ARDAL Annual Report

ARDAL
Agentúra pre riadenie dlhu a likvidity

2010

March 2011

Foreword by the Agency Director

Dear investors and partners,

It is my pleasure to submit to you annual report of the Debt and Liquidity Management Agency (ARDAL) for the year 2010.

Despite the difficult situation remaining within the financial markets, year 2010 is considered to be extremely successful in terms of state debt and liquidity management in Slovakia.

Even during the 2010 despite the worsened market conditions the Ministry of Finance of the Slovak Republic through the Debt and Liquidity Management Agency was able to provide adequate funds to pay all obligations and to ensure the liquidity of the state budget and the State Treasury. In 2010, Slovakia experienced historically largest need for state funding in the value exceeding EUR 9 billion.

In line with approved Debt Management Strategy and despite high volatility and common adverse market conditions, two state bonds with a face value of EUR 3.5 billion were placed to capital markets via bank syndicates.

International financial markets accepted Slovak legislation of the documentation. In this way the Agency managed to take a further step towards the unification of "domestic" and "foreign" government bond market in line with the investor requirements.

At the same time, in 2010 we experienced historically cheapest relative financing of the state needs with the average (nominal weighted value) instrument interest rates of the entire state debt portfolio decreasing to 3.3 % p. a.

Despite the difficult situation remaining within the financial markets, at the end of 2010 due to the successful October issuance of 15 years bonds, it was managed to meet the criteria defined in the Strategy for years 2007 through 2010.

I would like to express my gratitude for your trust and co-operation during year 2010.

Yours sincerely

Daniel Bytčánek

Key Information – Overview

1. Historically largest annual need for state funding exceeding EUR 9 billion in 2010

2. Two successful syndicated government bond issues in value of EUR 3.5 billion, issued according to Slovak legislation.

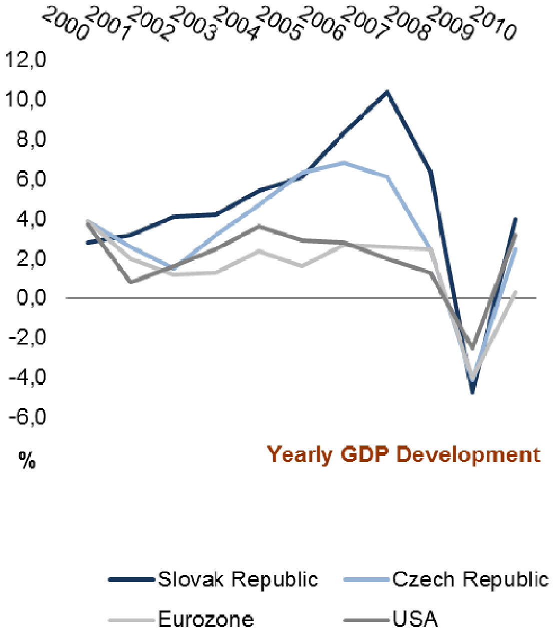
3. Historically cheapest relative cost of funding of the whole state debt at 3.3 % p. a.

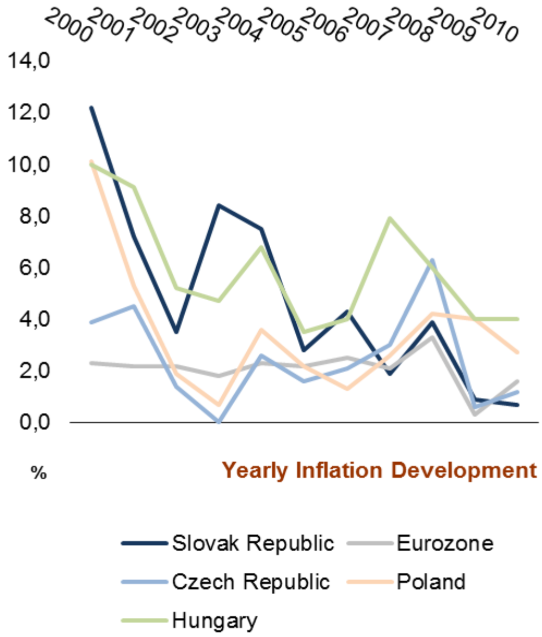
4. In 2010 bonds at a value of EUR 7.045 billion with an average yield of 3.5 % p. a. were issued. The total yield of bond portfolio reached 3.76 % p. a.

5. Despite the difficult situation remaining within financial markets, at the end of 2010 it was managed to meet all criteria defined in the Strategy and to achieve budget savings in state debt exceeding EUR 120 million.

Macroeconomic Data

Slovakia´s performance was a relatively long time not affected by financial market crisis, but after all small and open economy began to feel the effects of the crisis impact. Record GDP growth in 2007 was replaced, much like in the entire Eurozone, by a significant GDP decline during 2009. Adverse macroeconomic developments had a negative impact on the state budget deficit due to revenue dropout. This resulted in a greater demand emphasizing the state debt management. For 2010 Slovakia experienced a relatively rapid beginning of fiscal economic recovery while the labour market continued to remain depressed. During following years we expect continuing gradual economic revival of Slovakia and future economic growth of approximately 5% GDP over the medium term, potentially one of the strongest GDP growth rates within the European Union.





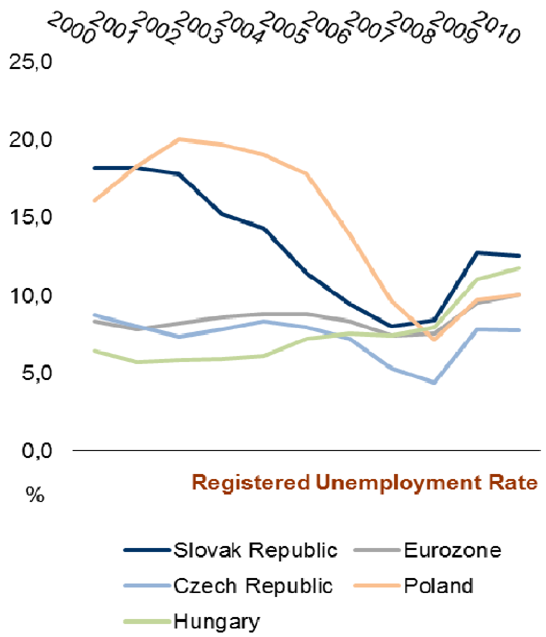
Slovak fiscal policy in 2009 was affected by economic crisis while the government in an effort to mitigate its impact on the economy, adopted anti-crisis measures in combination with automatic stabilizers put already in place. Permanent loss of potential output in the economy and fiscal expansion beyond these factors also contributed to the deterioration of the structural balance. In 2009, the public administrations general deficit reached 7.9% of GDP. Despite the economic recovery that took place during 2010, the public administrations general deficit reached 7.8% of GDP. The deficit reached these values due to the structure of the economic growth, which was primarily fuelled by export growth, while the adverse developments in the labour market continued to have a negative impact on household consumption. This negative trend during the crisis years led to an increase of gross general public administration debt from 27.8% of GDP at the end of 2008 to an estimated 43.4% of GDP at the end of 2010.

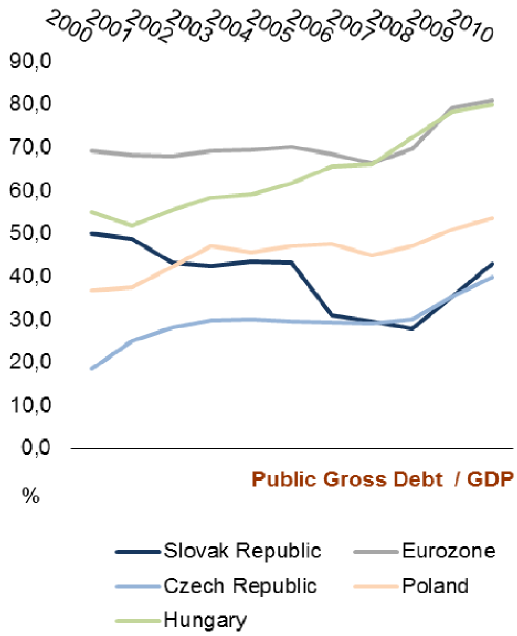
These relatively large general public administration deficit and debt growth values are inevitably leading to the need for consolidation in the medium term.

Therefore the government's primary medium term fiscal objective target is to reduce the general public administration deficit below 3% of GDP by the end of 2013.

The public administration budget proposal 2011 through 2013 expects a reduction of the deficit to 4.9% of GDP in 2011. In 2012, the deficit should reach target level of 3.8% of GDP, with an additional drop in 2013 to 2.9% of GDP. This means that the largest decreases in the deficit over the medium term will be concentrated primarily in 2011, with accomplished measures totalling EUR 1.8 billion, representing 2.5% of GDP.

Successful completion of consolidated targets will be reflected not only in the stabilization of the gross public administration debt but also in the value of debt that will decrease to approximately 45 % of GDP by 2013.





Rating

Current rating of the Slovak Republic		
Assignment Date	**Agency**	**Level**
December 2010	**Standard&Poor's**	**A+** stable outlook
March 2009	**Moody's**	**A1** stable outlook
May 2010	**Fitch**	**A+** stable outlook

The stated rating was first assigned to the Slovak Republic at year-end 2008 after fulfilling all of the necessary conditions and requirements for joining the Eurozone. The stated rating remained stable even during the financial crisis. Even though the Slovak Republic's rating has not improved since entering the Eurozone, the country could in 2010 and can presently borrow cheaper by syndicated bond sales with more favourable terms than some of the Eurozone countries with a better investment rating.

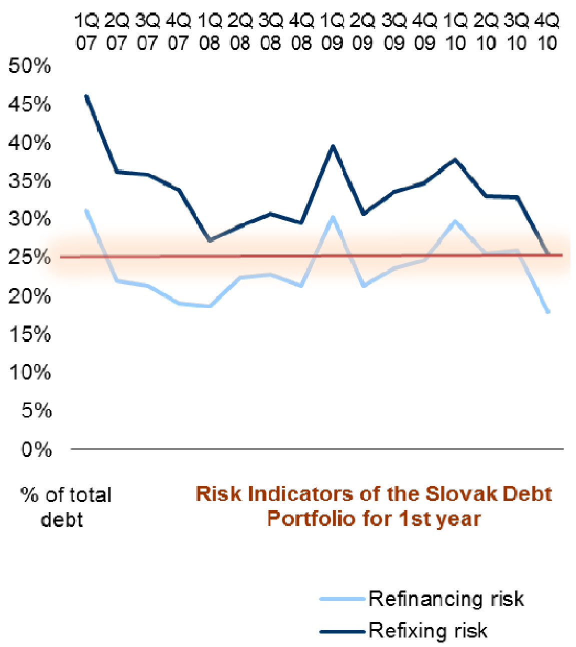
Risk management

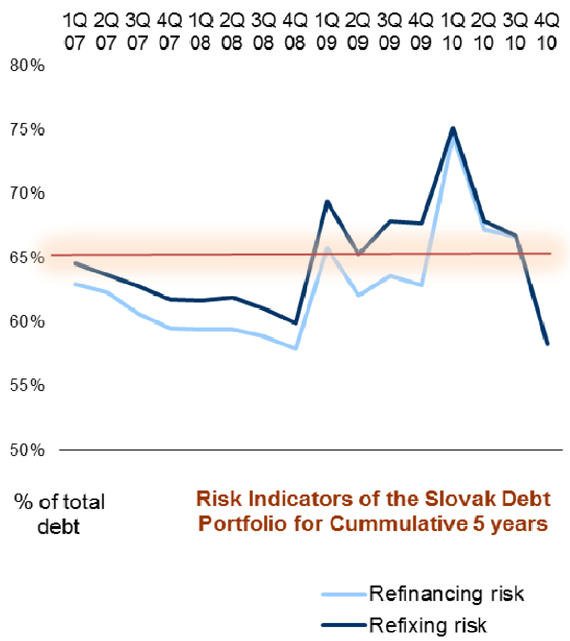
For the purpose of monitoring and risk management, the definition of refinancing and interest risk parameters was revised in the update of the State Debt Management Strategy outlined for years 2011 - 2014. For 2007 - 2010 was set maximum values allowing limit compliance even at very small values. The aim between 2011 through 2014 will be to achieve a close approximation to stated values or let us say keeping parameters as close as possible to stated values.

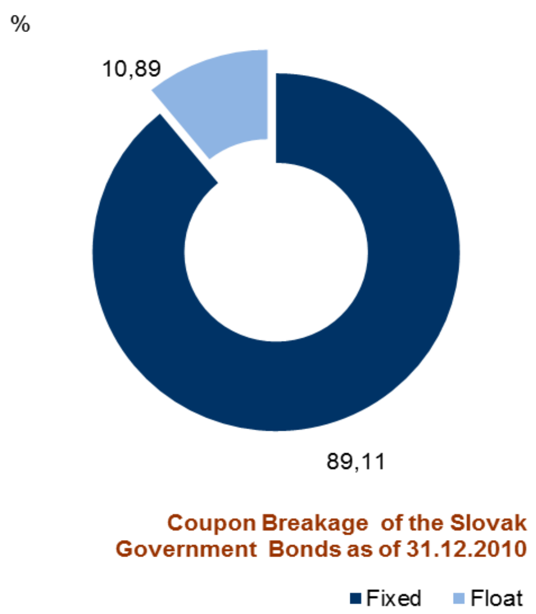
The refinancing and interest risks value of cumulative maturity within one year was set at 25 % share of repayable obligations due within one year of the total included obligations.

The refinancing and interest risks value of cumulative maturity within five years was set at 65 % share of obligations due within five years of the total involved obligations.

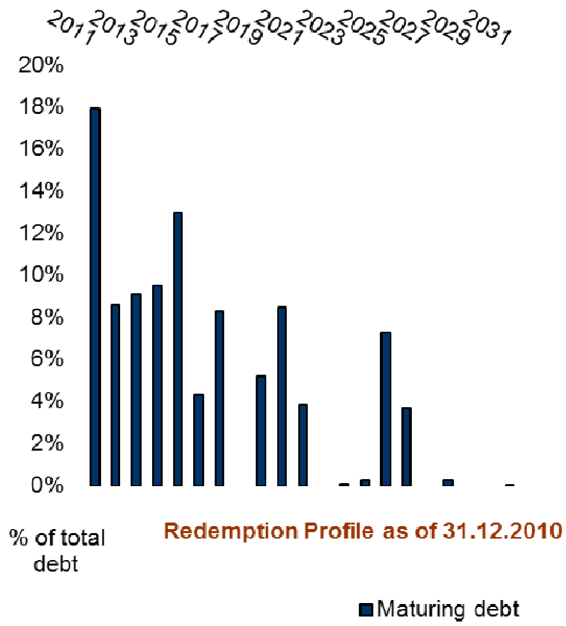
The overload of limit values of interest rate risk parameters during 2010 resulted, due to historical minimum of short-term interest rates, in savings of expenditure on state debt service. Such state of interest rate risk is over both the medium and long term unacceptable. Despite the difficult situation remaining at the financial markets, thanks to the successful October issuance of 15 year bond, criteria defined in the Strategy for years 2007 - 2010 was fulfilled.



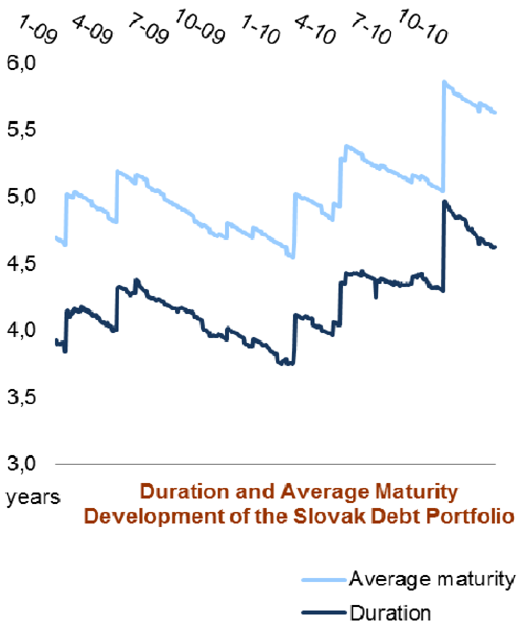




Coupon Breakage of the Slovak Government Bonds as of 31.12.2010



Redemption Profile as of 31.12.2010



Duration and Average Maturity Development of the Slovak Debt Portfolio

Average duration as well as maturity of the whole debt portfolio is monitored as secondary criteria according to approved State Debt Management Strategy for 2007 - 2010.

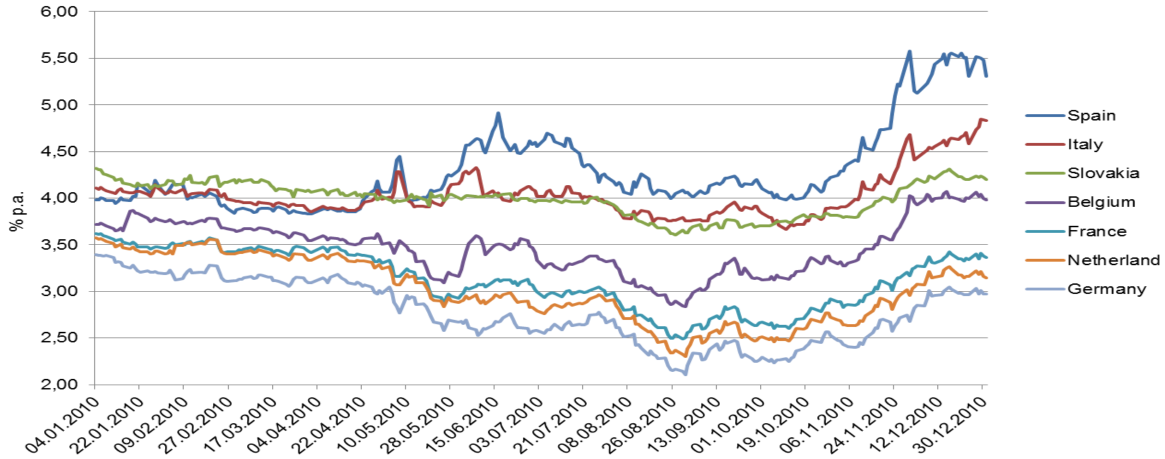
These portfolio indicators for bonds and Government Loans in 2010 came significantly closer to the top of the range as defined in the Strategy thanks to the issuance of Treasury Bonds in value of EUR 2 billion with a 15 year maturity.

Debt and Liquidity Management

The Debt and Liquidity Management Agency manages the state debt according to Act. No. 291/2002 Coll. on State Treasury and on Amendments of Some Act, in line with the government approved Debt Management Strategy for the given time period.

Debt management and the issuance of government securities in 2010 continued to be affected by the global economic crisis, causing the different growth of risk premiums on Government Bonds of single countries, a surplus of investor liquidity and the ECB's monetary intervention in the form of extremely small interest rates with a maturity up to one year. Europe's Treasury Bond yields had a relatively stable first three months but then began to differentiate due to the influence of panic situation in Greece and later Ireland, Portugal and Spain.

Comparison of interest rates development (bonds with 10 years to maturity)

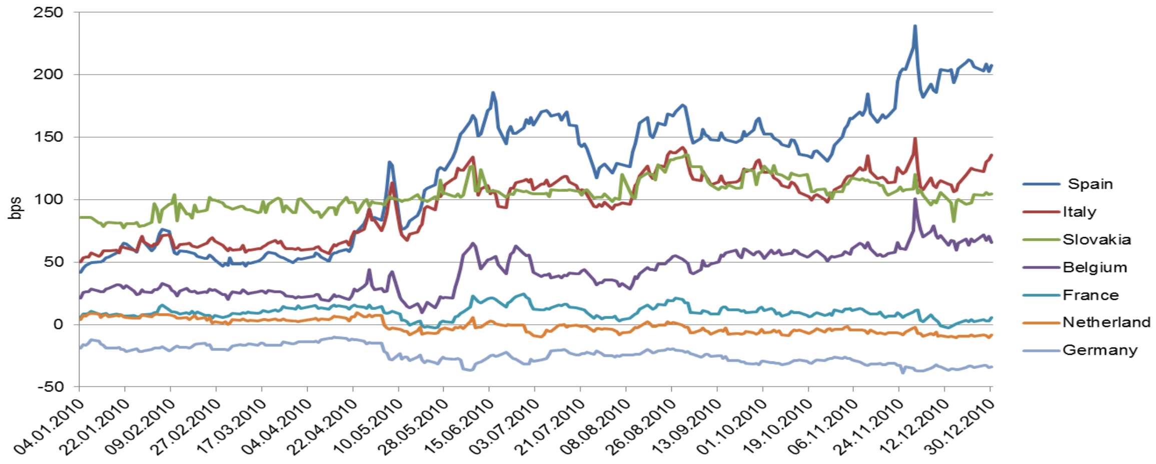


Source:Thomson Reuters

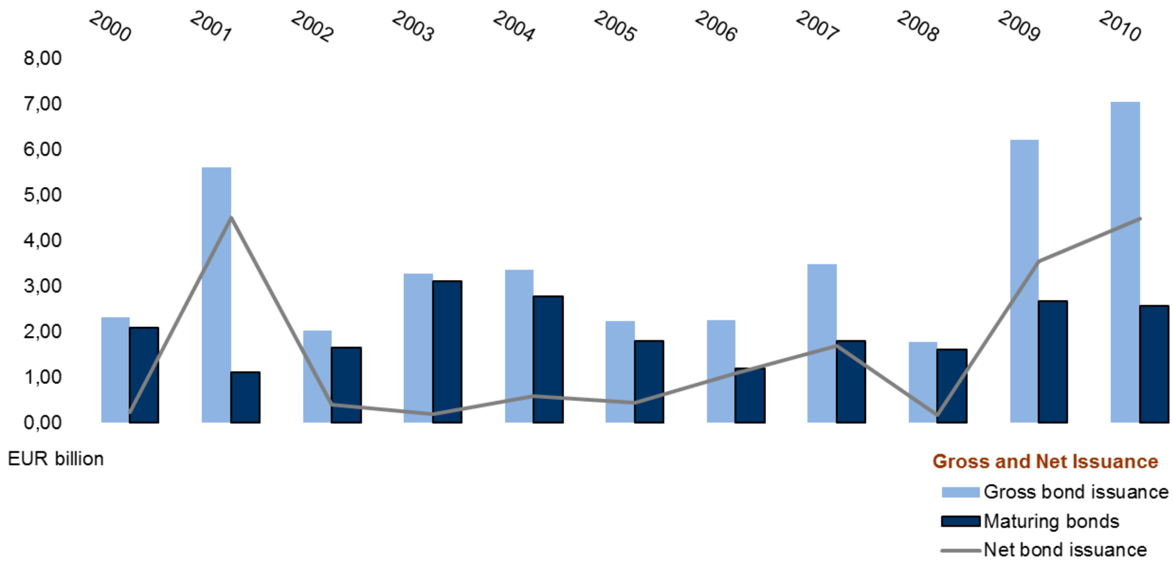
"Flight to quality" became apparent in "safe" countries such as Germany or Switzerland, when their interest rates decreased due to increased demand for their bonds. On the contrary, reduced demand for bonds or even sell-out of bonds in other countries meant either constant or different increase of their interest rates i. e. their spreads increased against benchmarks. After August's minimum of interest rate level, interest rates returned to growth but it had no significant effect on the risk margin in most of countries.

Similarly, interest rates of less problematic countries, where belong Italy and begun to belong also Belgium, have also grown in line with this trend moreover influenced by the growing investors distrust. Slovak Government Bond yields in comparison to other countries appeared to be more stable with less volatility which could be also partially attributed to inadequate liquidity. Over the longer term (several months) yields of Slovak 10-year Bond are stable. Mentioned relative stability may be seen in the graph below, where changes in the Slovak spread is comparable to German and Dutch spreads while being significantly different from Spain and Belgium.

Comparison of spread to Asset Swap development of 10 year bond



SourceThomson Reuters



During 2010 Agency held 21 bond auctions and two new bonds were launched via syndication. By total demand of EUR 14 397.32 million (in face value) were accepted bids to buy bonds in face value of about EUR 7 044.46 million.

Overview of Treasury Bonds auctions results (sorted by bonds)

Bond	Date of Issue	Maturity Date	Coupon (% p.a.)	Type of Sale	Accepted bids (EUR mio.)	Bid/ Cover Ratio	Average YTM (% p.a.)	ASW Spread (bps)
ŠD 206	Fixed Rate Bond; Original Maturity 20 Years; ISIN SK4120004987							
ŠD 206	10.02.2010	10.05.2026	4,500	Auction	80,9	3,37	4,8403	+114,3
ŠD 206	05.05.2010	10.05.2026	4,500	Auction	235,5	1,04	4,7886	+128,1
ŠD 206	30.06.2010	10.05.2026	4,500	Auction	65,6	1,44	4,6110	+170,5
ŠD 206	24.11.2010	10.05.2026	4,500	Auction	0,000	n/a	n/a	n/a
ŠD 210	Floating Rate Bond (6M EURIBOR);Original Maturity 6Years; ISIN SK4120006503							
ŠD 210	13.01.2010	21.01.2015	0,974	Auction	301,0	3,48	n/a	+64,8
ŠD 210	10.03.2010	21.01.2015	0,974	Auction	238,9	3,57	n/a	+55,1
ŠD 212	Fixed Rate Bond; Original Maturity 2Years; ISIN SK4120006990							
ŠD 212	27.01.2010	27.01.2012	0,000	Auction	341,8	1,61	2,0150	+87,9
ŠD 212	24.03.2010	27.01.2012	0,000	Auction	239,5	1,71	1,8638	+99,2
ŠD 212	02.06.2010	27.01.2012	0,000	Auction	186,5	2,84	1,7072	+133,7
ŠD 212	16.09.2010	27.01.2012	0,000	Auction	107,0	3,22	1,6325	+106,7
ŠD 212	27.10.2010	27.01.2012	0,000	Auction	125,2	3,29	1,6266	+83,0
ŠD 213	Fixed Rate Bond; Original Maturity 6Years; ISIN SK4120007071							
ŠD 213	24.02.2010	24.02.2016	3,500	Auction	293,0	2,05	3,5843	+105,5
ŠD 213	28.04.2010	24.02.2016	3,500	Auction	205,5	2,09	3,3444	+105,0
ŠD 213	19.05.2010	24.02.2016	3,500	Auction	108,5	1,12	3,3535	+140,4
ŠD 213	16.06.2010	24.02.2016	3,500	Auction	110,0	2,00	3,3724	+167,1
ŠD 213	18.08.2010	24.02.2016	3,500	Auction	226,6	1,47	3,2452	+169,7
ŠD 213	29.09.2010	24.02.2016	3,500	Auction	113,4	2,82	3,1131	+157,9
ŠD 213	10.11.2010	24.02.2016	3,500	Auction	121,0	1,93	3,0809	+145,1
ŠD 214	Fixed Rate Bond; Original Maturity 10Years; ISIN SK4120007204							
ŠD 214	27.04.2010	27.04.2020	4,000	Syndicate	1 500,0	1,26	4,0540	+107,5
ŠD 214	02.09.2010	27.04.2020	4,000	Auction	135,6	1,80	3,6924	+151,1
ŠD 215	Floating Rate Bond (6M EURIBOR);Original Maturity 3Years; ISIN SK4120007527							
ŠD 215	14.10.2010	14.10.2013	1,206	Auction	149,3	4,02	n/a	+57,8
ŠD 215	08.12.2010	14.10.2013	1,206	Auction	159,7	1,79	n/a	+54,1
ŠD 216	Fixed Rate Bond; Original Maturity 15Years; ISIN SK4120007543							
ŠD 216	14.10.2010	14.10.2025	4,350	Syndicate	2 000,0	2,15	4,3730	+160,8

Based upon investors requirement to consolidate the market of Slovak Government Bonds a decision was made to stop issuance of "Eurobonds" (via syndicate of banks) registered and listed abroad with the documentation by English legislation. Instead, in April 2010, the first bond issued via syndicate (half of the total face value of the benchmark bond with a maturity of 10 years) was realised according Slovak legislation (similar to English) and registered and listed in Slovakia. Similarly in October the first part (two thirds of the total face value of the benchmark issue with a maturity of 15 years) of another bond was issued via syndicate. Another important step to improve both the demand and market attractiveness of the Slovak Bonds was the modification of bond yield taxation commencing January 1st, 2011, an important first step to simplifying procedures not only for Government Bond trading but also for coupon payment.

Benchmark Issue of 10 Year Government Bonds

Joint Bookrunners:	Barclays Capital, Deutsche Bank, ING Bank a SLSP (Erste Group)
Nominal Amount:	EUR 1.5 billion
Maturity Date:	April 27th, 2020
Coupon:	4.00 % p. a, Annually
Re-offer Spread vs. Midswaps:	+80 bps (0.8 % p. a.)
Re-offer Price:	99.563 %
Re-offer Yield:	4.054 % p. a.

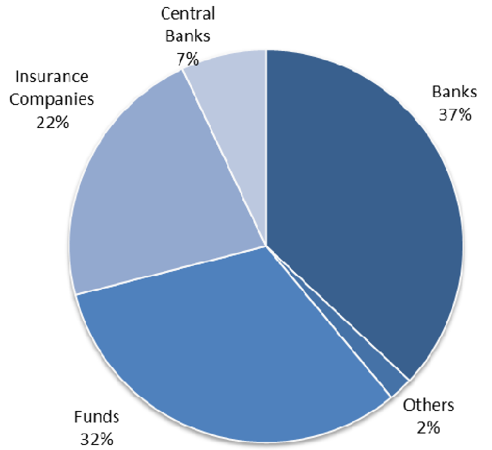
This transaction was a new milestone on European bond market for Slovakia as it represented Slovakia's first international syndicated bond offering governed by Slovak law. Approximately 6 year process of the Slovak Republic integration into European financial market in debt management area had been finished.

Thanks to sufficient amount of bids at approximately EUR 2.0 billion the price guidance was refined to tight end of initial price guidance at mid-swaps + 80-85bps area. The books were closed with over 125 investors participating with EUR 1.5 billion bids accepted. There were first time accepted bids out of Europe. Asian investors had 7% of this issue; majority of it was the Chinese one.

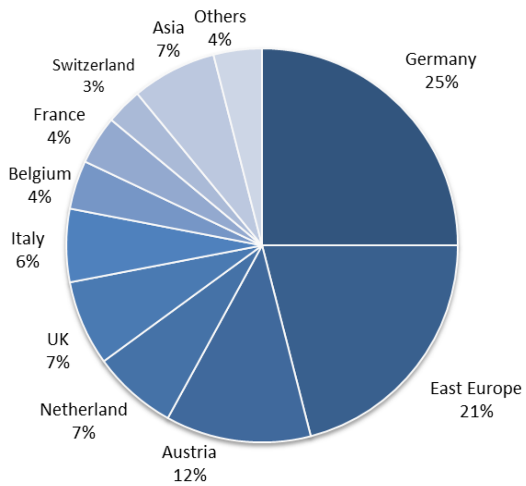
European bonds' market conditions were at the date of opening of the book negative. Investor´s sense and tension was influenced by continuing Greece crisis, Goldman Sachs scandal and air transport problems, caused by Icelandic volcano.

First time in history the syndicate consisted of four banks and for the first time participants were also local banks (ING Bank and Slovenska sporitelna). Distribution was dominated by real money accounts (over 60%) and the transaction benefitted from abroad distribution, with no jurisdiction accounting for over 25% of allocations. The swift execution of the transaction and the excellent quality of the orderbook underline the appeal of Slovakia's credit to international investors.

Investor Type Distribution



Geographic distribution



Benchmark Issue of 15 Year Government Bonds

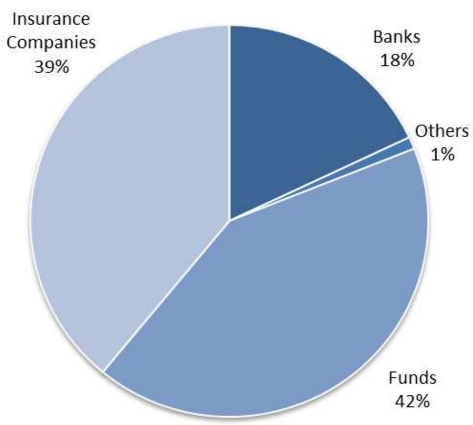
Joint Bookrunners:	HSBC, SG CIB, Tatra banka (RZB Group), UniCredit Bank Slovakia
Nominal Amount:	EUR 2.0 billion
Maturity Date:	October 14th, 2025
Coupon:	4.35 % p. a, Annually
Re-offer Spread vs. Midswaps:	150 bps (1.5 % p. a.)
Re-offer Price:	99.751 %
Re-offer Yield:	4.373 % p. a.

This issue can be characterized as very successful, moreover realized in volatile market conditions. More than 250 investors from four continents showed their strong interest in the issue. The final orderbook size was above EUR 4.2 billion whereby real money investors made up 80 % of the allocations.

The books were closed in just one and a half hour at the tighter end of the initial price guidance (midswaps +150/155bps). The issuer agreed to upsize the initially targeted EUR 1.0 billion upon the strong demand and the attractive final spread for this long dated issue to EUR 2.0 billion.

The price guidance for the issue was set only slightly above the better rated Italy (March 2025 MS+147,5bps) and deep inside the trading level of Spain (July 2025, MS+162bps) and Poland (Jan 2025 MS+179bps) which underlined the high credit quality of the single A rated issuer.

Investor Type Distribution



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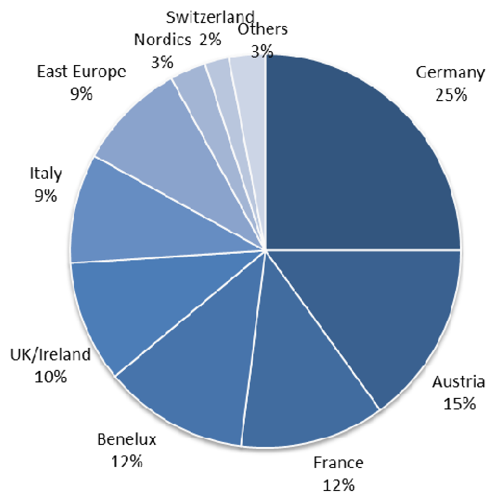
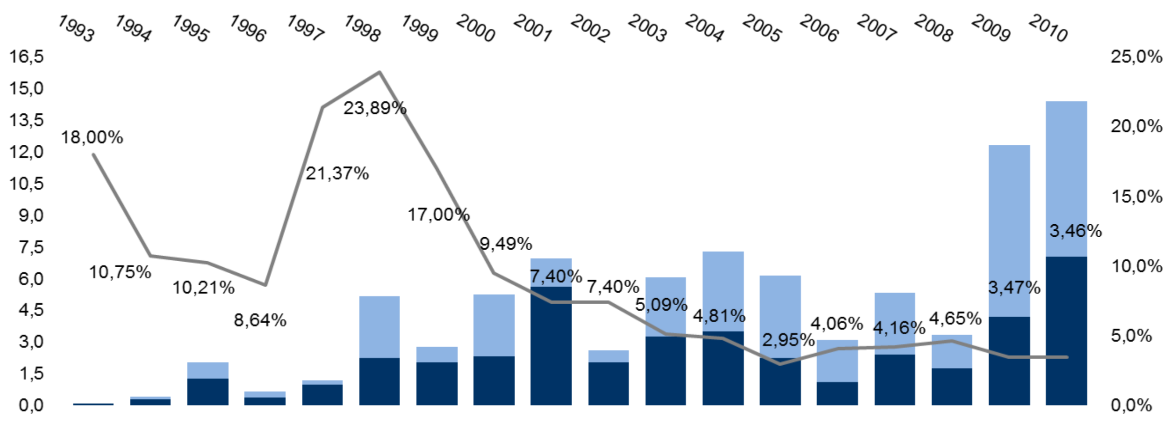


In 2010 Agency opened two new issues of Treasury Bills, a January and July issue with a maturity of 364 days, both in face value of EUR 2 billion. Overall 3 issues of Treasury Bills were offered via auction during the year. ARDAL intended to offer investors the opportunity to invest in shorter-term financial instruments because their interest in the course of the crisis shifted to shorter maturities. During 2010, 13 auctions of Treasury Bills (a competitive sale) accomplished by Dutch auction method and one buyback auction by American auction method.

Overview of Treasury Bills Auctions Results (sorted by Bills)

Treasury Bill	Auction Date	DTM	Type of auction	Accepted bids (EUR mio.)	Bid/Cover Ratio	Average YTM (% p. a.)	Spread against EURIBOR (bps)
ŠPP	Discounted Treasury Bill; Maturity Date 14.07.2010; ISIN SK6120000030						
ŠPP	03.02.2010	161	Sale	227,2	2,12	0,9500	+6,8
ŠPP	17.02.2010	147	Sale	458,6	1,94	0,8500	+1,8
ŠPP	17.03.2010	119	Sale	145,0	2,62	0,6488	-9,7
ŠPP	Discounted Treasury Bill; Maturity Date 19.01.2011; ISIN SK6120000048						
ŠPP	20.01.2010	364	Sale	288,1	2,57	1,1000	-13,0
ŠPP	03.03.2010	322	Sale	222,7	2,33	1,0495	-10,2
ŠPP	31.03.2010	294	Sale	132,6	3,75	0,9900	-12,5
ŠPP	09.06.2010	224	Sale	150,0	1,79	0,9631	-9,4
ŠPP	23.06.2010	210	Sale	118,0	1,43	0,9399	-11,6
ŠPP	07.07.2010	196	Sale	52,2	2,05	0,9601	-12,1
ŠPP	21.07.2010	182	Sale	97,0	1,36	1,2000	+8,6
ŠPP	18.10.2010	93	BuyBack	150,0	1,73	0,9120	-7,5
ŠPP	Discounted Treasury Bill; Maturity Date 13.07.2011; ISIN SK6120000055						
ŠPP	14.07.2010	364	Sale	247,2	3,27	1,5000	+14,0
ŠPP	28.07.2010	350	Sale	133,6	2,92	1,6000	+21,9
ŠPP	25.08.2010	322	Sale	148,5	3,08	1,5000	+15,2



Primary Market of Slovak Government Bonds According to Years

Plan for 2011

In 2011 ARDAL plans, on behalf of the Ministry of Finance, to issue securities in total value approximately EUR 8.5 billion. The majority will consist of Government Bonds in value approximately EUR 7.0 billion sold through auctions and syndicates. The rest, about EUR 1.5 billion, will be Treasury Bills issued to the Ministry of Finance's own portfolio and then sold by auctions in the secondary market.

ARDAL plans to increase by EUR 1 to 1.5 billion outstanding amount of the existing bond ŠD 213 via the syndicate in February 2011. Bond has original maturity six years and maximal size EUR 3.0 billion. By the end of April 2011 an increase of the existing bond ŠD 214 is planned, with an original 10 year maturity, worth EUR 1 billion. The last sale of Government Bonds in 2011 by the syndicate will most likely take place in the autumn (September, October) when via syndicate we will open a new line of bond. All these sales made by the syndicate are subjected by appropriate conditions in the capital market.

In 2011 two new issues of Government Bonds are going to be open:

- Government Bond with zero coupon interest rate, with a three years to maturity, in total face value of EUR 1.5 billion (ŠD 217).
- Government Bond with a fixed interest rate coupon, with a 7 or 10 year maturity, in total face value of EUR 3.0 billion (ŠD 218).

Overview of Treasury Bond auctions planned for 2011 (sorted by Bonds)

Auction date	Settlement date	Bond Short name	ISIN Code	Auction type
30.5.11	1.6.11	ŠD 206	SK4120004987	Competitive sale
3.10.11	5.10.11	ŠD 206	SK4120004987	Competitive sale
21.2.11	24.2.11	ŠD 213	SK4120007071	Competitive sale
27.6.11	29.6.11	ŠD 213	SK4120007071	Competitive sale
31.10.11	2.11.11	ŠD 213	SK4120007071	Competitive sale
10.1.11	12.1.11	ŠD 214	SK4120007204	Competitive sale
21.4.11	27.4.11	ŠD 214	SK4120007204	Competitive sale
22.8.11	24.8.11	ŠD 214	SK4120007204	Competitive sale
24.1.11	26.1.11	ŠD 215	SK4120007257	Competitive sale
7.3.11	9.3.11	ŠD 215	SK4120007257	Competitive sale
13.6.11	15.6.11	ŠD 215	SK4120007257	Competitive sale
5.9.11	7.9.11	ŠD 215	SK4120007257	Competitive sale
7.2.11	9.2.11	ŠD 216	SK4120007543	Competitive sale
2.5.11	4.5.11	ŠD 216	SK4120007543	Competitive sale
12.12.11	14.12.11	ŠD 216	SK4120007543	Competitive sale
4.4.11	6.4.11	ŠD 217		Competitive sale
11.7.11	13.7.11	ŠD 217		Competitive sale
17.10.11	19.10.11	ŠD 217		Competitive sale
28.11.11	30.11.11	ŠD 217		Competitive sale
21.3.11	23.3.11			For decision
16.5.11	18.5.11			For decision
19.9.11	21.9.11			For decision
14.11.11	16.11.11			For decision

Overview of open (unsold) bond issues as of 31 December 2010

Bond	ISIN	Date of Issue	Maturity Date	Outstanding (EUR mio.)	Available for sale (EUR mio.)	Type of coupon
ŠD 206	SK41200004987	10.5.06	10.5.26	1 049.80	278.0	Fix
ŠD 213	SK41200007071	24.2.10	24.2.16	1 178.00	1 822.0	Fix
ŠD 214	SK41200007204	27.4.10	27.4.20	1 635.6	1 364.4	Fix
ŠD 215	SK41200007527	14.10.10	14.10.13	309.0	1 191.0	Float
ŠD 216	SK41200007543	14.10.10	14.10.25	2 000.0	1 000.0	Fix

Treasury Bills Issuance in 2011

- New Treasury Bills issue ŠPP 06 on January 19th, 2011 in value of EUR 2.0 billion with maturity of 364 days.
- New Treasury Bills issue ŠPP 07 on July 13th, 2011 in value of EUR 2.0 billion with maturity of 364 days.

Treasury bills will be issued into the Ministry of Finance’s own portfolio and then sold by auctions in the secondary market.

Conclusion

In the first quarter of 2011 The Debt Management Strategy for years 2011-2014 will be processed and submitted to the Slovak Government. The Strategy will be based on the Debt Management Strategy 2007-2010 and build on its objectives.

In following period ARDAL is going to seek maximum transparency of issue policy, improve the government securities sales infrastructure and to support the liquidity of government securities on the secondary market.

In addition to the safe financing of the state needs, the main target will be to keep the portfolio parameters of government debt as near to values defined in the Debt Management Strategy for years 2011-2014 as possible.

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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 Slovak Republic)
- www.nbs.sk (National Bank of Slovakia)
- www.ecb.int (European Central Bank)
- www.pokladnica.sk (State Treasury)
- www.cdcp.sk (Central Depository of Securities)
- www.bsse.sk (Bratislava Stock Exchange)
- www.epp.eurostat.ec.europa.eu (Eurostat)