GSS Newsletter

August 2014

Issue 160

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

Welcome to UniCredit

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EDITORIAL

ZUZANA MILANOVÁ
HEAD OF GSS SLOVAKIA

Dear Clients,

I am pleased to update you on the Slovak market's development.

Last year, the consolidation of public finances was one of the crucial tasks pursued by the Slovak Government. The general government deficit amounted to 2.77% of GDP, below the budgeted target of 2.94% of GDP. The targeted public finance deficit for 2014 is 2.64% of GDP. According to the European Commission's forecast, the Slovak economy will be the sixth fastest growing economy of the EU this year with the GDP growth rate projected at 2.2%. Besides successful consolidation of public finances, employment represents the biggest challenge of the economic policy.

We are expecting many changes in the capital markets. In addition to transposing the EU Directives, the government will focus on improving national legislation in order to remove existing legislative barriers to market development. The Ministry of Finance recently elaborated on a new development strategy, admitting that the Slovak capital market fails to carry out its elemental role of allocating available financial resources and proposed the adoption of various legislative and structural measures needed for its revival.

Issues addressed in the new legislation include, among other things, the introduction of tax incentives for local investors to support investments to the capital market, removal of tax barriers, improvement of the legal framework for issuance of investment certificates, decrease of administration in bond issuance, enhancements of the business environment for start-ups, unitary administration of pension funds, supplementary pension funds and collective investment funds, and legalisation of new forms of collective investment methods such as SICAV. The government has already approved the strategy and set time frames by which the drafts of decisive legislation should be completed. The first amendments shall be submitted to Parliament this year and Slovakia could have new capital markets legislation by the end of 2015. The strategy also anticipates that the CSD will be reorganised. Several alternatives were on the table with the Ministry deciding to create the new CSD under the name Slovakia Clearing CDCP. This new CSD is expected to begin operations in 2015. It should operate on a full membership principle and adapt European market standards, including Swift.

One of the persisting problems of the Slovak capital market is low liquidity. The situation could finally improve as the Slovak government is set to privatise its 49% share in Slovak Telekom, likely through an initial public offering. The sale of Slovak Telekom would be the first time that the Slovak government has privatised through an IPO, after passing a law that allows shares to be sold on equity markets. Until now, Slovak authorities could only sell state assets through public tenders, public auctions, direct sale, or via coupons and bonds. The Slovak shareholders have agreed to a dual-track sale, with part of the shares sold via the capital market (IPO) and the rest via a direct international tender. The government hopes to acquire EUR 1 billion from the sale of its shares.

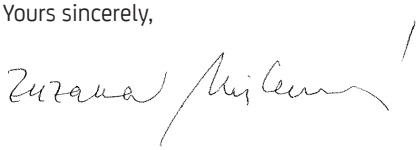
Slovakia has also agreed to support a harmonised implementation of T+2 as a standard settlement period, as of 6 October 2014. This change will be applied to all securities admitted to trading on the Bratislava Stock Exchange and executed on-exchange, and MTF trades which are settled through the CSD.

As for the CSD, it was endorsed by the regulatory oversight committee as the local operating unit for the implementation of LEI codes in compliance with EMIR regulation. To comply with T2S requirements, the CSD has recently announced its plans to implement a new SWIFT based system. Business specification should be available in October. In this regard, the CSD is preparing changes to the CSD Operational Rules.

We are closely following all ongoing capital markets initiatives. While actively participating in their implementation, we will promote the use of international standards and best market practices.

We are delighted that progress is finally being made in the field of capital markets and hope to be able to inform you about more concrete steps in this process very soon.

Yours sincerely,



Zuzana Milanová
Head of GSS Slovakia

JOHN'S CORNER

WHAT WILL HAPPEN TO LIQUIDITY MANAGEMENT IN T2S?

Within our Group, we are looking carefully at ways of reducing the liquidity facilities needed to support our securities settlement activity. This is not due to lack of capacity but more to the potential cost of liquidity for clients.

This is extremely relevant to the T2S environment, where we move from same day batch settlement in commercial bank money for most markets, to overnight batch in central bank money for the bulk of transactions. It is clear that there is regulatory attention around the risks, or rather reliability, of unsecured at bank option facilities. This could give rise to capital cost either in the form of an attribution of a risk asset weighting or by a requirement to gain part, or all, one's liquidity needs by way of committed facilities.

There are many ways of reducing demand for liquidity. At one level firms can internalise. It is evident that using a single cash account will reduce demand for liquidity. It is evident that any ability to pool or offset across different currency accounts will also reduce demand for liquidity. Reducing intraday limits at client level and accepting slower settlement will do likewise. Improving settlement velocity either by changed algorithms or cycles within settlement systems can have a meaningful impact. In house liquidity provision, especially for prime asset rich entities capable of generating on demand liquidity through intraday repos and other transactions, is an obvious option

But the process is not a one way benefit. Many of these advantages bring adverse factors. In several, there is a need for segregated account set ups and these eliminate the internalisation benefits of omnibus accounts, within an agent, embracing both sides of a transaction. They may also increase CSD costs if segregation eliminates the scale advantages of omnibus holdings. And, in some markets, especially under T2S, it is not clear how liquidity lines would apply in the batch overnight processes where omnibus structures are used.

In recent meetings, we focused on two core issues. What constitutes liquidity needs? How can they be reduced?

In a settlement life cycle, settlement normally occurs when the settlement counterparties have the appropriate cash and stock. But settlement commitment can occur in some markets when a trade is matched. In a batch omnibus arrangement, the agent bank supplies liquidity at portfolio level having assessed need starting with a worse case, sum of the debits, for credit exposure to the underlying clients. In a designated environment, the bank can establish a credit limit at client specific level. If the bank is merely acting as settlement bank, in T2S as an example, they can again operate a credit limit at client level.

But the credit limit is not the utilisation limit. And, if we are to measure and apply constraints on liquidity, we need to understand the difference and reduce the gap between the two to the maximum extent possible. The credit limit is the maximum exposure that the bank could occur. Liquidity is the maximum exposure that may occur. In theory, one would hope that the level of credit availability and the usage of liquidity are comparable; in practise they are usually far apart. Thus it is important to understand what needs to be assessed. Is it the in house credit limits or actual liquidity exposures?

Let us look at the omnibus account. We can take Austria as an example and base our analysis on known facts within the current environment. We know that the bulk of trades are advised and matched by T+1 and thus the move to T+2 is not an issue. We know that around 80-90% of all Austrian trades currently settle in the first morning run of settlement by the OeKB. If we extrapolate this to T2S, we can expect a similar 80-90% to settle in the batch. UniCredit Bank Austria has an ample pool of liquidity and can make this available for securities settlement as it will substantially be freed up again at start of business for Target payments which occur after the final T2S batch run.

What is harder to assess is what liquidity will be needed for each client. That would require an analysis of flows of each client within the omnibus account and, even then, would have to adjust the result for an impossible judgement. It may be that all settlement occurred in the first batch due to the quantum of liquidity provided by UniCredit Bank Austria. But could it have provided less liquidity and still settled in the overnight, albeit in a later batch? It appears illogical for clients to be deemed to be using liquidity due to actions of UniCredit Bank Austria over which they have no

control. In omnibus accounts, liquidity demand should logically crystallise only after the batch run and be assessed on the basis of the start of day open position.

At the segregated or settlement bank account level, the process is much simpler as the limit is applied at client level and is usually known to the client, or can be estimated by them, as can utilisation as long as they focus on the end of batch position. Within the batch the position is opaque. So the question here is whether to apply liquidity on limits, utilisation or end of batch position.

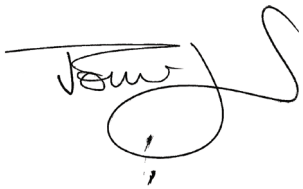
Once we move into RTGS intraday trade by trade processing, the position is clear with liquidity usage being the debit in the cash account. But again, here, and elsewhere, there are other criteria to accommodate. How does auto collateralisation impact the picture? If a transaction is self-funding, is it deemed to be a user of liquidity? I would suggest that the treatment should be identical to repos transactions. For auto-collateralisation is a synthetic repo and reverse repo. There also needs to be clarity in whose book of records such a transaction would fall, especially if it is through a segregated or omnibus securities account.

The market will also have to adapt to any changes in the treatment of liquidity. We need to avoid unintended consequences of changes to the intraday efficiencies of the current process. But we need to ensure that the intraday risks of the process are managed. It is imperative that markets assess how to reduce overall liquidity demand of their settlement processes. At one level, this may require rule changes ranging from the obligations arising from locked in trades to the definition of finality in batch processes. From experience, the latter issue must reflect the ability of a market to reverse the batch as well as its risk preferences. At another level, it has to reflect the need for efficient settlement.

I have always advocated settlement efficiency targets to ensure that individual firms do not manage their flows by settling purchases from sales proceeds only, at start of day, before injecting liquidity for any net residual settlement. A careful analysis of settlement discipline rules is needed if we are to place cost or capital behind settlement liquidity usage. But efficient settlement at lower liquidity can also be achieved by increasing the number of batches run or by the adoption of the circles processing structure used, as an example, in the CREST system. And we could be well advised to look at the agency netting potential of CCPs, both to reduce custodian demand for liquidity by reducing settlement flows and supporting broker needs by enabling client side transactions to be included in CCP runs.

The danger for the market is that cost of liquidity could drive inefficiencies or even costly settlement discipline rules that increase demand for liquidity. The debate needs to become more open and imaginative!

Sincerely yours,



John Gubert
Chairman
Global Securities Services
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AUSTRIA

Market Capitalisation	EUR 89.99 bn
YTD Dev. of Market Capitalisation	5.4%
Number of SE Transactions p.m.	N/A
YTD Dev. of SE Transactions	N/A
SE Turnover (Vienna SE)	EUR 2,1 bn
Monthly Index Performance (ATX/VSE)	-1.1%
Upcoming Holidays	August 15

Source: UniCredit, National Statistics

VSE: EUR 3.1 billion raised in the first half year

In the first half of 2014, Austrian companies raised more than EUR 3.1 billion in fresh capital through the Vienna Stock Exchange. This volume is larger than the aggregate volume of the past two years (EUR 2.1 billion) and the highest level achieved since 2007.

This year, the Vienna Stock Exchange has posted year-on-year gains in trading volumes every month so far. The total increase in trading volume in the first half of the year in Austrian equities was around 30% (January to June 2014). By contrast, equity trading volumes (January to May 2014) on the London Stock Exchange rose 23%, on the Deutsche Börse 11%, and on the Warsaw Stock Exchange 1.4%. Total trading volume in equities on the Vienna Stock Exchange in the first six months was EUR 24.7 billion, which is EUR 5.5 billion more than the year before. The average monthly trading volume was EUR 4.1 billion (average monthly trading volume in the first half year 2013: EUR 3.2 billion).

As of 1 July 2014, there are 224 market making mandates on the Vienna Stock Exchange, which is the highest level in ten years. A growing number of international banks are showing an interest in market making for Austrian Stocks, i.e., providing additional liquidity in continuous trading on the Vienna Stock Exchange. Currently, 13 exchange members act as specialists or market makers for the prime market by entering binding buy and ask quotes.

Impact on investors

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BOSNIA AND HERZEGOVINA

Market Capitalisation (Sarajevo SE)	BAM 4.5 bn
YTD Dev. of Market Capitalisation	-5.6%
Number of SE Transactions p.m.	530
YTD Dev. of SE Transactions	-29.1%
SE Turnover (SASE)	BAM 43.2 mn
Monthly Index Performance (SASX-10/SASE)	3.2%
Market Capitalisation (Banja Luka SE)	BAM 4.0 bn
YTD Dev. of Market Capitalisation	-2.2%
Number of SE Transactions p.m.	1,185
YTD Dev. of SE Transactions	-55.9%
SE Turnover (BLSE)	BAM 23.1 mn
Monthly Index Performance (BIRS/BLSE)	-2.4%
Upcoming Holidays	–

Source: UniCredit, National Statistics

Sarajevo Stock Exchange reviews indices

In July, the Sarajevo Stock Exchange made a regular revision of the main index SASX-10, which depicts the price movement of the top 10 issuers on the Sarajevo Stock Exchange (excluding investment funds) ranked by market capitalisation and frequency of trading. The composition of SASX-10 has been updated with two new issuers.

The Sarajevo Stock Exchange has also completed a regular revision of the Primary Free Market Index SASX-30. The index outlines the price movement of the issuers on the Primary Free market, which is reserved for the most liquid issuers from the Free market.

New lists of companies included in SASX-10 and SASX-30 can be found on the official website of the Sarajevo Stock Exchange.

Impact on investors

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UniCredit Bank Mostar named most successful bank in 2013

For the thirteenth consecutive year the consulting firm Revicon d.o.o. Sarajevo and business magazine Prizma, along with external experts, have successfully completed the ranking of the most successful companies in the financial sector in Bosnia and Herzegovina.

The ranking process is conducted using data obtained from relevant sources – the Federal Banking Agency and the Banking Agency of RS.

Revicon and Prizma awarded the "Crystal Prism" to UniCredit Bank d.d. Mostar as the most successful B&H bank in 2013. The "Crystal Prism" is awarded to the most successful companies in the banking, insurance, and micro-lending sectors.

Impact on investors

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BULGARIA

Market Capitalisation	BGN 10.4 bn
YTD Dev. of Market Capitalisation	-3.6%
Number of SE Transactions p.m.	32,792
YTD Dev. of SE Transactions	-2.5%
SE Turnover (Bulgarian Stock Exchange)	BGN 149.3 mn
Monthly Index Performance (SOFIX)	-8.89%
Upcoming Holidays	–

Source: UniCredit, National Statistics

Bulgaria returns successfully to the international debt markets

On 26 June, the Republic of Bulgaria successfully returned to the public international debt capital markets following a highly successful return in July 2012. The new EUR 1.493 billion 10-year benchmark Eurobond was oversubscribed in less than 30 minutes from the start of the formal book-building with the final order book standing at EUR 3.7 billion from 250 investors. The new bonds will bear 2.95% annual interest and will mature on 3 September 2024.

Impact on investors

The strong investor interest in the new Eurobond issued by the Republic of Bulgaria indicates confidence in the country's solid macroeconomic performance and consistency in fiscal discipline.

Fitch affirms Bulgaria's credit ratings

At the beginning of July, Fitch Ratings affirmed Bulgaria's long-term credit ratings at BBB- (foreign currency) and BBB (local currency) with a stable outlook. Among the rating agency's motives for these ratings affirmations are:

- Bulgaria's gross general government debt at 18.9% of GDP in 2013, which was the second-lowest in the EU
- The country's current-account surplus equivalent to 1.8% of GDP in 2013, the largest since the late 1990s

Fitch explained the stable outlook with its assessment that the upside and downside risks to the rating are currently balanced.

Impact on investors

Bulgaria's fiscal stability remains stable as demonstrated by the country's credit ratings affirmation by Fitch.

National Committee for Corporate Governance

In July business and non-governmental organisations operating in the field of the capital market founded an association named the National Committee for Corporate Governance (NCGC). Among the NCGC's main activities are the promotion of the establishment of best practices in the corporate governance area and the monitoring of corporate governance in Bulgaria. NCGS is the successor of the Working Group on Corporate Governance, which developed the Bulgarian National Corporate Governance Code and was later transformed into a public-private partnership initiative for consultations and cooperation on issues regarding corporate governance at the national level.

Impact on investors

Corporate governance best practices will be better promoted through the establishment of the National Committee for Corporate Governance.

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CROATIA

Market Capitalisation	HRK 197.66 bn
YTD Dev. of Market Capitalisation	7.6%
Number of SE Transactions p.m.	16,198
YTD Dev. of SE Transactions	-21.0%
SE Turnover (Zagreb SE)	HRK 294.09 mn
Monthly Index Performance (Crobex/ZSE)	5.3%
Upcoming Holidays	5 August

Source: UniCredit, National Statistics

Croatia's industrial output up for 5 straight months

According to the Croatian Statistical Office Report, Croatia's industrial production increased in May 2014 by 1.2% compared to May 2013, showing that Croatia's industrial output has been on the rise for five months in a row, which has not been registered since the onset of the recession in 2009. The growth is also higher than the month before.

Working day adjusted data indicate that the country's industrial output in May remained unchanged compared to April but went up 1.2% compared to May 2013.

The rise in industrial output on the year in May was accelerated compared to April when it came to 0.6%. This is also in line with expectations of five polled macroeconomists who projected a rise ranging from 0.3% to 2.7%.

Impact on investors

For information purposes only.

Bulgarian, Macedonian and Zagreb Stock Exchange sign agreement with EBRD

SEE Link signed an agreement with the European Bank for Reconstruction and Development (EBRD) in support of the development of regional capital markets. SEE Link, a joint stock company based in Skopje, was established in May this year by the Bulgarian Stock Exchange, the Macedonian Stock Exchange and the Zagreb Stock Exchange. They hold equal stakes in the company.

Under the agreement, the EBRD will secure EUR 540,000 for the technical development of a platform for the forwarding of stock market orders. The participating stock markets will contribute EUR 80,000 each to increase the capital stock of SEE Link, which is designed to create regional infrastructure for trading in the shares of companies listed on the three stock exchanges.

Impact on investors

SEE Link will standardise and improve financial services in the region, making it more attractive to foreign investors, including the EBRD.

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CZECH REPUBLIC

Market Capitalisation	CZK 1.1 trn
YTD Dev. of Market Capitalisation	2.3%
Number of SE Transactions p.m.	n.a
YTD Dev. of SE Transactions	n.a
SE Turnover (Prague SE)	CZK 55.8 bn
Monthly Index Performance (PX)	-1.75%
Upcoming Holidays	28 October

Source: UniCredit, National Statistics

State debt portfolio management review

In the second quarter of 2014, the stabilisation of the CZK-denominated value of the gross state debt starting from the level at the end of 2013 has continued, as the gross state debt decreased by CZK 82 million during this period. In comparison to the end of 2013, the CZK-denominated value of gross state debt decreased by CZK 35 million.

The stabilisation of the gross state debt is mainly related to the ongoing more effective involvement of available liquidity of the state treasury. The stabilisation of CZK-denominated value of the gross state debt is in line with the budget surplus of the Czech Republic, which amounted to CZK 1.5 billion at the end of the first half of 2014. At the end of the first half of the previous year, the state budget was in deficit of CZK 31.5 billion.

Impact on investors

The stabilisation of CZK-denominated value of the gross state debt is in line with the budget surplus of the Czech Republic.

Financial markets in 2013

The Financial Market Analyses Unit has published its annual Report on Financial Market Developments. It covers the most significant events and trends in the past year, including expected future trends in particular financial market segments.

Macroeconomic situation and external development

Year-on-year, the Czech Republic's real GDP decreased by 0.9%. The positive trend in the development of the trade balance continued in 2013 with a record surplus (CZK 188 billion). The inflation rate fluctuated below the goal over the course of the entire year and an increase of 1.4% was reported for year overall. In October, the inflation rate was even below 1%.

Funds available in the financial market

After another period of year-on-year growth (5.3%), the volume of funds available in the financial market attained a level of approximately CZK 4.4 trillion.

Financial market entities

The institutional structure of the financial market has remained stable and there have been only slight changes in the individual sectors.

Banking sector

The total volume of banking sector assets increased by 8.8% to CZK 5.2 trillion. The pre-tax profit reported by banks totalled CZK 73.6 billion, which reflects a year-on-year decrease of 4%. Historically, however, this is the second best result that has ever been achieved. The main reason for the year-on-year decrease was the lower level of interest income. The capital adequacy of the banking sector increased to a level of 17.2%.

Interest rates

The CNB kept its base rate (the two-week repo rate) at a level of 0.05% for all of 2013, which was reflected in the continuing decrease in the average interest rate for new loans and in the slightly lower interest paid on deposits.

Deposits and loans

The volume of bank deposits grew by 6.7% and attained a level of CZK 3.3 trillion by the end of the year.

Regulated markets

The main PX index recorded a decrease of 4.8% and ranged between 853 to 1,066 points. The declining trend in share trading activities continued in 2013, reflecting a year-on-year decrease of 30.3%.

Securities dealers and asset management

The trading volume in the securities dealer sector increased by 30% year-on-year to CZK 65.4 trillion.

Investment funds

The volume of assets placed in collective investment funds increased by 14.7% year-on-year to CZK 269.8 billion. As compared to 2012, there was a greater growth in the value of the assets held in foreign funds (an increase of CZK 20.5 billion) than in domestic funds (an increase of CZK 14 billion). Mixed funds saw the greatest influx of new resources, followed by equity funds. The number of qualified investment funds continued to grow in 2013 and the volume of managed assets increased to CZK 68.8 billion.

Insurance companies

In spite of slight growth (1.9%), the insurance market may still be described as stagnating over the medium-term time frame. Total gross premiums written reached CZK 156.5 billion, which corresponds to the volume in 2010. In the non-life insurance segment gross premiums written increased by 4.2% to CZK 85 billion. Conversely, as far as life insurance is concerned, the value of premiums written decreased by 0.7% to CZK 71.6 billion.

Retirement savings

At the end of the first year of the new retirement savings system, the resources in retirement funds totalled CZK 346 million. Over the course of 2013, almost 82,000 individuals started to participate in the retirement savings scheme.

Supplementary pension insurance and supplementary pension savings

Starting in 2013, Pillar 3 of the pension system was expanded to include supplementary pension savings plans offered through participating funds. Supplementary pension insurance continues to be provided through the transformed funds, but no new participants are allowed to join. At the end of 2013, the resources in both types of funds totalled CZK 282 billion, reflecting an increase of 14.3%. The number of participants in Pillar 3 decreased by 172,000 to 4.96 million individuals. The new conditions for receiving the state contribution resulted in a significant increase in the average monthly contribution made by participants in the transformed fund, specifically by 22.2% to CZK 568.

The government sector

In the government sector, financial results for the 2013 report a deficit equal to 1.5% of GDP. This is a significant improvement (by 2.7%) in comparison to the previous year. Total government debt at the end of 2013 was equal to 46% of GDP.

Impact on investors

For information purposes only.

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HUNGARY

Market Capitalisation	HUF 18,828 bn
YTD Dev. of Market Capitalisation	6.05%
Number of SE Transactions p.m.	114,276 prompt market: 103,258 derivatives: 11,018
YTD Dev. of SE Transactions	2.7%
SE Turnover (Budapest SE)	HUF 417,861 mn prompt market: HUF 179,211 mn derivatives: HUF 238,650 mn)
Monthly Index Performance (BUX)	-3.60%
Upcoming Holidays	20 August

Source: UniCredit, National Statistics

Central Bank continues rate cut cycle

The Hungarian Central Bank continues to decrease the key interest rate, marking the lowest level on record, and has left the door open to further easing. As a result, at its 24 June monetary policy meeting, the Central Bank decided to cut the base rate by 10 basis points from 2.40% to 2.30%. This was the twenty-third consecutive meeting in which the Central Bank has decided to cut the base rate in order to encourage economic growth.

In the June 2014 Inflation Report, the Central Bank stated that the base rate cuts that have been implemented since August 2012 were justified by low inflation, small inflationary pressure, and spare capacity in the economy. Furthermore, the interest rate cuts implemented so far have helped to achieve the medium-term inflation target and to support economic growth. At the same time, the Council's aim is to maintain balanced and conservative monetary policy. In addition to meeting the inflation target, he Council also took into account the condition of the real economy and incorporated financial stability. The Bank acknowledged in the issued statement that inflation was likely to remain below the 3% target in 2014, and to keep the medium-term inflation rate from rising above 3% from the second half of 2015, while the dynamics of consumer price inflation had been historically low in recent months. Moderated inflation in external markets, the degree of unused capacity in the domestic economy, mild wage growth, the fall in inflation expectations, and the reductions in regulated prices, implemented in a series of steps, have all contributed to the development of a low inflation environment.

In line with the inflation outlook, and taking into account perceptions of the risks associated with the economy and the pick-up in economic growth, further cautious easing of monetary policy might still be on the agenda, without jeopardising financial stability. However, based on available information, the central bank base rate had significantly approached a level which ensured the medium-term achievement of price stability and a corresponding degree of support for the economy. Over the coming period, changes in the domestic and international environment might influence this picture.

Impact on investors

For information purposes only.

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POLAND

Market Capitalisation	PLN 607.2 bn
YTD Dev. of Market Capitalisation	2.6%
Number of SE Transactions p.m.	1,068,389
YTD Dev. of SE Transactions	-2.9%
SE Turnover (WSE)	PLN 16.9 bn
Monthly Index Performance (WIG20)	-0.9%
Upcoming Holidays	15 August

Source: UniCredit, National Statistics

Combination of settlement guarantee funds for alternative trading systems

On 1 July 2014, the Warsaw Stock Exchange, BondSpot, and KDPW_CCP established a single guarantee fund aimed at securing trades concluded in alternative trading systems (ATS).

Previously, two separate funds for ATS organised by the WSE (e.g. NewConnect market) and by BondSpot had been operated.

The main rationale for the combination has been reduction of administrative costs both for the KDPW_CCP and for market participants as well as the reduction of the number of cash payments needed to adjust the contributions.

Due to the establishment of the new system, formed on the basis of a tri-party agreement (signed in March 2014), the two previously ran funds have been liquidated and all trades done in ATS are now secured by the same fund, providing the same level of quality and security.

Transactions concluded on the main WSE market (regulated market) will continue to be guaranteed by the settlement guarantee fund for WSE trades (as opposed to the one designated for ATS).

Impact on investors

Transactions concluded in the alternative trading systems organised by WSE and BondSpot will now be secured by a single guarantee fund that should ensure the more efficient management of clearing risk.

Modified expiry cycle for WSE listed options

As of 18 August, the Warsaw Stock Exchange will modify the expiry cycle for WIG20 options, introducing additional series to trading. So far, options were issued in quarterly cycles (starting from March) and there were always four consecutive series available for trading.

Now two additional series of options issued in monthly cycles will be added, so in fact there will always be WIG20 options expiring in the next consecutive 4 months (6 series in total).

The Warsaw Stock Exchange claims that the modified expiry cycle of options on the blue-chip stock index should further increase interest in these instruments and, consequently, the efficiency of the market.

Impact on investors

Thanks to introduction of additional series of WIG20 options, investment opportunities should be widened in the derivatives market.

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ROMANIA

Market Capitalisation	RON 132 bn
YTD Dev. of Market Capitalisation	38.0%
Number of SE Transactions p.m.	80,019
YTD Dev. of SE Transactions	53.47%
SE Turnover (Bucharest SE)	RON 2,853 mn
Monthly Index Performance (BET/BSE)	4.33%
Upcoming Holidays	15 August

Source: UniCredit, National Statistics

Pension funds may be entitled to invest more in equities

Romania's Financial Supervisory Authority released plans to amend the investment policy for pension funds in order to allow them to make higher direct investments in the economy.

Impact on investors

ASF may change investment rules for pension funds, allowing them to increase their holdings of financial instruments.

Current NBR decisions

At its meeting on 1 July, the Board of the National Bank of Romania decided the following:

- To keep the monetary policy rate at 3.5% per annum;
- To pursue adequate liquidity management in the banking system;
- To lower the minimum reserve requirement ratio on foreign currency-denominated liabilities of credit institutions to 16% from 18% starting with the 24 July – 23 August 2014 maintenance period, while keeping the ratio on RON-denominated liabilities at 12%.

Impact on investors

For information purposes only.

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RUSSIA

Market Capitalisation	RUB 25 trn
YTD Dev. of Market Capitalisation	-3.85%
Number of SE Transactions p.m. (MICEX)	7,067,167
YTD Dev. of SE Transactions	-12.7%
SE Turnover (MICEX)	RUB 14.93 trn
Monthly Index Performance (MICEX)	-5.5%
Upcoming Holidays	–

Source: UniCredit, National Statistics

CSD News

The National Settlement Depository (NSD), the central securities depository of Russia, has registered as a FFI on the Internal Revenue Service (IRS) website and has been assigned a Global Intermediary Identification Number (GIIN),XNBBND.00000.LE.643, to comply with FATCA requirements.

The Foreign Account Tax Compliance Act (FATCA) is a US law aimed at foreign financial institutions (FFIs) and other financial intermediaries to prevent tax evasion by US citizens and residents through use of offshore accounts.

The NSD has been assigned the international code Pre-Legal Entity Identifier (pre-LEI), 253400M18U5TB02TW421, in compliance with the Common Data Format, approved by the Regulatory Oversight Committee (ROC) on 19 June 2014. All pre-Local Operating Units (pre-LOUs) will have to present identification data about market participants and their assigned pre-LEI codes along with provision of the pre-LOU code in the unified format to the Global LEI system (GLEIS) in accordance with ROC resolutions.

The NSD pre-LEI code meets the international standard of ISO 17442 and Regulatory Oversight Committee regulations. The NSD will keep its annual code verification in the GLEIS under the procedure standards for legal entities assigned with codes.

The Central Bank of Russia has recognised the NSD Payment System as a systemically important system and has included information on the payment system's importance in the Payment Systems Operators Register. The system recognition was based on amendments to the Federal Law 161-FZ on the National Payment System dated 27 June 2011. According to the amendments a payment system offering money transfers on transactions made in the organised market is a nationally significant payment system. Since the law's amendment, the NSD payment system allowing the transfer of money on transactions concluded in the organised market, including transactions conducted by Moscow Exchange OJSC, is the nationally significant system.

Impact on investors

CSD activities aim to improve transparency in the financial markets and gain control over systemic risk.

Law on FATCA compliance

On 30 June, the Federal Law No. 173-FZ on tax information transfers, as part of the Foreign Account Tax Compliance Act (FATCA), has entered into force.

The law allows Russian financial institutions to provide information on foreign taxpayers to foreign tax authorities but with prior client consent. The clients are entitled to confirm the transfer of their personal data within 15 days. If the client refuses to consent to the disclosure or transfer of information, the financial institution has the right to:

- refuse to conclude an agreement with the client;
- refuse to transact on behalf of the client with regards to the transfer of funds to an account with another bank, cash withdrawal, payroll payment, etc.;
- terminate the existing client agreement unilaterally.

The law foresees that the foreign taxpayer's consent to share his information with the foreign tax authority, automatically assumes the taxpayer's consent to the transfer such information to CBR, Rosfinmonitoring, and the Federal Tax Service of Russia.

Russian financial institutions are also obliged to notify Russian authorities upon registering with foreign tax authorities within three days. Administrative fines may be applied to Russian financial institutions that violate the established procedures and deadlines for reporting on foreign clients: RUB 20,000 – 30,000 for officials of financial institutions and RUB 300,000 – 500,000 for legal entities.

Impact on investors

Information that is required to withhold foreign taxes and fees will be transferred to foreign tax authorities by Russian financial institutions.

Proxy voting and disclosure procedures to be improved

The Lower House of Russian Parliament, the State Duma, has adopted a draft law in its second reading which aims to enhance and simplify proxy voting at General Meetings (GM) and the disclosure procedure of foreign nominee holders (FNH) for GM participation.

The law significantly simplifies the proxy voting process at General Meetings (GM):

- Custodians will be authorised to participate and vote at GMs based on their clients' instructions without power of attorney that is requested by issuers according to current legislation. The shareholders will also be allowed to participate in GMs personally.
- The procedure by which clients instruct custodians should be stipulated in the custody agreement between them. Custodians will not be obliged to confirm the receipt of the clients' voting instructions or provide the depository agreement as evidence of their authority to vote on behalf of the clients.
- Electronic document flow will be used throughout the whole chain of corporate actions processing participants. Information on GMs will be 'cascaded' by the issuers, through Russia's National Settlement Depository (NSD), to the custodians acting as nominee

holders to their clients, including foreign nominee holders. Nominee holders, in return, will pass the lists of their clients and their voting information through NSD back to the issuers/registrars.

The draft stipulates that persons or legal entities which are holding owners or exercising rights for Russian securities kept on a Foreign Nominee Account are determined in accordance with local laws of such persons or entities. It is also stated that the owner of the securities can be a foreign organisation not having a status of legal entity in its country.

New disclosure requirements

Entitled shareholders participating in GMs through a FNH shall be included in the list of entitled shareholders based on the information provided by the FNH to its local custodian not later than 5 working days prior to the GM. In this case the FNH should disclose the following information:

- Information on the entitled shareholder, quantity of the securities that belong to them and their voting options;
- information on individuals and legal entities is to be included in the list of entitled shareholders who do not provide instructions on voting;
- information on the foreign entities which carry out record-keeping and transfer the rights to securities in accordance with their local laws and who did not disclose the data specified in the two points above, as well as the quantity of securities for which the information on their owners and other persons or entities exercising rights for the securities was not provided.

Foreign Nominee Holders and Foreign Authorised Holders, upon request of the Russian Issuers, Courts, CBR, or bodies of preliminary investigation, must undertake all possible measures to disclose the information on the owners of the securities, persons or entities exercising rights for such securities, and on those in whose interest they exercise the rights for the Russian securities. This is with the exception to cases, where in accordance with their local laws, such foreign entities are considered to be collective investment schemes or joint investment schemes, having the status of a legal entity or not having such status, if the number of participants in such joint investment schemes exceeds 50.

The new draft provisions expand the list of securities admitted to organised trading in Russia, simplify the bonds registration procedure, and specify exchange bonds circulation and introduction of commercial bonds:

- The issuer will be able to register the programme of issues instead of every bond issue separately. Once the programme is approved by the Board of Directors of a company, the decision on each bond issue may then be taken up by the CEO, this will also simplify the procedure and will significantly speed up the registration process of bond issues.

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- Any information that may have a significant impact on the decision to purchase exchange bonds including the financial statements of the issuer must be disclosed prior to the bond's placement.
- The bonds are recognised as commercial bonds if the following conditions are satisfied:
  i) bond issuance is placed via closed subscription, including within the framework of the bonds program without collateral;
  ii) bond owners have only the right to receive the nominal value or par value and percentage of the nominal value;
  iii) the bonds are issued in certificated form with mandatory centralised safekeeping;
  iv) payment of the face value and interest on the bonds is only in cash.

Commercial bond issuance may not be accompanied by the state registration of the issue (additional issue), registration of the prospectus of bonds, or state registration (submission to CBR issuer notice) based on the results of (the additional issue) of bonds if the given issue (additional issue) was assigned with an identification number by CSD.

- The securities of foreign issuers may be admitted to public circulation in Russia in accordance with the Russian stock exchange decision on stocks' admission to organised trading.
- The stock exchange is allowed to conclude an agreement with the foreign issuer if the foreign securities meet all of the following requirements:
  i) are admitted to organised trading without their inclusion in the quotation list of a Russian stock exchange;
  ii) are listed on foreign stock exchanges which are determined in the list approved by CBR;
  iii) issue and securities information is disclosed in Russian or in a foreign language which is used in the financial market where the stocks are listed;
  iv) foreign law does not contain restrictions on the securities public circulation in Russia.
- The Russian stock exchange may also approve the public circulation of international financial institutions bonds if the financial institutions are included in the list approved by the Government of the Russian Federation.
- The stock exchange which made a decision on the admission of foreign securities to trading shall be responsible for investors' losses incurred as a result of non-disclosure or failure to provide access to the disclosed information.

The law is expected to be enacted before the end of 2014.

Impact on investors

Investors, including those using foreign nominee accounts, will benefit from the improvement of proxy voting and disclosure processes as well as from the extension of investment possibilities in the Russian financial market.

SERBIA

Market Capitalisation	RSD 742.53 bn
YTD Dev. of Market Capitalisation	-4.4%
Number of SE Transactions p.m.	15,191
YTD Dev. of SE Transactions	-28.5%
SE Turnover (Belgrade SE)	RSD 1.89 bn
Monthly Index Performance (Belex 15)	-2.9%
Upcoming Holidays	–

Source: UniCredit, National Statistics

Fitch affirms Serbia's ratings

Fitch, the rating agency, has affirmed Serbia's long-term foreign and local currency Issuer Default Ratings (IDRs) at 'B+', with stable outlooks. The rating on Serbia's senior unsecured foreign and local currency bonds has been affirmed at 'B+' and the short-term foreign currency IDR at 'B'. Also, Fitch said that a credible medium term fiscal consolidation programme that reduces public debt/GDP and progress on structural reforms could trigger a positive rating action.

At the same time, a negative rating action could be triggered by failure to pass and implement structural reforms that facilitate fiscal consolidation and improve the outlook for debt dynamics and a recurrence of exchange rate pressures, leading to a fall in reserves and a sharp rise in debt levels and interest burden.

Impact on investors

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SLOVAK REPUBLIC

Market Capitalisation	EUR 37.9 bn
YTD Dev. of Market Capitalisation	-1.3%
Number of SE Transactions p.m.	658.0
YTD Dev. of SE Transactions	-38.3%
SE Turnover (Bratislava SE)	EUR 0.5 bn
Monthly Index Performance (SAX/BSSE)	-0.7%
Upcoming Holidays	–

Source: UniCredit, National Statistics

Amendmend to the Act on banks

In June, an amendment to the Banking Act came into effect. It aims at strengthening the supervision of the National Bank of Slovakia over regulated entities of the financial market, i.e. banks, insurance companies, and investment companies that are part of financial conglomerates.

The Act also requires branches of foreign banks to designate an employee responsible for preventing money laundering and the financing of terrorism who will be subordinate to the head of the branch. Moreover, the Act includes parameters to follow in case of the bank's intention to terminate its business or part of its business in the Slovak Republic.

Impact on investors

The amendment to the Act puts the Financial Conglomerates Directive into effect.

Amendment to the Act on collective investment

An amendment to the Act on Collective Investment that The Act on Collective Investment came into effect on 22 July implements the AIMFD Directive and governs the rights and duties of special mutual funds, risk capital funds, and persons exercising their activity under the flyer pursuant to Act No. 566/2011 Coll. on Securities.

Apart from the minimum AIFMD standards, the amendment requires the appointment of a depository for non-EU AIF managed by a domestic or EU AIFM. In both cases, notification to the National Bank of Slovakia and its confirmation within 20 business days that the conditions have been met, are necessary prior to marketing the fund.

The new Act creates a binding legal regime concerning the permission and supervision of persons who manage alternative investment funds. The managers of alternative investment funds who want to operate in the EU will have to gain permission from the competent authority of their home member state and will have to comply with the minimum requirements on capital adequacy.

The Directive also regulates the minimum conditions for the administration of such funds and the provision of information to professional investors in order to ensure their adequate protection. It also introduces special requirements for managers who manage alternative investment funds using a leverage effect. The managers of alternative investment funds will be obliged to regularly notify the National Bank of Slovakia of the main markets on which they are active, instruments used for trading, as well as data on achieved results. The subject matter of the Directive shall be supplemented by the regulations of the European Commission.

Impact on investors

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SLOVENIA

Market Capitalisation	EUR 21.847 bn
YTD Dev. of Market Capitalisation	27.95%
Number of SE Transactions p.m.	5,454
YTD Dev. of SE Transactions	45.56%
SE Turnover (Ljubljana SE)	EUR 43.664 mn
Monthly Index Performance (SBI TOP)	-1.16%
Upcoming Holidays	15 August

Source: UniCredit, National Statistics

Preliminary elections

The winner of the preliminary elections held on 13 July is the party of Miro Cerar (SMC), followed by the Democratic Party (SDS) in second place and coming in third place, the Pensioners' Party (DeSUS). It is expected that the new government could be confirmed by the new parliament by the end of September 2014.

Impact on investors

The political situation in Slovenia has stabilised.

Mercator majority finally sold to Agrokor

After years of discussions, the Croatian company, Agrokor, finally gained 53.12% of the total shares with voting rights of Slovenia's biggest retailer, Mercator, from a consortium of sellers – Slovene banks and Brewery Laško.

The shares were priced at EUR 86 apiece and totalled EUR 172 million. In line with Slovene take over legislation, Agrokor already announced an intention to issue a tender offer within 10 to 30 days after the deal.

Impact on investors

In line with Slovene take over legislation, Agrokor already announced an intention to issue a tender offer within 10 to 30 days after the deal.

Government has frozen privatisation

The Slovene government decided that until a new government is formed, which is expected by the end of September 2014, current privatisations will not be finished and no new ones shall be started. However, privatisation isn't stopped; those projects that have already been initiated will continue. A final decision on privatisation projects will be confirmed by the new government.

Impact on investors

Temporary freeze of the privatisation process in Slovenia.

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UKRAINE

Market Capitalisation (UX)	UAH 215.7 bn
YTD Dev. of Market Capitalisation (UX)	47.5%
Number of SE Transactions p.m. (UX)	26,168
YTD Dev. of SE Transactions (UX)	0.9%
SE Turnover (UX)	UAH 0.6 bn
Monthly Index Performance (UX)	1.2%

Source: UniCredit, National Statistics

Economic part of Association Agreement with EU signed

On 27 June, Ukraine signed the economic part of the Association Agreement between Ukraine and EU. The Free Trade Agreement, which is an integral part of the Agreement, simplifies trade between Ukraine and the 28 members of the EU. Also, it brings Ukraine closer to future possible EU membership.

One of the most important parts of this agreement is the regulatory component, which is supposed to reform the Ukrainian market, making it more attractive to internal as well as external investors. It will result in adoption measures, totaling 552, in particular: institutional and administrative changes, infrastructure changes, system and regulatory changes, the adaptation of UA legislation to EU directives, as well as AA implementation and UA-EU cooperation obligations. The total period scheduled for implementation of all the measures is 9 years and will end in 2023.

The Free Trade Agreement negotiates not only customs duties reduction, but also implies the significant reduction of non-tariff barriers and thus will improve the Ukrainian internal regulatory climate. Expectations of investors, first of all, are connected with the harmonisation of Ukrainian legislation with EU norms.

The European Commission will closely monitor adoption of all required legislative acts within the negotiated terms. Monitoring will include studying of the projects of laws and orders of the Cabinet of Ministers. Ukraine will have to report twice a year regarding its success.

Impact on investors

The signing of the Association Agreement between Ukraine and EU will increase the level of investor trust and contribute to the development of Ukrainian economics and stock market in particular.

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AZERBAIJAN · BELARUS

Azerbaijan

Securities settlement changed

Starting from 1 July, the National Depository Centre of Azerbaijan, jointly with Azerbaijan's State Securities Committee, has been using a new method of settlement of securities transactions concluded on the stock exchange.

The new scheme introduces blocking of securities and funds during the initial transactions with the state securities and REPOs, as well as making settlements on the transaction date (T+0). At the same time, the T+1 trading mode (settlements on the day after the transaction date) will be applied to corporate bonds and all secondary securities markets.

Impact on investors

The new method of settlement will allow an increase in the efficiency of securities trading, reduce risks, and enhance the total volume of securities transactions.

List of securities market professional participants expands

The State Securities Committee of Azerbaijan has issued a new special five-year permission to AzFinance Asset Management for activities in the area of asset management. Thus, the list of securities market professional participants was expanded.

Currently there are 15 licenses for brokerage activity, 15 permits for dealer activity, three for depository activity, two for keeping the registers of securities holders, asset management and clearing activities, and one for the stock exchange activity.

Impact on investors

Increasing the number of professional securities market participants strengthens the competition on the financial market of Azerbaijan, contributes to its growth, and opens up new opportunities for investors.

Belarus

Market Capitalisation	BYR 15.2 trn
YTD Dev. of Market Capitalisation	n.a.
Number of SE Transactions p.m. (BCSE)	871
YTD Dev. of SE Transactions	31.2%
SE Turnover (BCSE)	BYR 4,018.98 bn
Monthly Index Performance (BCSE State Securities)	-0.91%
Upcoming Holidays	–

Source: UniCredit, National Statistics

Belarus' main interest rate reduced to 20.5%

On 16 July, the National Bank of the Republic of Belarus (NBRB) reduced the country's refinance rate to 20.5%.
NBRB plans to continue the gradual reduction of interest rates in the economy to support the macroeconomic balance in the country.

Impact on investors

Reducing the main interest rate will allow the availability of loans for investors to increase.

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ARMENIA

Armenian securities soon available to foreign investors

The Central Depository of Armenia has signed an agreement with the National Settlement Depository (NSD) of Russia and plans to sign the relevant agreements with the depositories of the European countries which will make Armenian securities available for foreign investors.

NASDAQ OMX Armenia, earlier known as the Armenian Stock Exchange OJSC, has successfully completed the process of connection automation with NRD. This system will be launched in the near future. Therefore, Russian securities will be available for Armenian investors and at the same time, Armenian securities will be available on the Russian securities market. Currently, negotiations on the possibility to trade the high-yield Armenian securities on the European markets are also underway.

Impact on investors

Signing the agreements with the leading depositories is a new step towards the development of the Armenian securities market, while increasing the investments opportunities for investors.

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Corporate & Investment Banking
UniCredit Bank Austria AG, Vienna
as of 01 June 2014

IMPRINT

Statement pursuant to the Austrian Media Act
Publisher and Media Owner

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VAT identification number
ATU 51507409