GSS Newsletter

December 2014

Issue 164

Life is full of ups and downs.
We're there for both.

Welcome to UniCredit

CONTENTS

EDITORIAL

LEJLA SABLJICA
HEAD OF GSS BOSNIA AND HERZEGOVINA

Dear Clients, Partners and Friends,

It is my pleasure to write this month's editorial for you.

I will use this opportunity to share with you a summary of national market and infrastructure events and the changes that occurred in the past twelve months in Bosnia and Herzegovina.

Looking at the legislation and market changes we must mention that the Securities Commission of the Federation of BiH adopted amendments to the Rulebook on Securities Intermediation Services in FBH in April 2014. One of the changes refers to the OTC market segment. These amendments establish that money market instruments, financial derivatives, debt securities issued by closed-end companies, or limited liability companies can be traded on the OTC market. It was also defined that government bonds will continue to be traded on-exchange only. These amendments also describe the process for transaction execution and settlement on the OTC market in the following way: OTC transactions will be concluded between local brokers and reported to the stock exchange while the settlement is to be done using special purpose accounts of the professional intermediaries – such funds will not be included in clearing and settlement performed at CSD level. Please note that until now transactions have not yet been concluded on this market.

With regard to stock exchange activities, the Banja Luka Stock Exchange (BLSE) introduced a Money Market platform in December 2013. Using this platform, the following money market instruments can be traded: deposits (convertible mark and foreign currency), short-term securities, repurchase agreements, currency pairs, and other instruments of the Money Market. Foreign investors can access the money market via domestic brokerage houses. Trading on the money market started in January 2014 and until now only a few transaction have been concluded.

The National Assembly of the Republic of Srpska adopted amendments to the Law on Enterprises in August 2013. The main novelty was the introduction of the possible conversion of tax liabilities into shares of joint stock companies and the introduction of shareholders' right to disagree with certain decisions (i.g. change of statute which diminishes their rights, change of legal form or duration of the company) adopted at the shareholder meeting and request redemption of shares from the joint stock company.

Also, the National Assembly of the Federation of Bosnia and Herzegovina adopted amendments to the Law on Banks in September 2013. One of the amendments was that the Federal Banking Agency (FBA) may refuse to issue an approval to acquire or increase a significant ownership share (i.e. 10%, 33%, 50% and 66.7%) in the capital of a local bank in case of poor financial condition of the applicant investor, poor financial condition of the investor's majority owner, or in cases where the provided information cannot be verified or are not sufficient. In certain cases, the Banking Agency may also revoke an already given approval as well as order the sale of the shares for which the approval has been revoked.

Looking ahead to market changes which can be expected in the following period, please note that the CSD in the Republic of the Srpska announced in June 2014 that they decided to switch from the T+3 to T+2 settlement cycle. The new settlement cycle will apply to transactions made after 1 January 2015 in the Republic of Srpska.

The following issues are to be discussed with the CSD in the Federation of BiH in the following period: settlement cycle, buy-in procedures, and simplification of the procedures for tender offers. In the Republic of Srpska, it is expected that holding securities of natural and legal entities on the omnibus account will be an important discussion topic with the CSD in the Republic of Srpska.

This past year was marked by the Census of Population, Households and Dwellings in Bosnia and Herzegovina conducted in October 2013. According to the preliminary results, the number of enumerated persons is 3,791,622, while the number of enumerated households is 1,163,387 and the number of enumerated dwellings is 1,617,308. The final result of the Census will be published successively, after completion of processing data occurring from 1 July 2014 to 1 July 2016.

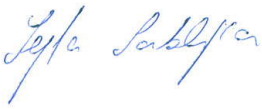
Also, general elections were held on 12 October 2014. These elections occur every four years in the country. The general elections included the election of the Presidency of Bosnia and Herzegovina, House of Representatives of the BiH Parliamentary Assembly, House of Representatives of the BiH Federation Parliament, National Assembly of Republic of Srpska, President and Vice presidents of Republic of Srpska, and Cantonal Assemblies in the Federation of Bosnia and Herzegovina. In the following period political parties that won votes during the elections will need to establish the new governments.

The country's credit rating has been affirmed by the rating agency Standard & Poor's on 19 September 2014, acknowledging the sovereign credit rating of Bosnia and Herzegovina at "B with stable outlook".

We will continue to inform you about upcoming market changes and developments.

The GSS Team Bosnia wishes you a pleasant reading of this issue of the GSS Newsletter.

Kind regards,



Lejla Sabljica
Head of GSS Bosnia and Herzegovina

JOHN'S CORNER

JOHN GUBERT ON CUSTODIAN LIABILITY

The debate around the extent of custodian liability for CSD failure is gaining fresh life with the emergence of new, and more demanding, rules in the latest UCITS V papers. There is much debate around the true scope of that liability and the need for custodians to amend their due diligence and client communication business models.

But there appears to be less clear comment than I would expect on two core questions. First, what can be deemed within, and more importantly, beyond the control of the custodian? Second, has competition created a flawed approach to pricing and has that, in turn, led to a defective assessment of risk?

One welcome result of the tighter regulatory environment has been a renewed focus on the content and frequency of due diligence. Looking at content, it needs to include an assessment of the market infrastructure, of the legal and regulatory framework, the local agent used as well as an understanding of many aspects of the socio-political environment in each presence country. Much of this information will be sourced from the sub custodian although they, and their competitors through their news services, are unlikely to be the sole source.

What issues though are important for the market in each of these categories? My list is far from perfect and there are likely to be as many answers to the question as there are network managers. When looking at market infrastructure, it is critical to understand who is liable for what. We use local payment systems both in the settlement process and also to effect cover or to remit proceeds for any transaction. Who is liable for the payments system? On inbound payments to provide cover, a sub custodian can only be liable for money once it has passed their gateway; prior to that liability lies with the originator and their payment agents. The converse is true for outbound payments, but is the sub custodian liable to the point the payment exits their gateway or until it enters the client's agent gateway? On settlement, the process is more complex as the routing of the payment is usually mandatory although cash is held by the sub agent as a principal.

The same can be said of stock transfers. Assets held in custody are associated with clear liability structures but the process is less clear when assets are in the process of settlement. The situation is muddied by the fact that the so called delivery versus payment models used in many countries remain untested in law or in any systemic failure. Problems can further arise if, in jurisdictions where the transfer agent is separate from the settlement system, there is finality other than at the point of cash settlement. And pitfalls can occur. In some markets, not in our region, there is an option to use commercial or central bank money in settlement with commercial bank money offering simplicity of process but less certainty than central bank money. In other markets there is choice of CSD, a situation that has just arisen in Slovakia in our region and, with that choice, potential liability could arise where one CSD has a problem not encountered by the other. The same challenge arises where securities can be held in different form, physical or dematerialised, if it could be proven in any problem that the alternative mechanism would have offered greater asset safety. And the mechanism used in corporate events and income needs analysis. When is income received? Who is accountable for taxation? What is the structure of any off market activity in corporate actions, such as the need to interact with issuers and their agents?

And each of those issues will be enveloped in a local regulatory and legal framework. The critical issues here for me are relatively simple. My first assessment is always to establish that localism does not prevail. Are cross border investors protected by law and regulation in the same way as domestic institutional investors and are there any privileges accorded to one category of investor over the other? A level playing field is a key component of asset protection. My second assessment is to understand the rules on finality, with happily the EU finality directive, albeit enacted in a less than uniform manner across the EU, having brought great progress to the question. But it is important, especially in batch environments, to understand both when legal finality occurs, as well as the more mundane issue of how any failure during the batch would be treated. And critically, for global markets, that includes the impact of the bankruptcy or similar process in another jurisdiction of a party to the settlement system. And my final critical assessment is to establish the laws on ownership and the question of the legal status of the beneficial and legal owner of a security, especially where these are two different legal entities. Over and above

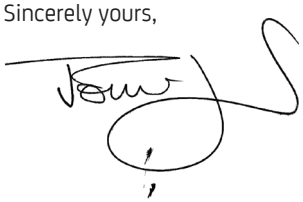
all these legal issues, as any investor is bound by local law, local regulation and the rules of the local infrastructures, it is important to assess with the sub custodian whether there are areas of concern. This is a difficult task for examples of failure in our business are thankfully rare and in many countries, especially among the newer entrants to the free market family of economies, there is no precedent. The assessment has to be based on an interpretation of the probable process impact of a systemic break and there we are genuinely in the world of known unknowns!

Assessment of the agent is perhaps the most developed of the processes. At one level it is a credit based process. But it is also a legal-based analysis, dependent on an understanding of the treatment of assets in the event of a sub custodian default. This has to cover assets in custody, assets in course of settlement or other transformation and includes cash. The cash component is clear as cash in a bank is invariably on balance sheet. Assets in custody should be clear in practice, although the issue of ownership can, as we saw in the Lehman case, be complicated by the status of the assets at any point of time. An assessment of the possible points in a security life cycle and their risk impacts is a valuable exercise. And that understanding of finality I noted earlier is a key component. And personally, I have always insisted we seek agents with strong footholds in the domestic institutional market. Hence my earlier comment on the Importance of a level playing field between investor types.

And the reality is one needs to understand the socio-political environment in each country. Is there a risk that political intervention could alter those level playing fields? How dependent are countries on international financial flows and what is the scale of their financial services industry relative to the whole economy? The reality is that the larger this is, at least up to a point as we learnt from the Finnish experience, the more secure investors can feel that there would be no adverse moves against one or another institutional segment.

Yes, our business is becoming much more complex. There are often no simple answers to the issues I have raised. We all can make judgement calls but we can never do so with a hundred percent certainty of being right all the time. I always recall a regulator, many years back, advising me that they did not accept the possibility of a custodian making errors. And that was well before the days when the onus of proof moved firmly into the custodian camp rather than being for the plaintiffs to prove. There indeed remains enough uncertainty for all parties to consider if they have gauged correctly their returns on risk! And I suspect that an answer to that thorny issue will only crystallise when a big loss has been incurred – hopefully not by one of my readers!

Sincerely yours,



John Gubert
Chairman
Global Securities Services
Executive Committee

John Gubert also appears on blog.globalcustodian.com

HR NEWS

New Relationship Manager in Hungary

We are pleased to announce that Gabriella Kopházi-Tóth has joined the Hungarian GSS team as Senior Relationship Manager, responsible for international clients.

Gabriella originates from the Financial Institutions (today GTB Transactional Sales) area of UniCredit Bank Hungary, where she has performed international and domestic relationship management functions for financial institutions on the cash side since 2005.

She has had broad responsibilities within the cash area; her activities covered the Hungarian Forint and foreign currency vostro account management, nostro account management, Virtual Bank, product management and development.

Thanks to the strong cooperation between the two units, Transactional Sales and Global Securities Services, Gabriella has already been in daily contact with the GSS team in her previous position, and has also been in touch with the majority of our clientele.

We are convinced that Gabriella's knowledge and experience will further strengthen the Relationship Team in Hungary and will add value to the GSS franchise overall.

We wish Gabriella every success in her new position!

Júlia Romhányi
Head of GSS Hungary
Regional Head of GSS

PRESS RELEASE
RESULTS OF COMPREHENSIVE ASSESSMENT 2014

UniCredit's strong resilience confirmed after the thorough and extensive Comprehensive Assessment carried out by ECB in cooperation with EBA and Bank of Italy

Overall results of the exercise confirmed the solid capital position of UniCredit, exceeding significantly all the thresholds set out in the Comprehensive Assessment

CET1 ratio[1] 2016 stands at 7.8% including all capital enhancement actions taken in 1H14

Including capital generation measures already disclosed in 1H14 and acknowledged by Bank of Italy and ECB, the CET1 ratio at the end of Comprehensive Assessment stands at a very comfortable level of 7.5%,
resulting in a capital excess above Euro 8.7 billion[2]
Asset Quality Review impact on CET1 ratio very limited 19 bps confirming UniCredit's balance sheet resilience and prudential approach towards classification and provisioning
As a result of the Comprehensive Assessment, under the adverse scenario of the Stress Test, the CET1 ratio stands at 6.8% well above the minimum required (5.5%)

Federico Ghizzoni, CEO of UniCredit commented: *"In spite of the conservative approach of ECB and EBA in the Comprehensive Assessment, on top of the current negative macroeconomic environment, the results of the exercise confirm UniCredit's strong capital position, with 6.8% CET1 ratio under the adverse scenario. This ratio increases to 7.8% including the capital enhancing measures we have undertaken in 1H14 as well as the retained earnings of the period, jointly amounting to almost 100 bps. The impact on our capital ratios of the Comprehensive Assessment is only 298 bps, making UniCredit one of the most resilient banks in Europe. In particular, the impact of the AQR on CET1 ratio is very limited (19 bps), confirming the prudential approach towards classification and provisioning. Considering the positive results of Comprehensive Assessment, UniCredit confirms its net profit target for 2014 and its focus on lending to households and corporates in Italy and across Europe".*

UniCredit was subject to the EU-wide Comprehensive Assessment ("CA") carried out by the European Central Bank ("ECB"), in cooperation with the European Banking Authority ("EBA") and the Bank of Italy (Bankit), before assuming full responsibility for supervision under the Single Supervisory Mechanism (SSM) in November 2014. UniCredit notes the announcement made today by the ECB, the EBA and Bankit concerning the CA and fully acknowledges the outcome of this exercise.

Results of Comprehensive Assessment

The results of the ECB-led CA exercise confirmed UniCredit's provisioning approach, its resilient balance sheet to adverse scenarios and its capital strength in an Italian and European context, the joint results (AQR and ST) being summarised below:

- under the baseline scenario 27 bps, leading to a CET1 ratio of 9.5% as of end of 2014,
- under the adverse scenario 298 bps, leading to a CET1 ratio of 6.8% as of end of 2016.

The above results compare with an initial CET1 ratio 2013 of 9.8%.

In particular, the CA exercise can be summarised as follows:

- AQR:
  - Focus on Credit risk: UniCredit's provisioning approach translated into a very limited impact deriving from AQR which amounts to a mere 19 bps on CET1 ratio 2013 (versus an average of 40 bps of the banks assessed in the CA), leading to 9.6%. This results into a very limited increase on selected portfolios in both the non-performing exposure ratio (+1% versus an average of +1.9%) and the coverage ratio (+0.5% versus an average of +2.8%), confirming UniCredit's high coverage ratio at above 50% on a Group-wide basis. A relevant part of the AQR-related additional provisioning had been already carried out in 1H14.
  - Focus on Market risk: no P&L or capital impact and no additional charges on CVA[3] versus average of a 27% increase, confirming the soundness of UniCredit financial instruments' methodologies and evaluation systems.
- ST: Similarly, ST results confirm UniCredit's balance sheet resilience in adverse scenario. The impact being a mere 279 bps, versus an average of 300 bps in the adverse one confirming the important results achieved on the back of the strategic plans in terms of balance sheet restructuring and business refocusing. The major negative impacts relate to loan loss provisions, decreasing trading income and lower NII given the extremely severe macro-economic assumptions imposed by ECB / EBA in the exercise. The residual impacts pertain to other capital deductions and higher RWA.

Additional Capital Measures disclosed in 1H14 and acknowledged by ECB and Bank of Italy

Noteworthy are the additional impacts on CET1 ratio 2016 of 6.79% deriving from the capital generation already disclosed in 1H14 and not embedded in the CA exercise.

The additional benefit which amounts to 73 bps translating into a CET1 ratio 2016 of 7.52% is broken down in the following table according to the disclosure templates of ECB and Bankit:

Summary Table of Additional Capital Measures	CET1 (%)	Impacts on CET1 (bps)
CET1 ratio Dec 13	9.77	
Impact of AQR	9.58	-19
Impact of ECB ST (adverse scenario)	6.79	-279
CET1 ratio 2016 after ECB CA (adverse scenario)	6.79	-298
ECB disclosed: "Raising of capital instruments eligible as CET1 capital" (including scrip dividend and Bankit valuation)	7.07	+28
Bankit disclosed: asset disposals (including Fineco IPO and DAB disposal) and effects of model changes	7.52	+45
CET1 ratio 2016 including all capital measures	7.52	

Additional capital measures such as retained earnings as of 1H14 translate into a CET1 ratio 2016 of 7.76%.

As such, the results determine that UniCredit exceeds significantly the capital thresholds set out for the purpose of the CA, confirming the significant focus on capital strength of UniCredit.

Description of the Comprehensive Assessment

The CA is composed of two pillars:

- Asset Quality Review (AQR): to enhance the transparency of bank balance sheets by reviewing the quality of banks' assets, including the adequacy of asset and collateral valuation and related provisions. The minimum capital requirement (CET1 ratio) needed for the AQR exercise is 8%. Noteworthy that the portfolios which were analysed were selected on the basis of a high degree of riskiness. It is important to mention that the AQR was carried out on the basis of FY13 which was characterised by an adverse economic environment
- Stress Test (ST): performed in close cooperation with the EBA, covering a three-year time horizon (2014-2016). The minimum capital requirements (CET1 ratio) needed for the baseline and adverse scenario are 8% and 5.5% respectively. The ST was carried out based on common simplified assumptions (e.g. constant balance sheet as of 31 December 2013, no management actions, etc.) as published by EBA. In addition, the ST exercise is designed as 'what-if' scenarios including plausible but extreme assumptions, which are therefore not very likely to materialise.

Comprehensive Assessment on Bank Pekao

KNF has announced the official results of the CA carried out in Poland with similar methodologies, confirming Bank Pekao's exceptional capital position, ranking number one in Poland, and underlining its strong balance sheet resilience. The joint results of the AQR and ST (adverse scenario) leads to a CET1 ratio 2016 of 18.1%.

Milan, 26 October 2014

The detailed results of the AQR and ST under the baseline and adverse scenarios as well as information on UniCredit credit exposures and exposures to central and local governments are provided in the accompanying disclosure tables based on the common format provided by the ECB and EBA.

For more details on the EU measures to restore confidence in the banking sector please refer to ECB (https://www.ecb.europa.eu), EBA (http://www.eba.europa.eu), and Bankit website (https://www.bancaditalia.it)

Notes

[1] CET1 ratio calculated according to ECB guidelines in the context of the Comprehensive Assessment.

[2] Please refer to Bankit website (https://www.bancaditalia.it).

[3] Credit value adjustment

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AUSTRIA

Market Capitalisation	EUR 80.2 bn
YTD Dev. of Market Capitalisation	-6.0%
Number of SE Transactions p.m.	N / A
YTD Dev. of SE Transactions	N / A
SE Turnover (Vienna SE)	EUR 4.1 bn
Monthly Index Performance (ATX / VSE)	0,5%
Upcoming Holidays	8, 24-26, 31 December

Source: UniCredit, National Statistics

Dip in economic activity towards end of year but hope for 2015

The growth prospects for the Austrian economy are becoming ever gloomier. UniCredit Bank Austria's Business Indicator sank to -0.2 points in September, pushing the indicator back into negative territory for the first time in eighteen months. Bank Austria chief economist Stefan Bruckbauer assumes that the very moderate economic development to date in Austria will experience a dip in the coming months.

In light of the increasing uncertainty in recent months, the moderate recovery achieved by the European and therefore the Austrian economy as well is taking a breather this year. The Russia / Ukraine crisis and the tensions in the Middle East have blighted sentiment in the Austrian economy at the start of autumn on a broad scale. While the components of UniCredit Bank Austria's Business Indicator all turned downwards in September in light of these geopolitical risks, the altogether modest deterioration in sentiment allows the Bank's economists to conclude there will be no significant economic setback in the coming months. Figures from other countries are largely stable; the overall index for the European industry climate weighted with Austrian foreign trade is currently much higher than the long-term average, while Austrian industrial sentiment falls just short of the same benchmark at present. Consumer confidence, by contrast, has taken a hit. Austrian consumers have become much more sceptical in recent months. The mood among Austrian consumers is more subdued than for consumers throughout the eurozone, despite the comparatively encouraging labour market trends.

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According to Bruckbauer, the gloomy economic sentiment just now seems somewhat overstated. We remain optimistic that the economic recovery will continue in Austria in the coming year. For 2015 he predicts GDP growth of 1.6% since there will be many positive impacts on the Austrian economy.

Impact on investors
For information purposes only.

More foreign investors on the Austrian stock market

Institutional investors from the US and UK further widened their holdings in the first half of 2014 and remain the top foreign investors in the ATX prime. While Austrian funds slightly decreased their positions in the first half-year, some of the US-based investors significantly increased their holdings thereby restoring the former hierarchy of US predominance after Austrian funds had been in the lead for around one and a half years. Investors based in the US, Austria and the UK are followed by institutions from France, Norway, Germany, Mexico, the Netherlands, Switzerland and Poland.

The stock market environment was more benign in the first half of 2014, resulting in livelier trading and two public placements as well as heightened interest from international investors. By midyear, however, sentiment on international markets reversed, triggered by political crises such as in the Ukraine that weighed heavily on some of the ATX stocks and sparked concern among international investors regarding growth investments and their overall exposure in Europe. While ATX prime market capitalisation increased slightly versus year-end 2013, the twelve-month increase was even more pronounced.

Austrian investors – institutional, non-financial institutions as well as retail customers – despite some slight selling in the first half of 2014, are still the largest investor group in the ATX prime. Vienna as a financial centre in the ATX prime ranked second after London, ahead of other cities such as New York, Frankfurt, Boston and Paris. With regard to investment strategies, value and growth investing still remain the dominant styles. Inflows were seen mainly in passively managed funds and value strategies.

These are the key messages of the updated study (cut-off date: 30 June 2014) "Institutional Ownership of the ATX prime" conducted by the information provider Ipreo on behalf of the Vienna Stock Exchange. The survey is highly indicative, as it succeeded in identifying and allocating in detail more than 90% of Austrian free float on the level of individual funds.

Impact on investors
For information purposes only.

BOSNIA AND HERZEGOVINA

Market Capitalisation (Sarajevo SE)	BAM 4.5 bn
YTD Dev. of Market Capitalisation	-4.7%
Number of SE Transactions p.m.	611
YTD Dev. of SE Transactions	-18.2%
SE Turnover (SASE)	BAM 67.1 mn
Monthly Index Performance (SASX-10 / SASE)	1.3%
Market Capitalisation (Banja Luka SE)	BAM 4.4 bn
YTD Dev. of Market Capitalisation	4.8%
Number of SE Transactions p.m.	4,070
YTD Dev. of SE Transactions	51.5%
SE Turnover (BLSE)	BAM 19.2 mn
Monthly Index Performance (BIRS / BLSE)	2.0%
Upcoming Holidays	25 December

Source: UniCredit, National Statistics

Household deposits continue to grow

According to data of the Central Bank of Bosnia and Herzegovina (CBBH), the total household deposits in commercial banks in Bosnia and Herzegovina, at the end of September 2014, amounted to BAM 8.90 billion, which is the highest amount recorded so far.

Despite very unfavourable economic conditions and negative effects on the household standard during the year, household deposits, compared to the end of September last year, are higher by BAM 806 million or 10%, which represents a continuation of growth over a longer period. In addition, it should be taken into account that households realise a part of their savings by investing in securities and insurance policies.

Of the total deposits of all domestic institutional sectors in commercial banks in Bosnia and Herzegovina, household deposits accounted for 58.2%.

Out of the total household deposits, term and savings deposits amount to BAM 5.25 billion or 59%, while transaction accounts and sight deposits account for BAM 3.65 billion or 41%. The largest share in increase of household deposits, observed by the maturity structure, is consists of long-term deposits. Compared with the end of September 2013, they recorded an increase of BAM 388 million or 9.3%. This is an indication of confidence in the banking sector and its stability, and it is a result of the existence of a system of insured deposits whose primary goal is to increase the stability of the banking system and to protect depositors.

In terms of currency structure, household deposits in BAM currency amounted to BAM 3.58 billion, or 40.2% of the total household deposits, while deposits in foreign currencies amounted to BAM 5.31 billion, of which deposits in euro accounted for BAM 4.81 billion and deposits in other foreign currencies around BAM 0.51 billion.

Impact on investors

For information purposes only.

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BULGARIA

Market Capitalisation	BGN 10.11 bn
YTD Dev. of Market Capitalisation	-6.5%
Number of SE Transactions p.m.	13,010
YTD Dev. of SE Transactions	-61.3%
SE Turnover (Bulgarian Stock Exchange)	BGN 75.10 mn
Monthly Index Performance (SOFIX)	-3.64%
Upcoming Holidays	24, 25, 26, 31 December

Source: UniCredit, National Statistics

Change in the management of the FSC

At a meeting held on 12 November, by proposal of the Chairman of the Financial Supervision Commission (FSC) Stoyan Mavrodiev, Vladimir Savov was appointed acting deputy-chairman managing the Investment Activity Supervision Division temporarily replacing Nikolay Popov, who has recently resigned.

Vladimir Savov is a member of the FSC, responsible for supporting the Regulator's policy on financial markets analysis and risk assessment, improvement of the supervisory practice, and investors and insured persons' protection. He was elected as FSC member by a decision of the National Assembly on 24 January 2014 for a 6 year mandate.

Impact on investors

For information purposes only.

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CROATIA

Market Capitalisation	HRK 201.41 bn
YTD Dev. of Market Capitalisation	9.6%
Number of SE Transactions p.m.	23,597
YTD Dev. of SE Transactions	15.1%
SE Turnover (Zagreb SE)	HRK 297.71 mn
Monthly Index Performance (Crobex/ZSE)	-3.7%
Upcoming Holidays	–

Source: UniCredit, National Statistics

Banks operating in Croatia pass stress test

According to the Croatian National Bank report on the European Central Bank (ECB) findings of the stress tests conducted since 31 December 2013 and the results of a thorough year-long examination of the resilience and position of the 130 largest banks in the European Union have shown that banks operating in Croatia have a high capital adequacy rate which enables them to be sufficiently resilient to adverse developments.

The in-depth review consisted of two tests: "Stress Test" and "Comprehensive Assessment" and they were performed in all bank groups and lenders operating in Croatia.

Impact on investors

The Croatian banking system proves to be sufficiently resilient to potential unforeseen losses.

Successful implementation of the CDCC capital increase

At the general meeting of the Central Depository & Clearing Company Inc. (CDCC) held on 30 June, the decision to increase capital from HRK 57,000,000 by HRK 29,925,000 by issuing 31.500 ordinary shares was adopted (ticker: SDA-R-A).

The capital increase was registered with the Zagreb Commercial Court on 3 November and in the CDCC IT system on 5 November 2014.

CDCC's decision forms the basis for an increase in the issued capital of SKDD-CCP Smart Clear Inc. as the CDCC is its founder and sole shareholder. The capital increase of SKDD-CCP Smart Clear Inc. is necessary in order to meet the capital requirements laid down in the Regulation (EU) no 648 / 2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (EMIR).

After the execution of this corporate action the issued capital of the CDCC amounts to HRK 86.925.000,00 and is divided into 91,500 SDA-R-A ordinary shares without nominal value.

Impact on investors

For information purposes only.

ZSE recertified for ISO 9001: 2008 standard

Representatives of the certification company SGS Adriatica d.o.o. presented the management board of the Zagreb Stock Exchange (ZSE) with the ISO 9001: 2008 standard certificate which confirms that the ZSE meets required standards of quality management.

ZSE became a holder of ISO standards in 2011, after months of aligning business processes and business organisation with ISO 9001: 2008 standard. The process of recertification is conducted every three years, along with the regular annual verification of compliance with the standard.

Impact on investors

For information purposes only.

Croatia signs agreement on exchange of information for tax purposes

Croatia is one of 38 countries which acceded to the Multilateral Competent Authority Agreement on the automatic exchange of financial information, with Finance Minister Boris Lalovac signing it at the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes.

The government adopted a resolution on Croatia's accession to the multilateral agreement, which is important for Croatia as it will be able to access its taxpayers' information on foreign accounts, which is important for preventing tax evasion.

Under the agreement, tax administrations have the obligation to collect and automatically exchange information on financial accounts in line with a global standard which the OECD developed in cooperation with G8, G20 and EU countries.

Croatia is one of the states supporting the early adoption of the global standard and the adoption of the national laws required so that the data exchange can begin in September 2017 at the latest.

Impact on investors

For information purposes only.

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CZECH REPUBLIC

Market Capitalisation	CZK 1.1 trn
YTD Dev. of Market Capitalisation	-1.4%
Number of SE Transactions p.m.	n.a
YTD Dev. of SE Transactions	n.a
SE Turnover (Prague SE)	CZK 63.6 bn
Monthly Index Performance (PX)	-2.68%
Upcoming Holidays	24-26 December

Source: UniCredit, National Statistics

Macroeconomic forecast

According to the latest data, real GDP in the Czech Republic increased by 0.3% QoQ in the second quarter of 2014. Compared with the first quarter of 2014, there was some slowdown of growth but this was in line with expectations. Real GDP could increase by 2.4% YoY this year and maintain similar dynamics also in 2015. Growth in both years should be driven exclusively by domestic demand; the contribution of net exports should be close to zero.

Despite the weakening of the Czech koruna due to the CNB's foreign exchange interventions, the year 2014 should be characterised by very low inflation. Unlike in previous years, administrative measures (especially a decrease in electricity prices) should have an anti-inflationary impact throughout 2014. The average inflation rate could thus reach 0.5% this year. Consumer price growth should accelerate in 2015, but we assume that inflation will still be hovering below the CNB's inflation target.

Compared with the previous Macroeconomic Forecast, the forecast for labour market developments changed very little. Thanks to the gradual pick-up in economic activity, the unemployment rate should be declining moderately, whereas employment should be modestly rising. The total wage bill could increase by 2.9% this year.

The current account of the balance of payments should be balanced this year; in 2015 it could post a small deficit. Further increases of the balance of trade surplus will be compensated for by the continued deepening of the income balance deficits.

Impact on investors

For information purposes only.

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HUNGARY

Market Capitalisation	HUF 19,216 bn
YTD Dev. of Market Capitalisation	8.24%
Number of SE Transactions p.m.	112,244
YTD Dev. of SE Transactions	0.8%
SE Turnover	HUF 298,810 mn
Monthly Index Performance	-3.15%
Upcoming Holidays	–

Source: UniCredit, National Statistics

Moody's Investors Service upgrades outlook

Moody's rating agency affirmed Hungary's Ba1 rating and changed the outlook from negative to stable based on three components: 1) the Hungarian economy showing signs of stabilisation, 2) the government's continued commitment to maintaining a budget deficit below 3% of GDP and 3) the country's improved resilience to external shocks.

One of the reasons for Moody's action was that the rating agency is expecting real GDP growth in Hungary after seven years of extremely low development. Over the next three years, Moody's expects that growth will average at around 2.2%. Also, the positive investment trend occurring in the past years shows signs of durability as a result of the government's low interest rate policy, as well as the funding-for-growth scheme, which encourages lending to small and medium-sized enterprises (SMEs).

The second component behind the outlook change is the government's continued commitment to maintaining a budget deficit below 3% of GDP. The third element refers to Hungary's improved resilience to external shocks, which has allowed the economy to withstand market turmoil. Additionally, external debt as a proportion of GDP has also fallen, mainly due to corporate, banking and household sector deleveraging and the external vulnerability has also been declining.

Impact on investors

For information purposes only.

New system to be implemented by KELER

The Hungarian CSD – KELER Central Securities Depository Ltd. held a roundtable for the market participants (custodians, investment service providers) to discuss the details of the upcoming system implementation of KELER.

As communicated earlier, in 2012 KELER launched its System Modernisation Programme (SMP) with the aim of replacing its almost 20-year-old account management system and ensuring that the new application becomes fully compliant with the Target2Sercurities (T2S) functionalities by September 2016 when KELER is set to join T2S. In line with the project, in the first phase of the implementation plan KELER selected the respective service provider, Tata Consultancy Services and the system: BaNCS.

The aim of the recent roundtable was on one hand to provide further details on the milestones of the implementation plan and on the other hand to discuss the technical details regarding the changes that will occur in communication methods (SWIFT or KELER's proprietary interface device: KID) related to the introduction of BaNCS. Regarding the milestones, there are three system releases out of which the last one is expected to be delivered in January 2015; testing is planned for the month of February 2015 and the migration is scheduled for April with a "go-live" date of 4 May 2015.

Additionally, KELER set up a "Customer Integration" team to assist the market participants in this project by providing centralised customer service for all queries, issues, problems and coordination of testing in relation to the upcoming system change.

Impact on investors

In the autumn of 2016, as part of the third migration wave, KELER and the Hungarian securities market will join T2S and by that time KELER must have a new account management system that is fully compliant with the settlement platform's functionalities. In order to inform the market participants and conduct a market wide discussion on the impacts and details of the changes related to the new system implementation: BaNCS and KELER held and will hold roundtables for the local customers of KELER including local custodians.

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POLAND

Market Capitalisation	PLN 622.4 bn
YTD Dev. of Market Capitalisation	5.7%
Number of SE Transactions p.m.	1,216,238
YTD Dev. of SE Transactions	22.0%
SE Turnover (WSE)	PLN 18.4 bn
Monthly Index Performance (WIG20)	0.4%
Monthly Index Performance (WIG)	-0.3%
Upcoming Holidays	25, 26 December 1, 6 January

Source: UniCredit, National Statistics

New WSE management presents strategy

The Warsaw Stock Exchange (WSE) – following recent changes to the composition of the Management Board – has announced its revised business strategy for the upcoming years.

The main assumption of the updated strategy is that the Warsaw bourse should become the exchange of first choice for investors and issuers in Central Europe. In order to achieve this goal the WSE wants to become a strongly client-oriented organisation, where 'clients' not only means entities that have legal relationships with the exchange (i.e. brokers and issuers) but also all private and corporate investors that generate trading volumes.

According to the strategy, WSE will also strengthen its existing key business segments and grow based on the competences existing in the WSE Capital Group. According to the strategy, the growth of the WSE Capital Group will be based on six pillars: a liquid equity market; a developed debt market; a competitive derivatives market; a commodity market attractive to investors; a comprehensive offer of information products for investors and issuers; and new business segments opened based on available competences. The Exchange wants to use the resources of the WSE Capital Group more effectively.

In order to develop the equity market, the strategy envisages initiatives including active acquisition of new issuers, investors, and exchange members; simplification of procedures; promotion of short selling and securities lending; liquidity activation programmes; and strengthening of NewConnect as a source of new listings for the Main Market.

In terms of the figures, the strategy aims to list around 550 issuers in 2020 on the main market (383 issuers are listed as of October 2014). This should be achieved thanks mainly to the focus on the acquisition of attractive Polish and foreign companies, primarily from CEE. WSE also expects the Catalyst market to list no less than a 1,000 issues of non-Treasury bonds in six years' time. In line with clients' expectations, the exchange is also planning to develop the derivatives market including products based on bonds, interest rates, electricity and natural gas, as well as other underlying instruments. The WSE Capital Group will also develop the commodity market, including the gas segment, by unlocking the potential of energy companies and financial investors.

Impact on investors

The WSE has recently announced its revised strategy for the upcoming years. In accordance with this document, further growth of the exchange should be achieved by widening its product range and focusing on investors and issuers from the region. The strategy does not assume a strategic alliance with any other exchange.

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ROMANIA

Market Capitalisation	RON 131 bn
YTD Dev. of Market Capitalisation	13.5%
Number of SE Transactions p.m.	100,709
YTD Dev. of SE Transactions	63.83%
SE Turnover (Bucharest SE)	RON 792 mn
Monthly Index Performance (BET / BSE)	-3.14%
Upcoming Holidays	1 December

Source: UniCredit, National Statistics

Klaus Iohannis elected President

Klaus Iohannis won the presidential elections in Romania, beating Prime Minister Victor Ponta by a comfortable margin. The final results, made available on 19 November at 10.20 a.m., showed that Iohannis got 54.5% of the votes, compared to only 45.49% of the votes for Ponta, with more than 99.07% of the ballots counted.

Victor Ponta officially conceded defeat to his opponent before the first partial results were made public.

Impact on investors

Klaus Iohannis is expected to support the development of the capital market and the financial system in general.

NBR lowers the monetary policy rate

The National Bank of Romania (NBR) decided at its meeting on 4 November to lower the monetary policy rate to 2.75% per annum from 3.00%, starting with 5 November 2014. The NBR Board also narrowed the symmetrical corridor of interest rates on NBR's standing facilities around the policy rate to ±2.50 percentage points from ±2.75 percentage points.

Thus, starting 5 November 2014, the interest rate on the NBR's lending facility (Lombard) has been lowered to an annual 5.25% from 5.75%, while its deposit facility rate remains at 0.25% per annum.

Impact on investors

For information purposes only.

Romania market legislation update

The Ministry of Finance issued, for public consultation, a draft law for amending the Law no. 297 / 2004 on the capital market. The bill aims to align the current domestic legislation with the existing standards in order for Romania to be ranked as an emergent capital market, thus increasing external visibility and attracting new investors.

Among the major aspects, the draft law proposed by the Ministry of Finance seeks to achieve facilitated access to the domestic capital market; respect for investors' fundamental rights, such as the right to vote or the right to dividends, corporate governance and transparency of issuers; a simplified system for public offerings and listings of stocks or bonds; the elimination of several restrictive provisions regarding the conditions on meeting the quorum and adopting the decisions subsequent to general meetings of shareholders included in the articles of incorporations of market operators. Also, the draft law is intended to increase the institutional investor base and motivate people to invest, directly or indirectly, in listed securities.

The Ministry of Finance issued on 7 November 2014 a draft law regarding alternative investment fund managers for public consultation. This law transposes Directive 2011 / 61 / EU, provisions of art. 3 of Directive 2013 / 14 / EU, provisions of art. 3 of Directive 2013 / 14 / EU of the European Parliament and of the Council.

Impact on investors

The Ministry of Finance intends to help increase the number of institutional investors.

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RUSSIA

Market Capitalisation	RUB 25.21 trn
YTD Dev. of Market Capitalisation	7.74%
Number of SE Transactions p.m. (MICEX)	8,891,148
YTD Dev. of SE Transactions	5.8%
SE Turnover (MICEX)	RUB 18.66 trn
Monthly Index Performance (MICEX)	7.5%
Upcoming Holidays	–

Source: UniCredit, National Statistics

Russia's key interest rate increased

On 5 November, the Central Bank of Russia (CBR) increased the country's refinance rate to 9.5% per year.

CBR said that the interest rate was raised to ease inflationary pressure.

Impact on investors

For information purposes only.

State Duma adopts draft law on Controlled Foreign Companies

On 18 November, the draft law on Controlled Foreign Companies (CFC) was sent for further approval to the Council of the Federation Upper Chamber of Russian Parliament after adoption by the Russian State Duma.

The draft law was adopted by the Russian State Duma in its second and third readings with an amendment strengthening the version considered in the first reading. The transitional period with respect to shares in Controlled Foreign Companies is reduced from two years to one and ends in 2016. According to the amendment, the legal entities or individuals are recognised as controlling persons if their participation in foreign entities constitutes more than 50% in 2015 and after 2016 – more than 25%. The previous version of the document assumed that the participation threshold in the amount of more than 25% would enter into force in 2017.

Also it is stipulated that Russian owners will declare their offshore profits exceeding RUB 50 million for 2015, RUB 30 million for 2016 and then this threshold will be gradually reduced to RUB 10 million. Russian tax should be paid only by those companies where the share of passive income (interest and dividends) is more than 50% of the total income. If residents own more than 50% of CFC, the tax should be paid by each owner, who owns more than 10% of the company. If one resident owns 25%of CFC, he will also pay the Russian tax.

In accordance with the draft law, companies or individuals will be required to pay the Russian tax from retained earnings of CFC at a rate of 20% and 13% respectively.

The new draft version determines formulas for calculating effective and average weighted tax rates, which allows the estimatation of the actual level of taxation of the company in its jurisdiction. It is proposed to separate income on stocks and all other income for the purpose of calculating average weighted tax rates.

Impact on investors

The CFC law is aimed to reduce the capital outflow from Russia and stop the usage of offshore tax evasion schemes.

Moscow Exchange launches indicative quotation system

Moscow Exchange will launch an additional stock market information service, the MOEX Board indicative quotation system, starting 8 December.

It will operate like a notice board allowing traders and investors to post and view quotes of securities that are not admitted to the Russian organised market.

MOEX Board will provide companies whose securities are not traded on the stock market with an opportunity to obtain an indicative estimate of the value of their shares after the inclusion procedure in the list of MOEX Board.

In addition, services for the electronic registration of OTC sale and purchase agreements in the Electronic Contract Centre will be available for customers of MOEX Board in accordance with the Trade Agreement of CJSC MICEX Stock Exchange. It is envisaged that OTC trades will be automatically reported to the Moscow Exchange in accordance with regulatory requirements for professional investors.

Impact on investors

Additional investment strategies and tools for investors have been made available on MICEX.

Threshold for bank mergers raised

On the occasion of its annual review, the Government of the Russian Federation redefined the thresholds of asset values for asset transactions between financial organisations.

In the future, if the asset value of one of the banks to be merged exceeds RUB 29 bn, or the combined asset value of both banks were to exceed the threshold of RUB 29 bn, the acquiring bank shall receive prior FAS approval. This is a result of the growth of consolidated asset value of banks during the last year. For other financial organisations the threshold has remained unchanged. If the threshold is exceeded, financial organisations are required to receive the preliminary consent of the Federal Anti-Monopoly Service (FAS) for trades.

The excess of the following asset values is subject to obtaining the prior consent of the FAS:

- RUB 29 billion for banks;
- RUB 3 billion for microfinance institutions;
- RUB 2 billion for private pension funds;
- RUB 1 billion for stock and currency exchanges;
- RUB 500 million for consumer cooperative, mutual insurance societies;
- RUB 200 million for insurance companies (excluding medical insurance companies), insurance brokers, securities market professional participants, clearing organisations, investment fund management companies, management companies of mutual funds, asset management companies of private pension funds, specialised depositary of investment funds, specialised depositories of mutual funds, specialised depositories of private pension funds, pawn shops;
- RUB 100 million for medical insurance companies.

The asset value of leasing organisations regulated by the separate antimonopoly control legislative act remains at the previous level of RUB 3 billion.

The requirement to obtain prior FAS approval of the purchase of 10% stake in the financial organisations also remains unchanged. The law became effective on 25 October 2014.

Impact on investors

Investors should respect the prior approval requirements of FAS in relation to Russian financial organisations.

Income tax on dividends may be increased for Russian beneficial owners

On 14 November 2014, the Russian State Duma adopted in the second reading the draft law on amending the Tax Code of the Russian Federation and other legislative acts of the Russian Federation.

The draft law assumes an increase in the tax rate on personal income received as dividend payments made to Russian beneficial owners – individuals who are tax residents of the Russian Federation – from 9% to 13%. The tax rate on dividend payments made to non-resident beneficial owners is still 15%.

The draft law has been sent for follow-up approval to the Council of the Federation, the upper chamber of Russian Parliament.

Impact on investors

For information purposes only.

New rules for foreign investments in Russian strategic companies

On 4 November 2014, the President of the Russian Federation signed a law introducing amendments to the Federal Law on The Procedure of making Foreign Investments in Companies of Strategic Importance for the Defence and Security of the State (No. 57-FZ of 29 April 2008).

The law's provisions clarify and simplify the regulatory framework and statutory restrictions to foreign investments in Russian strategic companies, which are recognised as Russian companies involved in any type of activity critical to the country's defence and / or state security.

- The following transactions will be out of the scope of the law on strategic companies application:
  - transaction when a buyer of a strategic stake in the business entity is a company that remains under the control of a constituent unit of the Russian Federation;
  - transactions including in respect of subsoil made by foreign investors, controlled by a single person;
  - transaction in respect of companies whose activity involve the use of infectious agents and food production is the main activity of the company;
  - transactions in respect of business entities engaged in using subsoil sites of strategic importance if the investors own more than 75% of shares in the authorised capital of such companies;
  - investments in strategic business entities using subsoil sites of strategic importance if on the date of a relevant transaction, the Russian Federation has the right to directly or indirectly control more than 50% of shares in authorised capital retaining the right for this after the transactions are concluded;

- Extension of the list of transactions requiring FAS prior approval:
  - transactions involving the acquisition, possession or use of property that belongs to basic production facilities of strategic business entities: inter alia, sale purchase agreement, deeds of gift, barter contracts, leases and deeds of trust and gratuitous use agreements, the cost of which accounts for not less than 25% of the book value of their assets;
  - companies processing aquatic biological resources in the territory of the Russian Federation are recognised as companies of strategic importance.
- Foreign investors have to notify FAS of the transactions previously agreed upon by the government body.
- Strategic enterprises are considered under the control of foreign investors which are not included in one group of persons, if they aggregately own directly or indirectly more than 50% of the voting shares, or less than 50% providing that the ratio of the votes allows them to determine the strategic decisions of the enterprise.

The law's provisions will come into force on 6 December 2014.

Impact on investors

Foreign investors will benefit from the reduction of the number of legislative restrictions for foreign investments in Russian strategic companies and the availability of new investment spheres in the Russian economy.

CSD extends cross-border partnership

The National Settlement Depository, Russia's Central Securities Depository (CSD) and Merkezi Kayıt Kuruluşu A.Ş. Turkey's CSD have signed a memorandum of understanding. In the frame of the signed agreement the parties will mutually share information on current and future CSD services developments including the extended usage of electronic technologies in corporate actions.

Also, the Centre for Coordination and Control of the Securities Market, the regulator of the Republic of Uzbekistan, affirmed the National Settlement Depository's right to perform the functions of the Substitute Numbering Agency (SNA) in Uzbekistan by submitting official notification to the Board of Directors of the Association of National Numbering Agencies (ANNA).

The NSD will start assigning international codes to Uzbek issuers' securities and transferring them to the international database of ANNA whereas the Central Securities Depository of Uzbekistan is responsible for information support, control of reliability and relevance of information about Uzbek securities with newly assigned ISINs and CFIs. NSD will perform the given functions until the Central Securities Depository of Uzbekistan is able to carry out the full scope of the Substitute Numbering Agency's functions.

Impact on investors

The National Settlement Depository continues to cooperate with foreign CSDs for the development of Russian and cross-border financial markets.

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SERBIA

Market Capitalisation	RSD 788.7 bn
YTD Dev. of Market Cap.	1.5%
Number of SE Transactions p.m.	13,801
YTD Dev. of SE Transactions	-35.0%
SE Turnover	RSD 1.29 bn
Monthly Index Performance	6.2%
Upcoming Holidays	N / A

Source: UniCredit, National Statistics

NBS cuts benchmark rate

NBS cut the benchmark rate by half a percentage point to 8%. NBS was guided by the fact that year-on-year inflation had been moving to below the lower targeted tolerance since March and that it is likely to remain there in the coming period as a majority of factors are expected to maintain a disinflationary impact.

Impact on investors
For information purposes only.

Year-on-year deflation declined

According to the Serbian Statistical Office, consumer prices edged down 0.2% in October, mainly reflecting a reduction in food prices, notably fresh fruit. Year-to-year inflation also declined to 1.8%.

Impact on investors
For information purposes only.

Start of talks between IMF mission and Serbian delegation

Official talks between the IMF mission and the Serbian delegation have started in November. The Serbian side is headed by NBS Governor Jorgovanka Tabaković and Minister of Finance Dušan Vujović, while the mission of the International Monetary Fund (IMF) is led by Zuzana Murgasova.

Impact on investors
For information purposes only.

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SLOVAK REPUBLIC

Market Capitalisation	EUR 40.3 bn
YTD Dev. of Market Capitalisation	-1.6%
Number of SE Transactions p.m.	1070.0
YTD Dev. of SE Transactions	-8.8%
SE Turnover (Bratislava SE)	EUR 0.6 bn
Monthly Index Performance (SAX / BSSE)	2.3%
Upcoming Holidays	–

Source: UniCredit, National Statistics

Bratislava Stock Exchange trading results in October 2014

In October of the year 2014, the members of the Bratislava Stock Exchange (BSSE) used the electronic trading system during 23 business days. A total of 1,070 transactions were concluded in this period, in which 482,372,509 units of securities were traded and the achieved financial volume exceeded EUR 620.24 million. In comparison with the previous month this represents an increase in the amount of traded securities (+27.35%), an increase in the total financial volume (+29.38%), and an increase in the number of concluded transactions (+58.05%).

The number of transactions fell on a year-on-year basis by 3.69%, whereas the amount of traded securities and the achieved financial volume increased, +19.66% and +31.9%, respectively. Similar to previous periods, negotiated deals again dominated over electronic order book transactions (i.e. price-setting deals), with the former accounting for 98.22% of the total trading volume. A total of 169 negotiated deals (in a volume of EUR 609.21 million) were concluded in October 2014, as opposed to 901 electronic order book transactions (in a financial volume of EUR 11.03 million).

In October 2014, investors continued to focus on debt securities, as bond transactions generated 99.85% of the achieved trading volume. A total of 444 bond transactions were concluded in the period under review, in which 482,310,103 units of securities changed hands and the financial volume exceeded EUR 619.28 million. The number of transactions increased against the previous month by 21.31%, the amount of traded securities rose by 27.35%, and the achieved financial volume grew by 29.34%. On a year-on-year basis we recorded a 20% increase in the number of transactions, with a 19.7% increase in the amount of traded securities and a 32.61% growth of the achieved financial volume. Continuing the trend of previous months, negotiated deals in bonds (in a financial volume of EUR 609.21 million) again prevailed over electronic order book transactions (in a volume of EUR 10.07 million).

Transactions concluded by non-residents in October 2014 accounted for 64.05% of the total trading volume. Out of that, the buy side represents 60.01% and the sell side does 68.09%.

The SAX index ended the month of October 2014 at 215.07 points, representing a 2.32% increase on a month-on-previous-month basis and a 10.53% growth year-on-year.

Impact on investors

For information purposes only.

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UniCredit leads BSSE trading statistics

In the 3rd quarter of 2014, the total turnover of transactions on BSSE amounted to EUR 3.24 billion, (an increase of 26.58% over the same period last year). A total of 1,692 transactions were closed in the said period, including 592 share transactions and 1,100 bond transactions. The turnover of share transactions amounted to EUR 5.03 million (0.16 % of the total turnover), whereas the turnover of bond transactions amounted to EUR 3.23 billion (99.84% of the total turnover).

The following table shows the sequence of the top 10 members according to their turnovers achieved in the second quarter of 2014 as divided by shares, bonds and total turnover.

TOTAL POS.	NAME OF MEMBER	TURNOVER [EUR]	SHARE [%]
1	UNICREDIT BANK CZ and SK a.s., via UNICREDIT BANK CZ and SK a.s., branch of foreign bank	1,672,349,941	51.64%
2	ČESKOSLOVENSKÁ OBCHODNÁ BANKA, a.s.	404,332,636	12.49%
3	CITIBANK EUROPE plc, via CITIBANK EUROPE plc, branch of foreign bank	368,984,234	11.39%
4	SLOVENSKÁ SPORITEĽŇA, a.s.	309,471,027	9.56%
5	TATRA BANKA, a.s.	261,108,128	8.06%
6	VŠEOBECNÁ ÚVEROVÁ BANKA, a.s.	115,308,701	3.56%
7	POŠTOVÁ BANKA, a.s.	59,518,933	1.84%
8	J&T BANKA, a.s., branch of foreign bank	44,289,581	1.37%
9	RM-S MARKET, o.c.p., a.s.	1,662,752	0.05%
10	PATRIA FINANCE, a.s.	584,611	0.02%
	TOTAL TOP 10	**3,237,610,543**	**99.97 %**
	TOTAL BSSE	**3,238,501,701**	**100.00 %**

Impact on investors

UniCredit Bank affirmed its dominant position on the Slovak capital market.

SLOVENIA

Market Capitalisation	EUR 22.435 bn
YTD Dev. of Market Capitalisation	17.19%
Number of SE Transactions p.m.	6,325
YTD Dev. of SE Transactions	32.70%
SE Turnover (Ljubljana SE)	EUR 52.079 mn
Monthly Index Performance (SBI TOP)	-3.17%
Upcoming Holidays	25, 26 December

Source: UniCredit, National Statistics

Successful return to the bond market confirmed

Following Slovenia's successful return to the European debt capital markets with a EUR 2 billion dual-tranche transaction launched in April, a new benchmark bond has been launched. The new Slovenian Government bond, with a size of EUR 1 billion and maturity on 25 March 2022, was priced with a coupon of 2.25% and a spread of +160 bps over mid-swaps.

Total excess of order book was EUR 3.2 billion with over 275 accounts participating. Institutional investors were the main drivers with more than 54% of allocations, followed by Hedge Funds with 18%, Bank Treasuries 15%, Insurance and Pension Funds 8% and Central Banks and Financial Institutions with 5%. UK and Irish investors bought 29%, followed by German and Austrian accounts with 23%, and Slovenian accounts with 13%.

Impact on investors

The success of this transaction shows a vote of confidence in the major steps accomplished by Slovenia through the recapitalisation and stabilisation of the Slovenian banking sector, which was confirmed by the AQR and stress test results released on 26 October, as well as the government's commitment to continue with structural reforms while fostering future growth.

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UKRAINE

Market Capitalisation (UX)	UAH 242.0 bn
YTD Dev. of Market Capitalisation (UX)	65.5%
Number of SE Transactions p.m. (UX)	30,673
YTD Dev. of SE Transactions (UX)	16.2%
SE Turnover (UX)	UAH 0.7 bn
Monthly Index Performance (UX)	-9.1%
Upcoming Holidays	–

Source: UniCredit, National Statistics

NSSMSC to change the rules of stock exchange trading

The market regulator, the National Securities and Stock Market Commission (NSSMC), will amdend the rules of trading on the stock exchanges. NSSMC approved the changes to regulations on the functioning of the stock exchanges.

For instance, the trading floor will have to renew its software in order to define the liquidity of the securities. Besides that, stock exchanges will be able to forgo the use of the stock exchange agreements, which may have been subject to manipulation, when calculating the stock exchange rate. There is also a requirement to define the stock exchange rate of securities without considering the agreements, when a central counterparty is a buyer of securities.

Herewith it is forbidden to conclude a stock exchange contract on applications which were submitted by the different members of the stock exchange in the interests of one client.

It was also mentioned by the market regulator that after these changes enter into force, the stock exchanges will have to bring their activity into compliance with the new legislative requirements within 3 months. A year will be given for the implementation of some of them.

Impact on investors

For information purposes only.

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AZERBAIJAN · BELARUS

Azerbaijan

CIS countries discussed securities markets integration

The 18th and 19th meetings of the Council of CIS State Securities Markets Regulatory Agencies were recently held in Baku.

The participants from Russia, Moldova, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and Azerbaijan discussed strengthening securities market integration, implementation of the best international regulation standards and liberalisation of capital flows within the CIS as well as efficient protection of investors' rights.

Impact on investors

CIS countries made a new step towards the globalisation of securities markets and their integration in the world financial system.

Islamic Development Bank to be established in Baku

Azerbaijan, Russia and Kazakhstan jointly initiated the establishment of the Islamic Development Bank in Baku.

Azerbaijan started to work on implementation of Islamic financing in 2004 and has a great potential to become a new Islamic financial centre. To reach this goal CIS Financial and Banking Council will create a working group on Islamic financing within CIS.

Currently there are more than 700 million consumers of Islamic financial services in the world.

Impact on investors

The establishment of CIS Islamic Development Bank allows the creation of new investment opportunities for investors.

Belarus

Market Capitalisation	BYR 16.8 trn
YTD Dev. of Market Capitalisation	n.a.
Number of SE Transactions p.m. (BCSE)	816
YTD Dev. of SE Transactions	-28.0%
SE Turnover (BCSE)	BYR 6,973.30 bn
Monthly Index Performance (BCSE State Securities)	-5.55%
Upcoming Holidays	25, 26 December

Source: UniCredit, National Statistics

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KAZAHSTAN

New Islamic bonds to be issued in 2015

A new type of Islamic bonds, sukuk, is planned to be issue in Kazakhstan in 2015. The relevant legislation was prepared earlier.

Sukuk securities are developed to comply with the Islamic law and its investment principles prohibiting interest payments. Sukuk is considered an instrument of securitisation on the Islamic market.

Furthermore, Kazakhstan has approved the Roadmap on Islamic Finance Development through 2020 and plans to become one of the leading centres of Islamic financing in Asia.

Impact on investors

The Issuance of new bonds will increase investment possibilities for investors.

Central banks of Kazakhstan and UAE to cooperate

The National Bank of Kazakhstan announced the signing of the Memorandum of Understanding (MoU) on cooperation and exchange of regulatory information in banking activities with the Central Bank of the United Arab Emirates (UAE).

The MoU is aimed at the establishment of cooperation between two Central Banks in the sphere of regulation and supervision of banks and other financial institutions operating in both jurisdictions. It also covers the exchange of supervisory information in line with the local laws of Kazakhstan and UAE.

Impact on investors

The cooperation agreement should contribute to the enhancement of the stability of Kazakhstan's financial system.

EEU single financial market to be created

At the business forum 'Financial Growth in Kazakhstan' held in November in Almaty, it was announced that the strategy for the development of the financial markets of the Eurasian Economic Union (EEU) will be elaborated by 2016.

Participants discussed the macroeconomic situation in Kazakhstan, the national strategy for further economic development, the strategy for the development of the banking system, and the possibilities of growth of key markets in Kazakhstan. They also agreed that the creation of a single financial market is an important stage in the development of economic integration, which has direct impact on economic policy, business activities of enterprises, and financial institutions of the Customs Union (CU) and the Common Economic Space (CES).

As a result of negotiations, EEU countries agreed to develop harmonised requirements for regulation in financial markets, banking activities, insurance etc. on the basis of the best international principles and standards by 2016.

Furthermore, after the completion of the harmonisation of financial markets legislation, EEU will make a decision on the powers and functions of a supranational authority on financial markets regulation, headquartered in Almaty.

Impact on investors

The creation of an EEU single financial market will ensure the efficient allocation of capitals, diversify risks and increase competition in the financial market.

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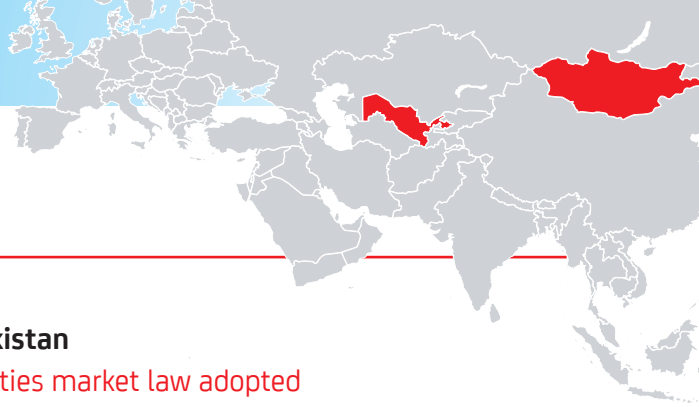

MONGOLIA · UZBEKISTAN

Mongolia

Second bank receives custodian license

In line with the updated Securities market law, approved on 1 January 2014, securities registration can be executed via central and segregated methods. A centralised securities register should be maintained by a legal entity having a license to act as a centralised securities depository. A legal entity licensed to maintain a segregated securities register is to be a member of the centralised securities depository or a custodian.

According to the results of the meeting of the Financial Regulatory Commission of Mongolia (FRC), held on 21 October, the Trade and Development Bank (TDB) received the license to start its custodian activity in the Mongolian securities market. TDB is the second commercial bank to obtain the custodian license after Golomt bank.

Impact on investors

The implementation of custody services is an important step towards the development of a securities market of Mongolia.

Uzbekistan

Securities market law adopted

On 24 October, the Legislative chamber of Uzbekistan's Parliament discussed a draft law "on securities market" in the new edition.

The law aims to enhance the role and value of the securities market in the economy of Uzbekistan, as well as ensuring its competitiveness. The new law calls for the modernisation of the national securities market via implementation of modern information technologies and the best international experience in the securities market regulation.

Impact on investors

The updated law should contribute to the further development of the securities market of Uzbekistan.

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