

Striving for growth

Markets know what they have to do, but building long term savings markets is proving neither quick nor easy.

Romania is joining the first wave of Target 2 Securities (T2S) implementation. It may seem an unusual choice, both for the market itself and also to those in charge of implementing the most fundamental change in European capital markets since the implementation of the euro. However Romania embodies in many ways the what the commercial aspect of the European Union is all about;

helping some less developed countries move their economies forward through encouraging adoption of standards and technology that future economic success will require. Romania itself is not short on ambition in terms of its economic and financial market development. With a population of almost 20 million people, it is the seventh largest country in the EU, but is also among the poorest. The benefits for everyone in

the EU of moving Romania forward are considerable.

Société Générale is the largest bank in the region by some margin. Its view is that one important motivation for change is “a strong desire by the BVB (Bursa de Valori Bucuresti) for Romania to be upgraded from Frontier to Emerging Market status within the MSCI Index.” Andy Duffin, head of sales and relationship management, emerging

“The Romanian market has witnessed significant capital market reform recently which has been fully supported by the BVB in association with the capital market regulator, policy makers and market participants. The changes have had a positive impact.”

Andy Duffin, Société Générale Securities Services

markets, Société Générale Securities Services, notes that in order to achieve this objective, “the Romanian market has witnessed significant capital market reform recently which has been fully supported by the BVB in association with the capital market regulator, policy makers and market participants.” As he also recognises, “the changes have had a positive impact and SGSS have actively participated in the implementation for the benefit of its clients.”

Indeed it is not just providers who have seen benefit. Two clients spoken to by *Global Custodian* as part of the Survey commented favourably on the “simplified workflow for receiving the cash dividends and simplified workflow combined with less framework documentation for lending and borrowing.” Though there was also a recognition that more still needs to be done in the area of proxy voting. Meanwhile the closure of the secondary RASDAQ market will serve to enhance liquidity and governance in stocks that transfer to the main market while effectively moving a number of highly illiquid securities off exchange. The main local bank, Banca Comerciala Romana (BCR) is also looking forward to implementation of T2S which, as noted by Cristian Pascu, head of Securities Services and Correspondent Banking, will offer “clients the ability to process real-time transaction settlements on foreign markets as well as on local market, according to CSD time frame, regardless the volumes and type of transactions.” He also expects the process of improvement to continue and cites BCR’s ability to “flexibly, proactively and continuously with regulators and the CSD.” By participating in regular debates surrounding regulations and changes on market infrastructure BCR believes it can deliver real value to clients both at home and overseas.

If Romania is an example of making the best of opportunities, then perhaps Bulgaria represents the opposite end of the spectrum. 2014 saw a new

banking crisis and there are consistent allegations of markets being too heavily influenced by local political considerations rather than the desire to succeed within the EU. As the poorest country in the Union, Bulgaria should be poised to gain significantly from membership. With the lowest average annual wage of all EU nations, Bulgaria will probably be among the last to develop extensive capital and savings markets. Much of what has been created to date is still within the banking and government sectors.

Two other countries covered in the Survey are Croatia and the Czech Republic. According to Raiffeisen Bank International, Croatia has been battling with recession and poor growth since 2009. According to the bank, the period since the financial crisis has been characterised by the failure of essential, deep reforms that the country needs in order to promote economic growth and raise competitiveness. As the bank commented in a recent market review, “Croatia is entirely comparable with the countries on the periphery of the Euro region. There are therefore no quick and easy solutions and the medium-term outlook remains clouded.” With unemployment high and output stagnant opportunities to develop a strong capital market and savings culture remain challenging. In contrast to the difficult position in Croatia, the Czech Republic has developed quite satisfactorily since 1989, despite the split with the Slovak Republic which certainly negatively impacted capital markets developments. Annual GDP is almost \$30,000 per person, effectively double that of Croatia and unemployment is less than 6%. Such an environment allows for the development of savings products and the companies that can provide them. However the stock exchange has a very limited number of independent companies listed, with limited liquidity or activity. This means that investment funds are more likely to look for opportunities overseas rather than in the domestic market. Such diversification may be beneficial to investors but may not be what the local economy would gain most from.

Overall the region presents a mixed picture in terms of market maturity and the extent of existing and likely near term growth potential for domestic savings activity. These differences are reflected in the nature of Survey responses and the nature of the capabilities in place to support the necessary market and product development. ■

SURVEY OVERVIEW

Consistent excellence

Southern Central European domestic custodians earn accolades from all sides.

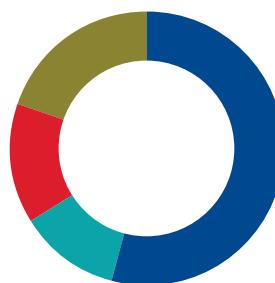
The Survey responses were concentrated into four markets of Central and Southern Europe; Bulgaria, Croatia, Czech Republic and Romania. In addition, a handful of responses were recorded from clients in Serbia and the Slovak Republic. While the markets are of different size and dynamic in terms of local savings, they are all small compared to major markets of Western Europe, North America and Asia. Personal savings remain constrained by economic conditions and the general relative immaturity of the capital markets. However this position is slowly changing, as it has done in countries such as Poland, and the new environment is one that encourages savings products (insurance, pensions, etc) and the institutions that provide them, whether local or regional. Trust and confidence in these new opportunities depends considerably on the entities that provide trustee, custody and administration services. The high scores received from clients in the Survey are therefore an important vote of confidence in the processes in place.

Not all the markets are the same in terms of level of activity and nature and scale of responses.

Bulgaria: Type of respondent



Bulgaria: Size of respondent (AuM)



- Asset manager – 0.0%
- Mutual fund manager – 32.6%
- Pension fund manager – 0.0%
- Insurance company – 19.6%
- Broker or dealer – 0.0%
- Other – 47.8%

- Up to US\$ 100 million – 54.3%
- US\$ 100 to 500 million – 12.0%
- US\$ 500 to 1,000 million – 14.1%
- US\$ 1,000 to 5,000 million – 0.0%
- Over US\$ 5,000 million – 19.6%

Bulgaria: Average scores by category

Relationship management & client service	6.79
Value delivered	6.37
Settlement	6.39
Asset servicing	6.72
Non-domestic assets	6.68
Reporting	6.58
Technology	6.40
Fund accounting & valuation	6.51
Trustee & fund administration	6.79
Reputation & commitment	6.45

Bulgaria

Approximately one third of Bulgaria's responses by weight were received from mutual funds. Reflecting the overall markets these were from small managers in terms of asset size (as measured by AuM). Other responses were seen primarily from local and government banks, who are responsible for much investment in the country. Somewhat larger insurance companies also featured among respondents. In contrast to some other countries there were no responses from brokers or pension funds.

In terms of average country scores, all of Bulgaria's scores were fairly strong. Bulgaria's lowest score across categories was received for Value Delivered (6.37 out of 7), as was also the case for Croatia. This was still a strong score, however and similarly while Bulgaria received the lowest average score across the different markets for Reputation and Commitment (6.45), this is again a strong score. Particular strengths were Trustee and Fund Administration (6.79) and Asset Servicing (6.72). Overall, Bulgaria's average scores were very high, as it achieved results within all categories above 6.0 (very good) out of 7.

As in Croatia the top three priority areas for clients were Relationship Management and Client Service, Settlement and Value Delivered. Comments in respect of the former were highly positive with many clients citing the excellence of personnel in what is still a relatively new business activity.

Croatia

In Croatia, the majority of responses came from insurance companies and mutual funds. A small number of clients who participated were also from pension funds, insurance companies, and a broker/dealer.

Although responses were received from a range of mutual funds, the majority of these funds reported managing assets of less than \$100 million. This is comparable to Bulgaria but smaller than the other countries covered within the survey. Insurance companies were varied in terms of their size.

Bulgaria: Respondent priorities ranking

Relationship management & client service	10.38
Value delivered	8.88
Settlement	9.00
Asset servicing	7.88
Non-domestic assets	4.13
Reporting	7.75
Technology	4.43
Fund accounting & valuation	5.67
Trustee & fund administration	7.17
Reputation & commitment	6.25

Overall, the pattern throughout Croatia's scores was the larger the respondent (according to AuM), the lower the scores that they provided across all client types.

Client comments generally highlighted Relationship Management and Client Service as an area of strength, whilst Operational Reporting was considered to require improvement. Interestingly in Croatia, Value Delivered was considered the single most important client priority, which is somewhat unusual. The position of Trustee and Administrative Services as the least important is common across the various countries.

Scores in important areas of service were more varied than in some countries. The average scores across categories within Croatia were also generally lower than the average scores for service areas across other countries. This was particularly noticeable in relation to Reporting (5.89 out of 7) and Cost and Value Delivered (5.85 out of 7). This is in keeping with client comments concerning reporting. However, all scores were still respectable and suggest a high level of client satisfaction overall.

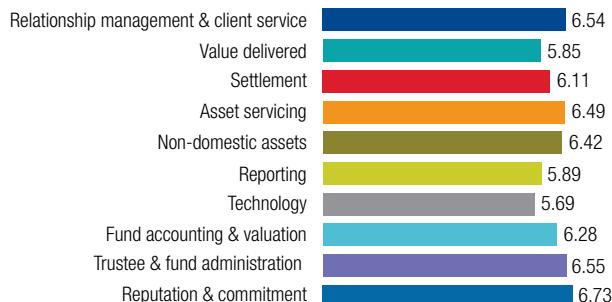
Czech Republic

The Czech Republic received a fairly even mix of responses from insurance companies, mutual funds and broker/dealers. Similarly, the clients who participated varied according to size (as measured by AuM). Overall, the Czech market is significantly more established and larger in terms of savings levels than those seen in the other countries. However, its domestic equity is small in terms of quoted companies and capitalisation.

Average provider scores across service areas were all ranked at more than 6 (out of 7). The only area where the Czech Republic received the lowest average score of all providers was Trustee and Fund Administration. However, its score for this category (6.51 out of 7) is still very high when taken at face value. Its two highest scores were received for Relationship Management and Client Service, and Reputation and Commitment.

In terms of client comments, the general positivity surrounding Relationship Management and Client Service is common with most countries. However, the Czech Republic received several comments that Technology is the area that requires improvement. Nevertheless, it should be noted that no client considered Technology to be the most important area of service, and overall it ranked seventh of the eight areas covered. Clients were also unspecific as to the desired changes.

Croatia: Average scores by category



Methodology

Global Custodian domestic surveys are intended to assess the extent to which local service providers are meeting the expressed needs of their domestic clients. Such needs are often different from those of cross-border investors covered in the Agent Bank surveys published by the magazine. Many service providers also focus mainly or exclusively on domestic clients.

To obtain the relevant information, clients are invited to complete a short questionnaire. This typically involves around 20 questions. The questions are grouped into between eight and twelve service categories for presentation purposes. Respondents evaluate each question for each service provider that they use. Scores range from 1 (Unacceptable) to 7 (Excellent). Where clients have insufficient experience of a service or do not use it at all, they can enter N/A. Clients are also asked to indicate which categories are most important to them in assessing the overall service being received, and are given the opportunity to provide explanatory comments and identify specific strengths and weaknesses of their service provider(s).

Each question is given an individual weighting depending on the importance attached to it by clients. Each respondent is given a weighting based on the scale and breadth of their business and the detail included in the responses they provide. Respondents are also described by their type of business and the level of their assets under management (AuM).

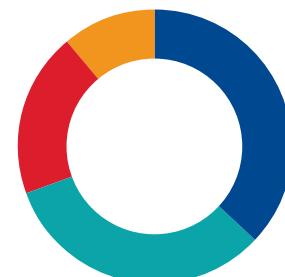
Global Custodian's Research department calculates weighted average scores for each provider, for each question, each category and an overall total. The Research department also calculates scores for different types and size of respondent allowing us to reflect as accurately as possible the relative position of each service provider, both overall and with specific client subgroups. Summary information is presented in each Provider Profile together with, where relevant, explanatory contextual commentary.

More detailed analysis of scores and comments received is available from the *Global Custodian* Research department. This group also administers the digital accreditation process by which suitably qualified providers can receive a formal accreditation of their achievements, in the form of one or more digital badges.

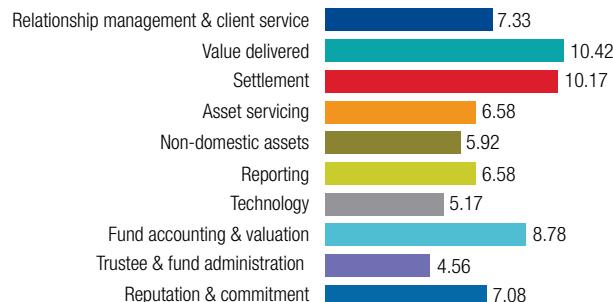
Croatia: Type of respondent



Croatia: Size of respondent (AuM)



Croatia: Respondent priorities ranking



The service area that was considered to be of least importance by the most clients was Reputation and Asset Safety. This contrasts with the results from most other countries. This again probably reflects the relative maturity of the market and the institutions actively providing custody services. There were, however, one or two exceptions for whom it was one of the top two areas of priority.

Romania

Romania's client type breakdown differed from that of other countries, in that two-thirds of responses by weight were from asset and mutual fund managers. These firms are small in terms of AuM but more numerous than in other countries' respondents. This also was reflected in the relatively high

proportion of responses from small clients, which accounted for more than half of the weighted scores. This undoubtedly has a positive effect on scoring, as these clients are generally less demanding than larger clients.

Even allowing for the impact of client demographics, scores were generally excellent. Romania received overall scores that were higher than 6 (out of 7) for all service areas. In fact, its lowest average score (6.68 out of 7), which was received for Cost and Value Delivered, still ranks between Very Good and Excellent standard. Overall, Romania's average scores are the highest of all countries, with Reputation and Asset Safety receiving a near-perfect average score of 6.98.

Client comments were limited and high scores may reflect the quality of relationships as much as the service being delivered. ■

Czech Republic: Average scores by category



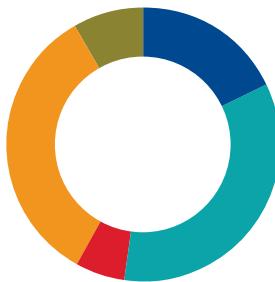
Czech Republic: Respondent priorities ranking



Czech: Type of respondent



Czech: Size of respondent (AuM)



Romania: Type of respondent



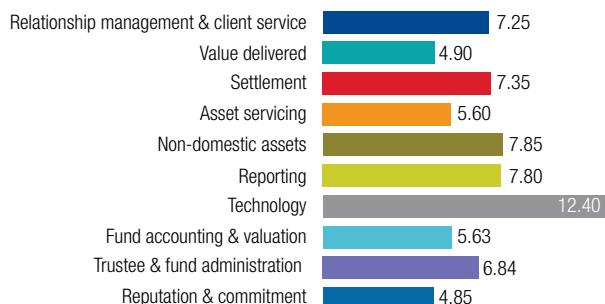
Romania: Size of respondent (AuM)



Romania: Average scores by category



Romania: Respondent priorities ranking



Société Générale

Société Générale as a bank and its securities servicing business (SGSS) specifically has a very strong position in a number of CEE markets. Across the survey SGSS received more responses by number and weight than any other provider. The majority of responses were from clients with AuM of less than \$100 million. That was particularly noticeable in Romania and Bulgaria, less the case in Czech Republic. In terms of different types of client, SGSS had the broadest range, but as with other providers there was a strong representation from mutual fund managers and insurance companies. The only responses from brokers came in Croatia.

In terms of performance SGSS scored well in all the four markets where it was rated. Overall the best scores

were seen in Romania and the weakest were from Croatian clients. Even here however, SGSS scores beat 6.0 (very good) in six of the ten categories evaluated. The lowest score in any category (Technology) was still above 5.50. In the Czech Republic Technology

and Value Delivered scored less than 6.0 but these were the only categories where that occurred. In Romania scores were better than 6.0 for all categories. The Czech Republic is the most mature market with the most demanding and largest clients. This probably explains the fact that in six categories SGSS saw its lowest scores in that market. As with other providers, SGSS received a number of positive comments in all countries

Service area scores

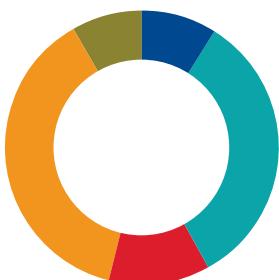
Service area	Bulgaria	Croatia	Czech	Romania
Relationship management & client service	6.81	6.50	6.38	6.95
Value delivered	6.42	5.88	5.27	6.84
Settlement	6.65	6.06	6.43	6.87
Asset servicing	6.69	6.45	6.02	6.82
Non-domestic assets	6.81	5.75	6.14	6.90
Reporting	6.57	5.90	6.02	6.80
Technology	6.69	5.69	5.93	6.90
Fund accounting & valuation	7.00	6.28	6.68	6.78
Trustee & fund administration	6.55	6.55	6.40	6.97
Reputation & commitment	6.84	6.16	6.53	6.95

Bulgaria: Type of respondent



- Asset manager – 0.0%
- Mutual fund manager – 24.4%
- Pension fund manager – 0.0%
- Insurance company – 22.0%
- Broker or dealer – 0.0%
- Other – 53.7%

Croatia: Type of respondent



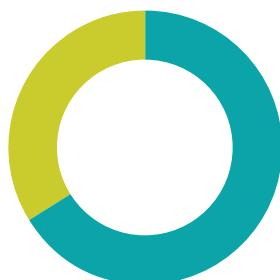
- Asset manager – 8.9%
- Mutual fund manager – 33.1%
- Pension fund manager – 12.1%
- Insurance company – 37.9%
- Broker or dealer – 8.1%
- Other – 0.0%

Czech: Type of respondent



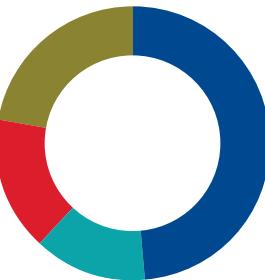
- Asset manager – 14.9%
- Mutual fund manager – 0.0%
- Pension fund manager – 20.3%
- Insurance company – 51.4%
- Broker or dealer – 0.0%
- Other – 13.5%

Romania: Type of respondent



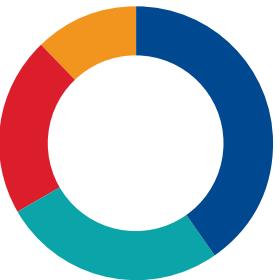
- Asset manager – 0.0%
- Mutual fund manager – 66.3%
- Pension fund manager – 0.0%
- Insurance company – 0.0%
- Broker or dealer – 0.0%
- Other – 33.7%

Bulgaria: Size of respondent (AuM)



- Up to US\$ 100 million – 48.8%
- US\$ 100 to 500 million – 13.4%
- US\$ 500 to 1,000 million – 15.9%
- US\$ 1,000 to 5,000 million – 0.0%
- Over US\$ 5,000 million – 22.0%

Croatia: Size of respondent (AuM)



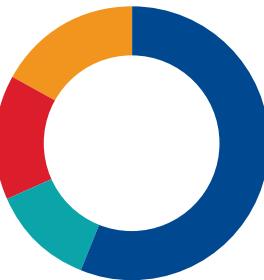
- Up to US\$ 100 million – 40.3%
- US\$ 100 to 500 million – 26.6%
- US\$ 500 to 1,000 million – 21.0%
- US\$ 1,000 to 5,000 million – 12.1%
- Over US\$ 5,000 million – 0.0%

Czech: Size of respondent (AuM)



- Up to US\$ 100 million – 27.0%
- US\$ 100 to 500 million – 14.9%
- US\$ 500 to 1,000 million – 17.6%
- US\$ 1,000 to 5,000 million – 40.5%
- Over US\$ 5,000 million – 0.0%

Romania: Size of respondent (AuM)



- Up to US\$ 100 million – 56.2%
- US\$ 100 to 500 million – 12.4%
- US\$ 500 to 1,000 million – 14.6%
- US\$ 1,000 to 5,000 million – 16.9%
- Over US\$ 5,000 million – 0.0%

around Relationship Management and Client Service. "Excellent expertise and responsiveness of personnel" was one summary. Others mentioned the strong "know how" of individuals and the "pro client approach adopted by the bank". Client Service was also mentioned as a key strength of the SGSS offering by more than one-third of all respondents.

Given the number of mutual fund clients it is interesting to note the generally strong scores seen by SGSS for Fund Accounting and Valuation and for Administration services where these are provided. Some clients singled out Fund Accounting as a strength, but for the most part core custody services (Settlement and Asset Servicing) received more mentions from respondents. Because of the relatively limited investment opportunities in some of the domestic markets, clients have to diversify into overseas countries. SGSS is very well placed to assist clients as they extend their investment approach. Alongside a number of comments concerning operations generally one client singled out SGSS for their "very good client service and great market coverage for global custody."

Approximately two-thirds of respondents found no area of service that merited criticism or a need to improve. Among those few that did have some reservation the most commonly mentioned element was Operational Reporting, in particular the ability to deliver customised reporting and special reports. In Croatia one client mentioned timings for same day cash movements, but this seems to be a market rather than a specific SGSS issue. One client would also like to see more reporting available on-line.

Across the survey, the number of 7.0 (excellent) scores was high, in line with most domestic surveys. For providers operating with a discrete group of clients in a single country, this is perhaps not so surprising especially when clients may always, have used the same provider. What is impressive about SGSS' performance is the ability to achieve such a positive responses from such a wide array of different clients across all the four countries covered in depth by the survey. The breadth and depth of response marks SGSS as a leader across the region. Overall this has to be considered a very encouraging result for SGSS positioning them very well for future success. ■

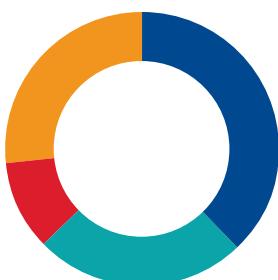
Banca Comerciala Romana

Banca Comerciala Romana (BCR) was established in 1990, when it took over the commercial activity of The National Bank of Romania. It is the largest Romanian bank in terms of AuM and client base. BCR is a member of the Erste Group, which is one of the largest CEE financial services providers.

Almost 40 percent of BCR's responses were from Asset Managers, while almost 50 percent of overall responses came from companies managing less than \$100 million AuM. This no doubt helped from a scoring perspective. Nonetheless BCR's scores across all ten categories were very high, with the lowest average score of 6.55 out of 7 (for Value Delivered) still ranking between Very Good and Excellent. Amongst its highest scores were Fund Accounting and Valuation (6.97) and Reputation and Commitment, where BCR received a perfect score.

The client comments generally reflect the average provider

Romania: Type of respondent



Romania: Size of respondent (AuM)



- Asset manager – 38.0%
- Mutual fund manager – 24.8%
- Pension fund manager – 10.7%
- Insurance company – 26.4%
- Broker or dealer – 0.0%
- Other – 0.0%

- Up to US\$ 100 million – 49.6%
- US\$ 100 to 500 million – 27.3%
- US\$ 500 to 1,000 million – 10.7%
- US\$ 1,000 to 5,000 million – 12.4%
- Over US\$ 5,000 million – 0.0%

scores received by BCR. The majority of participants considered Reputation and Asset Safety to be the bank's main strength, whilst a few clients singled out "competitiveness of fees charged" as the area where they would like to see improvement of service. Comments are consistent with the fact that Value Delivered was BCR's lowest average score.

Technology was another area that some clients felt required improvement, and cash management, specifically flexibility of deadlines for same day cash settlement was also mentioned. However, the majority of respondents considered that there were no specific areas where improvement was needed, reflecting the generally very high scores. Furthermore, all respondents mentioned particular strengths of the provider. These included positive remarks about the quality of personnel and the excellence of trustee services. Overall, BCR's scores indicate it is doing very well, and is in a good competitive position. Clearly it has the opportunity to extend its market share as opportunities develop within the Romanian market. ■

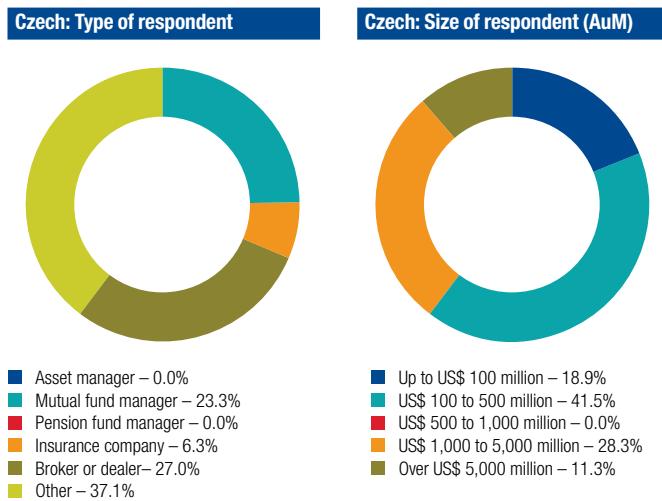
Service area scores

Service area	Romania
Relationship management & client service	6.84
Value delivered	6.55
Settlement	6.63
Asset servicing	6.92
Non-domestic assets	6.68
Reporting	6.61
Technology	6.71
Fund accounting & valuation	6.97
Trustee & fund administration	6.78
Reputation & commitment	7.00

CSOB

CSOB's provider scores were very high, with all results reaching an average of more than 6.0 (very good). In fact, CSOB actually obtained scores above 6.50 for the majority of the categories, meaning most areas were ranked between Very Good and Excellent standard. Particularly strong scores were received for Relationship Management and Client Service and Reputation and Commitment. Its lowest average score for Value Delivered (6.42) similar to the scoring pattern generally.

Positive scores are supported by comments in the area of Relationship Management and Client Service. One respondent referred service being provided at "top level, meeting our specific requirements," while another stated, "CSOB customises [services for] our needs and [offers] excellent operational service and support." These suggest the strong



scores reflect CSOB offering tailor-made services. The high score received for Reputation is also supported by comments. One client considered this to be CSOB's main strength, whilst other associated words, such as 'reliable' and 'experienced' featured in other comments. Despite the lower score for Value Delivered, the only comments relating to desired improvements related to technology.

Over 40 percent of CSOB's responses came from relatively small (\$100-500 million AuM) clients. However, almost 40 percent of clients were also from companies that hold at least \$1 billion in AuM. More than 50 percent of participants who evaluated CSOB's performance were either mutual funds or broker/dealers, with broker/dealers obtaining a slightly larger share of the responses. This profile was relatively unusual within the survey overall.

In Slovakia, however, CSOB's average scores were typically lower than its results within the Czech Republic. This probably reflects the small scale of the market and limited activity. It is perhaps worth noting that the score for Value Delivered was only 3.50 which even allowing for survey trends could be a concern if continued over time. ■

Service area scores

Service area	Czech	Slovak
Relationship management & client service	6.82	5.50
Value delivered	6.42	3.50
Settlement	6.65	6.33
Asset servicing	6.47	6.00
Non-domestic assets	6.59	N/A
Reporting	6.55	5.00
Technology	6.55	N/A
Fund accounting & valuation	6.44	4.50
Trustee & fund administration	6.58	N/A
Reputation & commitment	7.00	5.50

Eurobank

Eurobank Bulgaria, also known as Postbank, has been in Bulgaria market for almost 25 years. It has been growing fast (15% Y-o-Y). Eurobank EFG Group is active in Romania from where most survey responses were received, Poland and Serbia, reflect an expansion from its Greek core.

Eurobank's average scores for Bulgaria were more varied than might be expected. The lowest score of 4.33 being attributed to Settlement was disappointing but at the same time activity is limited. However the result should be considered in the context of Eurobank receiving a score of 7.0 (excellent) for Asset Servicing, and Client Service. The latter of which is reflected in the client comments concerning particular strengths of the bank. In both markets responses were all from small mutual fund managers.

Eurobank's Romanian branch did not receive any perfect scores but results were nevertheless more consistent than those of Bulgaria. Average scores ranged from 5.50 to 6.50. Its

lowest score (5.50) was for Reporting. High scores of 6.50 for Relationship Management and Client Service paralleled those in Bulgaria. Eurobank also received strong scores for and Reputation and Commitment. Overall Eurobank received no negative client comments or suggestions of areas needing specifically to be improved. Even scores for Value Delivered were solid and Eurobank appears well positioned in these two countries. ■

Service area scores

Service area	Bulgaria	Romania
Relationship management & client service	7.00	6.50
Value delivered	6.00	6.00
Settlement	4.33	6.00
Asset servicing	7.00	6.00
Non-domestic assets	6.00	6.00
Reporting	N/A	5.50
Technology	5.50	6.00
Fund accounting & valuation	5.33	6.00
Trustee & fund administration	6.33	6.00
Reputation & commitment	5.00	6.50