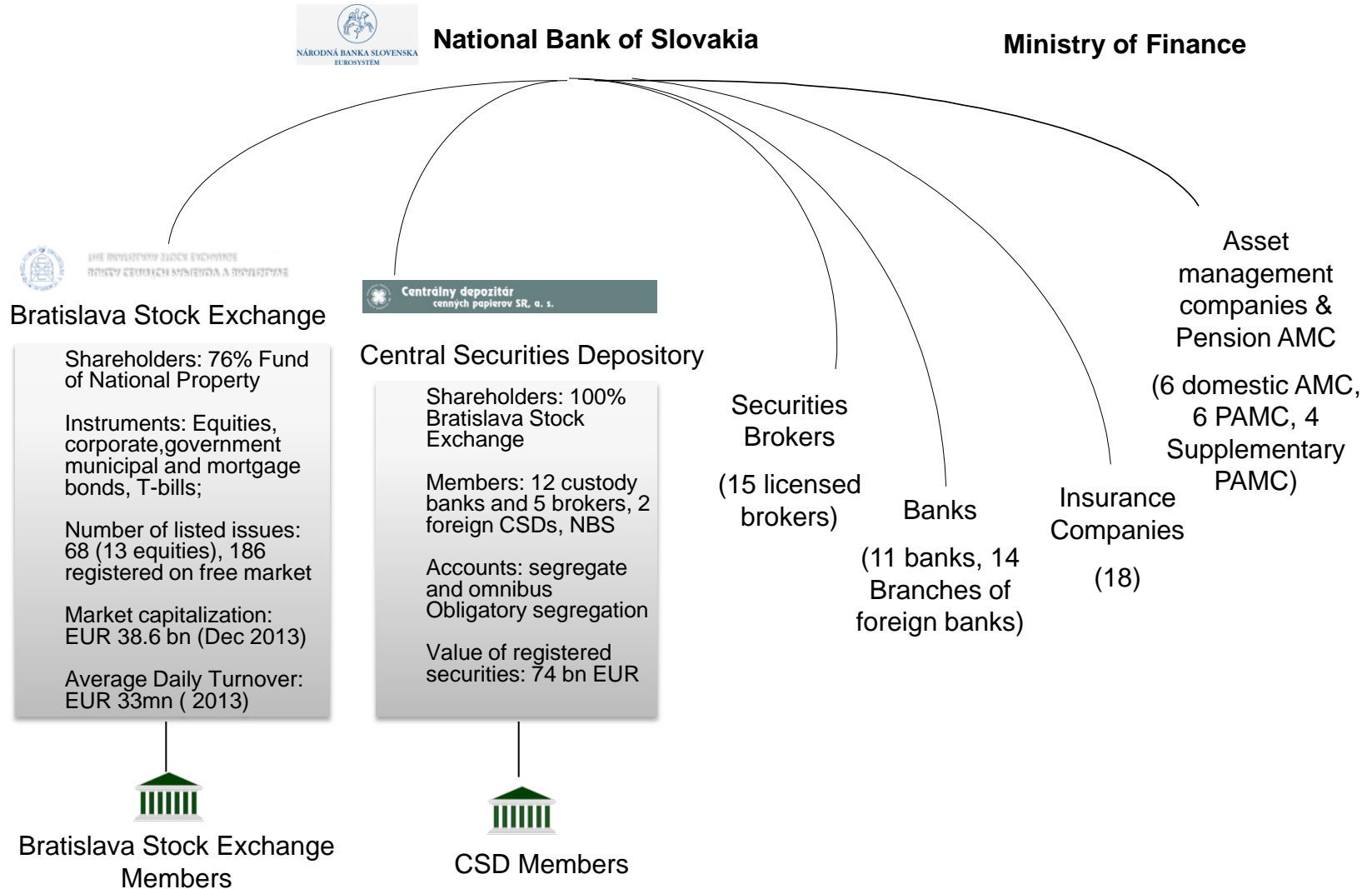


SEE Markets Roadshow SLOVAKIA

Luxembourg, April 29th & 30th, 2014

Zuzana Milanová – Head of GSS Slovakia

Slovakia - The Market Structure



Slovakia - Key Market Participants

National Bank of Slovakia: the Central Bank supervises and regulates entire financial market. After EUR adoption all competences in the field of monetary policy have been transferred to ECB. NBS key rates have been replaced with ECB rates. NBS is responsible for intraday credit, secured by collateral. NBS operates interbank payment system (TARGET2SK; Eurosips). NBS conducts economic research, prepares statistical surveys and designs financial sector legislation.

Ministry of Finance: central body of state administration responsible for the areas of finance, taxes and fees, customs, financial control, internal audit and government audit. It develops and defines the legislative framework, which is then adopted by the Slovak parliament (legislative process).

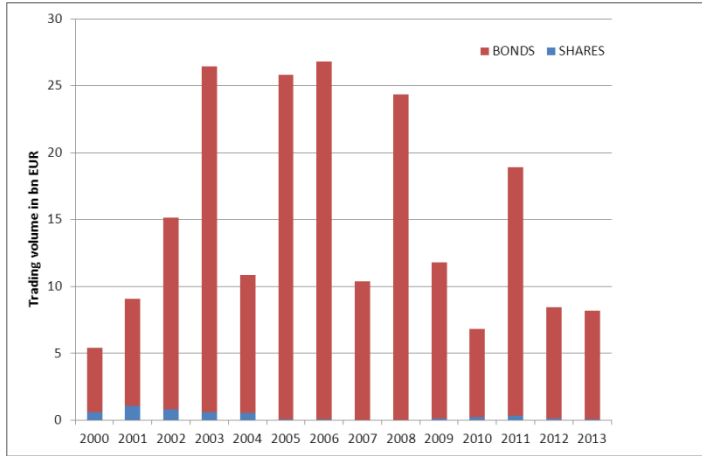
Debt and Management Liquidity Agency (ARDAL): state administration body established in 2002 under Act no. 291/2002 Coll. On State Treasury with full responsibility for management of the state debt and liquidity. Elaborates state debt financing strategy in cooperation with Ministry of Finance, organizes primary auctions of government bonds and T-Bills, ensures state securities issuance, executes redemption of face value and yields of state securities.

Self-regulatory Organizations

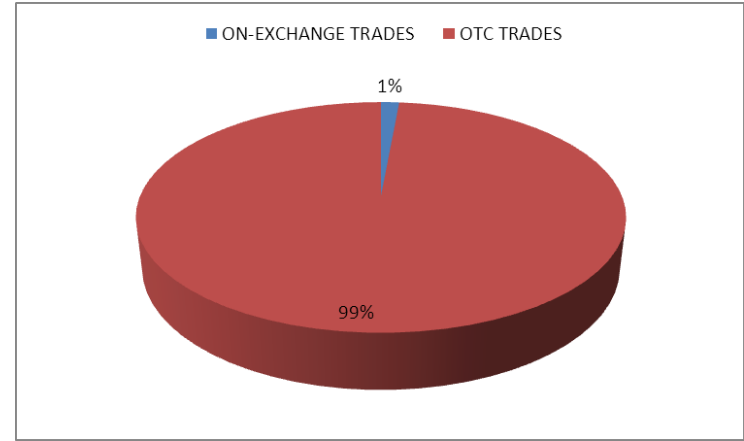
- Banking Association – most influential organization in the financial sector, 28 members, several committees,
- Association of Securities Dealers – represents interests of stock brokers; focus on capital market
- Association of Asset Management Companies
- Association of Pension Asset Management Companies
- Slovak Association of Insurance Companies

Slovakia - Market Trends

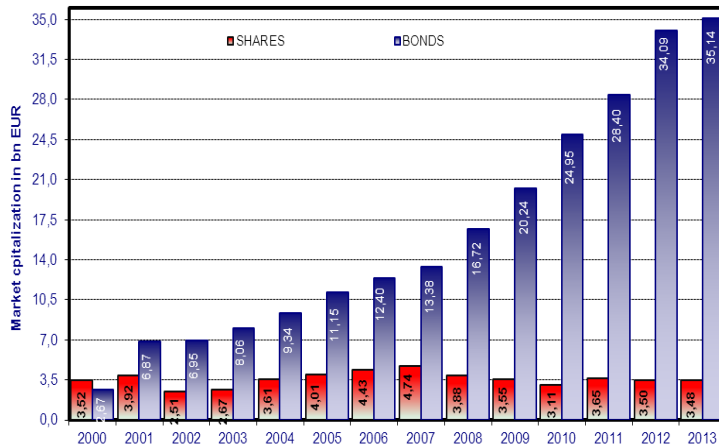
Bratislava Stock Exchange Trading Volumes



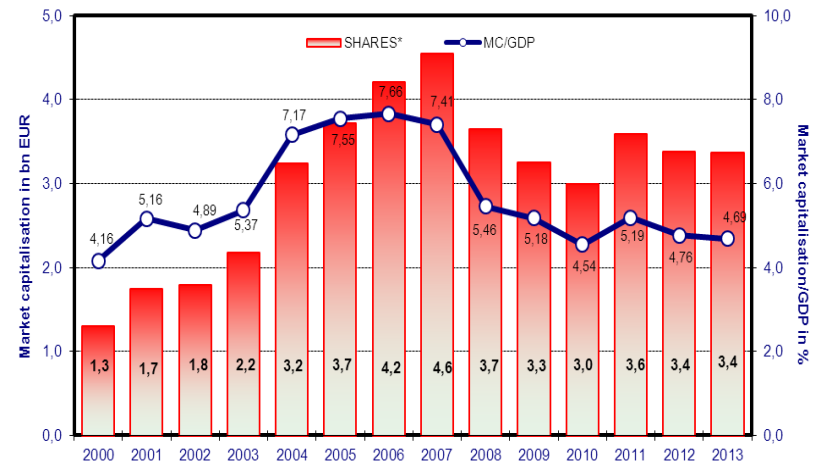
Trading Structure 2013



Market capitalisation of shares and



Real Market Cap to GDP



Slovakia - Major Market Issues

- Capital market does not fulfill its basic economic functions; low liquidity; bond oriented (97% of all trades)
- Low free float; one of the lowest market capitalization in EU
- The equity market is inactive (result of voucher privatization), lack of new issues, issuance of securities is administratively demanding and expensive, bank loans are cheaper and easily accessible
- Most securities transactions are concluded through OTC trading outside the SE and reported to the SE (99% of the total trading volume)
- Obligatory settlement of trades with listed securities through the Stock Exchange; settlement is subject to both, the stock exchange trading fees and CSD settlement fees
- High and nontransparent costs – CDCP, Bratislava Stock Exchange
- No STP processing, manual input of clients' settlement instructions into the Stock Exchange Trading system
- No automated settlement of back to back trades
- No derivatives trading, lack of infrastructure for rights trading
- Lack of SWIFT capabilities on CSD side, manual reconciliation of assets with CSD
- No standardized processing of corporate actions; no fixed payment date concept for dividends
- Nominee concept recognized by law however not yet fully established in market practice – subsequent legislation and market practice missing

Slovakia – Latest market development, changes in the past 24 months

Changes in the market infrastructure

CSD:

- Interconnection with Czech CSD was put live in 2012
- T2S Framework Agreement signed in June 2012, Adaptation plan was set; Migration in the fourth wave in February 2017

ARDAL:

- Implementation of concept of primary dealers

SE:

- Dual listing introduced in January 2012
- Same day value continuous settlement for bonds and T-Bills introduced in December 2012
- Extension of trading hours by 1,5 hour (from 14:00 to 15:30)

Changes in the regulatory environment

- Amendments of Income Tax Act (Jan 2013, July 2013, Jan 2014)
 - Introduction of definition of Tax Payer from non-contracting state who will be subject to higher tax rate; White List published by MF

Impacts on clients

- Czech securities can be admitted to special registry of foreign securities at CSD and traded on SE
- Market expects that T2S will bring standardization of settlement process (STP) and decrease of settlement fees

- Standardized rules for primary market; new auction system of Bloomberg

- Not a desired effect; Czech issues are not listed on SE
- Immediate settlement and confirmations, clients can manage their cash position better, settlement of back to back trades less risky
- Settlement deadlines have been extended

Impacts on clients

- Withholding tax on interest from non-government bonds for foreign investors was abolished
- 35% off-shore company tax rate to be applied on taxable income from Slovak sources (e.g. payment for services, royalties) from 1 March 2014; application & reporting processes unclear

Slovakia – Expected changes in the next 24 months

Expected changes in the market infrastructure

CSD:

- Contract with new software provider for delivery of new ISO20022 compatible system was signed; system implementation in 2 phases - 1. 08/2015, 02. 02/2017
- T2S Project continues

SE:

- T+2 settlement will be introduced on 6 October 2014

Ministry of Finance:

- Presented new strategy for development of Slovak capital market; the goal is to remove barriers and deficiencies and to increase activity and liquidity of the market

Changes in the regulatory environment

- Amendment to Income Tax Act
- Revision of Act on Bonds
- Amendment to the Commercial Code and Act on Bankruptcy and Restructuring
- Preparation of special law on Risk Capital Funds
- Amendment to Collective Investment Act
- Introduction of Financial Transaction Tax

Impacts on clients

- New software should allow SWIFT communication between CSD and its members
- New matching criteria according to T2S
- Automated reconciliation of assets with CSD

:

- Settlement cycle of on-exchange trade will change from T+3 to T+2
- Changes in SE settlement rules
- Simplification of legal framework
- New investment opportunities

Impacts on clients:

- Detail specification of 35% off-shore tax application
- Improvement of legal framework for issuance of bonds
- Improvement of business environment for start-ups
- Creation of legal framework for venture capital and private equity funds
- Implementation of framework for open-ended investment schemes
- Slovakia seeks exemption for government bonds and pension schemes

Slovakia – What are the major challenges

Major challenges in the coming 12 months

- Introduction of T+2
- Implementation of new software at CSD
- Introduction of Swift messages ISO20022
- Simplification of CSD fee schedule
- Introduction of settlement in foreign currencies
- Implementation of Corporate Action Standards
- Establishment of nominee concept in market practice
- Implementation of measures aiming at development of capital market

Lobbying activity

- To ensure a smooth transition from T+3 to T+2
- Commenting software functionalities; testing
- Requesting standardized environment
- Efforts aimed at achievement of a flat settlement fee
- Proposals for efficient DVP settlement process
- Lobbying activities to create a centralized source for corporate actions announcements and standardized processing
- Joint effort of local custodians for creation of standardized rules relating to nominee accounts - e.g. proof of ownership, documentation requirements, definition of ultimate beneficial owner in legislation
- Lobbying for removal of irregularities, deficiencies; commenting proposed measures; proposing changes