISIN	SK4120014150	SK4120014184
Joint Bookrunners	Barclays / Citi / Erste Group / RBI	

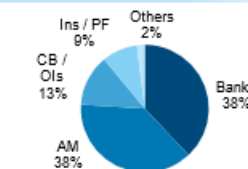
Key Aspects of the Transaction

- Following the announcement on Monday, 4th June, of a new 10-year issue with the possibility to add a 50-year tranche, the Slovak Republic ("Slovakia") together with the JLMs decided to opt for a swift execution on the next day. As the investor feedback was very constructive across both tranches supported by a positive market backdrop the group finally proceeded with both tenors
- While IPTs were set at MS +20bps area and MS +90/+95bps for the 10- and 50-year transactions, respectively, the combined lol book which soon reached over EUR 4.1bn (skewed towards the 10-year line) allowed to go out with a guidance of MS +15bps area and MS +90bps area, respectively
- Both orderbooks continued to develop very nicely and eventually reached over EUR 3.4bn from over 150 accounts in the 10-years and more than EUR 1.6bn from over 125 investors in the 50-years, respectively
- Consequently, the final spreads were set at MS +10bps and MS +80bps for the 10- and 50-year transaction, respectively, which implies a small new issue concession in the high single digits for the 10-year and 15bps for the 50-year deal
- While this milestone deal underlines the utmost trust from the international investor base towards Slovakia as an issuer, the half century bond will serve as a main reference point for sovereign issuers worldwide

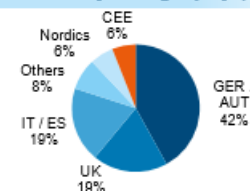
Distribution by Geography (10yrs)



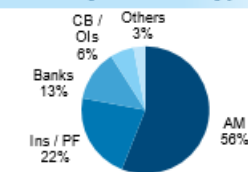
Distribution by Investor Type (10yrs)



Distribution by Geography (50yrs)

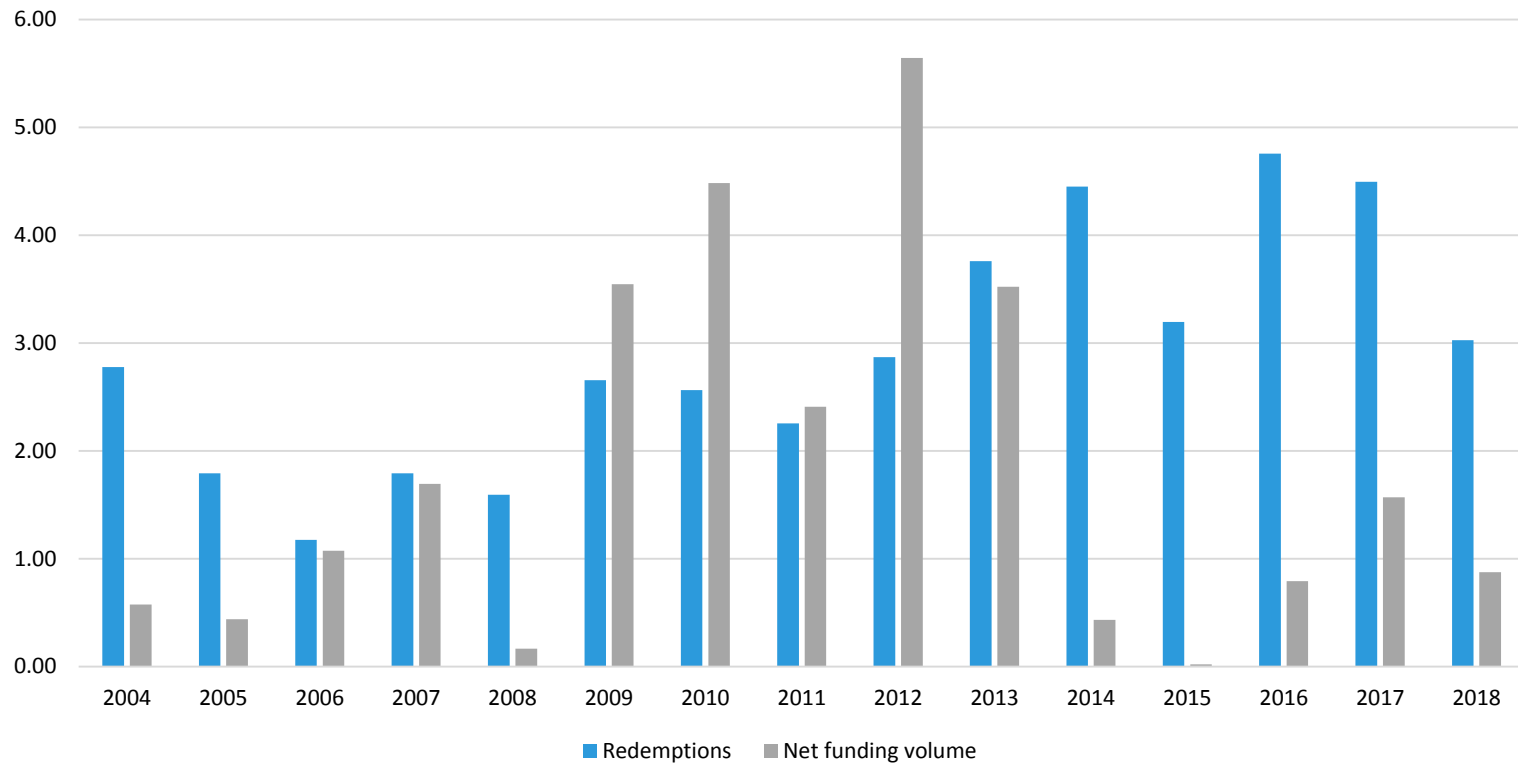


Distribution by Investor Type (50yrs)



Total Gross Funding Evolution

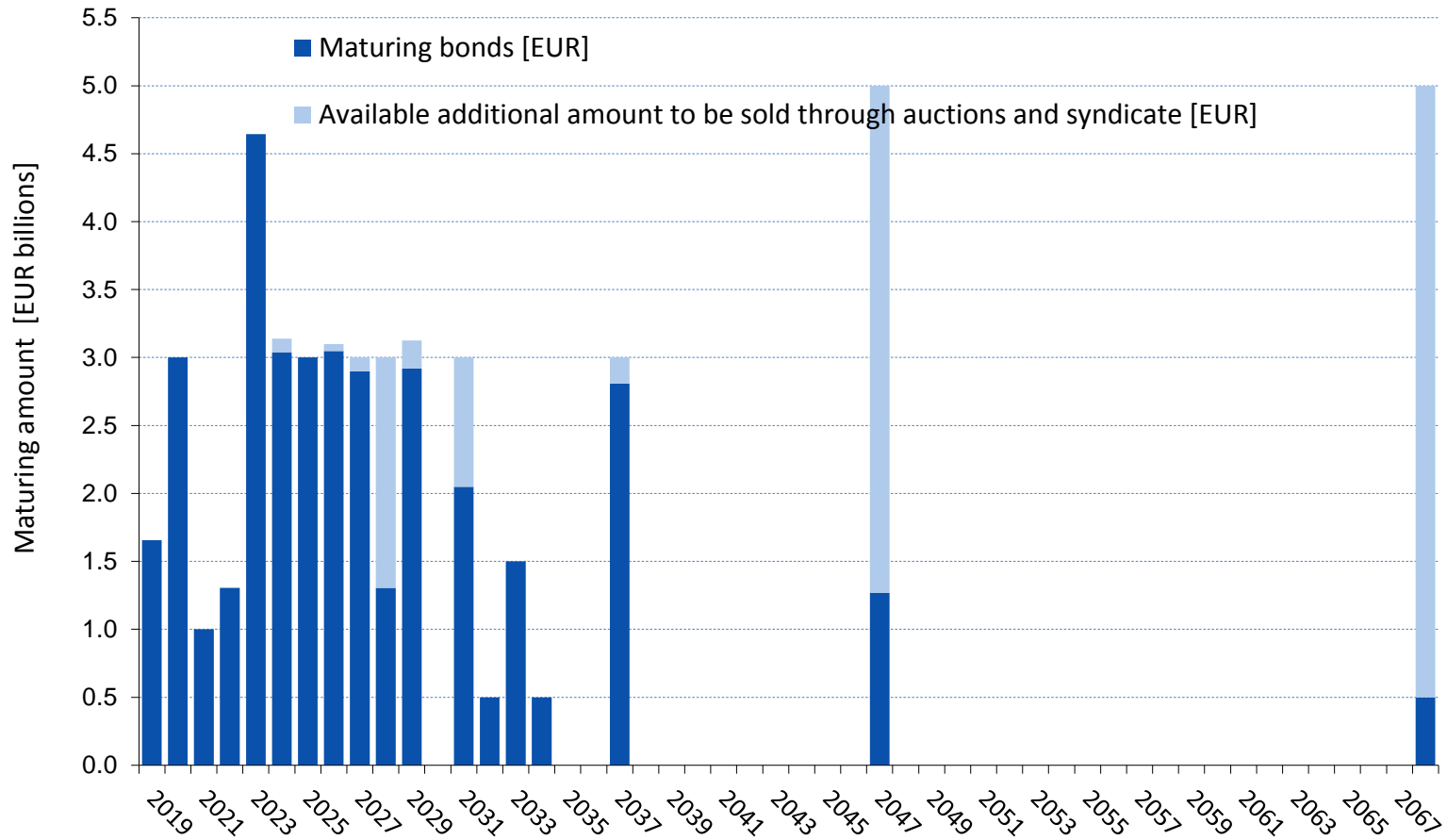
Redemptions - Net Funding Volume (EUR bn)



Source: ARDAL, as of 31/12/2018



Bond Redemption Profile



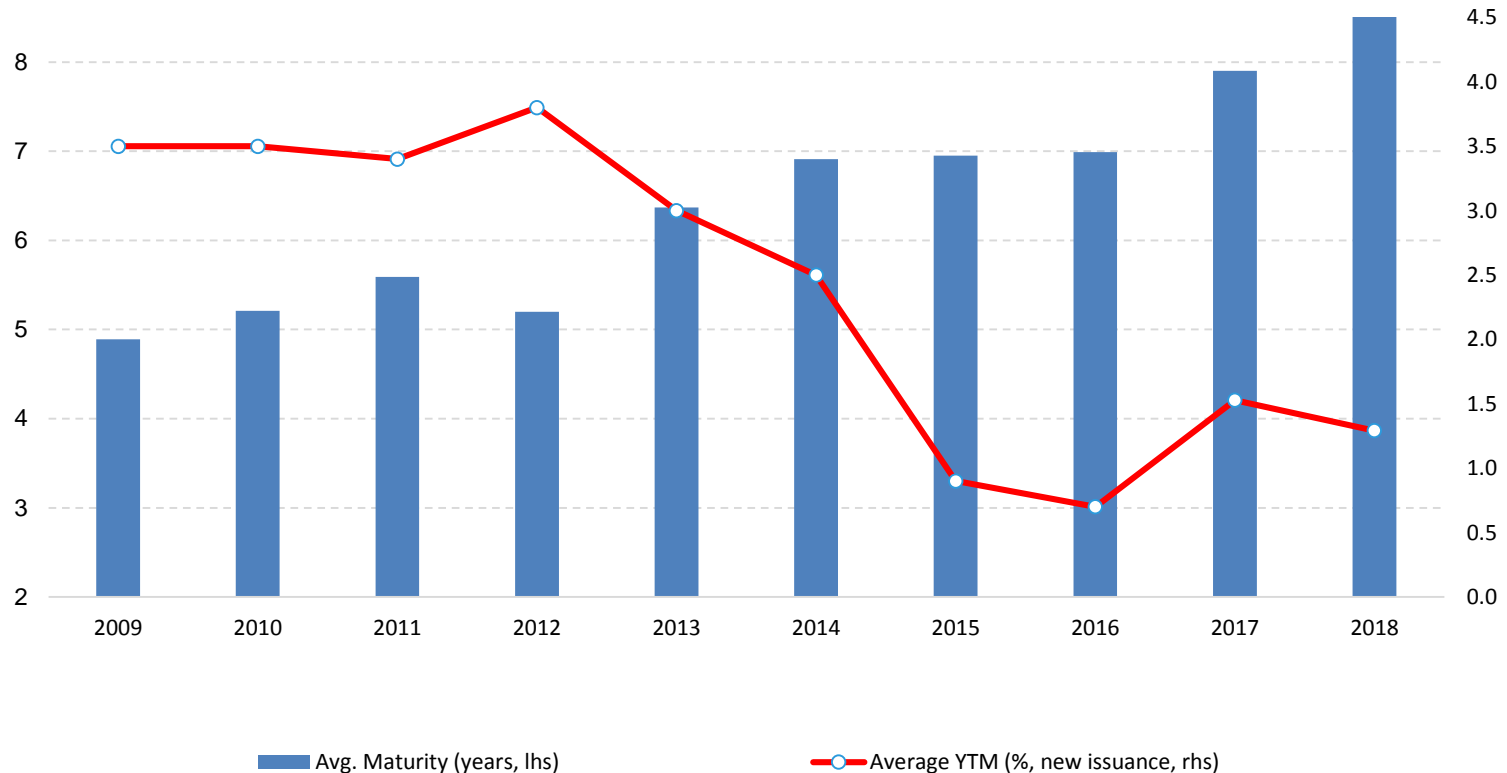
Source: ARDAL as of 31/12/2018



Government Bond Portfolio Metrics



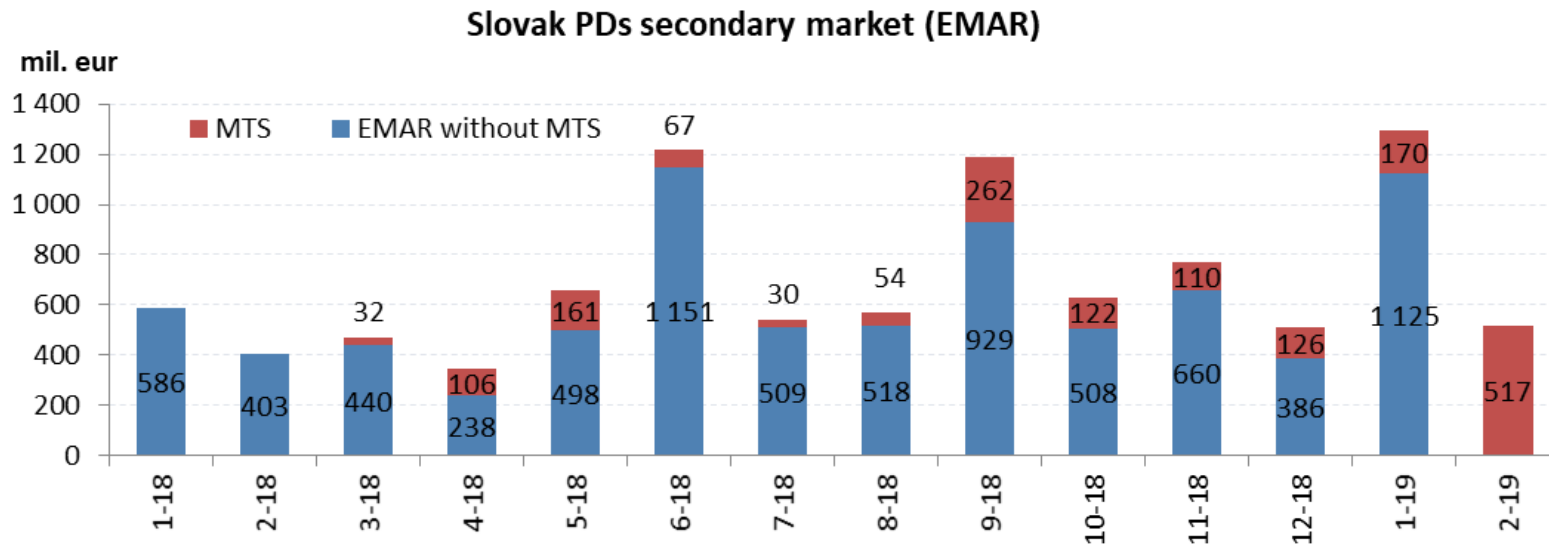
- ✓ Average maturity increased steadily since 2012
- ✓ At the same time average YTM was reduced significantly



Source: ARDAL as of 31/12/2018



- ✓ Introduction of MTS Slovakia in February 2018
- ✓ Quoting obligation for Primary Dealers
- ✓ Record volume in February 2019 at EUR 517 million



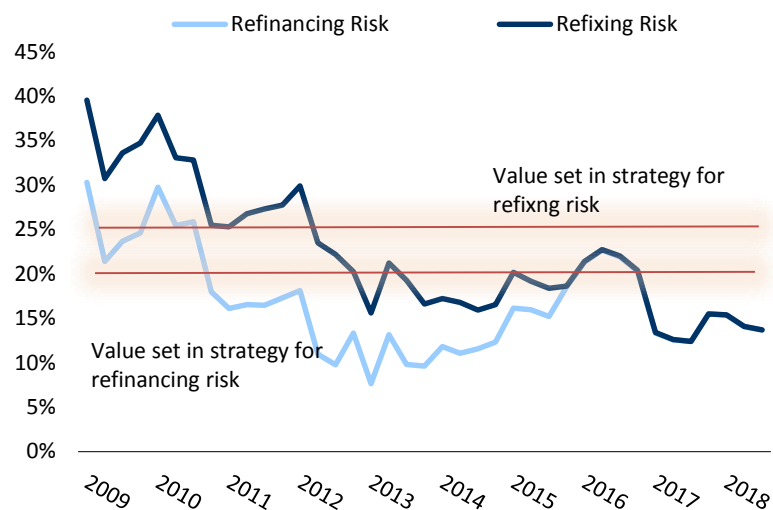
Source: ARDAL as of 31/12/2018



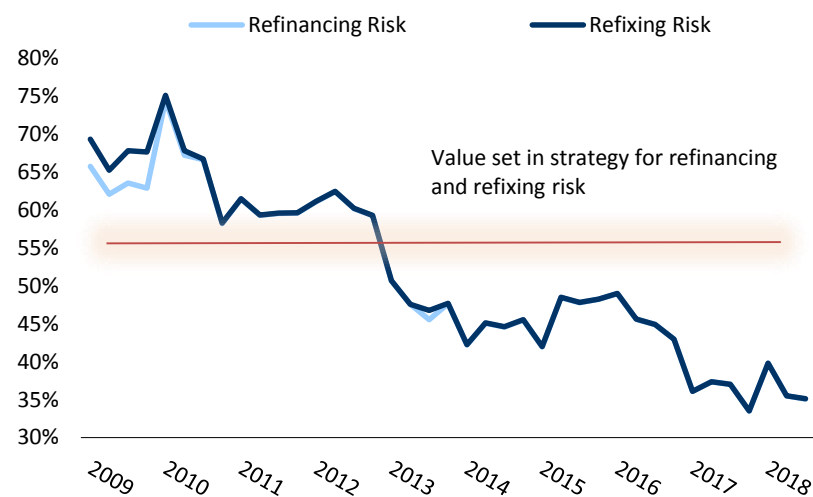
Risk Indicators of the Slovak Debt Portfolio

- ✓ Values at historical lows
- ✓ Sufficient space for short term financing and shock absorption

Debt portfolio for the next year



Debt Portfolio for the next 5 cumulative years

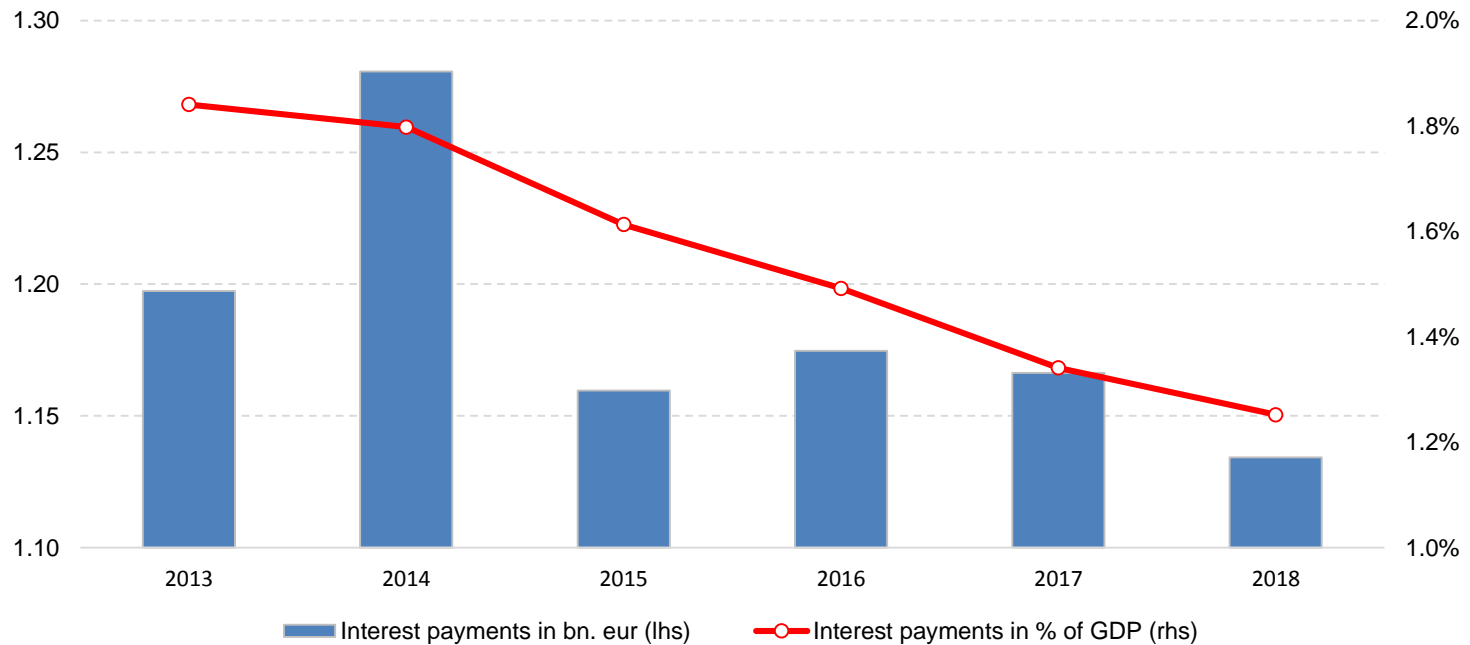


Source: ARDAL as of 30/09/2018



Interest Payments Development

- ✓ Interest payments are at historical lows as a percentage of GDP
- ✓ ECB's PSPP further helped in decreasing interest payments



Source: ARDAL, as of 31/12/2018

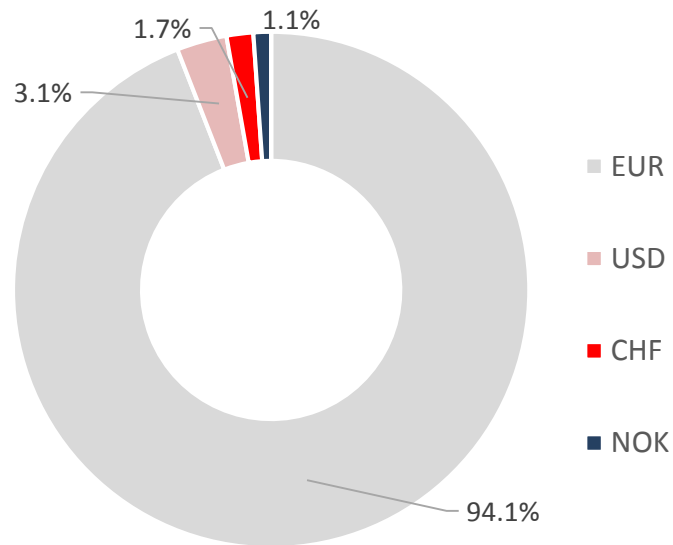


Low Currency Risk and Diversified Investor Base



✓ Debt hedged against FX risk

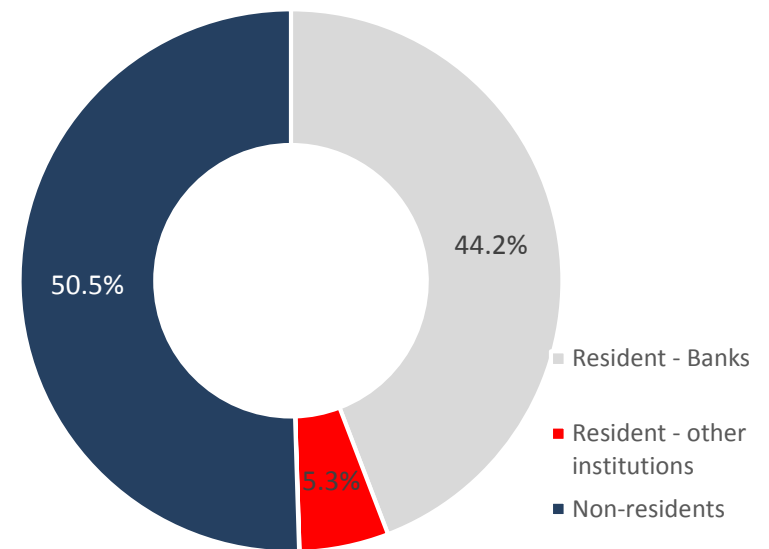
Currency Breakdown in %



Source: ARDAL, government bonds only as of 31/12/2018

✓ Increasing portfolio holdings of residents due to PSPP

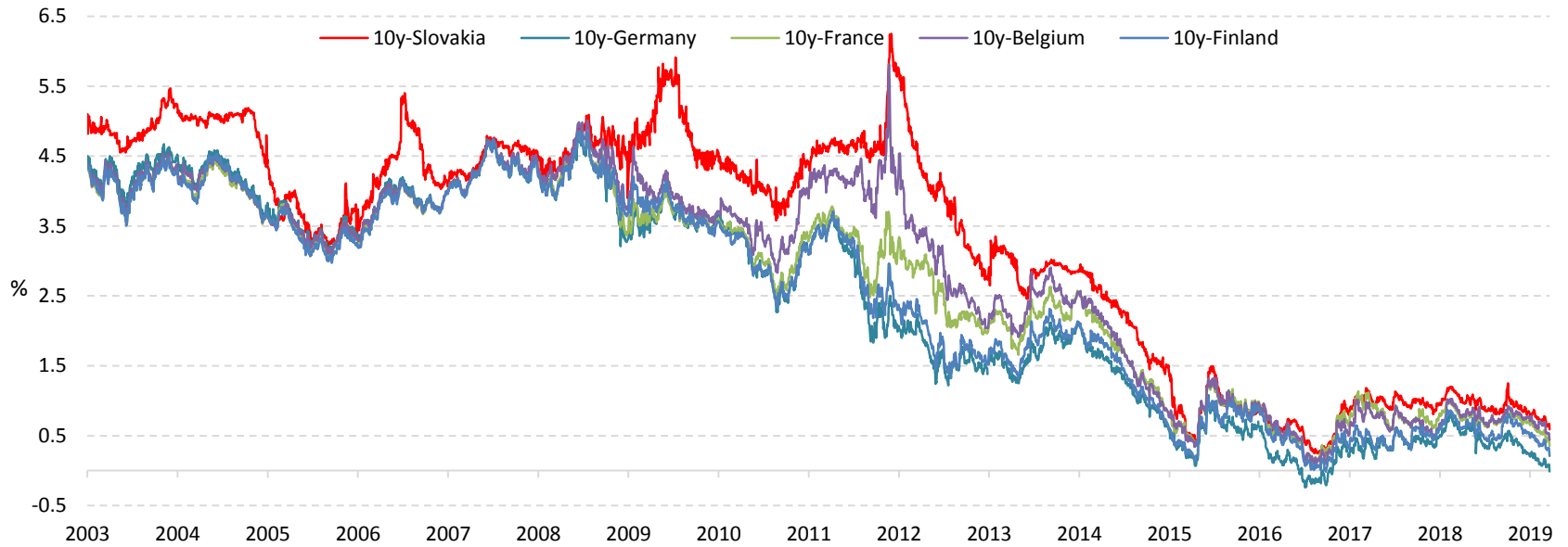
Investor Type Breakdown in %*



*Bonds held in Slovak CDCP



Government Bond Yields



Source: Bloomberg, NBS, Deutsche Bundesbank, as of March 2019



Auction Calendar & Issuance 2019



Government Bonds

Auction Date

Settlement Date

21 January

23 January

18 February

20 February

18 March

20 March

15 April

17 April

20 May

22 May

17 June

19 June

16 September

18 September

21 October

23 October

18 November

20 November

Treasury Bills

No issuance

Source: ARDAL



Primary Dealers of the Slovak Republic



- ✓ **Barclays Bank plc**
- ✓ **Citibank plc**
- ✓ **Československá obchodná banka, a.s. (KBC Group)**
- ✓ **Deutsche Bank AG**
- ✓ **HSBC France**
- ✓ **Natixis**
- ✓ **Slovenská sporiteľňa, a.s. (Erste Group)**
- ✓ **Société Générale S.A.**
- ✓ **Tatra banka, a.s. (RBI Group)**
- ✓ **UniCredit Bank Czech Republic and Slovakia, a.s.**
- ✓ **Všeobecná úverová banka, a.s. (Intesa Sanpaolo Group)**



Thank you



Contacts

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