GSS Newsletter

April 2014

Issue 156

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

Welcome to UniCredit

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EDITORIAL

JASMINA RADIČEVIĆ
HEAD OF GSS SERBIA

Dear Clients, Partners, and Friends,

It is a pleasure for me to address you with this month's GSS Newsletter Editorial.

The country is expecting a new government to be formed as the result of early parliamentary elections. It is estimated that the new government will be formed fairly quickly, by 1 May at the latest.

In the week following elections, the Public Debt Agency of the Ministry of Finance sold 47.5% of the RSD 10 billion worth of 7 year coupon bearing bonds issued at a 13% rate in the domestic market compared to RSD 8.2 billion worth in demand. The later auctions of RSD and EUR denominated 2 year bonds proved the continuously solid investors' interest for government debt instruments.

On the global scale, EPFR data show that portfolio outflows from emerging markets, since QE3, have totalled USD 20 billion, of which USD 6 billion has been year-to-date. Serbia remains to be in a better than average position with outflows totalling USD 0.3 billion between April-Nov 2013, but this still exposes local currency to depreciation pressures.

It is believed that improved funding conditions may be a positive argument in favour of another Eurobond issuance. The last time the country accessed the Eurobond market was in November 2013, when a USD 1 billion 5-year Eurobond was offered to international investors with yield of 6.125% (current yields are at 4.4%).

An IMF mission is expected to visit Serbia shortly after the new government is formed to discuss a 3 year precautionary arrangement. Measures that had been often mentioned by international organizations, such as IMF and WB, as a way for Serbia to move forward, include budget savings to keep the deficit within the acceptable level of GDP, adoption of a set of reform laws (e.g. labour law, privatisation, and bankruptcy laws etc.), reform of the public administration, and the restructuring of state enterprises.

A swift formation of government should work in favour of regulatory changes to the capital markets that were announced by the Ministry of Finance in the previous year. Now that the input from various entities, among them UniCredit, participating in the capital market development group created by the Ministry of Finance has been analysed, the new government can proceed with previously announced amendments to the law on capital markets, the law on companies, take-over law etc.

Jasmina Radičević

Jasmina Radičević
Head of GSS Serbia

INTERVIEW WITH WERNER KRETSCHMER

DDR. WERNER KRETSCHMER
PIONEER INVESTMENT HEAD OF AUSTRIA AND CEE

Werner Kretschmer, Pioneer Investment Head of Austria and CEE, is one of the most influential asset managers active in Central and Eastern Europe. The UniCredit GSS Newsletter asked him how regulation is affecting the region.

Werner, in your role as Head of Austria and CEE for Pioneer you are at the forefront of market developments in Austria as well as in CEE. Undoubtedly, the hottest topic in your industry is AIFMD. How are preparations progressing, in your view?

You are right; AIFMD is a very important topic for us because this is, after UCITS IV, another important step of European legislation to further regulate our business. Interestingly enough, the various member states of the EU show quite a different speed in implementing AIFMD's rules into the national context. Some countries did this within the set timeline whereas others in the region have not been able to pass the national laws yet. For a global asset manager like Pioneer this is a challenge. We organised a company-wide project for the implementation of AIFMD with the clear goal to have a common approach across all countries as much as possible. Facing different speeds of implementation means, to some degree, a delay of our efforts. Furthermore, we recognise that AIFMD is providing a common ground of rules but interpretations of these especially by local regulators can vary from country to country.

How well prepared is the industry in Austria for AIFMD?

The Austrian fund industry is organised in a national fund association (VÖIG) which has always been a very important platform for coordination amongst its members when new laws are introduced for this sector. Also, for implementing AIFMD in Austria, VÖIG plays a crucial role in talking with political decision-makers and the regulator. AIFMD is relevant for a large number of funds in Austria. Therefore, preparations started quite early and are proceeding well. I am convinced that all asset managers in Austria are going to meet the deadline in a well prepared way.

What is the situation in CEE? Are all countries proceeding at the same speed with regard to AIMFD?

As mentioned, CEE countries are proceeding at different speeds. Like in Austria, efforts there are also coordinated via the various national fund associations.

What do you regard as the key challenges in the fund industry globally? Are those challenges the same in Austria and CEE?

For many years this industry has seen significant growth. Now it has become a "normal" one. Today, it's not only about revenues but very much about costs. We need to better exploit economies of scale and create more focus concerning the things we do. Where in the past it was very much about market share, now it is about profitability. As a consequence, the competitive landscape and also competitors will change. Business models will have to be put under investigation and distribution will move from a product to a solution approach.

UCITS V will allow depository banks to operate outside home countries. Do you assume that this will lead to consolidation between smaller banks and large global custodians?

UCITS IV already opened opportunities for cross border business (company passport, cross-border fund mergers, and master-feeder funds). UCITS V will complete the framework by opening additional opportunities for the depository banks. Regulations lay the foundation for consolidation, but there are additional factors to be considered, like the local tax regimes, services offered to clients, and the standardization of interfaces. Considering how the industry reacted to UCITS IV we do not expect a radical restructuring of the depository bank business. However, consolidation in the fund industry will progress, but with keeping a close eye on the client's needs and the cost/benefit ratio.

To which extent will the shift in settlement cycles, as foreseen in T2S, impact Pioneer's business model?

Looking beyond the initial effort the banks have with implementing the T2S-platform, we expect higher efficiency in the processing of security transactions, less operational risk and, finally, lower cost. Favourable for Pioneer would be further improvements in the processing of Unit-of-Funds transactions, which we think T2S will enable.

As a market user, what are your expectations towards depository banks, particularly in light of the additional regulatory requirements?

In our region, we see predominantly 1:1 relationships between fund companies and depository banks. Both entities mesh very well together, however, due to historical reasons the cooperation is often based on proprietary interfaces and tailor made solutions. We have to reduce the number of siloed processes. A forward-looking step would be to foster the utilisation of industry standards (e.g. SWIFT) in the interfaces between the fund company and the depository bank. This would allow us to flexibly and quickly seize business opportunities on both sides, which could emerge from the new regulations.

What are the pitfalls that asset managers have to be aware of when adapting to the changing environment? Is there anything that causes you headache?

The changes introduced by the AIFMD are significant. As usual the business has little time to adapt to the new law and companies might be tempted to superficially adapt their business models to meet the requirements. I think it is important to see the strategic impulse of AIFMD (and additional regulatory challenges at our doorstep) and implement necessary changes extensively and sustainably. The old days will not return.

Thank you for this interview.

Photo: www.pioneerinvestments.at

JOHN'S CORNER

JOHN GUBERT
ON REDUCING SETTLEMENT RISK

I suspect some millions of words have been written over the years about the challenge of shorter settlement cycles. As a Londoner (by adoption), I have lived through the trauma of the UK domestic market moving from a structure of account settlement (a two week long trading session where all transactions eventually settled several days after the end of that period) to the current, and much more logical, T+3 process; and now onto T+2. I have worked in markets with T+0 and T+1; some with high settlement fail rates and others which overcame this with settlement pre-funding or draconian rules forcing settlement as advised by the relevant broker. I have railed against the illogicality of retaining the two day spot cycle for foreign exchange although there is now a liquid market in next day settlement in most major currencies.

The EU plans to move almost all markets to a T+2 cycle later this year, although certain ones will defer the operation by a few months because it clashes with other developments. As in any such change in the settlement period, two days trading will be concentrated into one day's settlement. There is a risk, if markets see peak volumes on the relevant days, of severe settlement overload. Although we do not need a lengthy launch period for a move to T+2, splitting markets into Groups to reduce potential peak flow risk would appear a logical and sensible policy.

The rationale for T+2 is simple. Every day that is taken out of the trade to settlement lag reduces counterparty risk. As volumes have ballooned, even with the palliative impact of the growth of CCPs, the amount of counterparty risk has grown exponentially. However, the desire to eliminate credit risk must not be at the expense of an increase in operational risk. It seems unlikely that this will happen with the latest T+2 moves, but there are changes that are needed and regulatory attention should be focused on encouraging such change.

The market faces two fundamental problems, namely the inherent inefficiency of the client to global custodian link and the fundamental flaws in market side trade matching in many jurisdictions. Both are solvable from a technical perspective, but the market needs encouragement to invest in the solutions. The lack of focus on this issue in many markets is very short sighted, for the risks and costs of the current structures are substantial; perhaps more than half of all settlement cost in the affected markets.

The first problem relates to the quality and speed of transmission of data from the investor through to the global custodian. There are facilities to overcome this, with OMGEO especially having the product to enable rapid broker to investor matching and onward transmission to the administrator or global custodian. Although I may be in a minority, I cannot understand why electronic trade matching in one guise or another is not made mandatory for all regulated entities. And I would also suggest, as commission disputes can be the cause of many delays, for markets to structure matching to allow trades to move ahead to settlement at the lower of any disputed commission rates with any balance being negotiable off line.

Furthermore, although I appreciate the risk issues involved, I am amazed that matching engines are often not permitted to feed matched trades through to the designated securities services provider although they have the technical capacity to do so. The reality is that we could be agnostic about routing, whether from client directly or through the intermediation of the client approved matching engine, as long as, alongside tighter settlement cycles, regulators mandate timely delivery of instructions to the service provider who stands next in the chain. In reality in T+2 environments, these instructions are needed on T+0 or early on T+1 at the latest.

The global custodian to local agent routing is highly efficient and, with the help of SWIFT messaging and standards, is rarely the cause for delay. And local custodians, at least in volume markets, have the ability to pass the trades efficiently on into their market domain. It is here that the second problem arises, namely the inefficiency of settlement matching. There are multiple reasons for this. A key one is the quality, or rather poor quality, of static data. The advent of data repositories has alleviated the problem to some extent with a material increase in the number of LEI's in issue. But matching to fund name, especially, remains a nightmare in many markets. The process often involves manual exception processing and "dead" periods where market side systems churn through their data. And then late in the day, with the results known, the concentration of settlement data to be sent to clients may cause communication stresses in either sender or receiver gateways.

The reality is that many markets have been keen to develop their capacity without focusing on the post trade world. The problem arises to some extent with the advent of high frequency trading, remote brokerage, and similar facilities. Obviously, where there are efficient netting engines, these flows are managed quite efficiently but not all markets accepting such activity have the appropriate CCP. Again the regulators need to monitor volumes in markets and insist on, firstly, automation of the matching process, and, secondly, performance standards among regulated firms.

In cash markets, as they moved to RTGS processes, there was a tendency by some delinquent operators, to wait for their receipts before sending out their payments, thus avoiding a need for liquidity. Central Banks stamped down hard on this practise and it is a minor problem these days in most markets. The same Central Banks recognised the interbank risk of spot settlement in the days when each transaction was settled as dealt. But they encouraged the market to develop the excellent CLS structure to ensure a sound technical, operational, and legal infrastructure to accommodate massively increasing trading volumes at the time.

Now is the moment in global securities markets to act similarly, albeit with ESMA and its counterparts in the driving seat. We need to have electronic trade matching with global custodian advice for 99% plus of transactions on trade date. We need to raise the bar in so far as it concerns the management of static data in securities markets. And we need to ensure that market side matching of settled as dealt transactions is as efficient as its peers in netting structures. Now that would really reduce risk in settlement!

Sincerely yours,

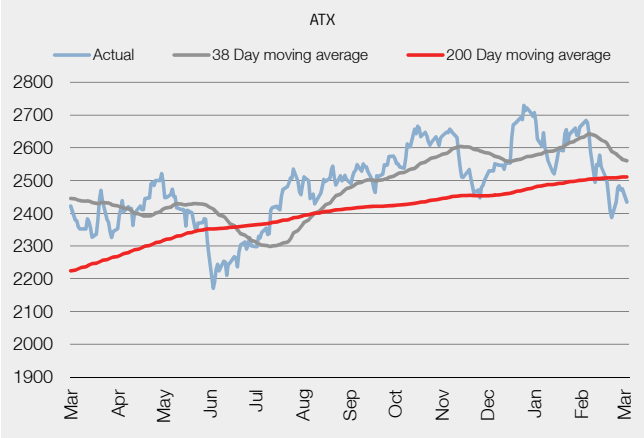
John Gubert
Chairman
Global Securities Services
Executive Committee

John Gubert also appears on blog.globalcustodian.com

AUSTRIA

Market Capitalisation	EUR 86.6bn
YTD Dev. of Market Capitalisation	7.4%
Number of SE Transactions p.m.	n.a.
YTD Dev. of SE Transactions	n.a.
SE Turnover (Vienna SE)	EUR 2.1bn
Monthly Index Performance (ATX/VSE)	1.1%
GDP per Capita (2014 in EUR)	38,171
GDP Real 2014 (Change against prev. year in%)	2.0
3-Month Money Market Rate (current in%)	0.26
Inflation in 2014 (HVPI yearly average in%)	1.7
Upcoming Holidays	Apr 21

Source: UniCredit, National Statistics



Source: UniCredit, National Statistics

Austrian economy continues its recovery despite weaker upswing

In the first few months of 2014 the Austrian economy continued the recovery that had started in mid-2013. In February, the Bank Austria Business Indicator reached 0.9 points, a figure that points to modest growth for the Austrian economy. Furthermore, the 0.2 point improvement on the previous month underlines that the recovery will be sustained, Bank Austria's chief economist Stefan Bruckbauer summed up the current trend. During 2013, the Austrian economy gained moderate but steady momentum and in the fourth quarter, GDP actually grew by 0.3% compared to the previous quarter. Given the current development of the Bank Austria Business Indicator the analysts are optimistic that economic growth in Austria will increase by approximately half of a percent in this quarter compared to the previous quarter. Thus, this upturn is weaker than former upturns.

The improvement in the economic climate in Austria indicated by this latest increase in the Bank Austria Business Indicator is still slow in coming but all the components of the indicator are currently pointing upwards. Sentiment among Austrian industrial companies improved significantly in February. While the latest economic data from a number of emerging economies caused uncertainty, sustained growth in the USA and the continued recovery in Europe are supportive. The European industry confidence indicator weighted by Austrian foreign trade is now well above the long-term average.

Bank Austria's economists expect that the recovery in Austria will soon gather pace. Despite the moderate start to the year, a growth rate of 2% can be achieved in 2014. Additional stimulus for the upturn will also come from abroad. Furthermore, rising export demand will stimulate investment activity and later on in the year private consumption will also make a stronger contribution to growth. The analysts continue to expect GDP growth of 2.1% in 2015, which will be driven by an even balance of all demand components.

Despite the muted upturn so far, the situation on the labour market slowly began to stabilise in the first few months of 2014. At 7.9%, the seasonally adjusted unemployment rate in February has remained unchanged since the start of winter. Nevertheless, the Bank Austria economists are still not giving the all-clear, as the mild winter has affected the figures somewhat.

One consequence of the still muted recovery is the very moderate inflation rate that has prevailed in recent months. Due to low commodity prices and the lack of demand-side stimulus, the estimated inflation rate of 1.5% year-on-year was as low as in January. In March, the increase in tobacco and alcohol taxes as well as the standard consumption tax on new cars (NoVA) will push up inflation. In the first six months of 2014, inflation will remain very low, at well below 2%. A slight upward trend is only to be expected later on in the year when the economy starts to pick up again. At 1.7%, inflation in 2014, as a whole, will be clearly lower than the long-term Austrian average. In a European comparison, inflation in Austria is at the upper end of the scale, partly because the tax increases in March will push up inflation by roughly a quarter of a percentage point.

Impact on investors

For information purposes only.

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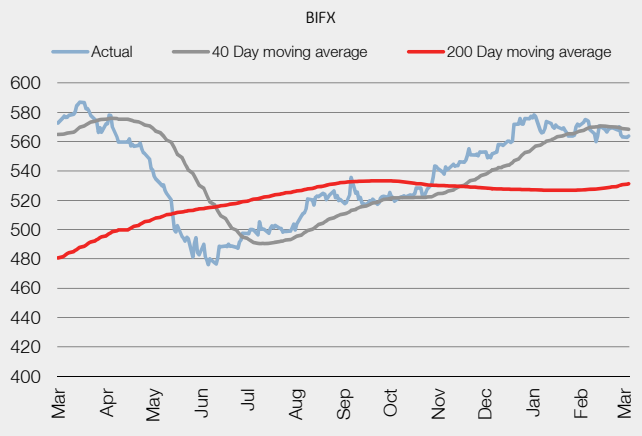
BOSNIA AND HERZEGOVINA

Market Capitalisation (Sarajevo SE)	BAM 4.6bn
YTD Dev. of Market Capitalisation	-2.9%
Number of SE Transactions p.m.	721
YTD Dev. of SE Transactions	-3.5%
SE Turnover (SASE)	BAM 41.2mn
Monthly Index Performance (SASX-10/SASE)	-4.3%
Market Capitalisation (Banja Luka SE)	BAM 4.2bn
YTD Dev. of Market Capitalisation	1.4%
Number of SE Transactions p.m.	2,259
YTD Dev. of SE Transactions	-15.9%
SE Turnover (BLSE)	BAM 10.9mn
Monthly Index Performance (BIRS/BLSE)	0.2%
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	Apr 18, 21

Source: UniCredit, National Statistics



Source: Bloomberg

Key indicators for the banking sector

Key indicators of the banking sector in Bosnia and Herzegovina (total assets, equity, loans, and deposits) recorded an increase in 2013 compared to 2012, the Banks Association of Bosnia and Herzegovina (UBBiH) announced referring to the results based on unaudited business reports of BiH banks.

Total assets at the end of 2013 increased by 2% and exceeded BAM 22 billion. The total capital amount of Bosnia and Herzegovina banks also continued to grow to 5% and amounted to BAM 3.2 billion at the end of the year.

The banking sector in Bosnia and Herzegovina continued to monitor and support the BiH economy, as evidenced by an increase in lending activities to 3%, with the total loans at the end of the year amounting to BAM 15.7 billion. A slightly higher increase of 5% was recorded in deposits which amounted to BAM 16.2 billion. This is the largest amount of deposits so far and is another confirmation of confidence in the stability of the banking sector in Bosnia and Herzegovina.

These developments inevitably had a major impact on results in 2013. The market situation and existing risk were reflected through an increase of non-performing loans (NPL) to a level of over 15%, which is also an increase of the level of allowance for loan and lease losses (ALLL) by 23%.

2013 continued the trend of reducing the number of loans paid by guarantors. The number of these loan accounts decreased by 16% and amounted to 3.383 loans, which makes up 0.2% of the total number of loan accounts.

Positive trends were also recorded in the number of employees in the banking sector, where the downward trend has stopped and the year ended with a total of 10,357 employees in commercial banks in Bosnia and Herzegovina.

Impact on investors

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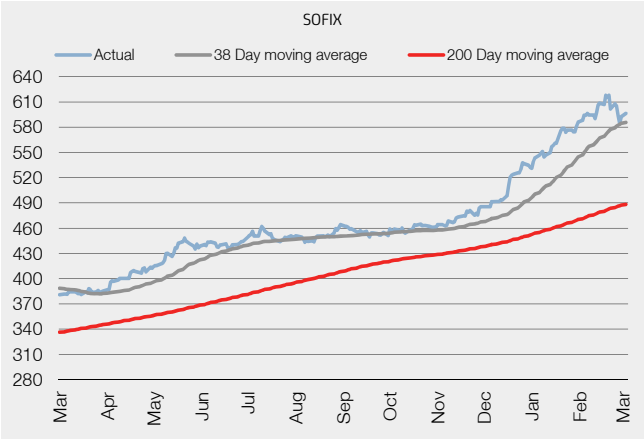
BULGARIA

Market Capitalisation	BGN 11.1bn
YTD Dev. of Market Capitalisation	2.3%
Number of SE Transactions p.m.	27,504
YTD Dev. of SE Transactions	-18.2%
SE Turnover (Bulgarian Stock Exchange)	BGN 178.2mn
Monthly Index Performance (SOFIX)	8.7%
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%)	0.46
Inflation in 2014 (yearly average in%)	3.5
EUR/BGN	1.96
Upcoming Holidays	Apr 18, 21

Source: UniCredit, National Statistics



Source: Thomson Datastream

New Double Tax Treaty with Norway approved

The Bulgarian Council of Ministers has approved a draft of a new Double Tax Treaty (DTT) with Norway. The need for the update was motivated by the fact that the current DTT had been signed back in 1988 and does not reflect current Bulgarian tax legislation. The new DTT will introduce a new distribution system of taxation between Bulgaria and Norway, and is also aimed at strengthening bilateral trade and economic cooperation.

The new Double Tax Treaty will enter into force upon ratification by Bulgaria and Norway.

Impact on investors

The new Double Tax Treaty between Bulgaria and Norway will contribute to bilateral trade and economic cooperation.

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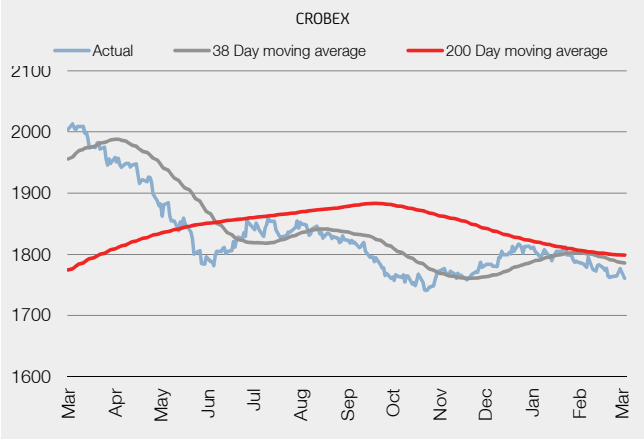
CROATIA

Market Capitalisation	HRK 191.0bn
YTD Dev. of Market Capitalisation	4.0%
Number of SE Transactions p.m.	17,942
YTD Dev. of SE Transactions	-12.5%
SE Turnover (Zagreb SE)	HRK 387.2mn
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%)	0.30
Inflation in 2014 (yearly average in%)	2.5
EUR/HRK	7.66
Upcoming Holidays	Apr 21

Source: UniCredit, National Statistics



Source: Thomson Datastream

Croatia's industrial production rebounds in January

Croatia's industrial output increased 2.2% in January, year on year, after being on the decline during the previous nine months.

The latest figures released by the National Statistical Office (DZS) show that January's industrial output leapt 5.4% compared to December 2013 and strengthened 2.2% compared to January 2013.

The total seasonally adjusted industrial production in the Republic of Croatia in January 2014, as compared to December 2013, increased by 5.4%.

In January 2014, as compared to December 2013, intermediate goods rose by 10.7%, capital goods by 10.1%, nondurable consumer goods by 2.4%, durable consumer goods by 0.9%, and energy by 0.4%.

In January 2014, as compared to January 2013, intermediate goods increased by 11.7%, nondurable consumer goods by 2.2%, durable consumer goods by 1.5%, and energy by 0.1%, while capital goods decreased by 1.6%.

Impact on investors

For information purposes only.

Croatia's GDP down 1% in 2013

The Croatian Bureau of Statistics (DZS) confirmed that Croatia's economy shrank 1.2% in the fourth quarter of 2013, quarter-on-quarter.

The Bureau's figures show that quarterly GDP decreased in real terms by 1.2% in the fourth quarter of 2013, and by 1.0% on the year.

Q4 2014 was the ninth consecutive quarter to record a decline in GDP and 2013 was the fifth year in a row during which the economy shrank in real terms.

Impact on investors

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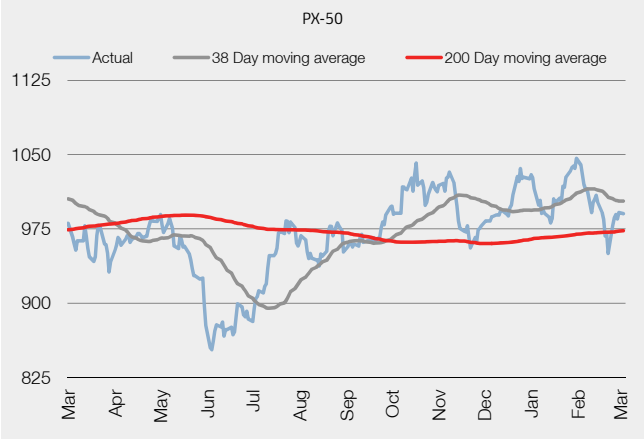
CZECH REPUBLIC

Market Capitalisation	CZK 1.1trn
YTD Dev. of Market Capitalisation	2.1%
Number of SE Transactions p.m.	n.a.
YTD Dev. of SE Transactions	n.a.
SE Turnover (Prague SE)	CZK 51.9bn
Monthly Index Performance (PX)	2.5%
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	27.39
Upcoming Holidays	Apr 21

Source: UniCredit, National Statistics



Source: Thomson Datastream

Prague Stock Exchange to launch PX Total Return Index

The Prague Stock Exchange (PSE) has introduced a new index reflecting the payment of dividends by individual constituents. The base of the Total Return Index will correspond to the base of the existing main PX index and will be named PX-TR (ISIN CZ0160000019). Historical values will be calculated retroactively for the period beginning 20 March 2006, when PX50 and PX-D merged to create the PX index.

The PX-TR Index is supposed to provide a more realistic picture of the return levels at the Prague Stock Exchange, as the index calculation includes dividends paid by individual basic issues. Investors will obtain a better overview and the index may also become an attractive underlying asset for structured product makers.

The PSE is one of the most profitable markets in the world in terms of dividends paid out. In 2013, the dividend yield of 5.19% by far exceeded not only other CEE markets (WIG, Warsaw: 3.71%), but also developed markets in the EU (DAX, Germany: 2.83% FTSE 100, UK: 3.46%) and US (Dow Jones: 2.08%, NASDAQ: 1.19%).

Impact on investors

The new index shall provide a more realistic picture of the return levels. Index calculation includes dividends paid by individual basic issues.

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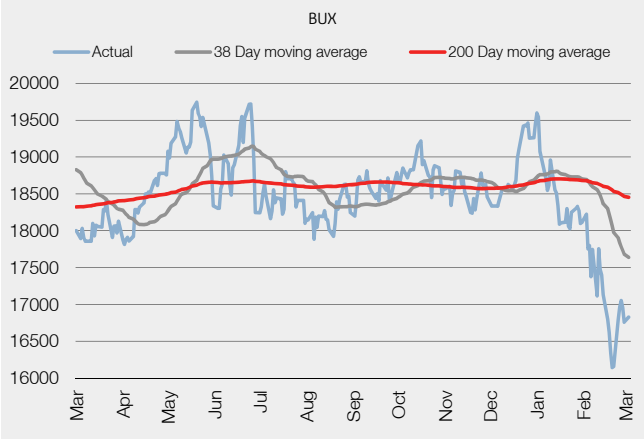
HUNGARY

Market Capitalisation	HUF 17,018bn
YTD Dev. of Market Capitalisation	-4.1%
Number of SE Transactions p.m.	153,568
YTD Dev. of SE Transactions	38.0%
SE Turnover (Budapest SE)	HUF 403,759mn
Monthly Index Performance (BUX)	4.9%
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%)	2.23
Inflation in 2014 (yearly average in%)	2.7
EUR/HUF	311.30
Upcoming Holidays	Apr 18, 21

Source: UniCredit, National Statistics



Source: Thomson Datastream

Hungary issued new dual-tranche USD bond

The Hungarian Government Debt Management Agency (GDMA) has mandated four global banks to arrange a 5-year and a 10-year USD government bond issuance in mid-March 2014. According to the press release, Hungary's first international bond issuance this year took place on 18 March 2014. The GDMA intends to refinance significant part of the FX debt maturing this year in foreign currency. HUF 1.596 billion (around EUR 5.4 billion) foreign currency debt will mature this year and the GDMA plans to issue EUR 3.3 billion worth of debt in the market.

Prior to this international bond issuance, Hungary issued 10-year USD bonds in mid-November 2013 totalling USD 2 billion which served to refinance maturing foreign currency debt. Furthermore, in February 2013 the GDMA issued securities in two series totalling USD 3.25 billion in addition to the previous EUR 1.7 billion Premium Euro Hungarian Government Bond issuance. These two sources of funds were able to cover the government's market-based foreign currency funding needs that were planned for 2013.

The issuance and the pricing of both USD government bonds depend on the market conditions, accordingly the initial price was set at 287.5 basis points over U.S. Treasuries for a 5-year tenor and at 312.5 basis points for a 10-year tenor. According to the announcement released by the GDMA, the international bonds were nearly five times oversubscribed. Thanks to the successful issue, two-thirds of this year's international bond programme has been completed in Q1 2014. GDMA managed to launch a USD 2 billion of 10-year bond at the final spread of 287.5 basis points and a USD 1 billion of 5-year bond at 260 basis points over US Treasuries, thus the effective interest premium managed to be decreased. According to the press release of GDMA this income will be used for general funding purposes.

According to the rules, the GDMA is going to convert the total USD 3 billion in assets to euro, thus EUR 2.2 billion in resources will be generated. In light of the international bond issuance planned for this year approximately an additional EUR 1 billion worth of foreign currency debt issuance can be expected this year depending on the domestic and international market conditions.

Impact on investors

In line with market expectations, Hungary managed to launch new foreign currency bonds totalling USD 3 billion. There was heavy demand with positive market sentiment due to a favourable interest rate premium. Even though the country rating of Hungary is below investment grade, there was almost a fivefold oversubscription, which resulted in a lower yield.

KID modernisation project update

In 2011, KELER started the modernisation of its client communication interface, KID, which is used by clients of KELER to directly connect to KELER's systems. As a result of phase one of the project, KELER's system can also be accessed with standard browsers on the internet in addition to the previously offered leased line connection. In November 2013, the "thick client" based application was successfully tested within phase two of the KID Modernization Project and went live. In the third phase the "thick client" based technology developments went live on 21 February 2014.

In addition to the above developments, there were two further KID system upgrades, which were completed in March 2014. According to the announcement by KELER, the installation and the migration process from KID 5 to KID 6.02 was performed smoothly.

Impact on investors

KID has become a modern, easy to use application thanks to the KID Modernization Project; the new version of the platform can provide support to users in performing daily operative tasks. During the whole project, KELER is working closely with the users, consulting with them on their own and their clients' needs. This project ensures the continuous development of KELER's services in line with regulatory changes and market practices.

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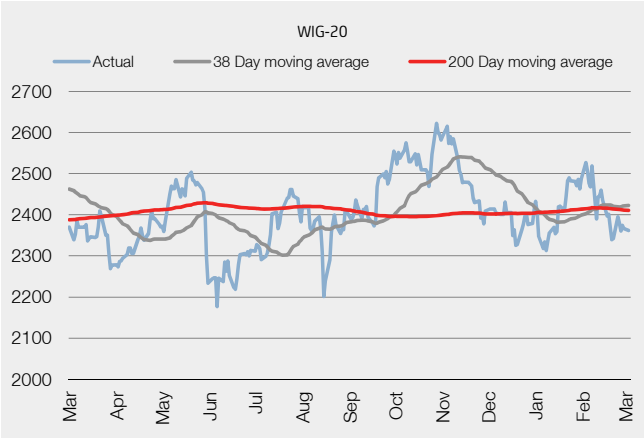
POLAND

Market Capitalisation	PLN 629.2bn
YTD Dev. of Market Capitalisation	6.0%
Number of SE Transactions p.m.	1,307,937
YTD Dev. of SE Transactions	20.0%
SE Turnover (WSE)	PLN 17.9bn
Monthly Index Performance (WIG20)	6.9%
Monthly Index Performance (WIG)	5.9%
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%)	2.56
Inflation in 2014 (yearly average in%)	3.0
EUR/PLN	4.19
Upcoming Holidays	Apr 21

Source: UniCredit, National Statistics



Source: Thomson Datastream

New indices on the Warsaw Stock Exchange

In order to reflect a growing number of listed companies in Warsaw, the stock exchange has decided to restructure its indices that are used by different types of investors to track performance of the market.

The first step was done already in September 2013 when a new index, comprising the 30 most liquid and valuable companies, was introduced as WIG30. It is currently calculated and quoted in parallel with the well known key index, WIG20, which will eventually be abandoned at the end of 2015.

Recently, further steps of this project have been introduced. As of 24 March 2014, the new index for mid-sized companies, WIG50, has been launched and replaced the previously used mWIG40 (which will also be calculated for comparison purposes till the end of 2015). WIG50 is a price return index calculated based on relevant transaction prices.

At the same time, the WIG250 index for small companies has been introduced, replacing sWIG80 index used so far. This index will comprise of max. 250 small companies that do not qualify for WIG30 or WIG50 but have capitalization higher than EUR 100 million.

Composition of both WIG50 and WIG250 will be updated on a quarterly basis.

Impact on investors

The Warsaw Stock Exchange has restructured its main indices in order to reflect the growing number of companies and to better track performance of the market. WIG30, WIG50 and WIG250 will be used to track blue chips, medium sized, and small companies respectively. A new series of derivative instruments use new indices as their underlying.

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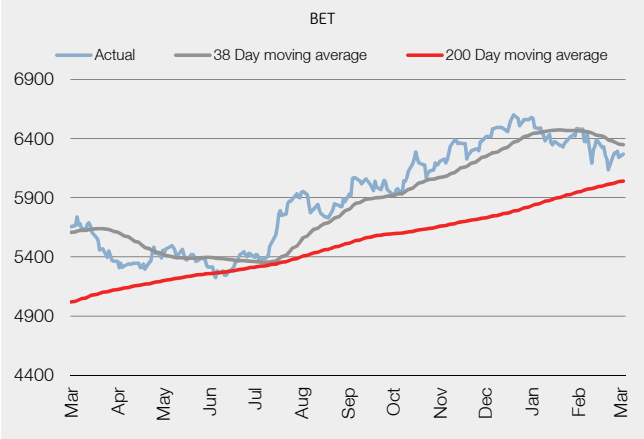
ROMANIA

Market Capitalisation	RON 136bn
YTD Dev. of Market Capitalisation	34%
Number of SE Transactions p.m.	76,396
YTD Dev. of SE Transactions	11.9%
SE Turnover (Bucharest SE)	RON 783mn
Monthly Index Performance (BET/BSE)	0.9%
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%)	2.66
Inflation in 2014 (yearly average in%)	3.6
EUR/RON	4.47
Upcoming Holidays	Apr 21

Source: UniCredit, National Statistics



Source: Thomson Datastream

Bet index family indices enhancement

In order to ensure that its indices are relevant and better represent the market, in line with the best practices in industry, Bucharest Stock Exchange decided to restructure the existing BET family indices and launch new ones. The revised indices will create the conditions for higher investments and are recommended to be used by the asset management industry and portfolio managers as underlying, benchmark, or for hedging.

- BET Total Return index to be launched in September 2014
- BET Plus index to be launched in June 2014
- Increased visibility and information flow for BET member companies as of January 2015
- Free-float factor in BET index family indices as of June 2014

Impact on investors

BET composition to change.

Stock Exchange listings to be simplified

Bucharest Stock Exchange has announced amendments to the BSE Code of Rules to ease the listing process at BSE. The main amendments proposed refer to the following aspects:

- Elimination of certain formalities such as legalised translations of documents into Romanian;
- Elimination of additional documents to be filed with BSE for admission to trading, the necessary information being already included in the prospectus;
- Elimination of supplementary information unnecessary to BSE (for persons who have access to inside information - document requested by Financial Supervisory Authority or personal information regarding the designated persons to be in connection with BSE);
- Elimination of bureaucratic provisions referring to internal activities performed at BSE level;
- Elimination of additional declarations from the issuer (such as the declaration regarding the representation of the issuer by the initiating intermediary, or stating that the prospectus has been published);

- Introducing the possibility for international issuers to submit the documentation in Romanian or in English;
- The documentation for admission to trading to be transmitted to BSE together with a request in principle for admission, before being approved by FSA, in order for BSE to be ready immediately after the documentation is approved by FSA;
- Revision of the text describing the procedure for admission to trading, by eliminating unnecessary details and formalities, although in practice these steps go smoothly.

The Bucharest Stock Exchange Rulebook will be amended accordingly upon the approval by the Financial Supervisory Authority.

Impact on investors

Easier BSE listing process under way.

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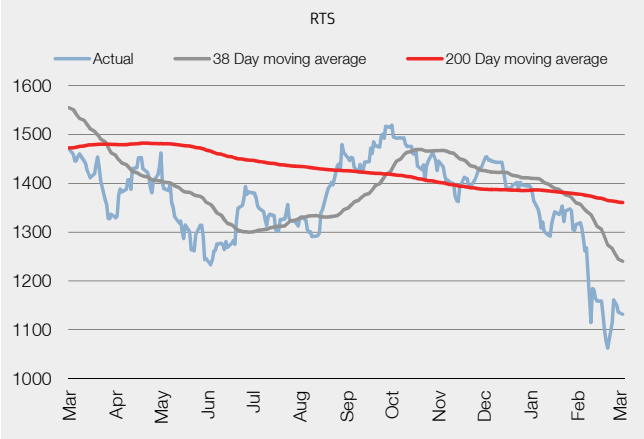
RUSSIA

Market Capitalisation	RUB 23.5trn
YTD Dev. of Market Capitalisation	-11.0%
Number of SE Transactions p.m. (MICEX)	7,142,829
YTD Dev. of SE Transactions	4.7%
SE Turnover (MICEX)	RUB 15.2trn
Monthly Index Performance (MICEX)	-12.2%
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%)	9.00
Inflation in 2014 (yearly average in%)	5.7
EUR/RUB	49.09
Upcoming Holidays	none

Source: UniCredit, National Statistics



Source: Thomson Datastream

Bank of Russia updates the procedure of CBR consent obtaining for acquisition of banks' shares

On 2 February 2014, the Central Bank Instruction "On the Procedure for Obtaining Consent of the Bank of Russia for Acquisition of Credit Organization Shares (Stakes)", came into force.

The provisions of the CBR Instruction determine the following procedures:

- obtaining prior or subsequent consent of CBR for acquisition and (or) receipt in trust management more than 10% of credit organisation shares (stakes);
- obtaining prior or subsequent consent of CBR for acquisition of direct or indirect control over a shareholder owning more than 10% of credit organisation shares (stakes) as a result of a deal or several deals;
- the order of elimination of irregularities which may happen during the purchase of shares or the establishment of control over shareholders owning more than 10% of credit organisation shares.

The unsatisfactory business reputation of either a purchaser or a person establishing control or their managers is included among the reasons under which the Bank of Russia may refuse to issue preliminary or subsequent consent.

Impact on investors

The Instruction aims to strengthen regulatory oversight in the banking sector.

MinFin has published the Draft Law on Controlled Foreign Companies

On 18 March 2014, the Russian Ministry of Finance published a draft law that would oblige Russian companies to pay taxes on the income of their daughter companies registered in offshore jurisdictions and Russian individuals recognised as owners of offshore companies – on the income of their offshore structures.

The draft law introduces the definitions of a "controlling person" and a "controlled foreign company" (CFC). The CFC should simultaneously satisfy all given conditions:

- a company is not a tax resident of the Russian Federation;
- a company is a tax resident of the country, providing preferential tax treatment, included in the list approved by the Ministry of Finance;
- the controlling persons of the company – legal entities and (or) individuals – are Russian tax residents;
- the company shares are not listed on stock exchanges

A controlling person is defined as a person who directly or indirectly owns more than 10% of the foreign company registered in the offshore jurisdiction.

It is proposed that the income of Russian companies (controlling persons) received in the form of profit from a CFC will be taxed at 20% and a 13 % tax rate will be applied to the Russian individuals who are controlling persons. For non-payment or partial payment of taxes a fine of 20 % will be levied on both individuals and legal entities.

All the above measures will only be possible if the exchange of tax information between the Russian tax authorities and offshore authorities is established. Recently British Virgin and Bermuda Isles, Isle of Man and Jersey suggested exchanging information with the Russian Finance Ministry.

Impact on investors
The draft law is aimed at the "deoffshorisation" of the Russian economy with the main objective to reduce capital outflow from Russia and to stop the usage of offshore tax evasion schemes.

Russia makes progress in FATCA implementation

The draft of a bilateral intergovernmental agreement on tax information exchange between the United States and Russia on the implementation of the Foreign Account Tax Compliance Act (FATCA) is supposed to be concluded by 1 July 2014.

FATCA, designed to combat offshore schemes used by U.S. individuals and legal entities for tax evasion, forces non–US financial and banking organisations across the world to report to the Internal Revenue Service, the U.S. government agency responsible for tax collection and tax law enforcement, their customers falling under the definition of "American taxpayers".

In the framework of the draft of bilateral intergovernmental agreement U.S. customer information from Russian financial institutions will be concentrated in the Federal Tax Service of Russia and transferred to the Internal Revenue Service. In turn, the United States will provide similar information on the accounts of Russian citizens in American banks.

Starting from 1 July 2014, the United States may apply tax sanctions to Russian financial institutions if they do not receive the FFI status from credit institutions participating in FATCA, based on the signed agreement, or do not transfer the required information to the IRS independently.

Impact on investors
Implementation of the bilateral intergovernmental agreement on tax information exchange between the United States and Russia will increase transparency in the financial markets.

Reduction of MOEX share capital

The Moscow Exchange has announced that MOEX Charter capital is expected to decrease in March 2014 as a result of the completion of a 99,852,660 shares buy- back from its subsidiary, MICEX-Finance.

The MOEX shareholders approved the decision to cut down the MOEX Charter capital by way of redemption of quasi-treasury shares on 14 November 2013 EGM.

Impact on investors
For information purposes only.

Closure of Financial Market Service of CBR

On 3 March 2014, the Bank of Russia suspended the Financial Markets Service of CBR in accordance with the 29 November 2013 decision of the Board of Directors of CBR.

As was previously announced, the functions carried out by FMS in respect to regulation, control, and supervision in the financial markets have been transferred to established subdivisions of the Bank of Russia.

Impact on investors
For information purposes only.

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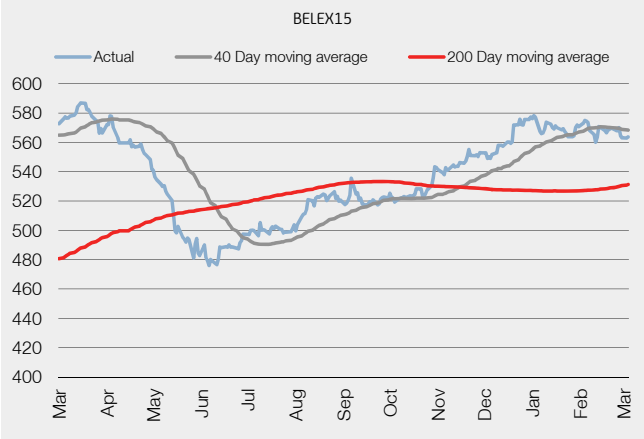
SERBIA

Market Capitalisation	RSD 781.4bn
YTD Dev. of Market Capitalisation	0.6%
Number of SE Transactions p.m.	26,759
YTD Dev. of SE Transactions	26.0%
SE Turnover (Belgrade SE)	RSD 0.8bn
Monthly Index Performance (Belex 15)	-1.0%
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%)	8.57
Inflation in 2014 (yearly average in%)	5.7
EUR/RSD	115.75
Upcoming Holidays	Apr 18, 21

Source: UniCredit, National Statistics



Source: Bloomberg

Serbian Progressive Party won Serbia's early parliamentary elections

The Serbian Progressive Party (SNS) won Serbia's early parliamentary elections that were held on 16 March 2014. In July 2012, the Serbian Government was voted in and reshuffled in September 2013.

The turnout in the parliamentary elections was 53.12%. The camp led by outgoing first deputy Prime Minister Aleksandar Vučić's SNS won Serbia's early parliamentary elections, securing an estimated 48.34%. The bloc led by outgoing prime minister Ivica Dačić's Socialist Party of Serbia (SPS), which also comprises the United Pensioners' Party of Serbia (PUPS) and United Serbia (JS), came in second with 13.51%. The Democratic Party, led by Dragan Đilas, won 6.04% and the New Democratic Party, established by Boris Tadić, won 5.71%. All other parties won less than 5% of the votes.

SNS says that the new Government will be formed by 1 May, stating that they would extend its hand to many, even though it has many more seats than it needs to form the government on its own.

Impact on investors

For information purposes only.

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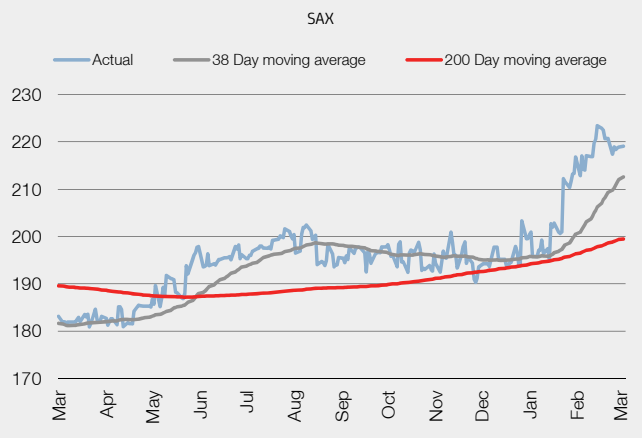
SLOVAK REPUBLIC

Market Capitalisation	EUR 40.9bn
YTD Dev. of Market Capitalisation	-1.7%
Number of SE Transactions p.m.	1,332.0
YTD Dev. of SE Transactions	1,464.0%
SE Turnover (Bratislava SE)	EUR 0.8bn
Monthly Index Performance (SAX/BSSE)	10.5+%
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

Trading results on Bratislava Stock Exchange in February 2014

In February 2014, the members of the Bratislava Stock Exchange (BSSE) used the electronic trading system during 20 business days. A total of 1,332 transactions were concluded in this period, in which 734,704,244 units of securities were traded and the achieved financial volume amounted to EUR 814.095 million. In comparison with the previous month this represents an increase in the amount of traded securities (+117.57%), a growth of the total financial volume (+76.58%), and an increase in the number of concluded transactions (+17.15%). The number of transactions fell on a year-on-year basis by 31.09%, whereas the amount of traded securities and the achieved financial volume increased (+33.1% and +24.2%, respectively). Similar to previous periods, February 2014 saw negotiated deals dominate over electronic order book transactions (i.e. price-setting deals), with the former accounting for 98.24% of the total trading volume. A total of 322 negotiated deals (in a volume of EUR 799.768 million) were concluded, as opposed to 1,010 electronic order book transactions (in a financial volume of EUR 14.327 million).

Investors in February 2014 continued to focus on debt securities, as bond transactions generated 99.84% of the achieved volume. A total of 548 bond transactions were concluded, in which 734,599,823 units of securities were traded and the financial volume exceeded EUR 812.832 million.

Transactions concluded by non-residents in February 2014 accounted for 77.23% of the total trading volume.

The SAX index ended the month under review at 217.068 points, representing a 10.5%increase on a month on previous month basis and a 20.66% increase year on year.

Impact on investors

For information purposes only.

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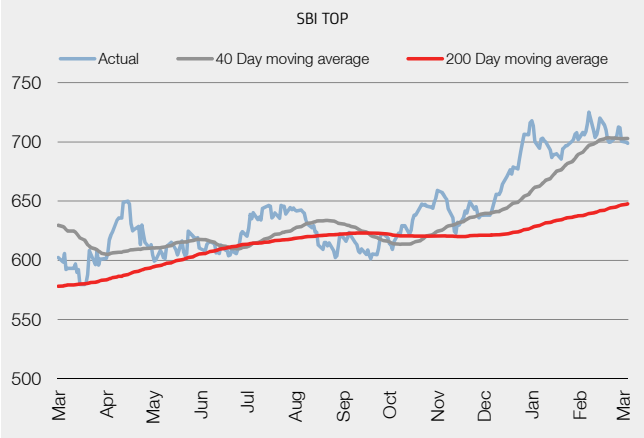
SLOVENIA

Market Capitalisation	EUR 20,270mn
YTD Dev. of Market Capitalisation	5.9%
Number of SE Transactions p.m.	4,642
YTD Dev. of SE Transactions	-2.6%
SE Turnover (Ljubljana SE)	EUR 31,074mn
Monthly Index Performance (SBI TOP)	3.6%
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%)	0.26
Inflation in 2014 (yearly average in%)	2.4
Upcoming Holidays	Apr 21

Source: UniCredit, National Statistics



Source: Thomson Datastream

0.5% increase in GDP expected in 2014 after two years of decline

The decline in GDP in 2013 (-1.1%) was much smaller than in 2012 mainly due to growth in the final quarter; with stronger growth in exports and a smaller fall in domestic consumption. Exports made a significant positive contribution to the change in GDP again in 2013 and their growth strengthened due to the recovery of economic activity among main trading partners. In 2013, domestic consumption fell less than in 2012.

In 2015 and 2016, GDP growth will be steadily increasing amid the anticipated faster economic recovery in the international environment, a further stabilisation of the banking system and fiscal consolidation, and the beginning of corporate restructuring. Economic growth in the next two years will otherwise remain weak. It will continue to rely primarily on growth in exports and we also expect a modest positive contribution from domestic consumption.

Impact on investors

For the first time since the beginning of the financial crisis, a positive contribution from domestic consumption is expected.

Aerodrom Ljubljana sale enters next stage

The sale of Aerodrom Ljubljana, the operator of Slovenia's main airport, has entered the next stage, as the financial advisor in the sale issued a call for an expression of interest for a 75.5% stake in the company.

The Brnik-based Aerodrom Ljubljana is considered one of the more attractive companies on the priority list of 15 companies to be privatised. Reports in recent months have suggested interest from a variety of companies, including from investment firms, operators of nearby regional hubs, as well as large airlines, mostly from Asia.

The airport is profitable and without debt. Taking into consideration its location, modern infrastructure, and the possibility to expand, as well as a balanced combination of clients and destinations, the Ljubljana airport is a unique investment opportunity, according to KPMG, financial adviser in the sale.

Impact on investors

For information purposes only.

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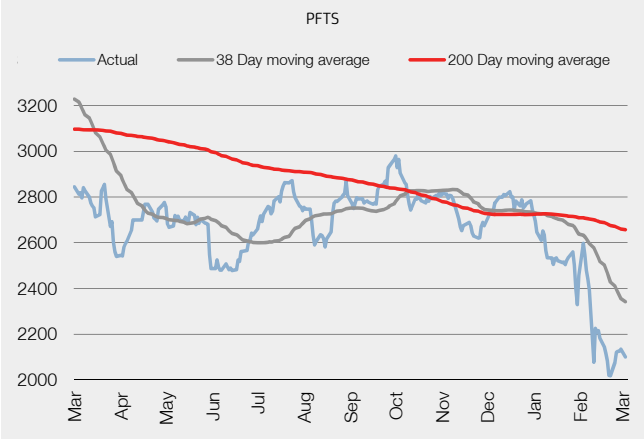
UKRAINE

Market Capitalisation (UX)	UAH 190.9bn
YTD Dev. of Market Capitalisation (UX)	30.5%
Number of SE Transactions p.m. (UX)	25,249
YTD Dev. of SE Transactions (UX)	-4.4%
SE Turnover (UX)	UAH 0.4bn
Monthly Index Performance (UX)	25.8%
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%)	10.00
Inflation in 2014 (yearly average in%)	7.3
EUR/UAH	15.02
Upcoming Holidays	none

Source: UniCredit, National Statistics



Source: Thomson Datastream

Securitisation mechanisms to be introduced

The National Commission for Securities and the Stock Market (NCSSM) drew up a procedure on issuing securities guaranteed by liquid financial assets as well as a procedure for the transfer of issuers' liabilities to the securities. The purpose of the mentioned documents is to introduce the mechanisms for securitisation and conversion of liabilities into securities.

The initiatives are declared in a draft law on amendments to some Ukrainian laws on creation of financial asset securing mechanisms, which has been posted on the Web site of NCSSM.

According to an explanatory note, the main tasks of the document are the regulation of the introduction of securitisation of assets that differ from mortgage assets, the defining of the procedure on the transfer of joint-stock companies liabilities into shares, and the clear differentiation of assets of the stock market professional players and their clients, which aims at preventing the claims circulation for the collection of assets of any side against the liabilities of another side.

Furthermore, the document envisages amendments to some Ukrainian laws. In particular, the law on securities and stock market is to introduce the terms "securitisation," "originator," "SPV," "'released assets," "pool of released assets," and "securitisation agreement". The new type of bonds – bonds of companies, the fulfilment of liabilities on which is secured by released assets – is introduced. The specifics of their issue are established, as well as the requirements for their issuers and the conditions for further regulation of their issue, withdrawal, and buyback. In addition, the obligatory opening of a separate current bank account by the issuer of the above-mentioned bonds where the funds from investors paid for the purchase of the securities are to be transferred, and that the issuer cannot use the funds until the date of registration of the Report on result of securities placing is established.

The amendments to the law on state regulation of the securities market of Ukraine foresee that the NCSSM is empowered to file claims in the court asking to liquidate special purpose vehicles (SPVs).

The amendments to the law on the financial services and the state regulation of the financial service markets foresee that SPVs are rated as financial institutions and transactions with the assets released to issue bonds secured by the same assets are rated as financial services.

Impact on investors

Introducing new market instruments and mechanisms should have a positive effect on market development.

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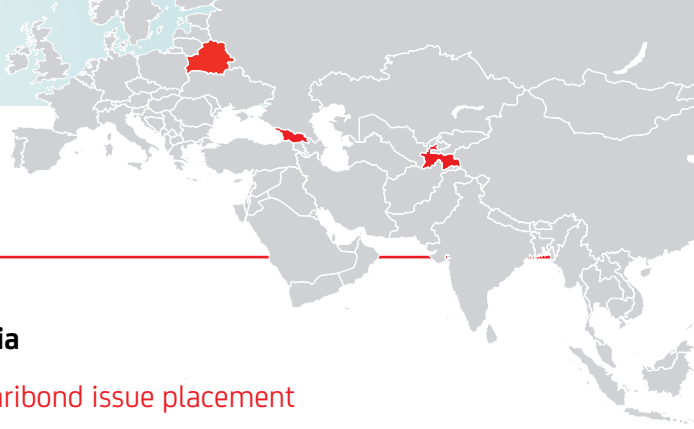

BELARUS · GEORGIA · TAJIKISTAN

Belarus

Market Capitalisation	BYR 14.6tr
YTD Dev. of Market Capitalisation	n.a.
Number of SE Transactions p.m. (BCSE)	712
YTD Dev. of SE Transactions	3.6%
SE Turnover (BCSE)	BYR 2,609.2bn
Monthly Index Performance (BCSE)	2.9%
GDP per Capita (2013 in EUR)	385
GDP Real 2013 (Change against prev. year in %)	98.90
3-Month Money Market Rate (current in %)	n.a.
Inflation in 2013 (yearly average in %)	2.0
BYR/EUR	0.00007
Upcoming Holidays	Apr 29, 30

Source: UniCredit, National Statistics

New developing opportunities for the Belarus stock market

Moscow Exchange will provide the companies from Eurasian Economic Community countries including Belarus trading access on its markets.

As a result, Belarus brokers will receive access to the liquid assets of Russian companies. Belarus companies already represented on the stock exchange will increase their liquidity and quotations and may attract new investors.

At present, the Belarus securities market does not have its own index, and the liquidity of Belarus companies is relatively low.

The Belarus brokers will receive access to the Russian securities market by the end of 2014.

Impact on investors

An arrangement to give Belarus brokerage firms access to trading on the Moscow Exchange will contribute to the stock market development in Belarus and enliven it through interacting with the larger and stronger Russian stock exchange.

Georgia

First laribond issue placement

The first ever bond issue by an international financial institution in the Georgian national currency, lari (GEL), will be placed starting from March 2014. The laribond also represents the first floating note on the domestic market.

The two-year European Bank for Reconstruction and Development (EBRD) bond issue totals GEL 50 million (EUR 20.7 million). The coupon on securities is linked to the three-month rate on deposit certificates of the National Bank of Georgia. The bonds are entitled to be used in National Bank of Georgia operations.

Impact on investors

Issuance of securities denominated in the national currency by the international financial institution, EBRD, will facilitate development of the capital market in Georgia.

Tajikistan

Working group on secondary securities market development meeting

The regular meeting of the working group on the development of the secondary securities market took place in the capital of Tajikistan, Dushanbe. The representatives of government structures, the business sector, and other partners have discussed further legislation improvement and the structure of the secondary securities market. It was decided that the members of the working group will present the conclusions and recommendations of the discussed topics in the near future.

Impact on investors

Investors will benefit from the further development of the secondary securities market

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UZBEKISTAN

Amendments to the Rules on Prevention of Manipulation in the Securities Market

The order by the Centre for Coordination and Development of the Securities Market introducing amendments to the Rules on Prevention of Manipulation in the Securities Market was registered on 11 March 2014 by the Ministry of Justice of the Republic of Uzbekistan.

According to the amendments to the Rules, a "manipulation in the securities market" is defined as the conclusion of securities trades by prior agreement between the securities market participants, deliberate dissemination of false information, and also any other action in order to benefit from the violation of the main principles of stock exchange activity, which results in price, demand, supply, or the securities trading volume deviation from the level that it would have been if no such actions had taken place.

According to the following amendments to the Rules, a professional securities market participant:

- shall not accept the client orders for execution if he is aware that the order execution will lead to a price manipulation;
- shall report to the state authorities within two working days if he is aware of the facts of wilful default or late execution of obligations under REPO trade by the clients;
- shall not create a false/misleading situation, namely facilitate the non-performance or untimely performance of obligations under REPO trades.

If the facts of manipulation in the activities of the professional securities market participant are revealed by state authorities, the materials of inspection and an application acknowledging the manipulation should be presented to the court within ten days.

Impact on investors

More protection for investors as a result of measures aimed at the prevention of manipulation in the securities market of Uzbekistan.

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