Annual Report 2012

DEBT AND LIQUIDITY MANAGEMENT

March 2013

Foreword by the Agency Director

Dear investors and readers,

We are submitting to you the annual report of the Debt and Liquidity Management Agency (ARDAL) for 2012.

In view of the significant improvement in market conditions and achievement of all objectives of the government debt management, we consider the year 2012 as remarkably successful.

A general improvement of the financial market situation opened the possibility to start a successive process of diversification of the investor base and to reach markets outside the euro area. Successful issuances in EUR, USD and CHF in a total size of EUR 2 billion equivalent stabilized and slightly increased the demand for the Slovak bonds also on the European market. The overall decline in interest rates increased the attractiveness of the Slovak long-term bonds. The Agency took advantage of the situation and sold government bonds by private placement with 17 and 20 years tenor in the total amount of EUR 625 million and at the end of the year issued 12 years bonds worth EUR 1.25 billion at the historically lowest total cost of benchmark bond. Good market conditions allowed the enlarging of a liquidity buffer and allowed the pre-financing for the year 2013. The total number of issued government securities exceeded EUR 10 billion, representing 125 % of the original gross plan of issue. Smooth refinancing and maintaining the cash reserves at 10 % of the total debt portfolio has enabled the buyback operations and early redeeming of the 2013 maturing debt to an amount exceeding EUR 1 billion.

Taking advantage of the market opportunities brought historically the best risk parameters of the government debt portfolio, the longest average maturity and the duration reaching a level of five years. The Agency fulfilled all criteria defined in the Government Debt Management Strategy, carrying the historically low cost of public debt financing, in 2012 almost unchanged compared to the years 2010 and 2011.

Reviewing 2012, we can conclude that the diversification strategy of the investor base in view of the changing market environment, the situation in the Eurozone and changes in the European banking market was right and it will be necessary to continue further.

Finally, I would like to thank all our business partners for their correct cooperation and support, investors for their interest and confidence and employees for their responsible attitude and professional work during the whole of 2012.

Yours truly

Daniel Bytčánek

Key Information - Overview

1. Originally expected gross borrowing needs were already fulfilled in first half of the year 2012. Since July ARDAL started to pre-finance 2013 obligations. During the year 2012 Slovakia issued state securities in the total size of EUR 10.8bn (124.9 % of planned EUR 7.6bn, adjusted by buybacks).

2. During the year it six sales of government bonds were made via a syndicate, which was a record number of syndicates made in one year.

3. ARDAL introduced new ways of selling government bonds thorough “direct sale” and “private placement”. In 2012 two issues of government bonds were sold in this is way.

4. In 2012, the main aim of debt management was investor base diversification. The Ministry of Finance for the first time in the history issued government bonds in foreign currencies USD, CZK and CHF.

5. In the second half of 2012, Slovakia sold long-term government bonds with the historically lowest yield to maturity (12 years at 3.421 % p.a. and 20 years at 4.300 % p.a.).

6. During the whole year yields of the Slovak government bonds continued to decline.

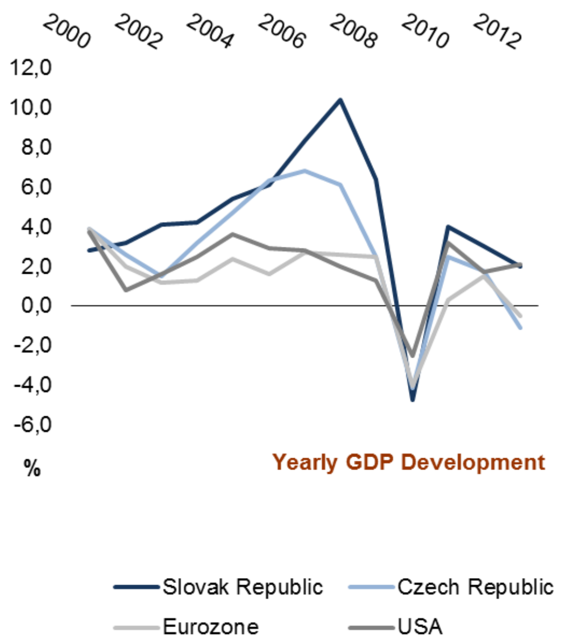
Macroeconomic Data

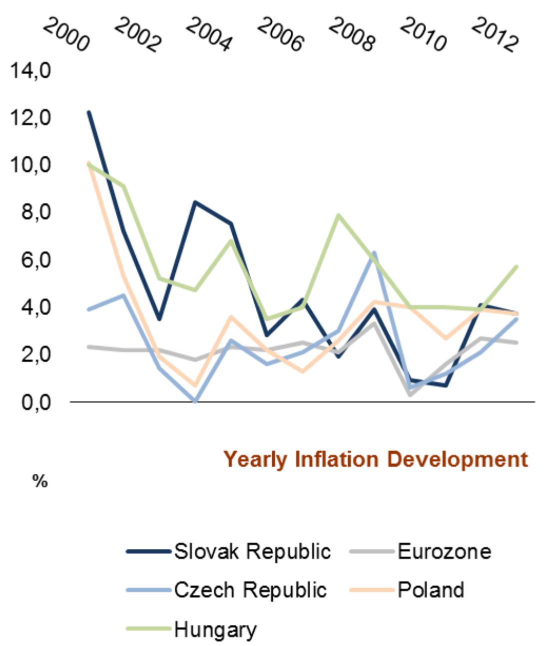
The year 2012 confirmed the shakeable recovery across the Europe from the crisis years of 2008 - 2011. Although the first half 2012 indicated that the economies of the European Union will grow in the second half of the year, especially the end brought a wave of economic downturn. Despite the negative developments in the neighbouring countries, according to preliminary estimates, the real GDP growth in Slovakia reached 2.0 % in 2012, which was far above the average growth of the European Union. The Slovak economy benefited mainly from the positive development of foreign trade and in particular, its largest trading partner - Germany. From the perspective of domestic demand it was mainly investment that contributed to the growth of GDP. On the contrary the consumption of households and the Government economic measures pulled GDP growth down.

GDP growth, however, was only slowly helping to create new jobs as it was mainly the result of a more efficient use of existing production capacities and increasing labour productivity. Fiscal consolidation of the new government also did not help the situation within the labour market. However, the higher unemployment rate, combined with high level of labour productivity and low average monthly salaries meant a strong attraction for new investors.

Inflation slowed down to 3.6 % in 2012 but still remains relatively high. Also last year, the rise in prices was influenced by several factors. Inflation was strongly influenced by world price growth in commodities (food and oil) and by government consolidation measures that were necessary to reduce the Government deficit.

Slight growth is expected to continue in the coming years. As indicated by the last quarter of 2012 the majority of Eurozone countries in 2013 will fall into recession. Slovakia will probably also have to face negative consequences even though according to the MF SR prognosis it should achieve GDP growth of 1.0 %.





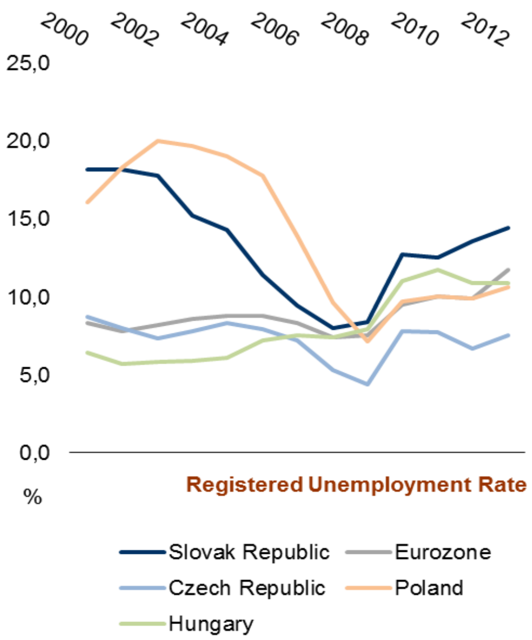
The election year 2012 meant a change of Government. The March early elections determined a clear winner, that of the centre-left oriented party SMER. The winning party set up, for first time in Slovak history, a government created from one political party. With this step, the new Government clearly took the whole political responsibility for the implementation of fiscal targets. Although the deficit in 2012 reached 4.6 % of GDP, the new Government has set a clear goal of consolidating public finances to return to the values of the public deficit below 3 % in 2013.

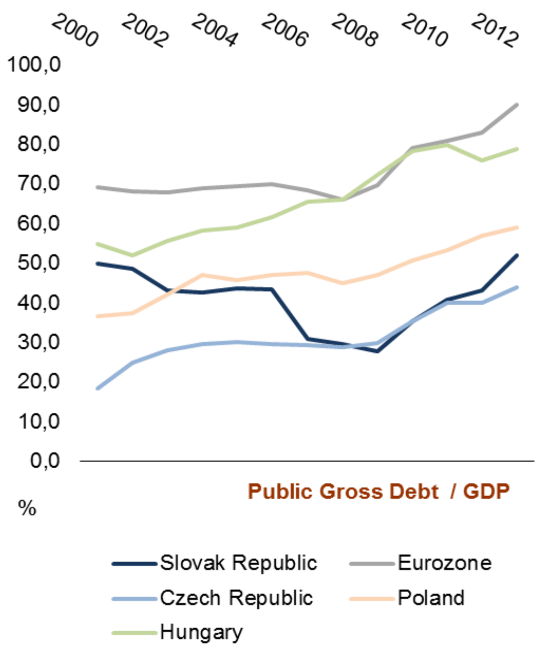
The total share of public debt to GDP should reach a value of 52 % of GDP in 2012. This will mean the initiation of automatic measures related to "debt brake" law – the current Minister of Finance will explain in Parliament why the ratio broke 50 % level. The constitutional “debt break” law, approved last year by wide consensus of the coalition and the opposition, implemented, from 2012, automatic measures if the public debt reaches the level of 50 % debt to GDP ratio (explanation of expenditure in Parliament, freezing the salaries of constitutional officials from 53 %, tying expenditures from 55 %, balanced or surplus budget from 57 % or the Government will have to ask for votes of confidence from 60 %).

This debt increase was caused not only by the new deficit but also by massive pre-financing, as the Slovak government bond yield in 2012 fell to a record low level. Under these favorable circumstances ARDAL issued more than originally planned. The issue plan for 2012 was fulfilled for nearly 125 %.

From the perspective of Slovakia’s position on the Eurozone map it is still an acceptable value for the country as Slovakia is on the 4th – 5th place from the perspective of the overall public debt to GDP ratio.

The proposal of budget for the public administration for 2013 - 2016 foresees a gradual reduction of the deficit of public administration to long-term sustainable levels below 3 % of GDP in 2013.



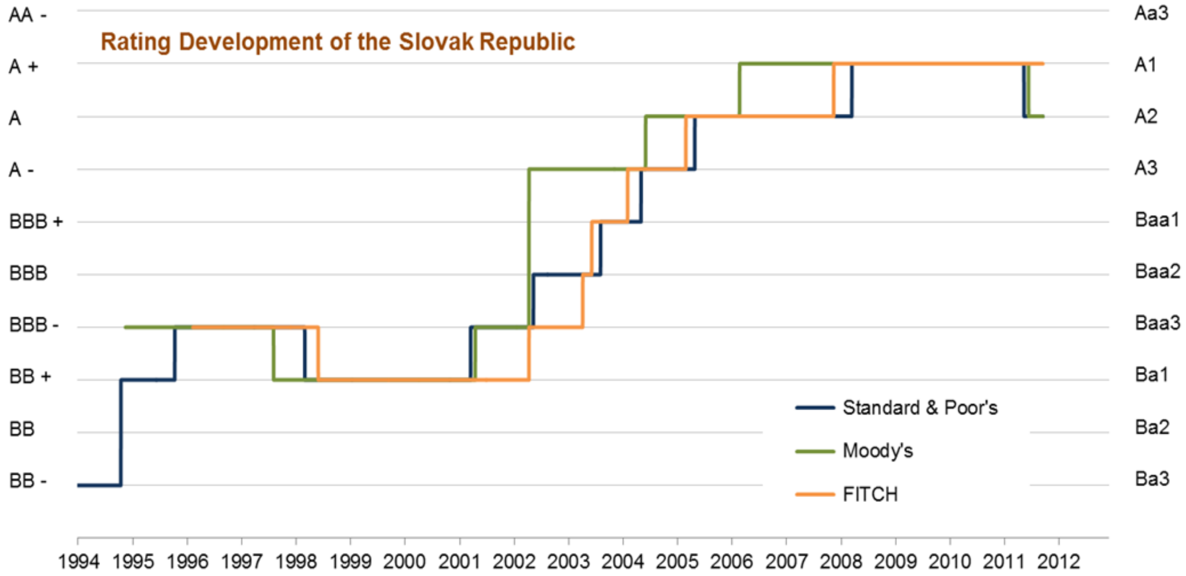


Rating

Rating of the Slovak Republic as of 28.02.2013			
Assignment Date	**Agency**	**Level**	**Outlook**
August 2012	**Standard & Poor's**	**A**	stable
February 2012	**Moody's**	**A2**	negative
May 2012	**Fitch**	**A+**	stable

Following the collective rating decrease of some Eurozone countries (including Slovakia) made by Standard & Poor´s (January 2012) and Moody´s (February 2012) Slovakia kept the same ratings for the rest of the year. The existing rating was confirmed during the year by Standard & Poor´s and Fitch.

For the further development of the rating this year's deficit and confirmation of the government efforts to meet the conditions of the Fiscal Stability Treaty will be crucial.



Risk Management

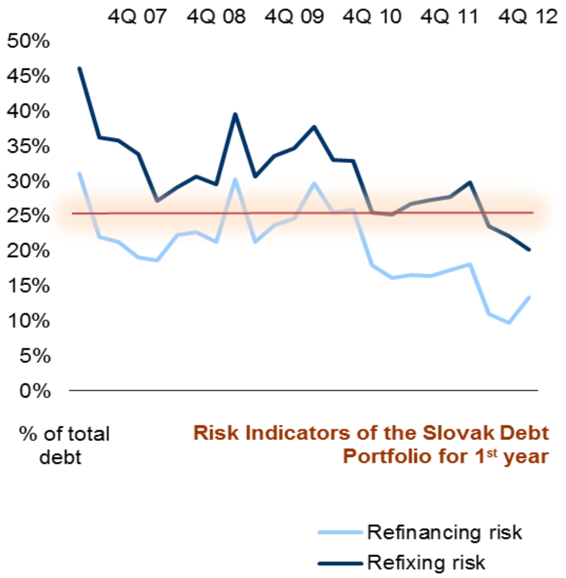
The new Government Debt Management Strategy for years 2011 - 2014 followed up on the previous strategy.

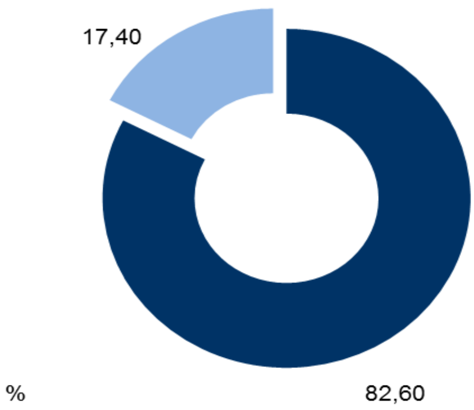
Similarly in current strategy for the purpose of risk management are defined parameters of refinancing and interest rate risks. The purpose for period from 2011 to 2014 is to achieve a close approximation to the specified values or maintain the parameters as close as possible to the specified values.

The refinancing and interest risks value of cumulative maturity within one year was set to 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 to 65 % share of obligations due within 5 years of the total involved obligations.

The market situation in 2012 and the decline in interest rates enabled the reduction of the refinancing risk in achieving less than originally projected cost of refinancing. In addition to this, most investors were interested in the longer maturity issues, which positively influenced the improvement of these indicators.

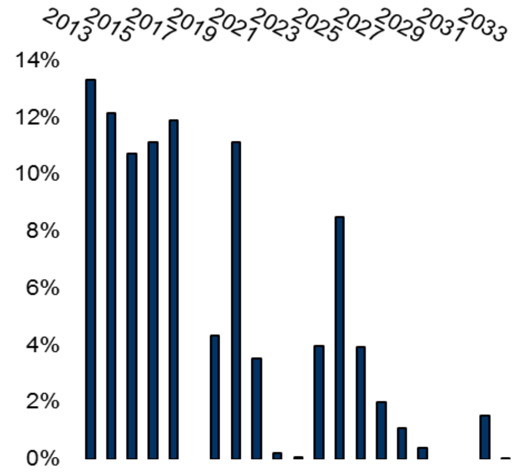
At the end of 2012, the indicators defined in the Strategy of debt management were met.





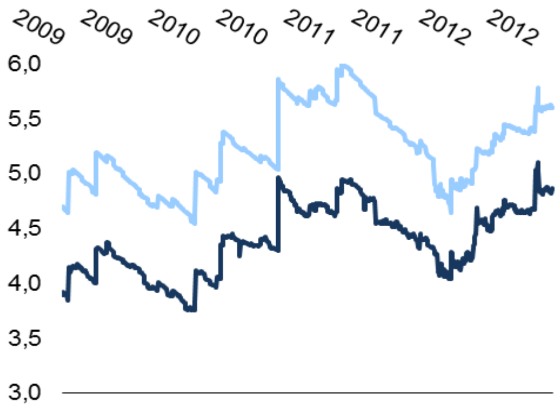
Coupon Breakage of the Slovak Government Bonds as of 31.12.2012

■ Fixed ■ Float



Debt Redemption Profile as of 31.12.2012

■ Maturing debt



Duration and Average Maturity Development of the Slovak Debt Portfolio

Average maturity
Duration

The average duration as well as maturity of the whole debt portfolio is monitored as the secondary criteria according to the approved State Debt Management Strategy for 2011 - 2014.

The duration and average maturity of the bond and government loans portfolio increased during the year 2012 almost by one year, from the level 4.7 to 5.6 years (average maturity) and from the level 4.0 to 4.9 years (duration).

This increase was mainly made by the issuances of long term bonds with a fixed coupon rate. The average maturity of the bonds was greater than in the past (issuances of 10, 12, 17, 20 years to maturity in 2012). Decrease of T-Bills share in 2012 on total portfolio also contributed to the average maturity and duration increase.

This new structure of debt securities means less demand for refinancing in the near future at an acceptable level of interest costs.

To avoid interest and exchange rate risk resulting from foreign currency issuances (USD, EUR, CHF) ARDAL during the year 2012 entered into long-term cross currency interest rate swaps. A total of eight swaps were concluded with 7 counterparties, in the total face value of EUR 2.013bn.

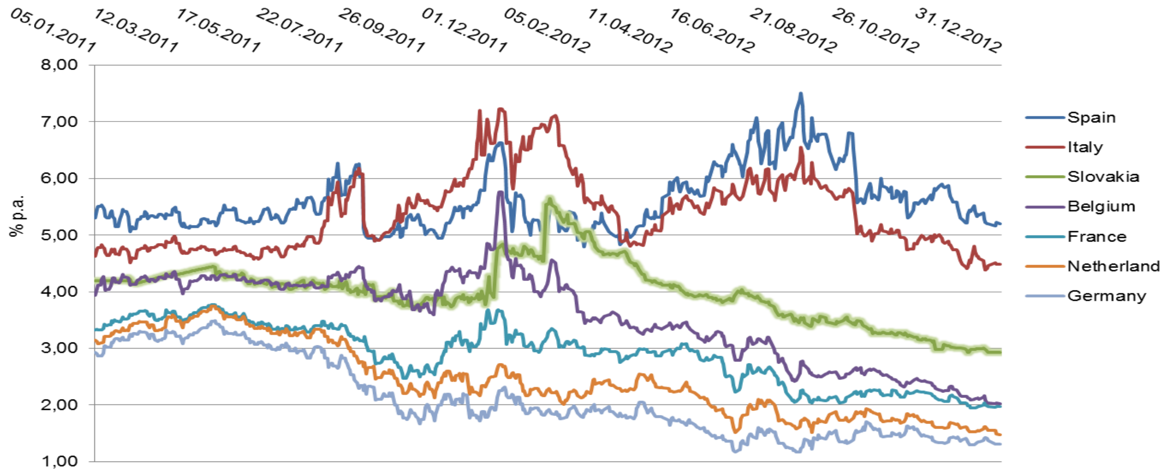
Debt and Liquidity Management

The ARDAL on behalf of the Ministry of Finance 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 the Government Debt Management Strategy for the given time period.

The issuance of government securities and liquidity management were also affected by the debt crisis in Europe in 2012.

An increase of interest rates, after a negative development at the end of 2011, continued at the beginning of January 2012 (illustrated on bonds with 10 years maturity). The worse situation was visible not only in peripheral countries of the Eurozone, but also the interest rates of core countries began to vary widely. A common approach in solving problems in countries under the ESM/EFSF program, but especially ECB actions (LTRO and bond market operations) have returned the financial market to calmer waters, at least for a short time. Problems with the consolidation of the Greek economy and the growing skepticism in Spanish consolidation efforts led to the next wave of investments in "safe" government bonds in the second quarter of 2012. At this point Slovakia, mainly due to successful issuances at the beginning of the year and issuing bonds abroad, was clearly distinguished from the problematic countries and ranked closely to the core countries of the Eurozone.

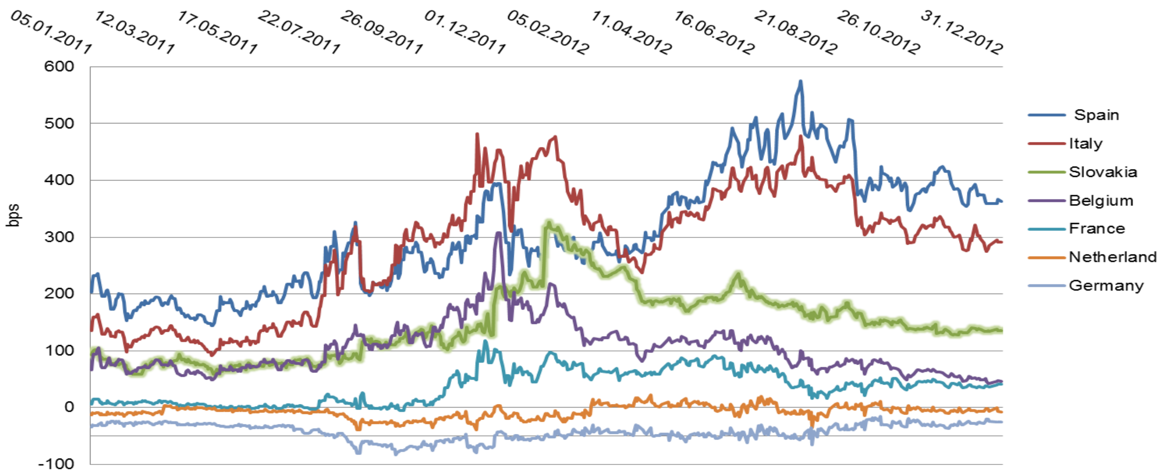
Comparison of interest rates development (10 years Bond´s yield)



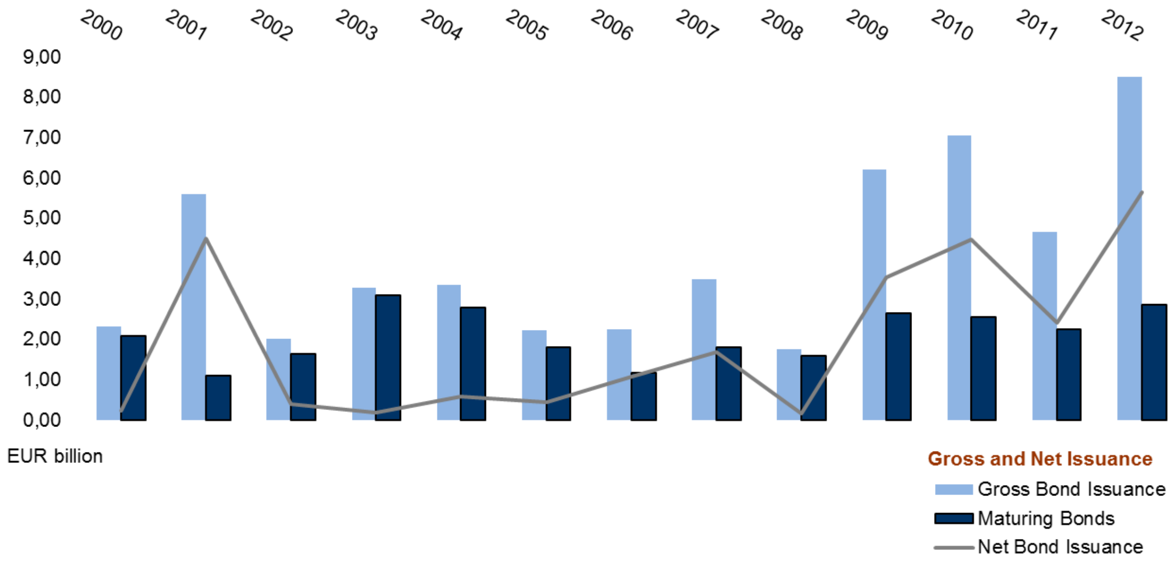
Source: Bloomberg

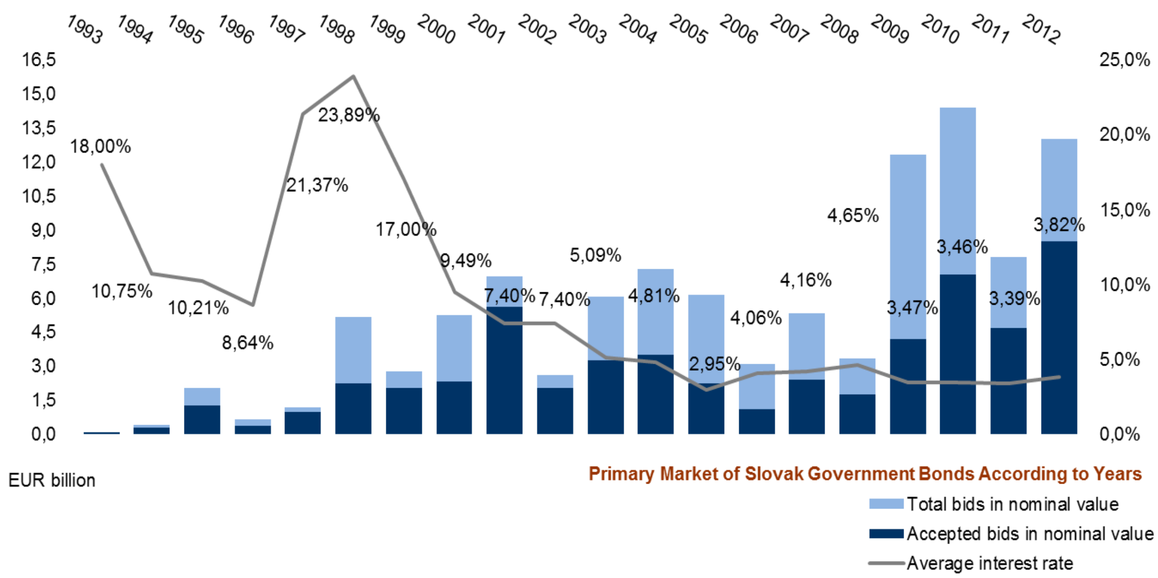
The Slovak government bond yield started to shift down from March 2012, following the core countries, which attacked new historical lows of their bond´s yields. Development of the yield curves divided the countries into two main groups - core and peripheral countries (without taking into account the country assistance program). Slovakia, especially in the second half of 2012, have been clearly identified and assigned by the investors to the group of the core countries. This has meant a shift in the Slovak yield curve to historic lows and enabled Slovakia to issue long-term bonds at historically lowest interest rates ever.

Comparison of 10 year Bond´s spread development to Asset Swap



Source: Bloomberg



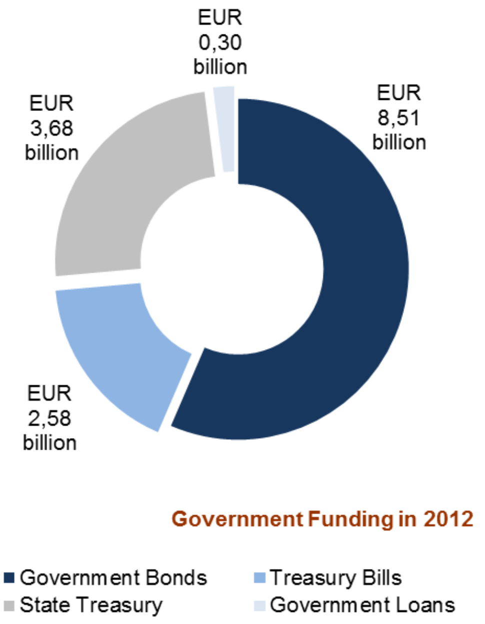


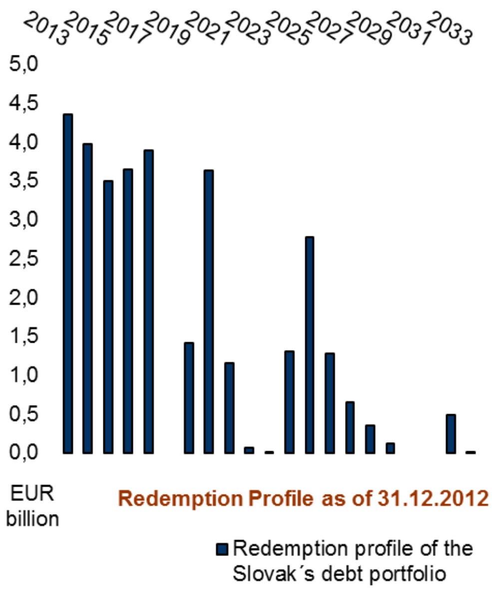
During the year 2012 the ARDAL held seventeen competitive auctions and one non-competitive auction, six syndicated sales, two private placements and two buy-back auctions of government bonds.

The difficult situation in the markets during the year necessitated less standard bond sales directly from the Ministry of Finance’s own portfolio. Although Slovakia acceded to this sale at the height of the financial crisis, these sales are quite common in other EU countries. Demand for bilateral sales increased by investors along with the decline in interest rates, particularly in short term Slovak government bonds.

Through bilateral trades and private placement the ARDAL accomplished to sell bonds with a total face value of EUR 1.221bn. It should be noted that all of these transactions were concluded under fair market conditions, in many cases more favorable (for Slovakia), as it was reached in auctions.

A total of EUR 12.989bn (auctions, syndications, private placements, sells from own portfolio) bond bids were accepted with a face value of EUR 8.509bn.





Sells of the Government Securities in the year 2012

Instrument	Issued in 2012	Average YTM
Government Bonds	8.51 billion EUR	3.82 % p.a.
Treasury Bills	2.58 billion EUR	1.33 % p.a.
Total	**11.09 billion EUR**	

Overview of the Government Bonds Sells in 2012 (sorted by Bonds)

Bond	Date of Issue	Maturity Date	Coupon (% p.a.)	Type of Sale	Accepted Bids (EUR million)	Bid/ Cover Ratio	Average YTM (% p.a.)	ASW Spread (bps)
ŠD 213	Fixed Rate Bond; Original Maturity 6 Years; ISIN SK4120007071							
ŠD 213	21.03.2012	24.02.2016	3.500	Auction	300.6	1.78	2.847	+ 135
ŠD 216	Fixed Rate Bond; Original Maturity 15 Years; ISIN SK4120007543							
ŠD 216	12.12.2012	14.10.2025	4.350	Auction	76.3	1.34	3.364	+ 121
ŠD 216	18.04.2012	14.10.2025	4.350	Auction	196.5	1.31	4.632	+ 130
ŠD 216	13.06.2012	14.10.2025	4.350	Auction	138.0	1.40	4.258	+ 148
ŠD 216	11.07.2012	14.10.2025	4.350	Auction	48.5	1.52	4.144	+ 213
ŠD 216	22.08.2012	14.10.2025	4.350	Auction	63.3	2.03	3.845	+ 223
ŠD 216	17.10.2012	14.10.2025	4.350	Auction	60.9	1.30	3.545	+ 207
ŠD 217	Zero Bond; Original Maturity 3 Years; ISIN SK4120007840							
ŠD 217	25.01.2012	07.04.2014	0.000	Auction	319.7	1.74	3.047	+ 185
ŠD 217	22.02.2012	07.04.2014	0.000	Auction	283.0	1.99	2.542	+ 135
ŠD 217	21.03.2012	07.04.2014	0.000	Auction	280.9	2.19	2.131	+ 100
ŠD 218	Floating Rate Bond (6M EURIBOR); Original Maturity 5 Years; ISIN SK4120008202							
ŠD 218	22.02.2012	16.11.2016	6M EURIBOR	Auction	68.5	2.13	-	+ 170
ŠD 218	18.04.2012	16.11.2016	6M EURIBOR	Auction	249.6	1.35	-	+ 157
ŠD 218	16.05.2012	16.11.2016	6M EURIBOR	Auction	151.1	1.86	-	+ 139
ŠD 218	14.11.2012	16.11.2016	6M EURIBOR	Auction	94.2	2.44	-	+ 55
ŠD 219	Fixed Rate Bond; Original Maturity 5 Years; ISIN SK4120008301							
ŠD 219	19.01.2012	19.01.2017	4.625	Syndicate	1 000.0	1.29	4.696	+ 305
ŠD 219	16.05.2012	19.01.2017	4.625	Auction	321.7	1.59	2.636	+ 139
ŠD 219	13.06.2012	19.01.2017	4.625	Auction	179.2	1.12	2.602	+ 142
ŠD 219	19.09.2012	19.01.2017	4.625	Auction	115.0	3.62	1.806	+ 89
ŠD 220	Floating Rate Bond (6M PRIBOR); Original Maturity 3.5 Years; ISIN SK4120008400 (12 500 mil. CZK)							
ŠD 220	02.03.2012	02.09.2015	6M PRIBOR	Syndicate	500.0	-	-	+ 195
ŠD 221	Fixed Rate Bond; Original Maturity 17 Years; ISIN SK4120008665							
ŠD 221	11.07.2012	11.07.2029	4.400	Private placement	115.0	-	4.400	+ 218
ŠD 221	17.07.2012	11.07.2029	4.400	Private placement	10.0	-	4.400	+ 218
ŠD 222	Fixed Rate Bond; Original Maturity 20 Years; ISIN SK4120008673							
ŠD 222	09.08.2012	09.08.2032	4.300	Private placement	373.0	-	4.400	+ 231
ŠD 223	Fixed Rate Bond; Original Maturity 12 Years; ISIN SK4120008871							
ŠD 223	15.11.2012	15.11.2024	3.421	Syndicate	1 250.0	1.68	3.421	+ 203
CHF 2018	Fixed Rate Bond; Original Maturity 6 Years; ISIN CH0181379774 (325 mil. CHF)							
CHF 2018	25.04.2012	25.04.2018	2.125	Syndicate	270.5	-	2.110	+ 143
CHF 2022	Fixed Rate Bond; Original Maturity 10 Years; ISIN CH0181915585 (175 mil. CHF)							
CHF 2022	25.04.2012	25.04.2022	2.750	Syndicate	83.2	-	2.798	+ 162
CHF 2022	18.06.2012	25.04.2022	2.750	Syndicate	62.4	-	2.735	+ 182
USD 2022	Fixed Rate Bond; Original Maturity 10 Years; ISIN XS 0782720402 (1 500 mil. USD)							
USD 2022	21.05.2012	21.05.2022	4.375	Syndicate	1 160.1	1.93	4.490	+ 252

Due to the limited capacity of the domestic financial market, it is necessary each year to increase foreign investors sells. In this regard the year 2012 was a breakthrough. Through the syndication sales the Ministry of Finance accomplished to sell government bonds at a face value of EUR 4.3bn mostly to foreign investors, representing more than 50 % of the total funds received from the sale of government bonds.

Next to the standard syndicate sale of bonds issued under the Slovak legislation (two lines in EUR denominated bonds totaling EUR 2.25bn EUR with 5 and 12 year maturities) ARDAL succeeded in the historic sale of bonds denominated in 3 different foreign currencies. The foreign currencies issuances were as follows: CZK 12.5bn (EUR 0.5bn equivalent) with maturity 3.5 years; CHF 0.5bn - two tranches of 6 and 10 years; USD 1.5bn with 10 years maturity. All foreign-currency issues and the overall diversification of the investor base of Slovakia were very positively perceived by foreign investors.

Following the foreign currency issues ARDAL entered into cross currency interest rate swaps with the same maturity as individual bonds. These transactions hedged position against any foreign exchange and interest rate risk and effectively created the synthetic bonds denominated in EUR.

The strong demand from investors requested the introduction of a new instrument for Slovak government bond sales - private placement. Two issues of government bonds with a total face value of EUR 0.625bn were made through this form of sales. These were issued under Slovak law as standard domestic bonds.

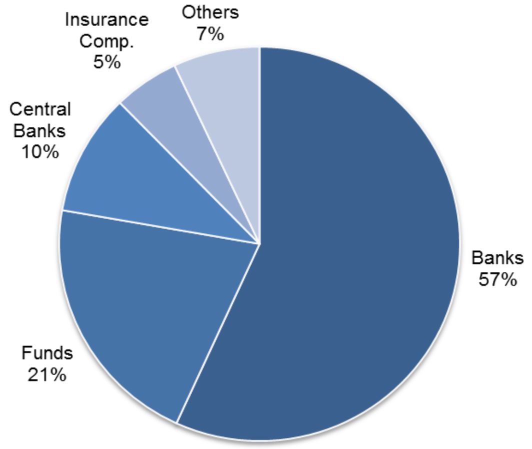
Syndication sale of the 5-year benchmark Government Bond

Joint Book-runners:	HSBC, SG CIB, Tatra Banka (RZB Group), Unicredit Bank Slovakia
Nominal Amount:	1.00 billion EUR
Maturity Date:	19th January 2017
Coupon:	4.625 % p. a., annually
Re-offer Spread vs. Mid-swaps:	3.050 % p. a.
Re – offer Price:	99.690 %
Re – offer Yield:	4.696 % p. a.

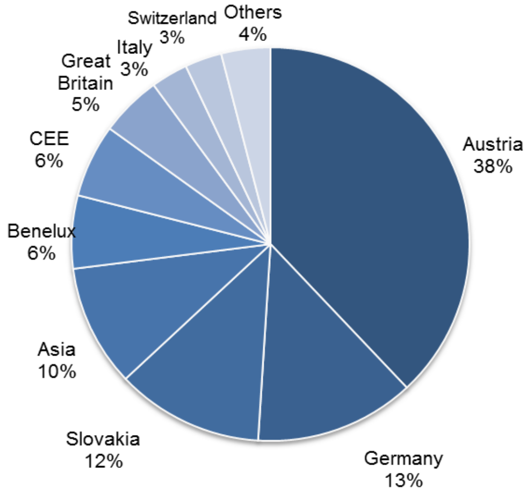
The mandate was announced at 10:00 CET and the rapidly growing indications of interest made it possible to open books in the early afternoon. The order-book then grew to EUR 1.3bn, allowing the joint lead managers to close the books in just two and a half hours at the tighter end of the price guidance (MS+305/310 bps). The issuer managed to print the initially targeted EUR 1bn and secure an attractive coupon for this issue. Slovakia intends to reopen this issue through domestic auctions at a later stage (up to EUR 3bn).

The investor response and participation in the transaction demonstrates Slovakia's credit strength and attractiveness. This enabled the issuer to be the first euro-zone sovereign to tap the Euro market in 2012 following a particularly volatile market environment at the end of 2011.

Investor Type Distribution



Geographic Distribution



Syndication sale of the 3.5-year Government Bond denominated in CZK

Joint Book-runners:	ČSOB (KBC Group), Komerční banka (SG Group), SLSP (Erste Group)
Nominal Amount:	12.50 billion CZK
Maturity Date:	02th September 2015
Coupon:	6M PRIBOR + 1.500 % p. a., semiannually
Re-offer Spread vs. Mid-swaps:	1.800 % p. a.
Re – offer Price:	98.970 %

This was the historically first issuance of Slovakia, denominated in CZK. A similar size of financial markets and the common past of the Czech Republic and Slovakia, allowed the bond issue under Slovak law, which was also something new in the modern history of Slovakia.

Managers prior to the underwriting indicated interest from investors totaling about CZK 7.5bn. Finally, bigger interest allowed issuing CZK 12.5bn (EUR 500m equivalent).

Syndication sale of the 6 and 10-year Government Bond denominated in CHF

Joint Book-runners:	UBS AG, RBS Plc.
Nominal Amount:	0.325bn CHF / 0.100bn CHF + 0.075bn CHF (June´s Tap)
Maturity Date:	25th April 2018 / 25th April 2022
Coupon:	2.125 % p. a. / 2.750 % p. a. / annually
Re-offer Spread vs. Mid-swaps:	1.450 % p. a. / 1.650 % p.a.
Re – offer Price:	100.084 % / 99.586 % / 100.126 % (June´s Tap)

The Slovak Republic successfully priced its debut CHF offering in a strategic move to diversify its investor base. This follows a successful CZK denominated offering on 23rd February and EUR on 11th January.

Slovakia met with investors in Geneva and Zurich and received a positive reception from the Swiss investor base. Investors recognized Slovakia’s long and proven track record of economic and fiscal reforms, sound debt management and conservative and well capitalized banking sector.

The deal was a very rare dual tranche offering from a debut sovereign in the CHF market and priced very competitively compared to outstanding CHF offerings from the region. The 6 year priced at CHF MS +145 bps and the 10 year at CHF MS +165 bps, equivalent to a yield of 2.110 % and 2.798 % respectively. The 10 year tranche is a clear testament to the confidence that Swiss investors have in the credit.

The level of demand and the success of the offering have firmly cemented Slovakia’s credit in the Swiss market and pave the way for future CHF issuance.

Syndication sale of the 10-year Government Bond denominated in USD

Joint Book-runners:	Barclays Capital, JP Morgan, Citigroup
Nominal Amount:	1.5 billion USD
Maturity Date:	21th May 2022
Coupon:	4.375 % p. a., annually
Re-offer Spread vs. Mid-swaps:	2.625 % p. a.
Re – offer Price:	99.082 %
Re – offer Yield:	4.490 % p. a.

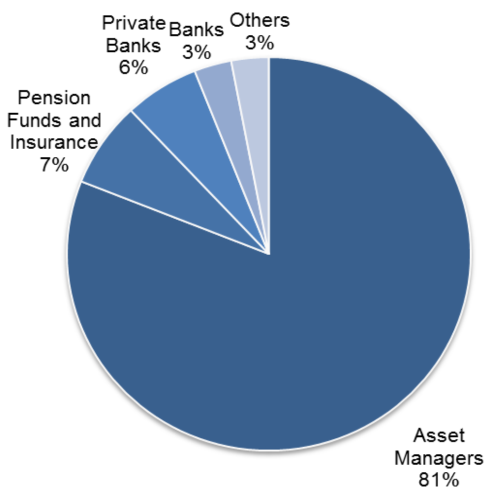
The issuance was opened on 10th of May. The transaction fulfilled Slovakia's principal objective of diversifying its investor base and establishing access to the US market, given recent prolonged periods of volatility in Europe, Slovakia's core funding market.

Execution was preceded by a series of investor meetings over 5 days in London, New York, Boston, San Francisco and Los Angeles. Slovakia was represented by a senior team led by Peter Kazimir (Deputy Prime Minister and Minister of Finance), Vazil Hudak (State Secretary of the Ministry of Finance) and Daniel Bytcanek (Director of ARDAL). In total, the Slovak Republic met more than 30 investors via one-on-one meetings, group meetings and conference calls.

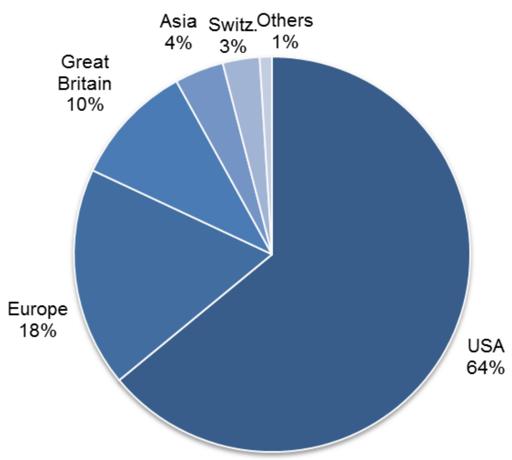
Building on the positive feedback received during the roadshow, the decision was taken to open the books and release the initial price guidance of US Treasuries + 262.5-275bps on Thursday, 10 May, at 11:00 CET. Despite the very volatile market conditions following elections in Greece and France, as well as continuing market nervousness surrounding European peripheral economies, the book built quickly and reached in excess of USD 1bn in less than 2 hours. Driven by strong participation from US and European real money investors, the order-book closed at 16:45 CET with total orders approaching USD 3bn. Based on the high quality order-book and little price sensitivity, the final spread was fixed at T+262.5bps, at the tight end of the initial guidance. The order-book enabled the issuer to increase the deal from the USD 1bn minimum size to USD 1.5bn.

Asset Managers dominated the final distribution with 81 %, followed by Insurance / Pension Funds with 7 %, Private Banks (6 %), Banks (3 %) and other investors accounted for the remaining 3 %. The average order size of ca. USD 18m and 168 accounts participating reflects the confidence that international investors have in the Slovak Republic.

Investor Type Distribution



Geographic Distribution



Syndication sale of the 12-year benchmark Government Bond

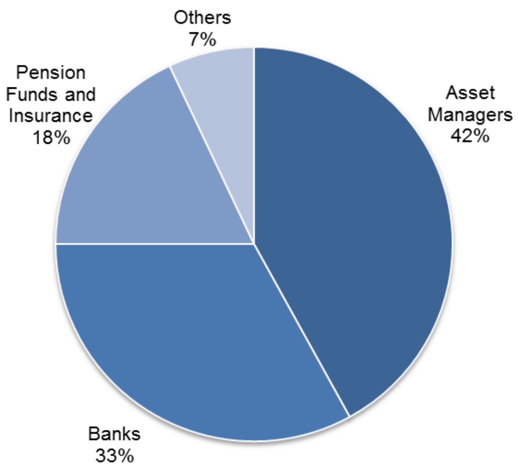
Joint Book-runners:	SG CIB, SLSP (Erste Group), Unicredit Bank
Nominal Amount:	1.25 billion EUR
Maturity Date:	15th November 2024
Coupon:	3.375 % p. a., annually
Re-offer Spread vs. Mid-swaps:	1.500 % p. a.
Re – offer Price:	99.553 %
Re – offer Yield:	3.421 % p. a.

The transaction was announced at 10:00 CET with Initial Price Thoughts of "mid-swaps +155bp area" which generated approximately EUR 1.2bn in orders within less than one hour of opening. On the back of robust demand, the official guidance was revised to mid-swaps +150-153bps.

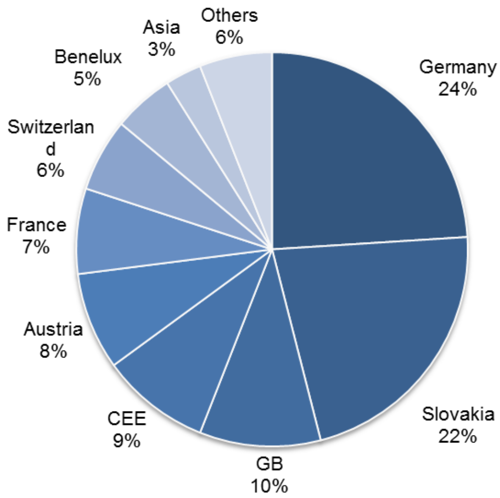
The book went subject at 12:30 CET with demand in excess of EUR 2.1bn and over 140 investors participating. The size and high quality of the order-book allowed Slovakia to price a EUR 1.25bn new issue inside the official price guidance at mid-swaps + 150bps, representing a new issue premium of only 5bps over the issuer's secondary curve. The final pricing also represents the lowest coupon ever achieved by Slovakia for a long-dated EUR denominated Eurobond. The final spread reached on the bond issue was equivalent to + 203.9bps versus the DBR 1.5 % 09/2022.

Distribution was dominated by real money investors, accounting for more than half of the order-book. The transaction benefitted from a broad distribution, with almost 80 % of the issue placed outside of Slovakia. Well managed market timing and book-building momentum, coupled with the excellent quality of the order-book demonstrate the strong appeal of Slovakia's credit to international investors.

Investor Type Distribution



Geographic Distribution



Overview of Treasury Bills Auctions Results (sorted by Bills)

Treasury Bill	Date of issue	DTM	Type of Auction	Accepted Bids (EUR million)	Bid/Cover Ratio	Average YTM (% p. a.)	Spread to EURIBOR (bps)
ŠPP 08	Discounted Treasury Bill; Maturity Date 28.03.2012; ISIN SK6120000089						
ŠPP 08	11.01.2012	77	Sale	237.1	2.04	1.431	+ 24
ŠPP 09	Discounted Treasury Bill; Maturity Date 16.01.2013; ISIN SK61200000973						
ŠPP 09	18.01.2012	364	Sale	152.9	3.86	1.151	+ 14
ŠPP 09	01.02.2012	350	Sale	294.5	3.03	1.970	- 10
ŠPP 09	08.02.2012	343	Sale	260.5	2.85	1.704	- 6
ŠPP 09	07.03.2012	315	Sale	304.0	1.18	1.642	- 19
ŠPP 10	Discounted Treasury Bill; Maturity Date 03.04.2013; ISIN SK6120000105						
ŠPP 10	04.04.2012	364	Sale	485.0	2.08	0.980	- 43
ŠPP 10	25.04.2012	343	Sale	125.8	2.33	1.060	- 29
ŠPP 11	Discounted Treasury Bill; Maturity Date 10.07.2013; ISIN SK6120000113						
ŠPP 11	11.07.2012	364	Sale	246.8	2.91	0.800	- 30

In 2012, ARDAL opened three new T-Bills issues, in January, in April and July. All three issues were with a maturity of 364 days, two of them with a face value EUR 1.5bn and one of EUR 2.0bn.

During 2012, eight T-Bills auctions took place (Dutch style of competitive sale), compared to six auctions in the year of 2011.
The critical situation in financial markets in early 2012 also necessitated the sale of treasury bills through bilateral trades. ARDAL executed four such sales totaling EUR 0.26bn.
In the auctions and in bilateral trades T-Bills were sold with a total face value of EUR 2.58bn, compared to EUR 1.32bn in 2011 (including matured issuances in 2012). This increase was caused by the continued uncertainty in the first half of 2012 when ARDAL was trying to pre-finance as much as possible to ensure smooth liquidity.
Due to increasing the liquidity buffer and the increasing demand for Slovak government bonds with longer maturities ARDAL, from approximately mid-2012, did not sell any T-Bills.

In 2012 ARDAL continued carrying out buy-backs of government securities maturing in 2012 and in 2013. During 2012, 11 buy-backs were executed. Two buybacks were made via auction and the rest were agreed in a bilateral way. In total ARDAL bought back state securities with a face value of EUR 1.084bn.

Plans for the year 2013

In 2013 ARDAL plans, on behalf of the Ministry of Finance, to issue securities with a total value of approximately EUR 8.3bn. The majority will consist of government bonds with a value of approximately EUR 7.3bn sold via auctions and syndicates. The rest, approximately EUR 1.0bn, will be T-Bills issued to the Ministry of Finance's own portfolio and then sold by auctions in the secondary market.

ARDAL plans to open at least 5 new lines of bonds in 2013. Depending upon the functioning of the financial markets, the level of demand and appropriate market conditions the following will be opened:

- Line of bond with a maturity 5 years, worth EUR 1.5bn; fixed coupon
- Line of bond with a maturity 5 years, worth EUR 1.5bn; float coupon (EURIBOR)
- Line of bond with a maturity 6 years, worth EUR 1.5bn; fixed coupon
- Benchmark issue with a maturity of 10 years, worth EUR 3.0bn; fixed coupon
- Line of bond with a maturity of 15 or more years, worth EUR 3,0bn; fixed coupon

Other lines of bonds may be opened according to the government debt management needs and investor requirements.

Commencing 2013, ARDAL plans to conduct bond auctions once a month, usually the third Monday in a month, with the possibility to auction more bonds with different maturities according to investors' requirements. All auctions will be made on a decision based on communication with the primary dealers.

Overview of planned Government Bond Auctions for 2013

Auction Date	Settlement Date	Bond Short Name	ISIN Code	Auction Type
21.01.2013	24.01.2013	ŠD 216, ŠD 219	SK4120007543, SK4120008301	Competitive sale
18.02.2013	21.02.2013	ŠD 218, ŠD 219	SK4120008202, SK4120008301	Competitive sale
18.03.2013	21.03.2013	ŠD 218, ŠD 224	SK4120008202, SK4120008954	Competitive sale
15.04.2013	18.04.2013	For decision		Competitive sale
20.05.2013	23.05.2013	For decision		Competitive sale
17.06.2013	20.06.2013	For decision		Competitive sale
15.07.2013	18.07.2013	For decision		Competitive sale
19.08.2013	22.08.2013	For decision		Competitive sale
16.09.2013	19.09.2013	For decision		Competitive sale
21.10.2013	24.10.2013	For decision		Competitive sale
18.11.2013	21.11.2013	For decision		Competitive sale
09.12.2013	12.12.2013	For decision		Competitive sale

Overview of open (ready to sell) Bond Issues, available for auctions, as of 28.02.2013

Bond	ISIN	Date of Issue	Maturity Date	Outstanding (EUR million)	Available for Sale (EUR million)	Type of Coupon
ŠD 218	SK4120008301	16.11.11	16.11.16	947.0	553.0	6M EURIBOR
ŠD 219	SK4120008203	19.01.12	19.01.17	2 024.0	976.0	fix
ŠD 223	SK4120008871	15.11.12	15.11.24	1 250.0	1 750.0	fix
ŠD 224	SK4120008954	08.02.13	08.02.33	1 358.6	141.4	fix
ŠD 225	SK4120009044	28.02.13	28.02.23	1 750.0	1 250.0	fix

Treasury Bills Issuance in 2013

In the year 2013 two issues of T-Bills with 1 year tenure will be issued. The first will be issued in April, 2013 and the second in October, 2013 each in size EUR 1.5bn. Depending upon requirements and demand of the market, T-Bills with a shorter maturity (3 months and 6 months) can also be issued throughout the year. The first auction of new T-Bills will take place by issuance of T-Bills and the next auction can follow on the base of ARDALs needs and investors' requirements.

Overview of open (ready to sell) Treasury Bills Issues available for auctions as of 28.02.2013

Treasury Bill	ISIN	Date of Issue	Maturity Date	Sold (EUR million)	Own Portfolio (EUR million)	Total Amount (EUR million)
ŠPP 10	SK6120000105	04.04.12	03.04.13	595.8	904.2	1 500.0
ŠPP 11	SK6120000113	11.07.12	10.07.13	246.8	1 253.2	1 500.0

List of Primary Dealers as of 28.02.2013

- Barclays Bank plc.
- Citibank Europe plc.
- Crédit Agricole Corporate and Investment Bank
- Československá obchodná banka, a.s. (KBC Group)
- Deutsche Bank AG
- HSBC France
- ING Bank N.V. (ING Bratislava)
- Natixis
- Slovenská sporiteľňa, a.s., (Erste Group Bank)
- Société Générale
- Tatra banka, a.s., (RZB Group)
- UniCredit Bank Slovakia, a.s.
- Všeobecná úverová banka, a.s., (Intesa Sanpaolo Group)

Conclusion

2013 will also be, in terms of debt management, full of challenges as in the previous one.

The European financial market is far from being in an optimum condition. Although the first signs of optimism are already visible, in 2013 the persisting debt crisis and real economy outcome of European countries will be the main factors of the entire year and near future development. Meeting the requirements of the fiscal pact and consolidation of national budgets of EU countries will affect the macroeconomics outputs across the whole of Europe.

For 2013, GDP is expected to grow around 1.0 % in Slovakia. After a sharp increase in production and the approach to the current productive capacity of the automotive industry, it will no longer be possible to give a similar GDP growth rate as was the case in 2012. For this reason, the development of the Slovak economy will depend on the performance of its largest export partners, namely Germany, France, United Kingdom, Austria, and the V4 countries (Czech Republic, Poland).

In the following period ARDAL is will pursue a maximum transparency of issue policy, improve the government securities sales infrastructure and support the liquidity of government securities within the secondary market. This intention should be accomplished by a new system of primary dealers, introduced this year.

From January 2013 ARDAL, together with the introduction of a primary dealership, has moved to a new auction system running in Bloomberg. As was demonstrated in the first auctions, thanks to its simplicity and clarity the new auction system is helping to maintain ARDAL´s objective to attract a larger number of investors, especially from abroad. The new auction system brought greater comfort and simplicity for its users.

The great challenge for ARDAL remains diversification of the existing investor's portfolio. In 2013, as well as the European market, ARDAL is also planning to reach out investors from other global markets.

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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 the 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)

Notes