PRELIMINARY REPORT

ON ARDAL´S ACTIVITIES

(2016 REVIEW AND 2017 OUTLOOK)

FEBRUARY 2017

Agentúra pre riadenie dlhu a likvidity (hereinafter referred to as the "ARDAL“), with its registered seat at Radlinského 32, Bratislava, Identification No.: 30792053 acting on behalf of the Ministry of Finance, manages the state debt according to the Act. No. 291/2002 Coll. on State Treasury, as amended, in line with the Debt Management Strategy approved for the given period by the Government of the Slovak Republic.

This preliminary report on the ARDAL´s activities for 2016 has been prepared on the basis of preliminary data and information. After completing the approval process, the final data for 2016 will be provided in the Report on ARDAL´s activities for 2016.

For the avoidance of doubt, we note that all the data contained herein are informational only and should not be used for legal purposes. The submitted information has no influence on investments or sales of the government securities.

ARDAL is not responsible for any claims, losses, liabilities or expenses incurred as a result of decisions of these investments based on the data provided in this document.

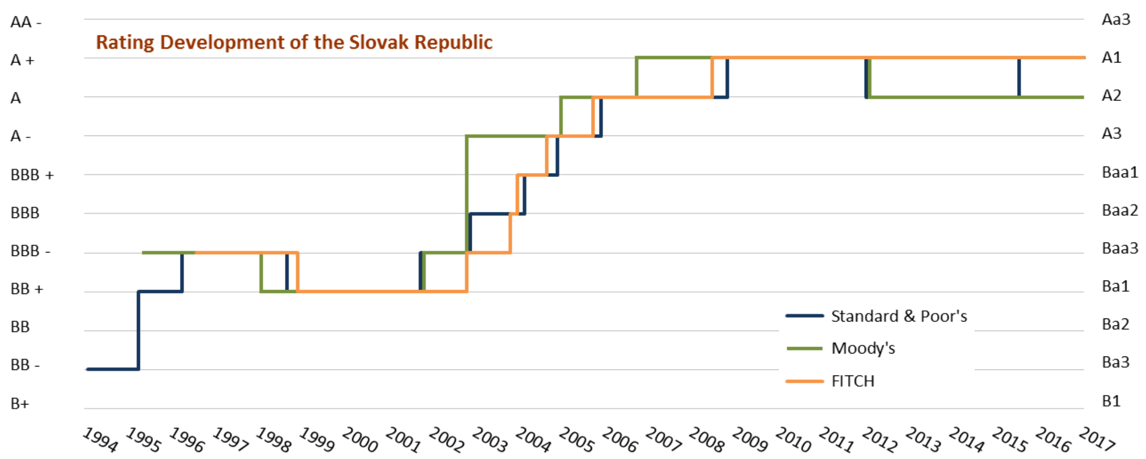
Key information – Overview

1. Ministry of Finance of the Slovak Republic obtained funding of EUR 5.8 billion in 2016 (covered by syndicate, auctions of government securities and loans), corresponding to 100.1% of the planned borrowing needs for 2016 mentioned in the Act on State Budget for 2016.
2. Last year, ARDAL accomplished sales of 9 auctions of 19 government bonds and one T-Bill auction. The overall demand reached EUR 6.973 billion and bonds in total nominal value of EUR 4.446 billion were sold. In addition to the auctions, one syndicated sale was also accomplished in 2016. A new line of 15-year bond with a nominal value of EUR 1 billion was opened through syndication (total demand of EUR 1.21 billion).
3. ECB (NBS) purchases of Slovak government bonds, under the quantitative easing programme (the PSPP), significantly contributed to further decline in the bond yields. Interest rates development and active portfolio management were reflected in the decrease in weighted average interest rate of government liabilities from 2.84 % p. a. in 2015 to 2.58 % p. a. at the end of 2016.
4. The weighted average maturity of the state debt at the end of 2016 remained unchanged at 7 years with the weighted average duration of 6.4 years.
5. Total buy-backs of bonds maturing in 2016 and 2017 reached the face value of EUR 789 million.
6. Management of the state debt was in line with the current strategy of the state debt. The risks of the Slovak debt portfolio reached lower levels than the specified parameters.
7. The biggest problem of the management of the state debt in 2016 was being in accordance with the Act on Fiscal Responsibility just as in 2015. Another challenge was the environment of negative interest rates that caused unstable and unpredictable behaviour of investors.

Table 1: Rating as of 31st January 2017

Rating of the Slovak Republic			
Assignment Date	**Agency**	**Level**	**Outlook**
January 2017	**Standard & Poor's**	**A+**	Stable
November 2014	**Moody's**	**A2**	Stable
August 2016	**Fitch**	**A+**	Stable

Chart 1: Rating History of the Slovak Republic



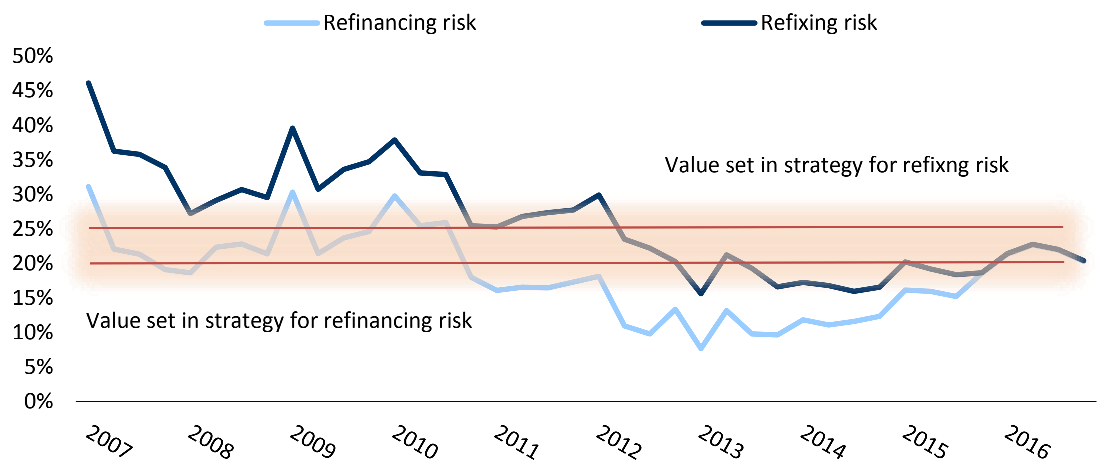
Risk management

ARDAL manages the debt portfolio risks in accordance with the approved Government Debt Management Strategy for the years 2015 - 2018. This strategy is based on the strategy valid until 2014 and continues in monitoring of refinancing, and interest rate risks with a slightly modified target parameter values. In the period of years 2015-2018, the goal is a close approximation to the target values or maintaining the parameters as closely as possible to the target values.

As regards the refinancing risk, there is a strategic intent to maintain the value of the liabilities to be redeemed within one year close to 20% of total liabilities. As for the refixing risk, there is a goal to maintain the value of the re-fixed liabilities within one year close to 25% of total liabilities. The value of refinancing risk and interest rate risks within five years should be near 55% of redeemed / re-fixed liabilities within 5 years of total.

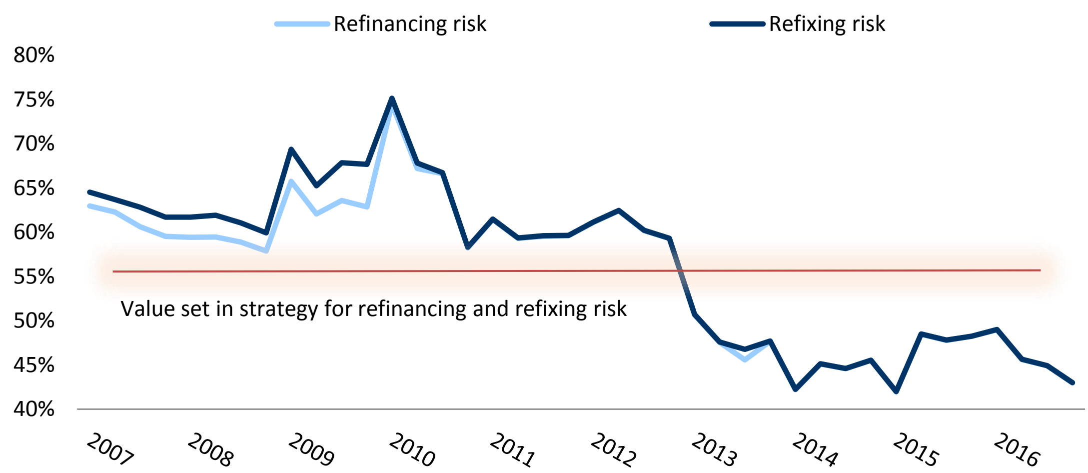
Compared to the previous period, the compliance with the above mentioned objectives provides for Slovakia less refinancing and interest rate risk from the perspective of the government debt. This way, it is slowing down a gradual decline of the relative debt costs, which also brings increase in the immunity of the portfolio against potential market shocks.

Chart 2: Risk Indicators of the Slovak Debt Portfolio for the next year



Source: ARDAL

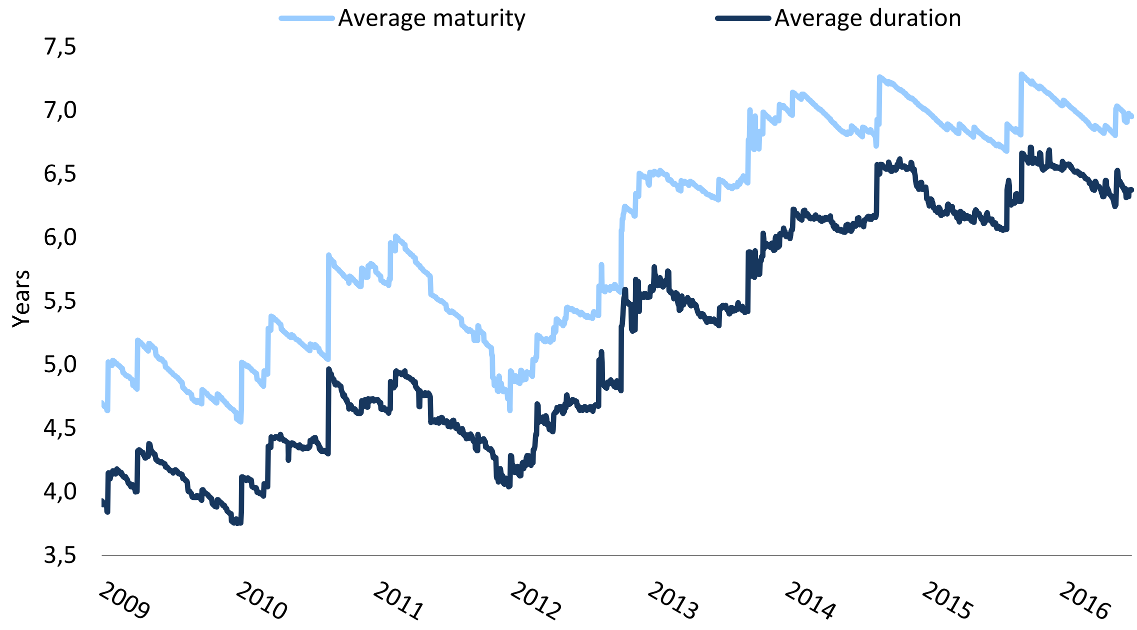
Chart 3: Risk Indicators of the Slovak Debt Portfolio for the next 5 cumulative years



Source: ARDAL

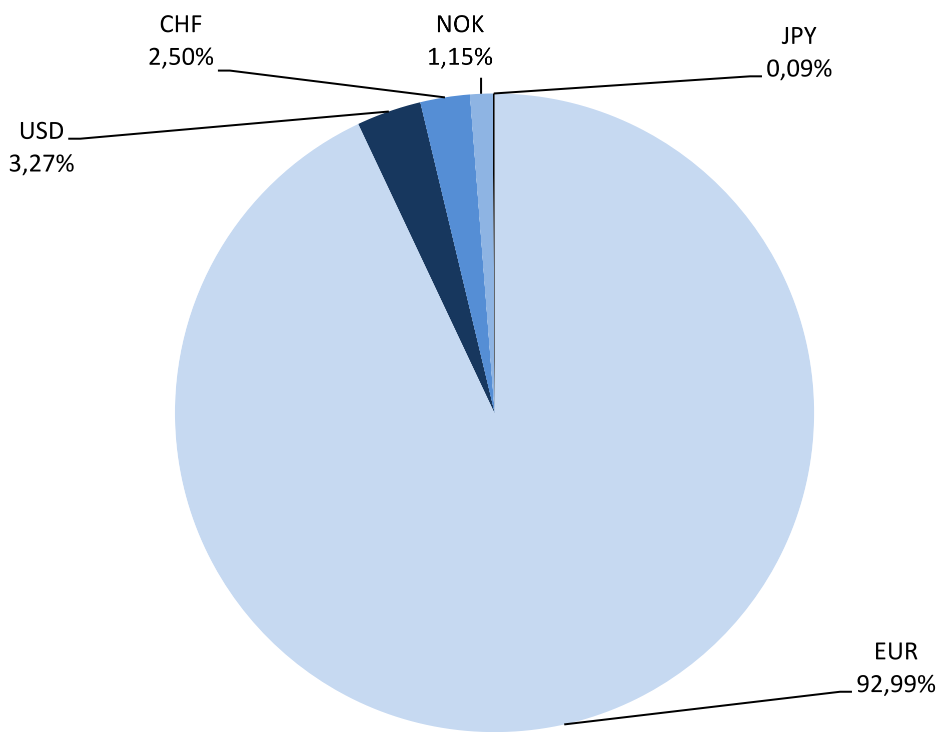
The weighted average maturity of the state debt portfolio reached the value 7 years and the duration was 6.4 years at the end of 2016. These values are similar to the debt portfolio characteristics of the Eurozone core countries and EFSF.

Chart 4: Average Maturity and Duration of the Slovak Debt Portfolio



Source: ARDAL

Chart 5: Slovak Debt Portfolio according currencies before hedging (CC IRS)

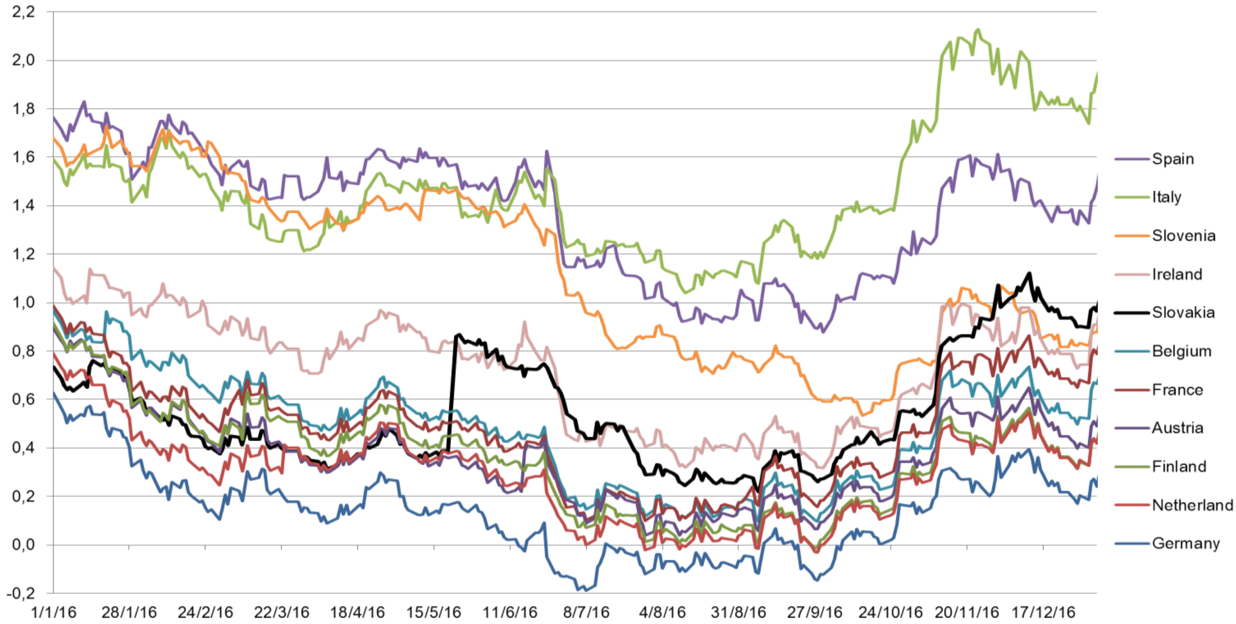


Source: ARDAL

Debt and liquidity management

The interest rates development in capital markets in the Eurozone in 2016 was mainly driven by the undergoing quantitative easing (QE) from the ECB, the surprising referendum results in the UK about leaving the EU and the unexpected presidential election results in the USA.

Chart 6: Interest rates of selected euro area countries (10 year bonds)



Source: Bloomberg

The yields of all euro area countries continued in slight decrease in the first half of 2016 thanks to the QE by ECB. The UK referendum about leaving the EU was a further factor that pushed the yields even lower. The yields dropped significantly after announcement of the results and hit the all-time lows in the summer of 2016. The German 10Y bond touched the -0.2% level and the Slovak 10Y bond was at the historical low of 0.2%. The market reaction to the referendum results started to slowly fade away (the fastest normalization was in the stock market). The yields continuously reverted their sharp decline. Strong impetus to yield development arose from the US presidential election. The victory of Mr. Donald Trump was not anticipated. Robust tax cuts and expenditures growth are expected to take place during his presidency. This should bring the increase in inflation. The market reaction was straightforward – strong increase in treasury yields and yields in euro area as well.

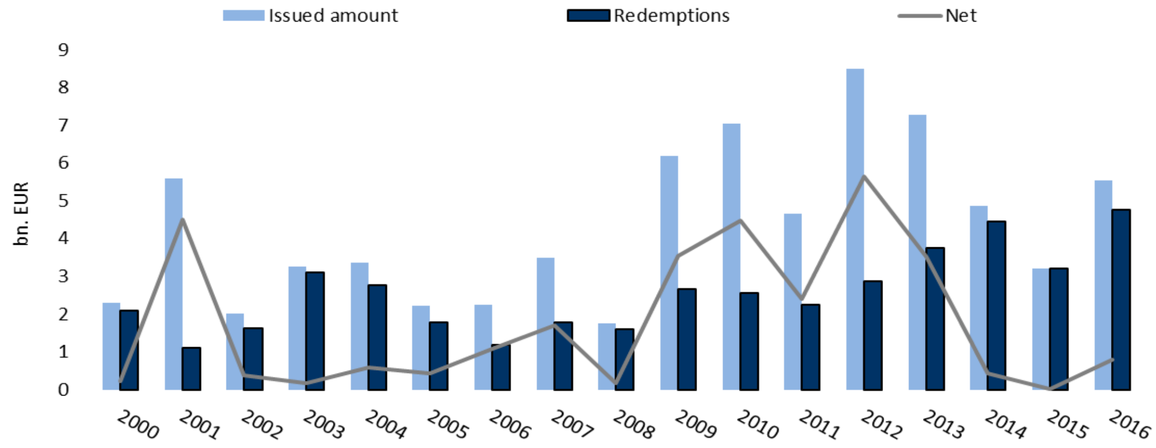
20 tranches of government securities were sold via competitive auctions in 2016. One bond line was opened and sold via syndicated sale through 3 chosen primary dealers. The total demand in face value (including syndicated sale and T-bills) reached EUR 8.2 billion and accepted bids in face value reached EUR 5.4 billion (including syndicated sale and T-bills).

Table 2: Overview of the Government Securities Sell Auctions and Syndicate in 2016

Auction Date	Maturity Date	Auction Type	Accepted Bids (mil. EUR)	Bid/ Cover Ratio	Average YTM (% p.a.)	ASW Spread (% p.a.)
ŠD 223 *(SLOVGB 3 ⅜ 11/15/24, ISIN SK4120008871*), Coupon Rate 3.375% p. a.						
20.01.2016	15.11.2024	american	170.00	1.4	0.672	-0.020
23.03.2016	15.11.2024	american	214.00	1.5	0.353	-0.045
ŠD 226 *(SLOVGB 1 ½ 11/28/18, ISIN SK4120009234)*, Coupon Rate 1.5% p. a.						
20.01.2016	28.11.2018	american	104.00	2.0	-0.109	-0.136
17.02.2016	28.11.2018	american	239.00	1.2	-0.117	0.385
23.03.2016	28.11.2018	american	294.00	1.4	-0.125	0.006
20.04.2016	28.11.2018	american	177.40	2.4	-0.134	-0.002
ŠD 227 *(SLOVGB 3 ⅝ 01/16/29, ISIN SK4120009762)*, Coupon Rate 3.625% p. a.						
23.03.2016	16.01.2029	american	151.00	1.3	0.955	0.239
ŠD 228 *(SLOVGB 1 ⅜ 01/21/27, ISIN SK4120010430)*, Coupon Rate 1.375% p. a.						
17.02.2016	21.01.2027	american	134.00	1.3	0.837	0.154
20.04.2016	21.01.2027	american	113.00	1.3	0.716	0.114
22.06.2016	21.01.2027	american	184.40	1.6	0.752	0.141
19.09.2016	21.01.2027	american	123.70	2.3	0.394	0.007
17.10.2016	21.01.2027	american	101.90	1.4	0.518	0.026
ŠD 229 *(SLOVGB 1 ⅝ 01/21/31, ISIN SK4120011420*), Coupon Rate 1.625% p. a.						
21.01.2016	21.01.2031	syndicate	1 000.00	1.2	1.633	0.380
20.04.2016	21.01.2031	american	190.00	1.1	1.151	0.287
19.09.2016	21.01.2031	american	145.70	2.1	0.788	0.152
17.10.2016	21.01.2031	american	157.30	1.2	0.907	0.206
ŠD 230 *(SLOVGB 0 11/13/23, ISIN SK4120011636*), Coupon Rate 0.000% p. a.						
13.05.2016	13.11.2023	dutch	651.00	1.4	0.352	0.092
22.06.2016	13.11.2023	american	244.40	1.6	0.209	0.094
17.10.2016	13.11.2023	american	141.70	1.3	0.039	0.024
ŠD 231 *(SLOVGB 0 ⅝ 05/22/26, ISIN SK4120012220*), Coupon Rate 0.625% p. a.						
23.11.2016	22.05.2026	dutch	509.50	1.3	0.852	0.252
ŠPP 15 (SLOVTB 0 11/27/17, ISIN SK6120000154), Discounted T-Bills						
14.12.2016	27.11.2017	dutch	400.00	2.4	-0.2200	0.470

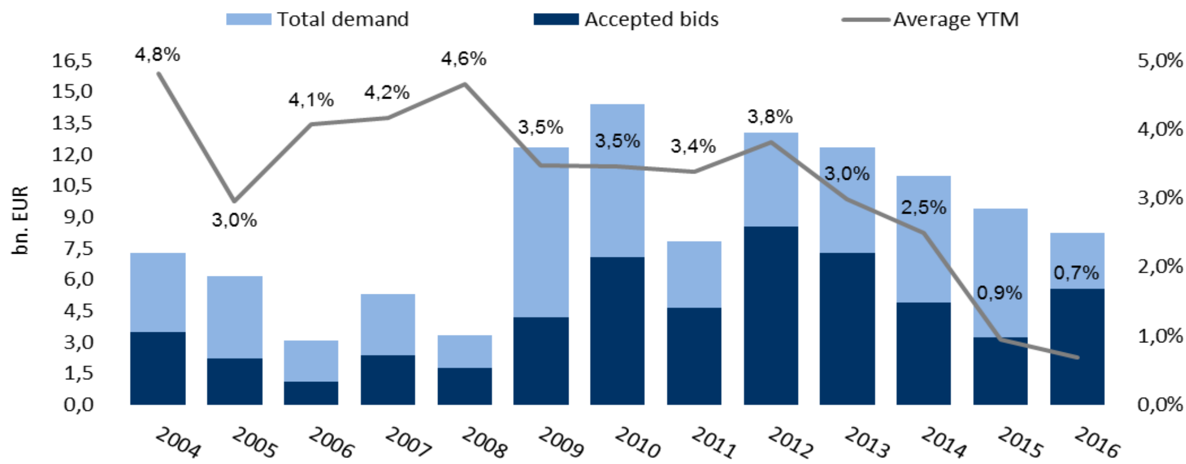
Besides the standard money market interbank transactions, ARDAL continued carrying out buy-backs of the government securities maturing in 2016 and 2017. The overall amount (in nominal value) of bought back bonds was EUR 788.9 million. There were buy-backs of the following bonds - (ŠD 208 SLOVGB 4 ⅕ 04/04/17; ŠD 213 SLOVGB 3 ½ 02/24/16; ŠD 218 SLOVGB Float 11/16/16; ŠD 219 SLOVGB 4 ⅝ 01/19/17). The buy-backs were executed through the direct purchases in the secondary market.

Chart 7: Gross and Net Issuance



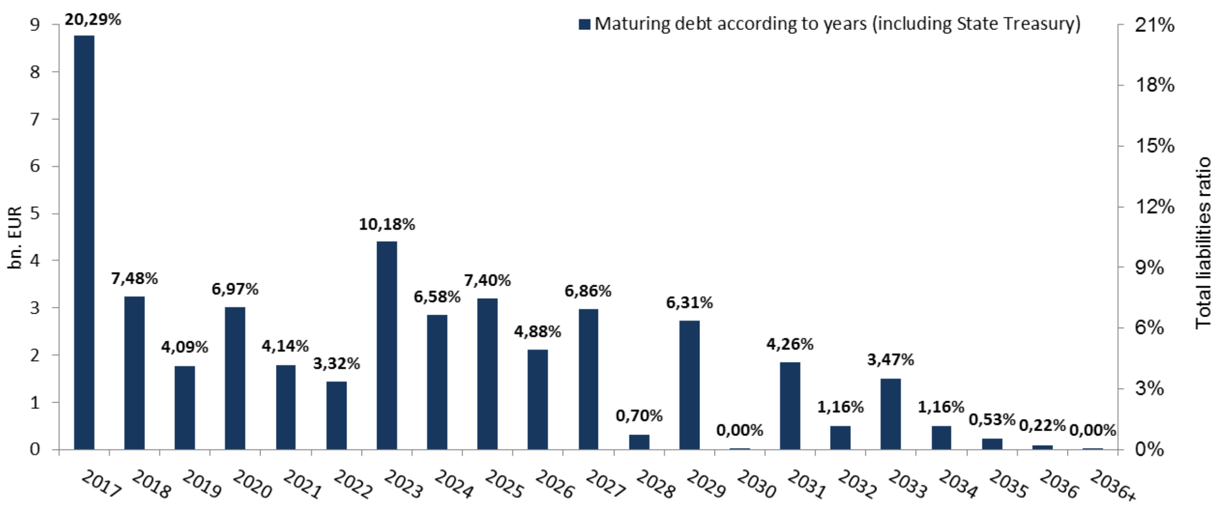
Source: ARDAL

Chart 8: Primary Market of Slovak Government Bonds According to Years



Source: ARDAL

Chart 9: Redemption Profile as of 31.12.2016



Source: ARDAL

Syndicate sale of the 15-year Government Bonds

Joint Book-runners:	Barclays, Natixis, SLSP (Erste Group)
Nominal Amount:	EUR 1.0 billion
Maturity Date:	21st January 2031
Coupon:	1.625% p. a.
Re-offer Spread vs. Mid-swaps:	0.38% p. a.
Re-offer Price:	99.894%
Re-offer Yield:	1.633% p. a.

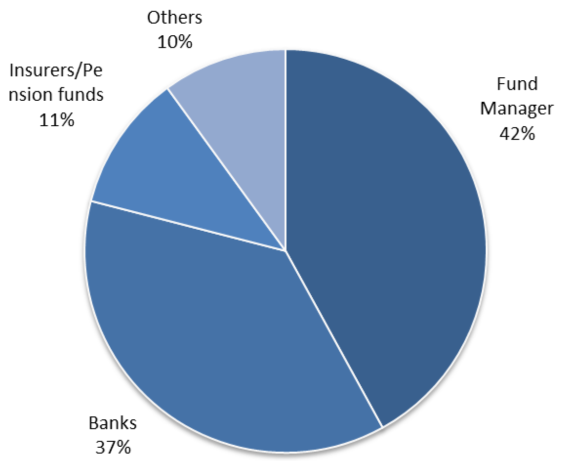
The Slovak Republic (rated A2/A+/A+, all stable), represented by the Debt and Liquidity Management Agency ("ARDAL") priced today a new 15-year EUR 1 billion transaction. Barclays, Natixis and Slovenská sporiteľňa (Erste Group) were mandated as Joint-Lead Managers and Bookrunners.

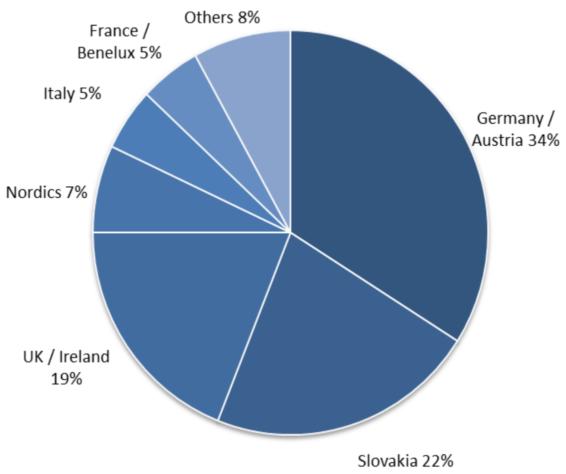
Taking advantage of favourable primary market dynamics during the second week of January the Slovak Republic announced their new 15-year EUR benchmark transaction on Wednesday, 13th January at 02:00pm CET. On Thursday January 14th, at 09:30am CET, initial price thoughts were released at mid swaps (MS) + high 30s. The initial indications of interest (IOIs) grew up to EUR 800m by 11:45am CET, when the price guidance was set at MS + 38 bps area.

Despite a challenging market backdrop, the orderbook continued to grow and eventually reached more than EUR 1.2 billion (including EUR 200m of joint lead manager's interest) by 01:10pm CET. The deal was priced at a spread of MS + 38 bps, with a size of EUR 1 billion thanks to high quality accounts present in the orderbook.

The majority of bonds was allocated to Asset Managers with 42% followed by Banks (37%), and Insurance Companies (11%). Significant international demand was delivered by German/Austrian accounts (34%). UK investors (19%) were also active, together with Nordic (5%), Italian (5%), and French (4%) investors. The natural domestic bid was quite strong with about 22%. The remainder was spread across other Europe

Chart 10 and 11: Investors type distribution *Geographical distribution*





Source: ARDAL

Outlook for 2017

The gross funding needs (bond redemptions and deficit of state budget) will be EUR 6.5 billion in 2017 (government bonds, treasury bills and government loans). This amount is based on Act on State Budget for 2017 and in line with the Act on State Debt and Guarantees.

ARDAL intends to open at least 3 new lines of government bonds via syndicated sale or auction in 2017. The following lines will be opened depending on the market conditions and the investors' demand:

- new line with issue size of EUR 3.0 billion in spring 2017, with maturity according to market conditions;
- new line with issue size of EUR 3.0 billion in autumn 2017, with maturity according to market conditions;
- possible new line with issue size of EUR 1.5 billion – 3.0 billion during 2017, with maturity according to market conditions – with the possibility to be sold together with other new line via dual tranche;
- possible new line with issue size of EUR 1.5 billion during 2017 via auction, with maturity according to market conditions.

The total amount to be sold via syndicated sale or initial auction sale is supposed to reach maximum EUR 3.0 billion regardless of the number of transactions.

Table 3: Government bond auctions in 2017

Auction Date	Settlement Date	Bond
16.01.2017	18.01.2017	ŠD223, ŠD227, ŠD231
20.02.2017	22.02.2017	for decision
20.03.2017	22.03.2017	for decision
18.04.2017	20.04.2017	for decision
15.05.2017	17.05.2017	for decision
19.06.2017	21.06.2017	for decision
17.07.2017	19.07.2017	for decision
21.08.2017	23.08.2017	for decision
18.09.2017	20.09.2017	for decision
16.10.2017	18.10.2017	for decision
20.11.2017	22.11.2017	for decision
18.12.2017	20.12.2017	for decision

The bond auctions will take place once per month – usually on the third Monday of a month. Based on liquidity requirements, debt management and demand of investors, more bonds can be auctioned in one auction day. Similarly to 2016, it is expected that auction of 1 - 3 bonds will take place in each auction day .All auctions are flexible therefore, they are stated as "for decision" in the auction calendar. The decision about the auctioning bonds will be mainly based on previous communication with Primary Dealers (PD). The settlement date of trades resulting from auction is D+2. July, August and December auctions are not planed but can be carried out based on PD request and on agreement with the Debt and Liquidity Management Agency (ARDAL).

Table 4: Opened lines of bonds (available for auctions) as of 31st January 2017

Bond Serie	ISIN	Bloomberg	Issue Date	Maturity Date	Outstanding (mil. EUR)	Available (mil. EUR)
ŠD 223	SK412000887	SLOVGB 3 ⅜	15.11.2012	15.11.2024	2 911	89
ŠD 227	SK412000976	SLOVGB 3 ⅝	16.01.2014	16.01.2029	2 406	594
ŠD 228	SK412001043	SLOVGB 1 ⅜	21.01.2015	21.01.2027	2 312	688
ŠD 229	SK412001142	SLOVGB 1 ⅝	21.01.2016	21.01.2031	1 493	1 507
ŠD 230	SK412001163	SLOVGB 0 11/13/23	13.05.2016	13.11.2023	1 037	463
ŠD 231	SK412001222	SLOVGB 0 ⅝	23.11.2016	22.05.2026	807	693

T-Bills issue in the year 2017

One T-Bill auction a month will take place in the first 3 months of 2017. T-Bill line 15 (issue size EUR 1.5 bn., issued on November, 28th 2016) maturing on November, 27th 2017 will be sold in the auctions.

Table 5: Opened T-Bills line (available for the auctions) as of 31st January 2017

T-Bill	ISIN	Issue Date	Maturity Date	Outstanding (mil. EUR)	MoF Own Portfolio (mil. EUR)	Issue Size (mil. EUR)
ŠPP 15	SK6120000154	28.11.2016	27.11.2017	900	600	1 500

Primary Dealers as of 31st January 2017

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

Conclusion and Outlook for 2017

Europe, just like the whole world, experienced several turbulent events. Unexpected presidential election results in the US together with foreign policy direction in the UK (BREXIT) will probably be the main drivers of the next EU highlights. Mild EU economic recovery supported by the weak euro and low interest rates could be undermined by elections in the Netherlands, France or Germany. Standard political leaders may be replaced by more radical ones with direct links to uncertainty in the financial markets.

The main driver behind the development of the interest rates in Slovakia in 2017 will be ECB with its activities and decisions. The ECB will have to decide about the future development of the QE, possible tapering and the monetary policy in general. These uncertainties pose another reason why it will be necessary to keep some degree of flexibility in the debt management process.

Slovakia should belong to the fastest growing economies in the whole of the EU in 2017 (according to European Commission forecast). The expected real GDP growth at 3.0% creates good conditions for further decrease in structural budget deficit. The public debt should be kept around 52% of the GDP level in 2017 and Slovakia will stay among the least indebted countries in the Eurozone.

The main goals in the debt management conducted by ARDAL will be preserving the maximum transparency of the issuance policy, the improvement of selling infrastructure of the government securities and increase of the liquidity at the secondary market. These goals should be underpinned by Central Depository connection to common technological platform of European depositories – Target2-securities (T2S). By this connection, Slovakia will become an integral part of the common EU capital market. The establishment of standard Delivery versus Payment settlement (DvP) opens the opportunity to connect the Slovak market to MTS – the most used secondary market platform for government securities within the EU. The goal of ARDAL is to implement at least one secondary market platform for trading the Slovak government bonds with the overall incentive to increase the liquidity and price transparency on the secondary market.

Contacts

Agentúra pre riadenie dlhu a likvidity
Debt and Liquidity Management Agency

Radlinského 32
813 19 Bratislava
Slovak Republic

Tel: + 421 2 57262 503
Fax: + 421 2 57262 525
+ 421 2 52450 381

Webpage: www.ardal.sk

Reuters Code: DLMA

Bloomberg Code: DLMA

Useful links

- www.ardal.sk (Debt and Liquidity Management Agency)
- www.finance.gov.sk (Ministry of Finance of the Slovak Republic)
- www.statistics.sk (Statistical Office of the Slovak Republic)
- www.nbs.sk (National Bank of Slovakia)
- www.ecb.europa.eu (European Central Bank)
- www.pokladnica.sk (State Treasury)
- www.cdcp.sk (Central Depository of Securities)
- www.bsse.sk (Bratislava Stock Exchange)
- www.ec.europa.eu/eurostat (eurostat)
- www.europa.eu/efc/esdm_en (ESDM)

Notes