

2014 – 2017, Three years of progress

“8 Barriers” project, Jan. 2014 Initiative of BSE and Coalition for Romania Development (Coalitia pentru Dezvoltarea Romaniei) to eliminate the barriers impeding the development of the capital market and ultimately to obtain the Emerging Market classification - **Starting point for the most of the major market developments of the next years**

Segregation of trading from the settlement systems, Oct. 2014 Introduction of the trading and post-trading accounts, granting the segregation of the trading from settlement activities

Proxy voting, 2015 Voting at shareholders meetings through proxies is not as formalistic and rigid as before (when special PoAs were requested)

Depozitarul Central Membership to T2S system, Jun. 2015 opened the door for the implementation of European best practices for settlement and incomes distribution;

Introduction of the pay-date for dividend payments, 2015 Significant progress from the previous procedure, where dividend was paid to the shareholders during a 6 months interval

Centralization of the dividend/income paying process through Depozitarul Central, 2015 Investors holding positions with the CSD participants receive the income through their broker or custodian agent, at the pay date

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Dissolution of RASDAQ market, 2015; Finalization of the transfer of the companies listed on the quote-driven market, RASDAQ, to the regulated market or to ATS

Update of the Fiscal Code, 2015 Reduction of the dividend withholding rate to 5% stimulated the investments; simplified the life of the majority of foreign investors; 0% tax on coupon incomes received by foreign investors from corporate bonds

Market costs reduction, 2015 – 2016 The efforts of FSA, BSE and Depozitarul Central to reduce market fees undertaken during the last years shall be continued

Short selling and securities lending regulations update, Aug. 2016 Flexible regulatory and procedural framework, allowing short selling operations on all BSE-listed securities; eliminating the obligation to mark the short selling orders and to notify the CSD for the standard lending agreements, extension of the list of securities to be used as collateral

Emerging Market Country Classification, Sept. 2016 The cooperation of all market participants (part of “8 Barriers” STEAM, projects), FTSE Russell included Romania on watch-list for acquiring Emerging Market status. The **upgrade will depend on the progress of market liquidity** overall and the presence on the market of largest companies with substantial individual liquidity; **Our goal is to obtain the classification from MCSI and FTSE**

Listings, Privatizations and new instruments at BSE quote (Warrants - Jun. 2016; Retail Government Bonds - 2015, 2016) Improved interactions between the involved parties (central infrastructure, investors)

Indirect participant at Depozitarul Central, Jan. 2017 Remote brokers mobility to perform operations on the stock exchange

Centralized Corporate Actions processing, Feb. 2017 Depozitarul Central became responsible for the processing and registration of the corporate actions for issuers, participants and holders with accounts opened with Depozitarul Central. **Improved reporting and communication with the market for the companies.**

Things to do...

Depozitarul Central's Section I dissolution; The huge number of dormant accounts (by the size of millions) opened with the CSD for the beneficiaries of the mass privatization process is hindering the activity of the CSD;

Electronic registration of foreign investors for fiscal purposes Currently, prior to submitting the fiscal declarations, investors are required to obtain a fiscal identification code, through a time-consuming and costly process; most investors choose to pay for fiscal consultancy for this process. The simplification of the fiscal registration process can stimulate the presence of foreign investments

Increase market liquidity New listings/fee structures

Market infrastructure continued improvements/investments

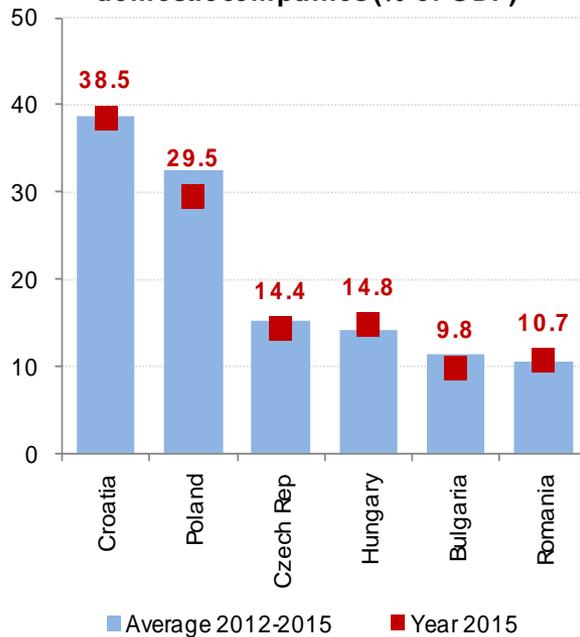
Regulatory priorities Draft law on AIFs and MiFID II

Positive example the Draft Issuers Law (currently pending for Parliamentary approval) allows the use of SWIFT instructions for exercising the proxies by the custodian banks.

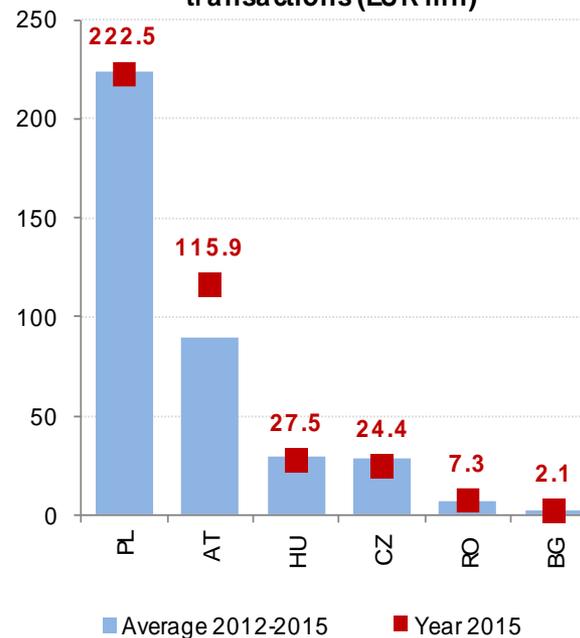
Increase the capitalization

- Capitalization of the Romanian equity market is one of the lowest in the European Union.
- The liquidity of the market is low.

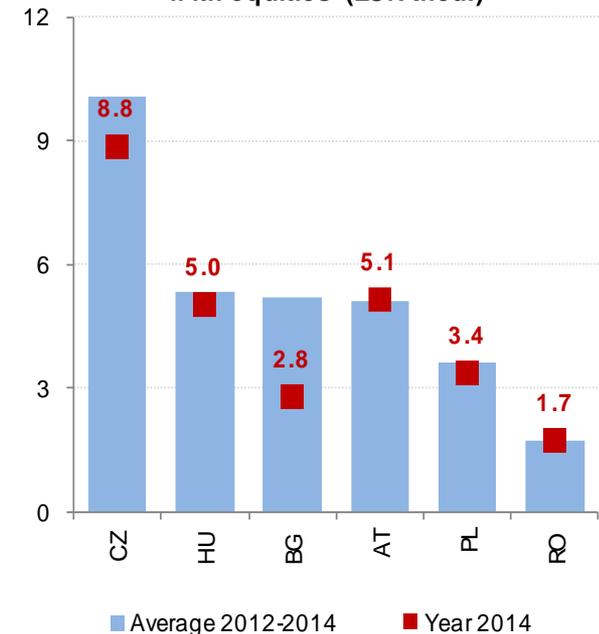
Market capitalization of listed domestic companies (% of GDP)



Average daily turnover in equity transactions (EUR mn)



Average value per one transaction with equities (EUR thou.)

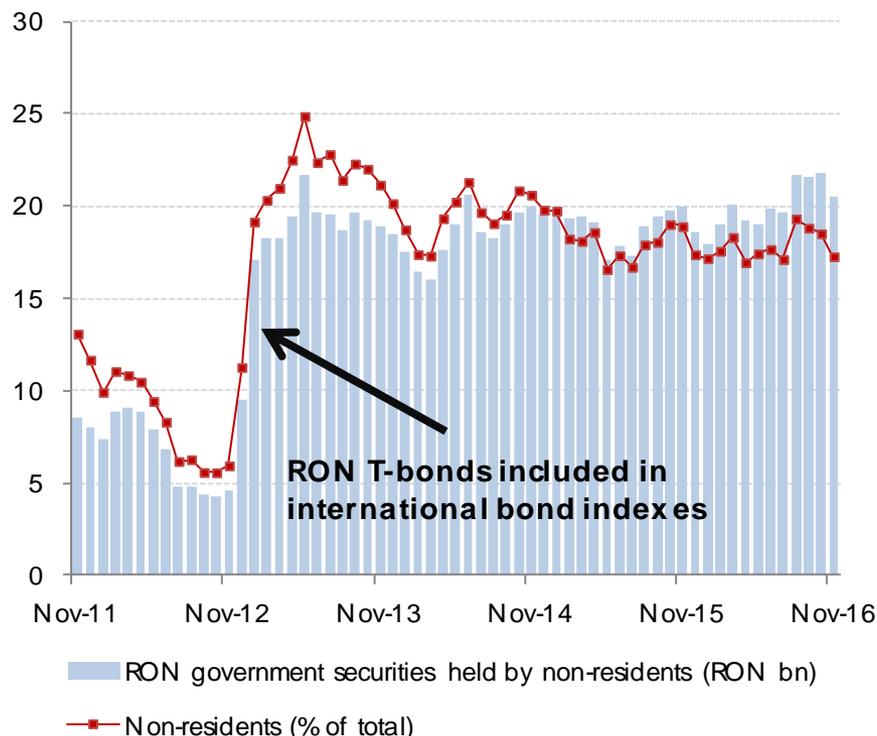


Source: European Central Bank, Raiffeisen RESEARCH

Foreign investors will come to the market only if the market allows for large transactions and offers liquidity

- Listing large companies is required (i.e. by privatization) to create liquidity/to allow for large transactions as desired by institutional investors (especially the foreign ones).
- Development of the local government bond market triggered inflows of foreign capitals on structural basis (due to inclusion of RON T-bond in the international LCY T-bond indexes)
- Inclusion of RON T-bonds in the EM local debt indexes of JP Morgan at the end of 2012 resulted in a surge of portfolio inflows.

During December 2012-February 2013 non-residents' exposure in RON Government securities increased by RON 13.6bn (or EUR 3.1bn equivalent) while yields decreased by around 100bp.



Diversification of funding sources for private and public companies

- A more diverse financial system tends to be more stable and able to absorb shocks.
- There are important benefits to have a broader base of investors (foreign and domestic, short-term and long-term oriented) in terms of reducing macroeconomic volatility.
- When the banking system is majority foreign-owned, the economy becomes more vulnerable to external shocks (i.e. regional deleveraging episodes).
- Government, state-owned and private companies can obtain resources for investment projects.
- A model of economic growth based more on domestic savings (mobilized by pension funds, insurance, and mutual funds) might be required if the foreign debt stock has reached a high level.
- The monetary policy decisions and transmission mechanisms are more efficient when the capital market is more developed.

Improvement of corporate governance and more opportunities for long-term investors

Improvement of corporate governance, both for private and public companies

- Increase the efficiency of allocation of funds in the economy
- Increase in efficiency of public spending by majority state-owned companies

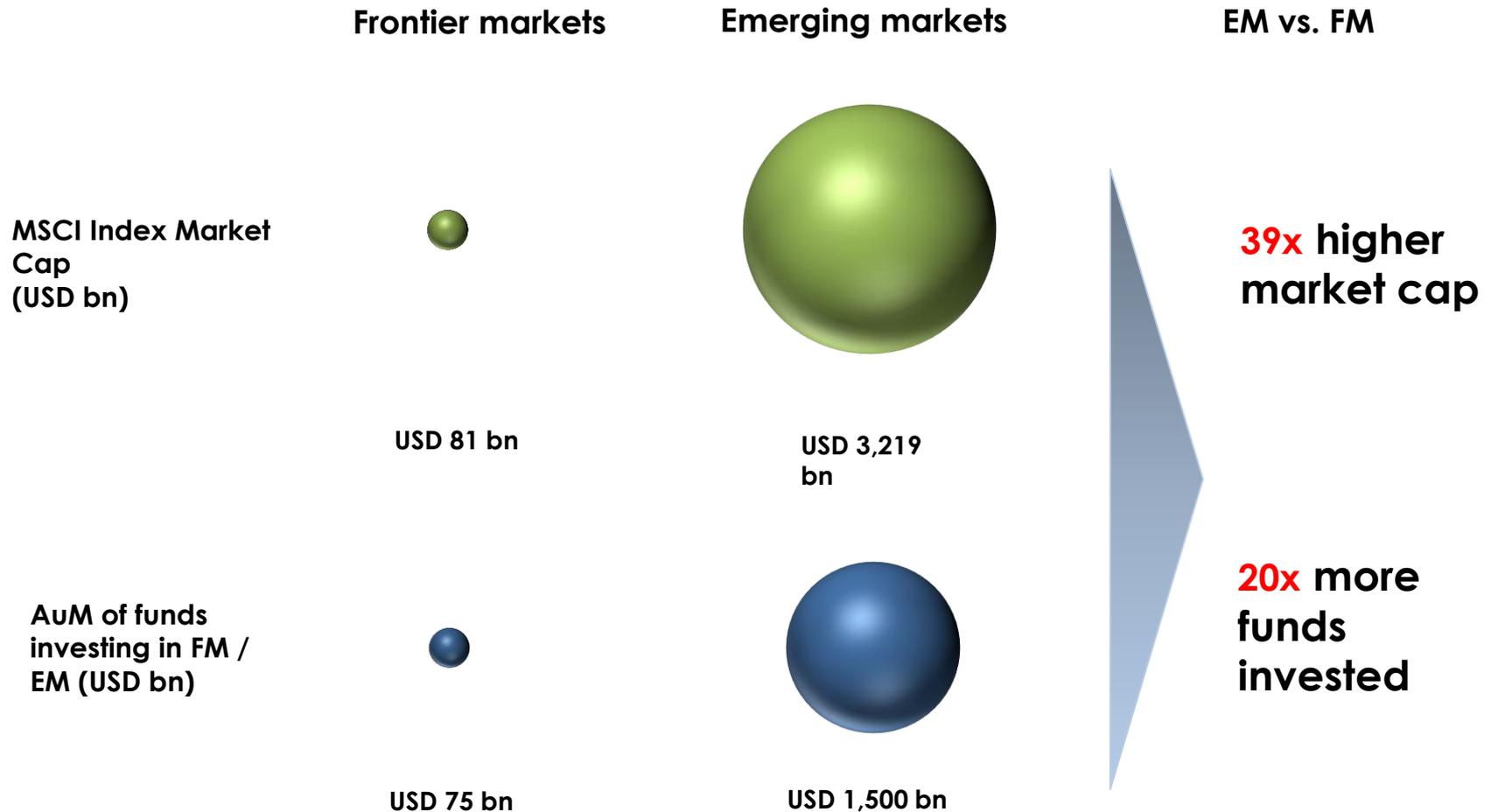
More domestic investments opportunities for insurance companies, pension funds and investment funds

- Real convergence process would result in an increase in demand for insurance and more assets of the pension funds.
- Pension funds and insurance companies need to make long-term investments in bonds and equity instruments, while providing a stable base of investors for such markets.
- Lack of domestic investment opportunities can push the pension funds and the insurance companies to invest part of their financial resources on the external markets

Development of capital market enhances the development of the other segments of financial sector

- A developed capital market enhance the capacity of financial institutions to manage their risks by allowing: a more accurate hedging and pricing of risk, a decrease in liquidity and in risk premia (i.e. a well functioning yield curve, better estimates for cost of capital)

Obtaining EM status: access to a massively increased pool of capital resources



MSCI criteria for emerging markets status

| SIZE & LIQUIDITY | FRONTIER | EMERGING | TO DO |
|---|--|--|---|
| <ul style="list-style-type: none"> Number of companies meeting the index criteria <ul style="list-style-type: none"> Company size (full market cap) Security size (free-float market cap) Security liquidity | <p>2</p> <p>USD 630 mn</p> <p>USD 49 mn</p> <p>2.5% ATVR</p> | <p>3</p> <p>USD 1,260 mn ✓</p> <p>USD 630 mn ✗</p> <p>15% ATVR</p> | <ul style="list-style-type: none"> New issuers to the market Stronger local institutional investors |

| MARKET ACCESSIBILITY CRITERIA | FRONTIER | EMERGING | TO DO |
|--|--|--|---|
| <ul style="list-style-type: none"> Openness to foreign ownership Ease of capital inflows / outflows Efficiency of operational framework Stability of institutional framework | <p>At least some</p> <p>At least partial</p> <p>Modest</p> <p>Modest</p> | <p>Significant</p> <p>Significant</p> <p>Good & tested</p> <p>Modest</p> | <ul style="list-style-type: none"> 8 Barriers Project STEAM Project |

MSCI quantitative criteria – end-2016 status

| Romanian issuer | Market cap (USD bn) | Value Free float adj. (USD bn) | ATVR (Dec 2016) |
|--------------------|---------------------|--------------------------------|-----------------|
| OMV Petrom | 3.42 | 0.51 | 14.0% |
| Romgaz | 2.23 | 0.61 | 25.6% |
| BRD | 1.88 | 0.51 | 14.7% |
| Banca Transilvania | 2.16 | 1.69 | 19.4% |
| Electrica | 1.06 | 0.51 | 13.2% |

MSCI qualitative criteria for EM status

| Market accessibility criteria | Accessibility measures | Sub-criteria | MSCI assessment results |
|---|--|--|---|
| Openness to foreign ownership | Investor qualification requirement | n.a. | Comply |
| | Foreign ownership limit level | n.a. | Comply |
| | Foreign room level | n.a. | Comply |
| | Equal rights to foreign investors | n.a. | No major issues, improvements possible |
| Ease of capital inflows/outflows | Capital flows restriction level | n.a. | Comply |
| | Foreign exchange market liberalization level | n.a. | Comply |
| Efficiency of operational framework | Market entry | Investor registration & account set up | Comply |
| | Market organization | Market regulations | No major issues, improvements possible |
| | | Information flow | No major issues, improvements possible |
| | Market infrastructure | Clearing & Settlement | No major issues, improvements possible |
| | | Custody | Comply |
| | | Registry / Depository | Comply |
| | | Trading | Improvements needed/extent to be assessed |
| | | Transferability | Improvements needed/extent to be assessed |
| | | Stock lending | Improvements needed/extent to be assessed |
| | | Short selling | Improvements needed/extent to be assessed |
| Competitive landscape | | | Comply |
| Stability of institutional framework | | | No major issues, improvements possible |

Recommendations

- Bringing new issuers to the market, either state-owned companies or private companies, diversify asset classes
- Improve the market infrastructure
- Reduce market costs
- Simplify the account opening procedures
- Improve the regulatory framework