GSS Newsletter

March 2014

Issue 155

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

Welcome to UniCredit

CONTENTS

EDITORIAL

BOHDANA YEFREMOVA
HEAD OF GSS UKRAINE

Dear Clients, Colleagues and Friends,

I am glad to have this opportunity to write a few words about the major changes in the market infrastructure that Ukraine accomplished in 2013.

It took four years to complete the major project to establish a CSD. The creation of a single depository system was included in the country's Program of Economic Reforms in 2010. However, the talks about the need for a single CSD had started even back in 1999, when the National Depository of Ukraine (NDU) was established in addition to the existing All-Ukrainian Securities Depository (AUSD, also known as IRSU at that time), which was servicing corporate securities as well.

It was obvious that a de-centralised depository system along with the documentary form of issuance posed substantial risks and was the cause of many problems. For example, the total number of joint-stock companies exceeded the number of registered issuers of shares. It was quite often the case that a consolidated company's register showed a number of shares greater than 100%. There were many instances of duplicated company registers, which were maintained by different entities (registrars) and contained contradictory information. This provided abundant opportunities for corporate conflicts, the blocking of general shareholders meetings, insider trading, and other unfair practices.

However, it took some time to convince all involved parties – depositories and stock exchanges – to come to a compromise and agree on the new model, in which the AUSD depository was giving up its virtually 95% market share to NDU. In return, AUSD was offered the new role of a clearing institution – called the Settlement Center – acting as the cash clearer for all DVP transactions with securities. The new CSD law was published in October 2012, and envisaged a 1 year term for the new system to become functional. The clock started ticking.

From December 2012, AUSD began the transfer of securities issues to NDU. To ensure a minimum impact on stock-exchange trading, the process started with smaller non-listed issues, while the transfer of the most actively traded ones happened right before the deadline of 12 October 2013. Since the new model has confirmed the role of the National Bank of Ukraine (NBU) as the depository for government securities, AUSD also transferred to NBU the issues of municipal bonds it was servicing.

At the same time, the regulator took a firm approach to complete the dematerialisation process, which started a few years earlier and was never finished because of the lack of cooperation from certain issuers. Since the CSD law did not envisage a place for registrars on the new depository landscape after 12 October 2013, the issuers with documentary securities (which used to be serviced by registrars) were threatened to find their issues blocked in circulation after that date. This argument sped up the process on the side of non-dormant issuers. The papers of the rest, as promised, were restricted in circulation.

However, it should be understood that many of these companies emerged from the process of mass privatisation and now may simply be non-existent. On paper, Ukraine has over 25,000 issuers, of which no more than a third issue reporting and conduct general meetings. The situation with such dormant issuers represents another task for the regulator: to clean the market of fictitious and junk papers. Elimination of such companies will clear the way for a more realistic set of market statistics – the one not including technical and stillborn securities.

Apart from the transfer of securities, the CSD project required creation of a comprehensive legislative framework for the market participants, which would set the rules for the new environment. After the regulator published the drafts for a discussion, all market participants had an opportunity to contribute their ideas for the new regulations, although within very tight timing.

All custodians had to obtain new licenses; respective licenses were also issued to NDU and the Settlement Center, including a banking license for the latter. In addition, the depositories and the Settlement Center had to develop the rules for their interaction with the market and the market participants had to update their internal procedures accordingly.

To summarise, this huge project was completed as planned and within the allocated timeframe. How this is going to work in practice, we have yet to see and analyse. However, the system has been working since 12 October 2013. It was also working in the usual mode even on the revolutionary days of 19-21 February 2014. Only on 19 February, NDU announced they would not accept paper documents in their central offices. One of these offices was located at 2, Maydan Nezalezhnosti – the Building of Professional Unions, burned down a night before.

I am now writing from the revolutionary Kyiv. During these days, the predominant local mood is that the Ukrainian people have earned, in a hard way, another chance to change the country. We have a brand-new market infrastructure; however, it is not sufficient for a stock market to revive. The country needs complex measures in all areas: government and judiciary reforms, deregulation of business, elimination of corruption. This is not an easy way; however, it may be the only one, worthy of the price we have paid.

Sincerely yours,

Bohdana Yefremova
Head of GSS Ukraine

HR NEWS

New relationship manager in Czech Republic

It is our pleasure to announce the latest appointment, in GSS Czech Republic. **Jana Bašeová** joined our **Relationship Management** team at the beginning of February 2014.

Jana has been with UniCredit since 2011 when she started as a manager of the department responsible for the distribution of EU funds in cooperation with the Czech Ministry of Finance.

Before that, Jana was a manager at Czech Invest, an agency founded by the Czech Ministry of Industry and Trade.

Jana holds a degree in Economics from the University of Prague.

Kind regards,

Michal Stuchlík
Head of GSS Czech Republic

JANA BAŠEOVÁ
RELATIONSHIP MANAGER

JOHN'S CORNER

JOHN GUBERT ON NEW WAYS OF COST ASSESSMENT

We have recently been assessing the potential for more unbundled pricing in our GSS Executive Committee. The demand from clients is for a fresh look at custodial charging, given a feeling that there is an imbalance between settlement and asset servicing pricing. This is a generic market issue rather than a UniCredit one, and the lack of open debate on the matter is, in part, driven by fears of competition law and, in part, due to the actual complexity of the issue.

At one level this appears to be a simple exercise, for we can gauge the direct costs of our business. We can also identify the costs of a CSD and other infrastructures we may use. Experience I have had from other exercises, in my lengthy past, shows that even a simple assessment based on the cost of operations, excluding risk premiums, rarely bears comparison across different companies. Different approaches to depreciation, varied bases of assigning head office or other central costs, non-market bases for attributing the cost of premises or the process for charging new development, if shared across a firm, can be varied and have material impact on the results of the exercise.

But the biggest challenge, even in our allegedly off balance sheet business, lies in agreeing the cost of liquidity and the cost of risk. I have suggested in the past that the basic custody business should be backed by around USD 400 million of equity per trillion dollars of assets. With around fifty trillion of assets under custody worldwide, this implies a global capital need of around USD 20 billion. It has been suggested that this is on the low side but it needs to be seen in context. This relates to basic custody, with all the related activities of the full service custodian needing incremental notional capital allocations, or in the case of the specialised custody banks, their own dedicated real capital base.

Liquidity is easier to cost and I usually suggest looking at the yield curve between overnight and three month money to identify the base rating, currently around 10 basis points in several major currencies. However, a risk premium needs to be added to this base figure and that will fluctuate according to the credit rating of a firm, from time to time. Credit Default Swaps are a useful surrogate for the cost of that element.

Unbundling of settlement is perhaps the easiest component to consider. To some extent, settlement has already been unbundled. We have, by definition, three types of settlement. There is client side STP, client and market side STP, and non STP transactions. Together with a charge for liquidity, that fulfils most requirements, segregating the automated from the manually supported transaction.

If we can allocate the bulk of notional (or in some cases real) capital to the asset maintenance side of the cost structure, having covered settlement risk in the cost of liquidity, then that cost becomes simpler to allocate. On a billion dollar portfolio, the cost of risk, under my assumptions noted above, would be around USD 40–60,000 per annum based on a 10–15% ROE on the required associated allocated notional capital. That equates to around half a basis point. Paradoxically, although this appears high when set against average global ad valorem charges, it appears low when measuring against capital allocated in the stand alone firms

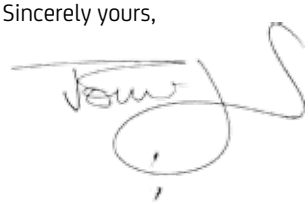
Then we get to the real challenge. How do we allocate the operating costs of a custodian? If only, it were as simple as taking the headcount associated with asset servicing or settlement and assigning them proportionately according to some time based computation. The bulk of people, and often the most costly, are focused on asset servicing. But on top of their costs, and that of the settlement teams, we need to allocate the cost of business management, relationship and sales management, and risk management in all its guises from audit to operational risk and on to compliance. We need to identify the costs associated with technology, not only running the big boxes and diverse applications or communication hubs, but also the developers in our fast changing environment. And where do we assign the legal teams, whose services we need more and more? HR has to be allowed for. And central management overhead is also no minor cost.

A further trouble with unbundling is this allocation of overhead. The global custodian is a regular user of asset services. This is where the bulk of their cost lies. They are also a much lesser user of settlement. In principle, at a sub custody business level, we could identify total overhead and allocate it pro rata by headcount between asset servicing and settlement. But how do we handle the different components of asset servicing? Costs are constant but account opening is a volatile function. Income collection has its seasonal peaks but is a stable flow. Proxy voting is likewise seasonal but stable. Corporate actions are another volatile function for no one can forecast the number of mergers and acquisitions, corporate restructurings, capital raising exercises, and so on in any period of time.

But then the broker dealer is a much smaller user of corporate action services. However, they do use account opening and, more and more, many of the universal firms are hybrid custodians, prime brokers and broker dealer operations. But I struggle to find an equitable way of assigning cost across those three functions. The trouble with broker dealer activity lies in the nature of their business. The risk profile of handling a corporate action in an active counter, with market claims to and from the broker, means their occasional use of this service is much greater in labour and risk terms than managing a corporate action for a stable long only fund.

The industry talks of unbundling and also calls for transparency. The latter is a definite good idea. For it will allow us to tackle the former. The truth is that we are not able to apply a component based charge easily across the multiplicity of moving parts, especially in the non-settlement area. And, if we progress the idea to the fund administration space, the challenge becomes ever greater. Perhaps the risk premiums for funds operated under some of the more stringent regulatory regimes will, in this environment, soar towards those halcyon levels forecast by some commentators in the early days of the gestation of AIFMD.

Sincerely yours,



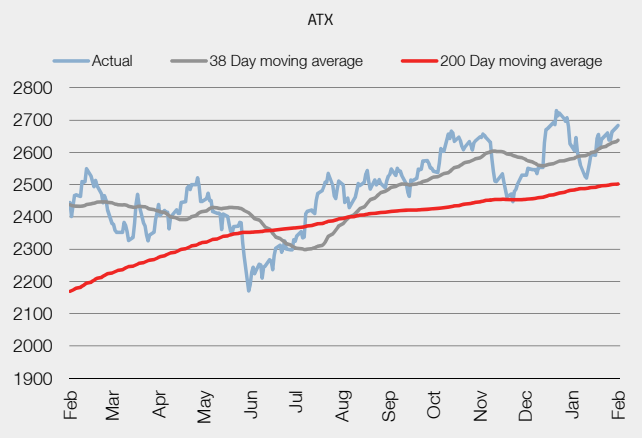
John Gubert
Chairman
Global Securities Services
Executive Committee

John Gubert also appears on blog.globalcustodian.com

AUSTRIA

Market Capitalisation	EUR 85.4bn
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 2.7bn
Monthly Index Performance (ATX/VSE)	0.5%
GDP per Capita (2014 in EUR)	38,305
GDP Real 2014 (Change against prev. year in%)	2.0
3-Month Money Market Rate (current in%)	0.24
Inflation in 2014 (HVPI yearly average in%)	1.7
Upcoming Holidays	none

Source: UniCredit, National Statistics



Source: UniCredit, National Statistics

Vienna Stock Exchange and Kazakhstan Stock Exchange intensify collaboration

The Vienna Stock Exchange has signed an agreement with its first Asian partner for cooperation in market data vending – Kazakhstan Stock Exchange (KASE). In the future, data vendors, also known as financial information providers, may obtain price data from Kazakhstan at the accustomed level of quality via the Vienna Stock Exchange's data feed. This move expands the successful collaboration with the Kazakhstan Stock Exchange to a new business area. Since January 2013, the Vienna Stock Exchange has been calculating the KTX Local index, which consists of the eight most actively-traded companies and is disseminated daily in real time.

The Vienna Stock Exchange has positioned itself as the CEE data hub for the region of Central and Eastern Europe over the past years. Apart from distributing the data of the member exchanges of the CEE Stock Exchange Group (Vienna, Budapest, Ljubljana, Prague), the Vienna Stock Exchange also disseminates price data of the exchanges in Bucharest, Banja Luka, Belgrade, Macedonia, Montenegro, and now also Kazakhstan.

Additionally, the Alliance Data Highway (ADH) data feed is a global source for the trading data of the CEGH Gas Exchange of the Vienna Stock Exchange, the power exchange EXAA (Energy Exchange Austria), and PXE (Power Exchange Central Europe). The data vending customers of the Vienna Stock Exchange include around 230 primarily international information providers; 36% of end users come from Great Britain, 25% from the US, 8% from Germany, and 6% from Austria.

Impact on investors

For information purposes only.

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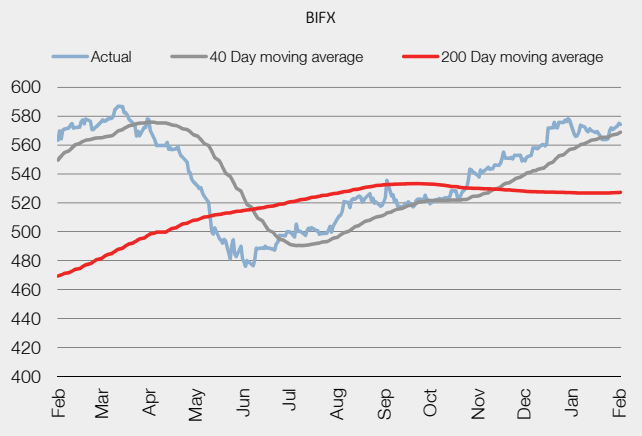
BOSNIA AND HERZEGOVINA

Market Capitalisation (Sarajevo SE)	BAM 4.7bn
YTD Dev. of Market Capitalisation	-0.9%
Number of SE Transactions p.m.	624
YTD Dev. of SE Transactions	-16.5%
SE Turnover (SASE)	BAM 5.1mn
Monthly Index Performance (SASX-10/SASE)	-1.9%
Market Capitalisation (Banja Luka SE)	BAM 4.2bn
YTD Dev. of Market Capitalisation	0.9%
Number of SE Transactions p.m.	1,461
YTD Dev. of SE Transactions	-45.6%
SE Turnover (BLSE)	BAM 36.0mn
Monthly Index Performance (BIRS/BLSE)	-0.1%
GDP per Capita (2014 in EUR)	4,125
GDP Real 2014 (Change against prev. year in%)	3.8
3-Month Money Market Rate (current in%)	n.a.
Inflation in 2014 (yearly average in%)	2.4
EUR/BAM	1.96
Upcoming Holidays	none

Source: UniCredit, National Statistics



Source: Bloomberg

Foreign Trade Chamber presented results for 2013

The Foreign Trade Chamber of Bosnia and Herzegovina in the presence of representatives of embassies, consular departments, international organizations, and local institutions, presented the foreign trade results of Bosnia and Herzegovina for 2013.

The value of exports amounted to BAM 8.6 billion, while imports amounted to BAM 14.9 billion. Exports of goods and products from Bosnia and Herzegovina in 2013 increased by 5.03% compared to the previous year, while imports decreased by 0.56%. Trade deficit amounted to BAM 6.3 billion and decreased by 7.34% over the previous year, while the export-import ratio stood at 57.87%, which indicates that there has been a noticeable improvement in foreign trade compared to 2012.

The largest export market for Bosnia and Herzegovina remains Germany, followed by Croatia and Italy. Bosnia and Herzegovina mostly imported from Croatia, Serbia, and Germany.

The most exported products were car seats, followed by electric energy, aluminum, and shoes.The most imported products were crude oil, petroleum products, automobiles and other motor vehicles, and coal.

Impact on investors

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Agency for Statistics announced the quarterly GDP report

The Agency for Statistics of Bosnia and Herzegovina announced its quarterly gross domestic product report for the first, second, and third quarter of 2013. Real GDP in the third quarter of 2013 increased by 1.7% compared with the same period of the previous year. GDP in the third quarter of 2013 increased by 0.1% compared with the previous quarter.

The significant real growth of gross added value (GDA) in the third quarter was recorded in agriculture, forestry, and fishing -8.6%, the processing industry -8.3%, production and delivery of electric energy -4.3%, and the hospitality industry -4.3%.

The real decrease in GDA was recorded in transportation and warehousing -6.3%, mining and quarrying -5.3%, wholesale and retail trade -3.4%, and water supply -0.8%.

Impact on investors

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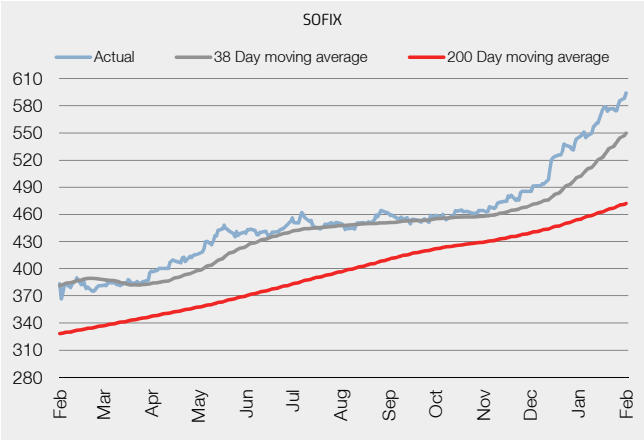
BULGARIA

Market Capitalisation	BGN 10.8bn
YTD Dev. of Market Capitalisation	4.1%
Number of SE Transactions p.m.	33,640
YTD Dev. of SE Transactions	37.9%
SE Turnover (Bulgarian Stock Exchange)	BGN 357.3mn
Monthly Index Performance (SOFIX)	11.3%
GDP per Capita (2014 in EUR)	6,532
GDP Real 2014 (Change against prev. year in%)	4.0
3-Month Money Market Rate (current in%)	0.59
Inflation in 2014 (yearly average in%)	3.5
EUR/BGN	1.96
Upcoming Holidays	March 3

Source: UniCredit, National Statistics



Source: Thomson Datastream

Amendments to Markets in Financial Instruments Act

The Financial Supervision Commission (FSC) has announced draft amendments to the Markets in Financial Instruments Act aiming at transposing Directive 2013/36/EC of the European Parliament and of the Council of 26 June 2013. Among others, the amendments provide for:

- changes to the requirements for capital adequacy and liquidity of investment intermediaries, as well as to the requirements for their organisational setup
- enhanced scope of supervision by the FSC
- changes to sanctions for not complying with prudential requirements
- regulation of the exchange of information between FSC and EU supervisory institutions, in particular the European Banking Authority

The above draft amendments also envisage changes to other Bulgarian legislation, such as:

- the Collective Investment Schemes and Other Collective Investment Undertakings Activities Act – the requirements for initial and shareholders' equity of asset managers and alternative investment fund managers are to be aligned with the EU Capital Requirement Directive (CRD IV)
- the Public Offering of Securities Act – enhanced protection for bondholders is to be ensured by introducing explicit regulation in the cases of early bond redemptions; FSC is to be entitled to restrict asset managers' activities when the effective supervision by FSC has been prevented
- the Special Investment Purpose Companies Act – FSC to be entitled to restrict special investment purpose companies' activities when prevention of effective supervision by FSC has been attempted

Impact on investors

The proposed draft amendments to local MIFID legislation aim at further alignment with EU legislation. In addition, local UCITS legislation is to be also aligned with EU CRD IV, enhanced bondholders' protection is to be introduced, and FSC is to have a widened scope of supervision over market participants.

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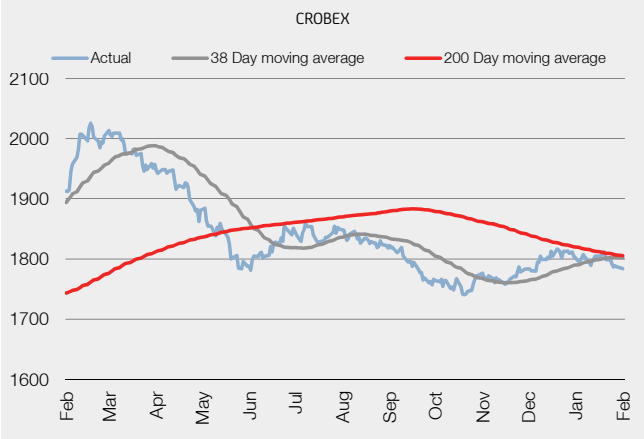
CROATIA

Market Capitalisation	HRK 181.6bn
YTD Dev. of Market Capitalisation	-1.2%
Number of SE Transactions p.m.	23,720
YTD Dev. of SE Transactions	15.7%
SE Turnover (Zagreb SE)	HRK 381.2mn
Monthly Index Performance (Crobex/ZSE)	0.5%
GDP per Capita (2014 in EUR)	12,552
GDP Real 2014 (Change against prev. year in%)	2.5
3-Month Money Market Rate (current in%)	0.55
Inflation in 2014 (yearly average in%)	2.5
EUR/HRK	7.66
Upcoming Holidays	none

Source: UniCredit, National Statistics



Source: Thomson Datastream

Disaster recovery tests successfully performed

In January, the Central Depository and Clearing Company Inc. (CDCC) successfully carried out the regular disaster recovery (DR) test of the backup information system by simulating the breakdown of some individual parts and the entire production of the central information system of the CDCC in collaboration with direct members CRBA-B, FNOI-I, and HNB-M.

Testing will continue to be performed regularly and include different groups of direct members.

UniCredit Global Securities Services Croatia also successfully performed a specific disaster recovery test of the Custody System on 29 January 2014. In conducted DR testing, all systems at the back-up location were available including communication lines (telephone, fax, and e-mail). SWIFT connectivity worked as well as direct access to the CDCC system. The re-location of staff was accomplished within the set time frame.

Impact on investors

For information purposes only.

Croatia's credit rating re-assessed

Standard & Poor's (S&P) downgraded its long-term ratings on Croatia to 'BB' from 'BB+', retaining a stable outlook, and adding that Croatia's recession is likely to continue for the sixth consecutive year.

The ratings are supported by important medium-term opportunities – stemming from Croatia's recent EU accession – to address key growth, competitiveness, and productivity challenges. S&P analysts estimate that Croatia's real GDP contracted by about 1% in 2013 and, contrary to their previous expectation, S&P now forecasts the sixth consecutive year of recession in 2014.

Fitch Ratings has revised Croatia's outlook to Negative from Stable, but affirmed the country's long-term foreign and local currency Issuer Default Ratings (IDR) at 'BB+' and 'BBB-' respectively. Fitch's rating of Croatia is still one level above the rating the country has been given by S&P.

The world's third biggest credit rating agency, Moody's, has kept Croatia's rating one level above S&P's, but all three agencies rated Croatia a non-investment grade.

Impact on investors

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Croatia under Excessive Deficit Procedure

The European Union's finance ministers endorsed the recommendation of the European Commission to formally place Croatia in the Excessive Deficit Procedure (EDP) after the Commission established that Croatia's budget deficit and debt levels breached the EU limits of 3% and 60% of Gross Domestic Product respectively.

The EDP is a corrective mechanism designed by the European Commission to bring the budget deficits of the EU member states to below 3% and public debt to below 60% of GDP, as required by the Maastricht criteria. The procedure has been launched against all member states except Estonia and Sweden. 16 countries are currently in the excessive deficit procedure and Croatia will be the 17th. Bulgaria, Germany, Hungary, Italy, Finland, Latvia, Lithuania, Luxembourg, and Romania have completed it successfully.

Impact on investors

For information purposes only.

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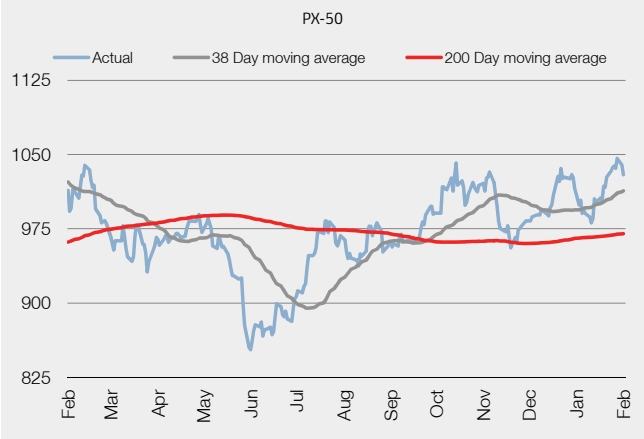
CZECH REPUBLIC

Market Capitalisation	CZK 1.1trn
YTD Dev. of Market Capitalisation	0.5%
Number of SE Transactions p.m.	n.a.
YTD Dev. of SE Transactions	n.a.
SE Turnover (Prague SE)	CZK 61.5bn
Monthly Index Performance (PX)	0.2%
GDP per Capita (2014 in EUR)	17,264
GDP Real 2014 (Change against prev. year in%)	3.5
3-Month Money Market Rate (current in%)	0.20
Inflation in 2014 (yearly average in%)	2.0
EUR/CZK	27.34
Upcoming Holidays	none

Source: UniCredit, National Statistics



Source: Thomson Datastream

CNB confirms its commitment to intervene

The CNB Bank Board decided at its meeting today to keep interest rates unchanged. The two-week repo rate was maintained at 0.05%, the discount rate at 0.05%, and the Lombard rate at 0.25%.

The CNB Bank Board also decided to continue using the exchange rate as an additional instrument for easing the monetary conditions and confirmed the CNB's commitment, if needed, to intervene on the foreign exchange market to weaken the koruna so that the exchange rate of the koruna against the euro is kept close to CZK 27/EUR.

The CNB Bank Board repeated that it regards the commitment as one-sided. This means that the CNB has undertaken measures to prevent excessive appreciation of the koruna below CZK 27/EUR by intervening on the foreign exchange market, i.e. by selling koruna and buying foreign currency. On the weaker side of the CZK 27 level, the CNB is allowing the koruna exchange rate to float according to supply and demand on the foreign exchange market.

Impact on investors

CNB interest rates stay at their historical minimum.

Legal Entity Identifier now available in eight languages

In addition to Czech and English, CSD Prague has published information on LEI also in German, Croatian, Hungarian, Rumanian, Slovene, and Slovak.

CSD Prague acts as a local operating unit (LOU/pre-LOU) and assigns Legal Entity Identifiers (LEI/pre-LEI) to legal entities. Because the global LEI identifier can be assigned to all companies worldwide by the Czech central depository and because there are still no local operating units in some countries in our region, CSD Prague has published the guide on how to apply for LEI.

Impact on investors

LEI can now be assigned to foreign investors by the CDCP.

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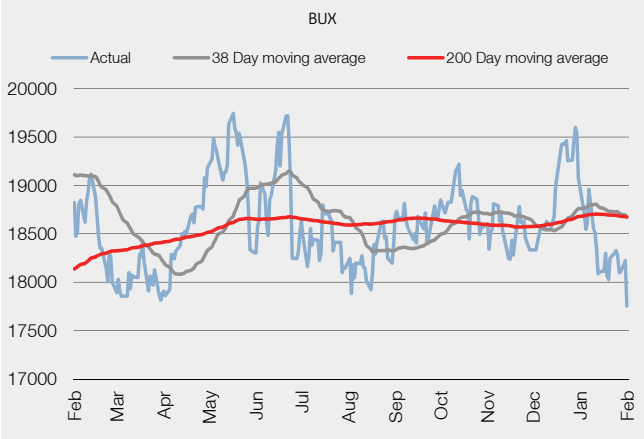
HUNGARY

Market Capitalisation	HUF 17,928bn
YTD Dev. of Market Capitalisation	1.0%
Number of SE Transactions p.m.	162,603
YTD Dev. of SE Transactions	46.1%
SE Turnover (Budapest SE)	HUF 458,803mn
Monthly Index Performance (BUX)	-2.7%
GDP per Capita (2014 in EUR)	13,481
GDP Real 2014 (Change against prev. year in%)	4.2
3-Month Money Market Rate (current in%)	2.46
Inflation in 2014 (yearly average in%)	2.7
EUR/HUF	309.10
Upcoming Holidays	March 15

Source: UniCredit, National Statistics



Source: Thomson Datastream

GDP growth in Q4

In the fourth quarter of 2013 the Gross Domestic Product (GDP) adjusted for seasonal and calendar effects increased by 2.7% year-on-year and by 0.6% compared to the previous period of the year (quarter-on-quarter) according to preliminary estimates. In a European comparison, Hungary was able to show the fourth highest growth rate.

The growth was mainly driven by the increased performance of agriculture, manufacturing and construction, while on the consumption side growth was fuelled by foreign trade and investment. The favourable weather conditions in 2013 primarily contributed to the increase of agriculture compared with the major drought of 2012; additionally the drawing of EU funds accelerated the expansion of construction. The automotive industry had a highly successful year in 2013; two automobile factories expanded their capacity in Hungary, which also boosted the electronic industry.

According to a communication by the Minister of National Economy, industrial production grew by more than 5%, having received support from an increased external demand, capacity boost in vehicle manufacturing, and recovering domestic demand.

Impact on investors

For information purposes only.

Rate cut in Hungary

On 18 February, the Monetary Council of the Central Bank of Hungary decided to cut the key policy rate by 15 basis points to an all-time low of 2.70% effective starting on 19 February. The market participants expected a 10 basis points rate cut this month in light of the market developments of the past few weeks and recent economic indicators.

The interest rate easing cycle began at 7.00% in August 2012 and has continued ever since. In the Monetary Council's judgement, Hungarian economic growth is likely to continue this year and next and there remains the possibility of reducing interest rates in the context of increased uncertainty in financial market.

Impact on investors

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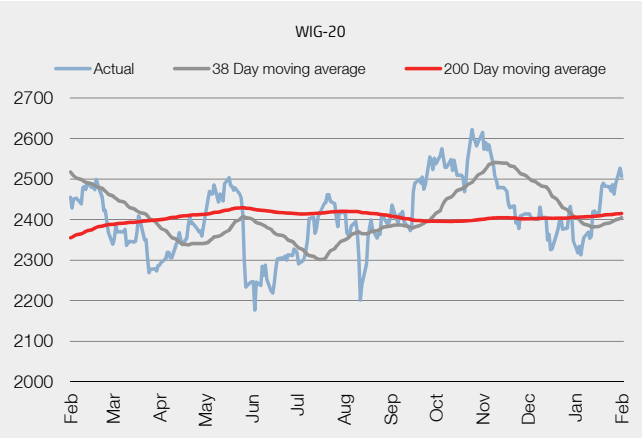
POLAND

Market Capitalisation	PLN 590.3bn
YTD Dev. of Market Capitalisation	-0.5%
Number of SE Transactions p.m.	1,256,092
YTD Dev. of SE Transactions	15.3%
SE Turnover (WSE)	PLN 19.7bn
Monthly Index Performance (WIG20)	1.9%
Monthly Index Performance (WIG)	1.9%
GDP per Capita (2014 in EUR)	12,294
GDP Real 2014 (Change against prev. year in%)	3.5
3-Month Money Market Rate (current in%)	2.61
Inflation in 2014 (yearly average in%)	3.0
EUR/PLN	4.16
Upcoming Holidays	none

Source: UniCredit, National Statistics



Source: Thomson Datastream

KDPW_CCP regulations harmonised with EMIR requirements

Last month, KDPW_CCP made some changes to their regulations to be in line with European Market Infrastructure Regulations (EMIR) and to implement technical standards that must be met by central counterparties under EMIR. As a result of the harmonisation process, the following documents of KDPW_CCP were amended:

- Rules of transaction clearing for organised trading;
- Rules of transaction clearing for non-organised trading;
- Detailed Rules of Transaction Clearing for organised trading;
- Detailed Rules of the OTC Clearing System;
- Rules of the guarantee fund securing the clearing of transactions concluded in the ATS organised by WSE;
- Rules of the guarantee fund securing the clearing of transactions concluded in the ATS organised by BondSpot S.A.

The changes implemented by KDPW_CCP included some operational as well as legal changes. The main points were: implementation of clearing accounts at KDPW_CCP, implementation of continuous risk monitoring and concentration limits, and changes to the clearing guarantee system in the area of activation of system resources.

Until these changes took effect, KDPW_CCP provided clearing services and acted as a central counterparty for the on-exchange trades without the utilisation of the clearing accounts (in practice they utilised the accounts of KDPW). Now KDPW_CCP operates their own clearing accounts that were opened for the KDPW_CCP's clearing members to reflect the clearing member's positions against the CCP.

At the moment of introduction of the clearing accounts, they mirrored the existing structure of depo accounts at KDPW, however, the clearing members may modify the account structure if they feel they can manage the collateral placed with CCP in a more efficient way. Apart from individual accounts, the set of account types also includes omnibus clearing accounts allowing for the aggregation of activities of the brokers. The amended regulations also allow the opening of individual clearing accounts by KDPW_CCP non-clearing members, thus they and their activities may be better protected in case of their clearing member's default.

As far as the management of margins is concerned, KDPW_CCP introduced the continuous monitoring of cash market instruments traded on the organised market. As a result, KDPW_CCP may now monitor the level of margin deposits throughout the day and may call on their clearing members to provide additional intraday margin deposits, if required. Under the amended regulations, initial margin deposits will cover not only derivatives, but also cash market. Together with this change, KDPW_CCP implemented new concentration limits that will be applicable to all types of assets accepted as collateral. There are four concentration limits: concentration limit for each collateral type, concentration limit for issuer type, concentration limit for the particular issuer, and concentration limit for the asset type.

Last but not least, KDPW decided to change their rules applicable to the activation of the guarantee system resources. The change resulted from the requirement of EMIR regulations to separate own (dedicated) resources that can be used in case of a default by the KDPW_CCP's participant. Under new regulations, KDPW_CCP dedicated resources will be used after the resources of a defaulting party (receivables, margins, and contribution to the clearing guarantee fund) and before the resources resulting from the contributions of other clearing members to the guarantee fund and KDPW_CCP's own capital. Such change shall better reflect the position and role of the CCP as a counterparty for the clearing members in the clearing and settlement process.

Impact on investors

Implementation of the above changes does not have direct impact on the final investors. The changes are of high importance for the market, as a whole, enhancing the risk management system and bringing more safety to the market, and subsequently to each market player.

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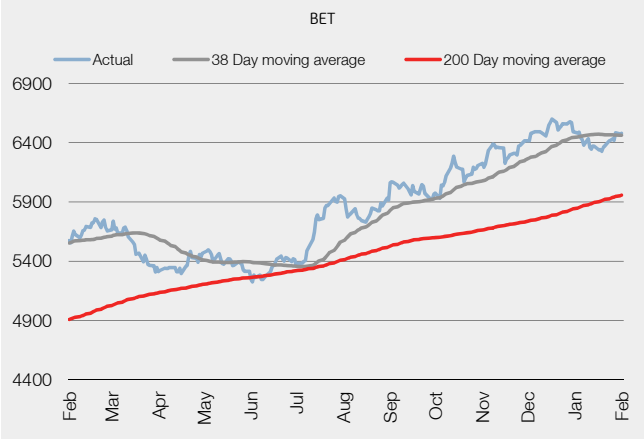
ROMANIA

Market Capitalisation	RON 136bn
YTD Dev. of Market Capitalisation	34%
Number of SE Transactions p.m.	96,555
YTD Dev. of SE Transactions	22.2%
SE Turnover (Bucharest SE)	RON 816mn
Monthly Index Performance (BET/BSE)	-1.8%
GDP per Capita (2014 in EUR)	8,069
GDP Real 2014 (Change against prev. year in%)	4.5
3-Month Money Market Rate (current in%)	3.22
Inflation in 2014 (yearly average in%)	3.6
EUR/RON	4.52
Upcoming Holidays	none

Source: UniCredit, National Statistics



Source: Thomson Datastream

FSA decision on SIFs investments

On 5 February, the Romanian Financial Supervisory Authority issued Decision 23/2014, according to which SIF Companies are allowed to invest in shares issued by other UCITS, but without exceeding the 5% equity capital threshold.

Impact on investors

SIFs companies received FSA permission to buy UCITS financial instruments.

FSA decision on entities presumed to act in concert with each other

On 12 February, the Romanian Financial Supervisory Authority issued Decision 27/2014, according to which entities that provide custody services shall not be seen as acting in concert with account holders that have accounts opened in the respective custodian's books, if the custodian exercises the voting rights attached to the shares for which it provides custody services, in accordance with instructions sent in writing or by other electronic means of communication by the account holders.

Impact on investors

Custodians are presumed not to act in concert with their clients when exercising their voting rights.

Romania raises RON 50 million in a non-competitive bond auction

The Romanian Ministry of Finance raised RON 50 million (EUR 11.1 million), as planned, with a supplementary non-competitive tender for its reopened April 2016-dated bond.

Impact on investors

New bond reopening was successful.

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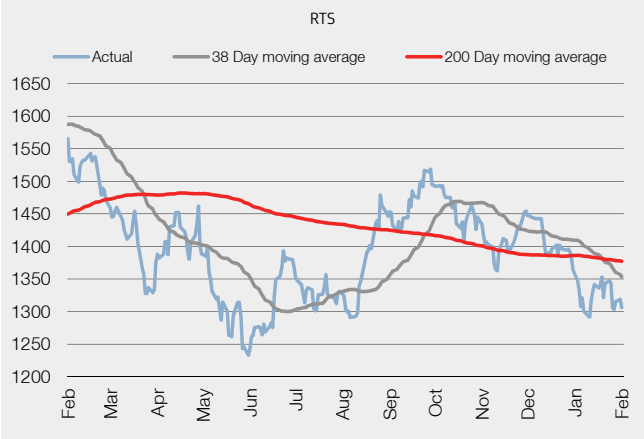
RUSSIA

Market Capitalisation	RUB 26.4trn
YTD Dev. of Market Capitalisation	1.9%
Number of SE Transactions p.m. (MICEX)	6,823,704
YTD Dev. of SE Transactions	15.3%
SE Turnover (MICEX)	RUB 16.8trn
Monthly Index Performance (MICEX)	0.9%
GDP per Capita (2014 in EUR)	11,476
GDP Real 2014 (Change against prev. year in%)	3.6
3-Month Money Market Rate (current in%)	6.95
Inflation in 2014 (yearly average in%)	5.7
EUR/RUB	49.40
Upcoming Holidays	March 10

Source: UniCredit, National Statistics



Source: Thomson Datastream

MOEX updates equity indices calculation

The Moscow Exchange has announced that it will implement an updated methodology of the Broad Market, Second-Tier, Blue-Chip, MICEX Innovation and Sectorial Indices calculation.

- Official closing prices will be used in the indices calculation process.
- A procedure for price filtering and choice of equities for indices calculation will be established.
- Specification of trading modes will be taken for indices calculation.

A separate methodology will be used to determine the quantity of free-float equities. The updated MICEX Innovation Indices calculation methodology will be based on the same approach that is used for the calculation of the rest of indices.

The details of the updated methodology may be found on the MOEX webpage. The date the updated methodology will enter into effect will be announced later.

Impact on investors

More information announced on the trends of equity stock exchange trading via the use of additional data in the equity indices calculation.

FTSE: NSD among 20 most influential financial market players

FTSE Global Markets, an independent financial publishing house, included the National Settlement Depository (NSD), Russia's Central Securities Depository, in its list of 20 people and organisations which had a significant impact on the world of finance in 2013.

NSD was awarded for its efforts on integration into the international financial community, its effective cooperation with the leading international settlement and clearing organisations, its successful efforts to make Moscow a viable international financial centre and to build an NSD-based regional liquidity centre (creating close linkages with CSDs of CIS counties).

Impact on investors

The inclusion of NSD among the "20 Most Influential Financial Market Players" is a another step towards the integration of the Russian financial market into the global financial system and the creation of an international financial centre in Moscow.

Government approves New Corporate Governance Code

The New Corporate Governance Code, aiming to protect minority shareholder rights and expand the role of Board of Directors, has been endorsed by the government and submitted to CBR with the recommendation of further approval.

The Code, focusing on large public companies, contains recommendations on the establishment and implementation of key corporate governance principles and guidelines. One of the most important changes in the Code is that no less than 20% of Board Members shall be defined as independent. Other changes are related to the functioning of risk management and internal control systems. The new approaches to remuneration for directors and executive body members, and the procedures for creating board committees on audit, remuneration, and personnel are reflected in the new Corporate Governance Code.

The Code is not a regulatory document although certain provisions are mandatory for companies which have or intend to achieve a high level of listing on the stock exchange. The Issuer with the highest level of listing according to the New Listing Rules of Moscow Exchange, registered on 7 February 2014, may attract more potential investors, including pension funds.

The New Listing Rules cut back the number of securities lists on the Moscow Exchange from six to three. The highest list - Level 1 has consolidated the A1 and A2 lists. Level 2 absorbs securities from the current B, V, and I lists, while Level 3 contains all remaining names. Companies that do not yet conform to the Rules, are conceded a two year transition period.

Impact on investors

The New Corporate Governance Code will improve the investment climate in Russia.

Russian legislation update: New law improves taxation in the financial market

Federal Law No. 420-FZ will significantly modify the taxation of the financial market.

The majority of changes are intended to introduce additional benefits and clarification of procedure for determining the tax base in respect to certain types of financial transactions.

The most important changes referring to securities are:

- The Law introduces a new article on investment tax deductions into the Russian Tax Code providing the possibility to claim an investment tax deduction to non-residents. Among others, a deduction may be claimed with respect to the profit from sales of listed securities owned by the taxpayer for over three years. Investment tax deductions shall apply to the securities purchased after 1 January 2014.
- The Law specifies the calculation of the tax base for transactions involving depositary receipts. The redemption of depositary receipts and the receipt of the underlying securities as well as the transfer of such securities upon issuance of depositary receipts should not be subject to profits tax.
- The list of non-taxable operations in the Russian Tax Code has been expanded: i) asset management for pension savings; ii) transactions under clearing activity; iii) assignment of rights (claims) to obligations from non-taxable derivatives.
- The Law abolishes the requirement that the execution of the second part of a REPO may not differ by more than 1 year from the date of execution by the first part of a REPO.
- The number of tax bases will be reduced: a tax base of trades with tradable securities will be merged with a tax base of other transactions taxed at 20% (unless stated otherwise) and a tax base of trades with non-negotiable securities with a tax base of OTC derivatives. Most of the provisions will enter into force on 1 January 2015, except for certain provisions that should come into effect in 2014 and 2016.

Impact on investors

The amendments to the taxation law are focused at improving the tax regime and intended to increase investment attractiveness for prospective investors and taxpayers operating in financial markets.

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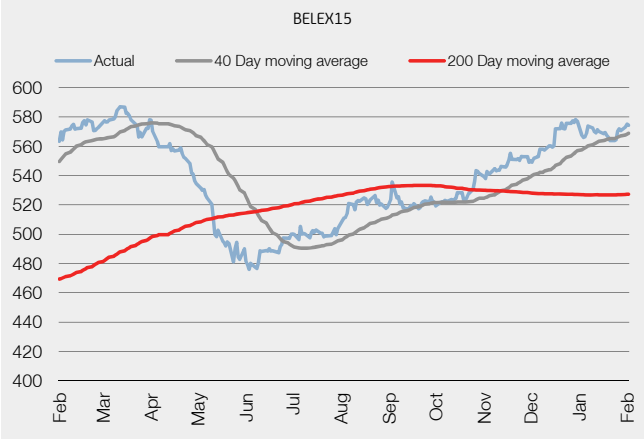
SERBIA

Market Capitalisation	RSD 776.9bn
YTD Dev. of Market Capitalisation	0.5%
Number of SE Transactions p.m.	21,232
YTD Dev. of SE Transactions	-16.9%
SE Turnover (Belgrade SE)	RSD 4.6bn
Monthly Index Performance (Belex 15)	2.8%
GDP per Capita (2014 in EUR)	5,871
GDP Real 2014 (Change against prev. year in%)	3.0
3-Month Money Market Rate (current in%)	8.39
Inflation in 2014 (yearly average in%)	5.7
EUR/RSD	115.92
Upcoming Holidays	none

Source: UniCredit, National Statistics



Source: Bloomberg

Early parliamentary elections

Serbian president, Tomislav Nikolić, has called for early parliamentary elections. The elections are scheduled for 16 March 2014, the same day when Belgrade's early city elections will be held. The Serbian Government was elected in July 2012 and reshuffled in September 2013.

Impact on investors

For information purposes only.

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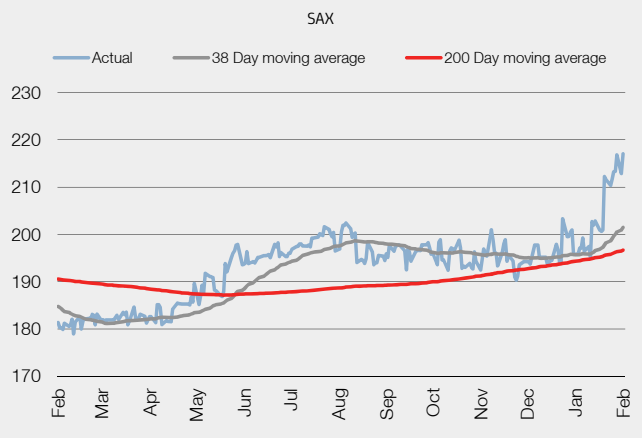
SLOVAK REPUBLIC

Market Capitalisation	EUR 40.9bn
YTD Dev. of Market Capitalisation	6.0%
Number of SE Transactions p.m.	1,137.0
YTD Dev. of SE Transactions	15.0%
SE Turnover (Bratislava SE)	EUR 0.5bn
Monthly Index Performance (SAX/BSSE)	-0.7%
GDP per Capita (2014 in EUR)	15,454
GDP Real 2014 (Change against prev. year in%)	4.7
3-Month Money Market Rate (current in%)	n.a.
Inflation in 2014 (yearly average in%)	3.3
Upcoming Holidays	none

Source: UniCredit, National Statistics



Source: Thomson Datastream

Bratislava Stock Exchange trading results in January 2014

In January 2014, the members of the Bratislava Stock Exchange (BSSE) used the electronic trading system during 21 business days. A total of 1,137 transactions were concluded in this period, in which 337,687,983 units of securities were traded and the achieved financial volume totaled EUR 461.036 million. In comparison with the previous month, this is a decrease in the amount of traded securities (-33.62%), and a decrease in the total financial volume (-30.92%). The number of concluded transactions increased in the same comparison by 15.08%. On a year-on-year basis the number of transactions fell by 9.33%, the amount of traded securities decreased by 35.77%, and the achieved financial volume went down by 31.5%.

Similar to previous periods, January 2014 saw negotiated deals dominate over electronic order book transactions (i.e. price-setting deals), with the former accounting for 96.51% of the total trading volume. A total of 419 negotiated deals (in a volume of EUR 444.93 million) were concluded, as opposed to 718 electronic order book transactions in a financial volume of EUR 16.104 million.

In January 2014, bond transactions generated 97.24% of the achieved volume. A total of 533 bond transactions were concluded in the period under review, and the financial volume exceeded EUR 448.296 million. Equity securities of local companies were bought and sold in 604 transactions, in which 637,408 share units were traded in a financial volume of EUR 12.74 million.

Transactions concluded by non-residents in January 2014 accounted for 69% of the total trading volume. Of that, the buy side represents 69.99% and the sell side does 68.01%.

The SAX index ended the month of January 2014 at 196.45 points, representing a 0.66% decrease on a month-on-previous-month basis and a 4.78% increase year on year.

Impact on investors

For information purposes only.

Stock Exchange turnover statistics

Total turnover of BSSE in the year 2013 reached the value of EUR 16.367 billion (3.26% less than in the same period last year) in 13,688 transactions, of which shares were bought and sold in the total value of EUR 159.092 million (0.97% of total turnover) in 9,497 transactions, while bonds recorded a total turnover of EUR 16.208 billion (99.03% of total turnover) in 4,191 transactions.

The following table shows the sequence of the top 10 members according to their turnovers achieved in the year 2013.

Total turnover			
	Issuer	Turnover (EUR)	Share (%)
1	Slovenská Sporiteľňa, a.s.	3 428 918 159	20.95%
2	Československá Obchodná Banka, a.s.	2 983 055 473	18.23%
3	Unicredit Bank CZ and SK a.s., via Unicredit Bank CZ and SK a.s., branch of foreign bank	2 804 617 425	17.14%
4	Poštová Banka, a.s.	2 731 641 497	16.69%
5	J&T Banka, a.s., branch of foreign bank	1 217 351 005	7.44%
6	ING Bank N.V. (The Netherlands) via ING Bank N.V., branch of foreign bank	1 163 738 449	7.11%
7	Tatra Banka, a.s.	1 153 478 045	7.05%
8	Všeobecná Úverová Banka, a.s	446 406 071	2.73%
9	Sberbank Slovensko, a.s.	215 369 276	1.32%
10	Národná Banka Slovenska	144 102 733	0.88%
	Total Top 10	16 288 678 133	99.52%
	Total BSSE	16 367 349 459	100.00%

Impact on investors

UniCredit Bank confirmed its leading position in the top ten BSSE members for 2013.

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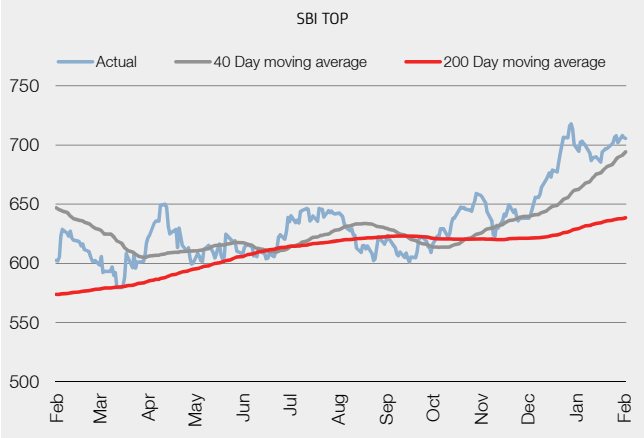
SLOVENIA

Market Capitalisation	EUR 20,015mn
YTD Dev. of Market Capitalisation	14.0%
Number of SE Transactions p.m.	5,257
YTD Dev. of SE Transactions	-11.0%
SE Turnover (Ljubljana SE)	EUR 32,494mn
Monthly Index Performance (SBI TOP)	6.8%
GDP per Capita (2014 in EUR)	21,266
GDP Real 2014 (Change against prev. year in%)	2.5
3-Month Money Market Rate (current in%)	0.24
Inflation in 2014 (yearly average in%)	2.4
Upcoming Holidays	none

Source: UniCredit, National Statistics



Source: Thomson Datastream

Slovenia issued 5-year and 10-year USD bonds

On 11 February, The Ministry of Finance of the Republic of Slovenia successfully priced a USD 3.5 billion dual tranche benchmark offering. The USD 1.5 billion 5-year tranche was priced at a yield of 4.275% (UST +280bps), while the USD 2 billion 10-year tranche was priced at 5.480% (UST +280bps). Barclays, Goldman Sachs International, and J.P. Morgan acted as Joint Bookrunners on the transaction. Initial price guidance of UST's +300 -312.5bps for both the 5- and 10-year tranches was announced on 10 February.

The transaction met immediate interest, driven initially by large real money investor participation from Europe, US, and UK. The final pricing was set at UST +280bps for both tenors. The offering garnered a combined orderbook in excess of USD 16 billion, despite the significant tightening of re-offer levels, which is the largest orderbook for a CEEMEA (Central and Eastern Europe, Mid East and Africa) sovereign syndication in 2014 to date. More than half of the issue was sold to investors from US, more than a quarter to investors from UK and approximately 10% to investors from the rest of Europe. The issue was settled on 18 February.

Impact on investors

Slovenia managed to raise USD 3.5 billion via benchmark bonds. There was huge demand, with more than four times oversubscription, resulting in a lower yield.

FATCA regulation update

On 28 January 2014, US and Slovene Government representatives harmonised and signed an agreement to improve international tax compliance and to assist the implementation of FATCA regulation. The agreement was prepared according to Model 1 IGA and will create the necessary legal framework for financial institutions for the effective implementation of FATCA regulation.

According to the agreement, data required under FATCA on US account holders, which have been compiled by Slovene financial institutions, will be forwarded by the Slovene Tax Authority to their counterpart in the U.S., and data compiled by U.S. financial institutions about Slovene account holders will be forwarded by the U.S. tax authority to their counterpart in Slovenia.

As a next step the agreement will be discussed and signed by the Slovene Government before being ratified by the Slovene Parliament.

Impact on investors

Slovenia has progressed further with its plan to improve international tax compliance and assist the implementation of FATCA regulation.

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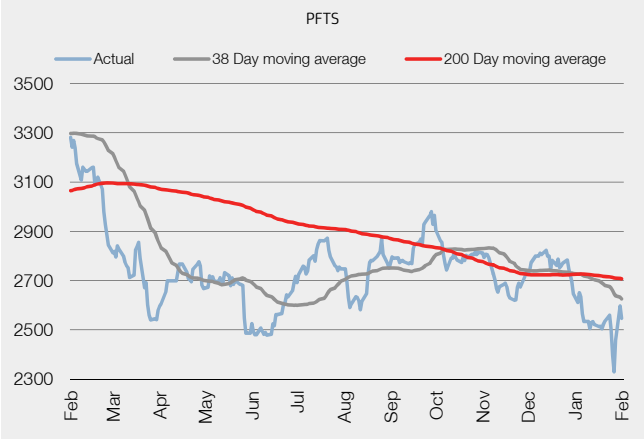
UKRAINE

Market Capitalisation (UX)	UAH 148.2bn
YTD Dev. of Market Capitalisation (UX)	1.4%
Number of SE Transactions p.m. (UX)	16,230
YTD Dev. of SE Transactions (UX)	-38.0%
SE Turnover (UX)	UAH 0.5bn
Monthly Index Performance (UX)	-2.2%
GDP per Capita (2014 in EUR)	5,292
GDP Real 2014 (Change against prev. year in%)	4.6
3-Month Money Market Rate (current in%)	19.25
Inflation in 2014 (yearly average in%)	7.3
EUR/UAH	13.54
Upcoming Holidays	none

Source: UniCredit, National Statistics



Source: Thomson Datastream

PFTS Stock Exchange intends to launch eurobonds trading

PFTS is studying the possibility of launching trading in Ukrainian eurobonds. According to a board member the Stock Exchange is currently working with key securities traders on the project. The idea is that Eurobonds are brought to Ukraine and traded using hryvnia (UAH) and all stock market players will have access to them. The project is similar to a dual listing of shares.

The Chairman of the PFTS Board said that eurobonds would be brought by one of the largest traders with government domestic loan bonds. He also mentioned that in comparison to the dual listing of shares, dealing with eurobonds will be slightly easier as there is already certain practical experience of work with them, also the currency regulation is simpler.

The PFTS representative indicated that sovereign eurobonds are worth around USD 17 billion with the largest term of circulation until 2023, which indicates a large and sustainable market. Despite the fact that rates for such securities are lower than for currency-pegged government bonds, they have a specific advantage: they are subject to foreign legislation. Therefore, investors may prefer buying such securities to minimise the country risk.

PFTS did not disclose the date of the possible launch of trading with eurobonds yet.

Impact on investors

Launching of eurobonds trading is going to have a positive impact on Ukrainian securities market development.

New depository system

The depository system of Ukraine needs to create a new system for its future development, said Head of NSSMC, Dmitri Tevelev.

According to the NSSMC Head, the depository reform was conducted based on existing IT architecture, namely OBERON of National Depository of Ukraine (CSD) and DEPOER of Settlement Centre (SC). The Settlement Centre has already implemented a new operational system based on Oracle instead of OBERON.

The official also indicated that a working group is being created that will discuss, develop, and shape part of the architecture of the future system. In turn this complex should cover the whole processes connected with depository accounting and settlement within CSD, SC, National Bank of Ukraine (NBU), stock exchanges, and traders.

Impact on investors

Implementing the new system should create clearer and more transparent market conditions.

Fitch downgraded Ukraine's long-term foreign currency issuer default rating

On 7 February 2014, Fitch Ratings downgraded Ukraine's Long-term foreign currency Issuer Default Rating (IDR) to 'CCC' from 'B-', and affirmed the long-term local currency IDR at 'B-'. The outlook on the foreign currency IDR is negative.

The issue rating for Ukraine's senior unsecured foreign and local currency bonds are also downgraded to 'CCC' from 'B-' and affirmed at 'B-' respectively. The country ceiling is downgraded to 'CCC' from 'B-' and the short-term foreign currency IDR is downgraded to 'C' from 'B'.

The downgrade of Ukraine's foreign-currency IDR reflects such key rating drivers as high political risk and uncertainty, and political instability, which has increased markedly since Fitch's last rating review on 8 November 2013, adding to pressure on the sovereign credit profile.

Impact on investors

For information purposes only.

Moody's and S&P lowered Ukraine's sovereign rating

The political turmoil in Ukraine made two rating agencies reduce their country ratings:

- Moody's Investors Service downgraded Ukraine's government bond rating to Caa2 from Caa1 with a negative outlook.

  The decision to downgrade Ukraine's sovereign rating was driven by the escalation of social and political tensions in the country, and the associated risk of a severe administrative crisis and/or prolonged political uncertainty, according to the press release.

  Another reason for downgrading the rating is the increased risk of a sharp rise in external liquidity needs due to rising demand for foreign currency by the Ukrainian population amid the political crisis and the recent weakening of the hryvnia (UAH). Moreover, the new rating reflects the heightened uncertainty regarding the predictability of the external liquidity support from Russia, Moody's Investors Service stated.

- Standard & Poor's cut its long- and short-term foreign currency sovereign credit ratings for Ukraine to 'CCC+/C' from 'B-/B', with a negative outlook on 28 January. Then on 21 February, S&P further lowered Ukraine's long-term rating to 'CCC' outlook negative, saying the raging political crisis has put the government's ability to service its debt at risk and raised uncertainty over Russia providing promised aid.

  At the same time, S&P affirmed the long- and short-term local currency sovereign credit ratings at 'B-/B' and the outlook is negative.

Impact on investors

For information purposes only.

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