Sunday Wrap

Happy Sunday,

Few countries are as misunderstood as Germany. The lack of nuance (if not even silly stereotyping) in the global commentariat's understanding of this great and very diversified federation of 83 million people across 16 states never ceases to amaze me.

So, to do my little bit to add colour to this otherwise mostly black-and-white picture, I'll highlight five important headlines out of Germany from just this past week.

I'll briefly reflect on each of them:

- During her trip to Ireland a few days ago (before rushing back to Berlin to meet with one of her favorite people, Barack Obama), Angela Merkel said that Germany will do "everything" it can to avoid a no-deal Brexit, while hammering home Germany's unreserved commitment to EU unity, including Ireland. Message to Theresa May and the Brexit gang in London: You didn't understand Germany when you thought we would prioritize car exports over EU unity, but we'll still try to help you protect you from yourself.

- Bundesbank President Jens Weidmann published a joint piece with Banque de France Governor Francois Villeroy de Galhau, in which he embraced Villeroy de Galhau's long held argument for a proper capital markets union which, along with the banking union, would establish a genuine "Financing Union for investment and innovation". Message from Weidmann to Europe: I understand what Europe needs - and I'm a candidate for the ECB job.

- But not so fast: Süddeutsche Zeitung published an opinion piece by its political star reporter, Cerstin Gammelin, pointing out that Europe has enough qualified women to fill all of this year's top vacancies. Message to Europe's political leaders: It's time to act on your commitment to gender diversification.

- Finance Minister Scholz reiterated his call for a German banking champion (read: Deutsche Bank and Commerzbank should merge), but new opinion polls show a strong majority in the population against the merger, and a substantial decline in his own approval rating on account of his stance on this. Message from the German public to Berlin: If this merger goes ahead, it'll be at a measurable political price.

- Frankfurter Allgemeine Zeitung, one of Germany's key outlets for skepticism towards Southern Europe, published a piece dedicated to "the facts" on Italian debt, assembled and analyzed by my colleague Chiara Cremonesi. Message to its (mostly conservative) German readership: It's time to get your facts right about Italian debt and its banks.

Here we go, trying to connect the dots:

Erik F. Nielsen
Global Head of CIB Research
Group Chief Economist
(UniCredit Bank, London)
+44 207 826-1765
erik.nielsen@unicredit.eu

Bloomberg: UCGR, UCFR
Internet: www.unicreditresearch.eu

1. Brexit: What now?

I'll be really brief on this today because I assume you are up-to-date on the miserable Brexit saga, including: **(i)** the revolutionary developments this past week that, more than two years after having triggered Article 50 to take the UK out of the EU without having conducted a single debate on what the alternative ought to be, Theresa May and opposition leader Jeremy Corbyn decided to meet to discuss the future – and that, as of this morning, the talks between these two leaders are not going well; **(ii)** Theresa May's request to the EU for another delay in Brexit, moving it from this coming Friday, April 12, to June 30; and **(iii)** the EU summit on Wednesday, April 10, called by Donald Tusk to decide what to do for this member state which doesn't know itself what it wants.

My colleague, our Chief UK Economist, Daniel Vernazza, knows every detail of this gigantic mess. Here's what he tells me is likely to happen:

On Wednesday, April 10, the EU-27 Council will grant the UK a longer-than-requested extension, maybe to the end of the year or until next spring, but with a break-clause that the UK can trigger if they reach agreement among themselves beforehand – and all in return for a gentlemen's agreement that the UK will abstain from all key decisions in the EU from now on. While it sounds reasonable, it's a messy outcome because it would allow the UK to cancel holding European Elections so long as they ratify the exit deal by May 22 - yet, if they do so, it'll create a problem for the election process in those countries that are due to be allocated a share of the UK seats when they leave. Not surprisingly, the EU-27 is quite divided on this issue, with Merkel arguing for flexibility and Macron for a tougher line. I suspect Macron will come around to a position close to Merkel's view – in return for some unspecified "deposits in the favor bank" for his use later this year. (Very high probability indeed of this happening in some form around this outline.)

On Thursday (a day before the legal deadline), the UK Parliament will pass the necessary legislation, including approval of funds, so that they can hold the election to the European Parliament on May 23-26, as they are legally required to do under EU law if they are still members on May 23. (Virtually 100% probability.)

Then later this week or early next, while Theresa May and Jeremy Corbyn are unlikely to agree on a single recommendation, they could well agree on a format to stage "indicative votes" on various possible compromises, and to abide by the result of a "free vote" in parliament on those options. To remind you, the compromises will have to land between Theresa May's "Customs Union in all but name" (the burning issue inside her party is the Irish border backstop which includes a Customs Union which could endure indefinitely) and Corbyn's "Customs Union but in name only" (e.g. he wants an opt-out for state aid and a say in EU trade deals with third countries – non-starters in Europe). Yes, you concluded correctly: In spite of the seriously of the issue at hand, it's really mostly party politics blocking the road. If we get to these indicative votes, the UK will be out of the EU on May 22 (so they won't have to hold the European election.) We'll give this scenario 30%-40% probability.

If it doesn't happen (60%-70% probability), Theresa May will – finally – throw in the towel, and the Conservative party will descend into one of the most divisive leadership contests ever seen in the UK. I won't try to guess the outcome, but the key issue will be which two candidates get selected by the deeply divided parliamentary group to be voted on by the (heavily pro-Brexit) national membership. We'll then get parliamentary elections later this year – which will provide no clarity for the future direction of this "Divided Kingdom", and the whole Brexit drama will repeat itself in 9-12 months, with probably the same likely outcome, namely a customs union +/-.

Through it all, make no mistake about it: Merkel will be key, and her priority will continue to be EU unity.

2. Weidman and Villeroy de Galhau argue for a proper capital markets union.

This past week, Bundesbank President, Jens Weidmann, and Banque de France Governor, Francois Villeroy de Galhau, published a joint opinion piece in Frankfurter Allgemeine Zeitung and Les Echos in which they called for a proper capital markets union. They argue that along with the banking union, the capital markets union would establish a genuine “Financing Union for investment and innovation”. In every respect, this is Weidmann signing on to a long-held Villeroy de Galhau idea (and a very good one.)

In their piece, the two governors make three key points:

First, they point out that the common market has been a huge success in terms of increasing growth and lowering prices for consumers, and that it’s high time to introduce a proper common market also for capital markets: “While geographical diversification is already quite high in some market segments, cross-border activities in other areas remain weak and have been stagnant in recent years. By tearing down the remaining barriers to free capital flows and investment we can strengthen financial integration, leverage our common market and reap a double dividend of higher growth and stronger resilience.”

This is music to my ears. As you know, I have long been highlighting the fundamental inconsistency of de facto capital controls (via national regulatory measures) inside a currency union – and I have been arguing for a shift in Europe towards incentives for equity and other more risk-willing capital flows, rather than debt flows. Changes to regulation of pension and insurance companies, and tax more broadly, are necessary.

Second, the two governors note that “integrated capital markets can cushion shocks that hit parts of a currency area. When company ownership is highly diversified geographically, business profits and losses are widely distributed as well”. They pointed out that capital markets in the US “allow almost half of the burden of an economic shock to be spread across the states – more than by fiscal transfers. In the euro area, only one-tenth of an economic shock is cushioned by private risk sharing”.

This is a very important point also for the “topic of the day”, the possible merger of Deutsche Bank and Commerzbank. Indeed, in his speech on Friday in Bucharest, Villeroy de Galhau extended the same logic to banking, when he called on lawmakers to encourage more cross border bank consolidation by easing capital requirements for EU cross-border bank mergers and holdings, precisely because geographical diversification reduces risk. This is a recommendation also made by Nicolas Veron of Bruegel and the Peterson Institute.

Also, as you may recall, Cinzia Alcidi at CEPS has shown that because of the present national segmentation, not only did financial markets not play their normal role of shock-absorber during the most recent European crisis, they became part of the problem as they turned pro-cyclical. Specifically, eurozone banks in the core countries withdrew within a very short period of time more than a trillion euros from the periphery, while there was virtually no risk-willing capital flowing the other way. And in what – bizarrely – has been termed the doom-loop, banks in the periphery boosted their holding of home-country national debt, thereby functioning not as a “problem magnifier”, as claimed, but as a very important partial shock-absorber in a system otherwise designed without any such automatic shock absorbers.

Strong cross-border banks would have squared this circle of avoiding both the highly disruptive capital flight back to the core countries, while also tempering individual banks in the periphery from ending up serving as shock absorbers. The Vienna Initiative for Western European banks with subsidiaries in CEE serves as a possible example of a way forward.

Third, Weidmann and Villeroy de Galhau point out that "integrated capital markets require effective supervision" (no disagreement), and they call on ESMA to contribute to further convergence of supervisory practices.

Their (brief) opinion piece is here in English: Towards a genuine capital markets union

The two governors should be applauded for speaking out on this important issue and for suggesting a way forward. But the real news is not the idea, but Weidmann's decision to sign on to a long-held view by Villeroy de Galhau. As you may recall, Villeroy de Galhau has campaigned for such an initiative for quite a while. For example, in his excellent speech in Munich in February last year ("New Ideas for Europe"), he articulated his "three new ideas to strengthen the euro area", including "I propose a European-level "Financing Union for Investment and Innovation", which would better channel the EUR 350 billion savings surplus into equity financing and innovation."

So why did Weidmann now decide to sign on to this vision? I suspect it may have to do with the increasing rumors of his candidacy for the ECB job, as laid out in Die Zeit on February 28. Of course, the final decision on who to appoint to lead the ECB will be political. (Personally, I would prefer someone who generates the key ideas around a sustainable growth model for Europe, and then proceeds to get other key people to sign on to them, rather than those who sign on to those ideas a year or so after they have been first presented…)

3. Plenty of qualified women for the key jobs.

But, as if to remind decision makers of the many qualified women available for the key European leadership positions to be filled later this year, chief political editor for Süddeutsche Zeitung, Cerstin Gammelin, published an opinion column right after the Weidmann-Villeroy de Galhau piece, in which she pointed out that Europe has enough qualified women to fill all key positions this year, if the decision makers wish to do so.

Gammelin notes that for Tusk's replacement, apart from Merkel, nobody knows the European Council as well as Lithuanian President Dalia Grybauskaitė. For Juncker's job, Macron's reported favorite, Margrethe Vestager, ought to be a shoe-in. For Draghi's job, the two national bank deputies, Sylvie Goulard at BdF and the Bundesbank's Claudia Buch could be candidates, she says. And then, "the joker" in the game, according to Gammelin, is of course Christine Lagarde at the IMF, who is more than keen on returning to Europe. Gammelin's full piece (in German) is here: Die EU wird weiblich

That a stronger representation by women in key positions is long overdue is beyond discussion, so here's a thought: Just like some argue that years of undershooting the inflation target should be followed by a number of years of overshooting, to get the average right, maybe years of underrepresentation of women in key positions should be followed by years of over-representation? But wait, since the underrepresentation of women basically started at the beginning of time, this would imply that the upcoming overrepresentation of women would have to last to eternity - and beyond (which would be fine with me.)

On a more serious note, Gammelin's point is right: The bench of qualified women is deep enough to get an appropriate gender mix in European leadership positions. My only comment on Gammelin's list is that for the less political and more technical positions, including the ECB presidency, in addition to the people mentioned by Gammelin, decision makers should also consider the impressive list of qualified women in academia and relevant positions in the financial sector and international organizations.

4. The possible Deutsche Bank-Commerzbank merger: Politics vs. reality.

This past week, Finance Minister Scholz' call for a German national champion in banking ran into further trouble as best-selling Bild published an opinion poll that showed that 43% of Germans are against the merger, and only 17% in favor. Der Spiegel published a poll that showed Scholz' popularity has dropped by a whopping 10 percentage points, with his stance on this banking issue being the key reason.

Ultimately, both banks, but particularly Deutsche Bank, are absurdly cost-heavy, an issue which has turned into European banking's single biggest legacy issue. Hence, both banks will need to significantly slim down, which can only be done via job and pay cuts. On the one hand, doing so in the context of a merger may well be politically more feasible, but on the other hand, a merger only makes sense if it leads to efficiency gains; hence, a merger now would come with even more job losses than if the two banks went at it in each of their own ways.

It seems to me that Scholz has backed himself into a political spot best characterized as the space between a rock and a hard place. To sanction tens of thousands of job losses is never nice for a politician (even if the job losses are among bankers!), and particularly not for a SPD leader. Yet, if they go easy on the firings, the need for fresh capital will be even greater. Difficult as it must be to raise fresh capital for a combined company with two terrible track records for their return on equity and only a half-baked plan for efficiency gains, what will Scholz, as representing German taxpayers as owner of 15% of Commerz, do? Putting additional taxpayers' money at risk would seem like political suicide, but getting diluted would only further increase the need for additional private capital.

I'll leave it there because I discussed the issue of a possible merger in greater detail in this note just a couple of weeks ago. So today, I'll limit myself to wishing the decision makers - Good Luck!

5. A new tone from Frankfurter Allgemeine Zeitung? Italian debt and all that…

And, in the spirit of today's theme, Germany never fails to surprise and impress. I could hardly believe my eyes when I opened Frankfurter Allgemeine Zeitung this past Thursday. I think it's fair to say that the FAZ is "Conservative Germany's" favorite mouthpiece when it comes to skepticism towards Southern Europe (and particularly Italy), including their banks (and when it comes to outrage against the ECB for running a policy that has eliminated the opportunity for Europe's savers to earn a positive interest rate without taking any risk.)

The FAZ piece I'm referring to was called "To whom Italy is indebted" (my translation), and opened with a (surely self-reflective) acknowledgement that "too often the public debate is driven by opinions and assumptions, but not by facts" (again, my translation), after which the article went on to summarize my colleague, Chiara Cremonesi's, piece from this past week (which you'll have seen if you follow my team's research) on the composition of Italian sovereign debt.

By combining a host of different sources, Chiara produced one of the most detailed picture so far of the creditor structure of the Italian state, particularly as it relates to foreign investors' holdings.

In summary, the holders of Italy's famous 132% of GDP public debt are: (i) Italians and Italian financial institutions (52%, of which 2/5 is owned by banks and 3/5 by other Italian institutions and individuals), (ii) Italians investing via foreign investment companies (6%), (iii) foreigners, predominantly other Europeans (24%), and (iv) the Eurosystem, via QE and the SMP, (18%).

Roughly speaking, foreign investors used to hold a much bigger share of the debt, but they left during the European sovereign crisis, as noted above, and never came back. Their share of total debt is now – broadly speaking – held by the Eurosystem.

Chiara' piece is here: Who are the foreign investors in Italian government debt? A breakdown by geography and institution

The FAZ piece (in German) is here: Bei wem Italien verschuldet ist

Many people see this new structure of creditors for the Italian state as a problem. But while the debt level certainly is higher than what's desirable (although still sustainable under any reasonable assumptions), I'll argue that the present composition of creditors is a blessing for Italy, and for Europe. I'll make three points:

First, the holding of debt by the Eurosystem (18%) is a non-issue because, apart from the minor purchases early in the crisis, the holding has been accumulated predominantly as part of the ECB's QE, which has been conducted (appropriately) for monetary policy reasons, and in proportion to the capital keys. For Italy, as for the other eurozone members, the beauty of this creditor is that the interest it earns on the claims becomes central bank profit, which is to a very large extent transferred back to the treasury.

Second, and related, to think about debt sustainability, you need to consider debt service payments, particularly interest, rather than the debt stock. And the greater the share of debt held by domestic creditors, the better, because the interest payments from the state to these creditors is nothing more than a national re-distribution of income, which can be alleviated by other fiscal policies, if so desired. In other words, while debt held by foreigners leads to fiscal revenues being diverted from Italian taxpayers to a foreign creditor, where it'll be taxed by a foreign country, and spent or invested as the creditor sees fit, interest payments to a domestic creditor lead to a transfer from taxpayers to a fellow Italian creditor, who'll be taxed on that interest income by the same Italian state. And the net payment will be invested or spent by the Italian net saver - with a propensity to do so in Italy.

My bottom line of these two points is that with only 24% of the total debt held by foreigners (30% if you include Italians investing through Luxembourg, etc.), and the rest held by domestic creditors and the Eurosystem, the true cost of the Italian sovereign debt is considerably lower than it was pre-crisis, and proportionately lower than a debt stock of 132% of GDP in a country with fewer domestic creditors.

My third point relates to the issue of Italian banks holding Italian sovereign debt, the approximately 20% of the total debt stock. This is an issue which continues to attract substantial attention – and which generates more uninformed opinions than probably any other financial sector issue. So, in the spirit of FAZ, let's be sure "the debate is driven by facts, and not just opinions and assumptions":

To be clear, I think banks' holding of any single sovereign debtor should be capped as a ratio of the bank's equity or own funds (CET1, Tier-1 and Tier-2 capital) – and that this ratio should be calculated with due attention to correlations between different levels and types of sovereigns.

So, what are the facts across the eurozone when it comes to banks' holding of their own domestic sovereign debt (properly defined as all levels of the sovereign in each country) on their balance sheets? With the help of my colleague, Michael Teig, here are the most recent numbers from EBA on such holdings as a share of banks' own funds:

The Top-10 concentration of home-country sovereign exposure in eurozone banks is led by Estonia at 650% of Estonian banks' own funds. This is followed by Finland (248%), Portugal (159%), France (130%), Italy (129%), Luxembourg (125%), Spain (122%), Germany (113%), Belgium (99%) and the Netherlands (90%).

Maybe one should be concerned about banks in Estonia (and not just for the reasons presently dominating the media!), Finland and Portugal, but if anyone wants to make a case that banks are more exposed to – or influenced by – their sovereign if they hold 130% versus, e.g., 90% or 100% of their own funds in their home country sovereign's debt, feel free to send me a note explaining why that is so.

My point is this: The concern expressed so enthusiastically by some politicians, academics and commentators in recent years about the sovereigns' perceived influence over banks' holding of sovereigns, and balance sheets more broadly, was mostly misinformed with – frankly – a lot of misguided picking on Italy, Spain and Portugal, while there was very little recognition of the substantial progress banks in these countries did on the cost-to-revenue and NPL fronts.

In addition to home country sovereign exposure, there is the issue of banks' holding other eurozone sovereign debt, some of which may work as a hedge, but others might work as additional correlated risk. If, for example, a bank in a peripheral country also owns German debt, or a bank in a core country were to hold peripheral debt (a rare occurrence, as Chiara explains in her note), it'll work as a hedge if history is any guide. But if a Belgian or Dutch bank adds German bunds to their domestic sovereign exposure history would suggest that they simply have multiplied their core sovereign exposure, and hence their interest rate (and default) risk.

And the EBA numbers suggest that such multiplication of sovereign based risk is exactly what's happening in some core countries. Hence, the eurozone country in which banks hold the greatest pile of "other eurozone sovereigns" is precisely Belgium (at 161% of own funds – on top of the 99% of own funds they hold of Belgian sovereign debt), followed by Luxembourg at 82% (on top of the 125% they hold of home country sovereign exposure.)

So much confusion and uninformed opinions … But then again, most of those who made a lot of statements in recent years about the inappropriate leaning on banks by their sovereigns have gone strangely quiet in recent months, and particularly since the German government called the management of the two biggest German banks to Berlin to lay out the government's big idea of a German banking champion.

So, let's keep the facts straight: Europe needs: **(i)** cross-border bank consolidation to diversify loan books and hence reduce risk, which will also work to reduce any inappropriate pressure from politicians; **(ii)** a "Financing Union for Investment and Innovation", which would better channel the eurozone's huge savings surplus into cross-border equity financing and innovation; **(iii)** a flexible deal for the UK's exit date, until they figure out themselves what degree of future relationship they want; and (iv) a lot more women appointed to the European leadership positions.

And getting us there, in all four areas, will depend to a very large degree on Germany – which makes me optimistic.

And on that note, I'll try to enjoy the rest of my Sunday here in grey and rainy London, while my reliable sources on the Continent, including in Berlin, report on a day blessed with high blue skies and some 20C. I say no more…

The next two Sundays – Palm Sunday and Easter Sunday, I'll take a break from my usual Sunday chore of putting my thoughts together in this note. I'll will be back at the end of April.

Best

Erik

Legal Notices

Glossary

A comprehensive glossary for many of the terms used in the report is available on our website: link

Disclaimer

Our recommendations are based on information obtained from or are based upon public information sources that we consider to be reliable, but for the completeness and accuracy of which we assume no liability. All information, estimates, opinions, projections and forecasts included in this report represent the independent judgment of the analysts as of the date of the issue unless stated otherwise. We reserve the right to modify the views expressed herein at any time without notice. Moreover, we reserve the right not to update this information or to discontinue it altogether without notice. This report may contain links to websites of third parties, the content of which is not controlled by UniCredit Bank. No liability is assumed for the content of these third-party websites.

This report is for information purposes only and (i) does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for any financial, money market or investment instrument or any security, (ii) is neither intended as such an offer for sale or subscription of or solicitation of an offer to buy or subscribe for any financial, money market or investment instrument or any security nor (iii) as marketing material within the meaning of applicable prospectus law . The investment possibilities discussed in this report may not be suitable for certain investors depending on their specific investment objectives and time horizon or in the context of their overall financial situation. The investments discussed may fluctuate in price or value. Investors may get back less than they invested. Fluctuations in exchange rates may have an adverse effect on the value of investments. Furthermore, past performance is not necessarily indicative of future results. In particular, the risks associated with an investment in the financial, money market or investment instrument or security under discussion are not explained in their entirety.

This information is given without any warranty on an "as is" basis and should not be regarded as a substitute for obtaining individual advice. Investors must make their own determination of the appropriateness of an investment in any instruments referred to herein based on the merits and risks involved, their own investment strategy and their legal, fiscal and financial position. As this document does not qualify as an investment recommendation or as a direct investment recommendation, neither this document nor any part of it shall form the basis of, or be relied on in connection with or act as an inducement to enter into, any contract or commitment whatsoever. Investors are urged to contact their bank's investment advisor for individual explanations and advice.

Neither UniCredit Bank AG, UniCredit Bank AG London Branch, UniCredit Bank AG Milan Branch, UniCredit Bank AG Vienna Branch, UniCredit Bank Austria AG, UniCredit Bulbank, Zagrebačka banka d.d., UniCredit Bank Czech Republic and Slovakia, ZAO UniCredit Bank Russia, UniCredit Bank Czech Republic and Slovakia Slovakia Branch, UniCredit Bank Romania, UniCredit Bank AG New York Branch nor any of their respective directors, officers or employees nor any other person accepts any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

This report is being distributed by electronic and ordinary mail to professional investors, who are expected to make their own investment decisions without undue reliance on this publication, and may not be redistributed, reproduced or published in whole or in part for any purpose.

Responsibility for the content of this publication lies with:

UniCredit Group and its subsidiaries are subject to regulation by the European Central Bank

a) UniCredit Bank AG (UniCredit Bank, Munich or Frankfurt), Arabellastraße 12, 81925 Munich, Germany, (also responsible for the distribution pursuant to §34b WpHG).
Regulatory authority: “BaFin“ – Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany.

b) UniCredit Bank AG London Branch (UniCredit Bank, London), Moor House, 120 London Wall, London EC2Y 5ET, United Kingdom. Regulatory authority: “BaFin“ – Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439

Frankfurt, Germany and subject to limited regulation by the Financial Conduct Authority, 12 Endeavour Square, London E20 1JN, United Kingdom and Prudential Regulation Authority 20 Moorgate, London, EC2R 6DA, United Kingdom. Further details regarding our regulatory status are available on request.

c) UniCredit Bank AG Milan Branch (UniCredit Bank, Milan), Piazza Gae Aulenti, 4 - Torre C, 20154 Milan, Italy, duly authorized by the Bank of Italy to provide investment services.

Regulatory authority: "Bank of Italy", Via Nazionale 91, 00184 Roma, Italy and Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany.

d) UniCredit Bank AG Vienna Branch (UniCredit Bank, Vienna), Rothschildplatz 1, 1020 Vienna, Austria. Regulatory authority: Finanzmarktaufsichtsbehörde (FMA), Otto-Wagner-Platz 5, 1090 Vienna, Austria and subject to limited regulation by the "BaFin" – Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany. Details about the extent of our regulation by the Bundesanstalt für Finanzdienstleistungs¬aufsicht are available from us on request.

e) UniCredit Bank Austria AG (Bank Austria), Rothschildplatz 1, 1020 Vienna, Austria. Regulatory authority: Finanzmarktaufsichtsbehörde (FMA), Otto-Wagner-Platz 5, 1090 Vienna, Austria

f) UniCredit Bulbank, Sveta Nedelya Sq. 7, BG-1000 Sofia, Bulgaria. Regulatory authority: Financial Supervision Commission (FSC), 16 Budapeshta str., 1000 Sofia, Bulgaria

g) Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, HR-10000 Zagreb, Croatia. Regulatory authority: Croatian Agency for Supervision of Financial Services, Franje Račkoga 6, 10000 Zagreb, Croatia

h) UniCredit Bank Czech Republic and Slovakia, Želetavská 1525/1, 140 92 Praga 4, Czech Republic. Regulatory authority: CNB Czech National Bank, Na Příkopě 28, 115 03 Praga 1, Czech Republic

i) ZAO UniCredit Bank Russia (UniCredit Russia), Prechistenskaya nab. 9, RF-119034 Moscow, Russia. Regulatory authority: Federal Service on Financial Markets, 9 Leninsky prospekt, Moscow 119991, Russia

j) UniCredit Bank Czech Republic and Slovakia, Slovakia Branch, Šancova 1/A, SK-813 33 Bratislava, Slovakia. Regulatory authority: CNB Czech National Bank, Na Příkopě 28, 115 03 Praha 1, Czech Republic and subject to limited regulation by the National Bank of Slovakia, Imricha Karvaša 1, 813 25 Bratislava, Slovakia. Regulatory authority: National Bank of Slovakia, Imricha Karvaša 1, 813 25 Bratislava, Slovakia

k) UniCredit Bank Romania, Bucharest 1F Expozitiei Boulevard, 012101 Bucharest 1, Romania. Regulatory authority: National Bank of Romania, 25 Lipscani Street, 030031, 3rd District, Bucharest, Romania

l) UniCredit Bank AG New York Branch (UniCredit Bank, New York), 150 East 42nd Street, New York, NY 10017. Regulatory authority: "BaFin" – Bundesanstalt für Finanzdienstleistungsaufsicht, Marie-Curie-Str. 24-28, 60439 Frankfurt, Germany and New York State Department of Financial Services, One State Street, New York, NY 10004-1511

Further details regarding our regulatory status are available on request.

ANALYST DECLARATION

The analyst's remuneration has not been, and will not be, geared to the recommendations or views expressed in this report, neither directly nor indirectly.

All of the views expressed accurately reflect the analyst's views, which have not been influenced by considerations of UniCredit Bank's business or client relationships.

POTENTIAL CONFLICTS OF INTERESTS

You will find a list of keys for company specific regulatory disclosures on our website https://www.unicreditresearch.eu/index.php?id=disclaimer.

RECOMMENDATIONS, RATINGS AND EVALUATION METHODOLOGY

You will find the history of rating regarding recommendation changes as well as an overview of the breakdown in absolute and relative terms of our investment ratings, and a note on the evaluation basis for interest-bearing securities on our website https://www.unicreditresearch.eu/index.php?id=disclaimer and https://www.unicreditresearch.eu/index.php?id=legalnotices.

ADDITIONAL REQUIRED DISCLOSURES UNDER THE LAWS AND REGULATIONS OF JURISDICTIONS INDICATED

You will find a list of further additional required disclosures under the laws and regulations of the jurisdictions indicated on our website
https://www.unicreditresearch.eu/index.php?id=disclaimer.

E 19/2

UniCredit Research* — Macro Research

Erik F. Nielsen
Group Chief Economist
Global Head of CIB Research
+44 207 826-1765
erik.nielsen@unicredit.eu

Dr. Ingo Heimig
Head of Research Operations
& Regulatory Controls
+49 89 378-13952
ingo.heimig@unicredit.de

Head of Macro Research

Marco Valli
Head of Macro Research
Chief European Economist
+39 02 8862-0537
marco.valli@unicredit.eu

European Economics Research

Dr. Andreas Rees
Chief German Economist
+49 69 2717-2074
andreas.rees@unicredit.de

Dr. Loredana Federico
Chief Italian Economist
+39 02 8862-0534
loredanamaria.federico@unicredit.eu

Stefan Bruckbauer
Chief Austrian Economist
+43 50505-41951
stefan.bruckbauer@unicreditgroup.at

Daniel Vernazza, Ph.D.
Chief UK & Senior Global Economist
+44 207 826-7805
daniel.vernazza@unicredit.eu

Tullia Bucco
Economist
+39 02 8862-0532
tullia.bucco@unicredit.eu

Edoardo Campanella
Economist
+39 02 8862-0522
edoardo.campanella@unicredit.eu

Walter Pudschedl
Economist
+43 50505-41957
walter.pudschedl@unicreditgroup.at

Chiara Silvestre
Economist
chiara.silvestre@unicredit.eu

Dr. Thomas Strobel
Economist
+49 89 378-13013
thomas.strobel@unicredit.de

US Economics Research

Dr. Harm Bandholz, CFA
Chief US Economist
+1 212 672-5957
harm.bandholz@unicredit.eu

EEMEA Economics Research

Dan Bucşa
Chief CEE Economist
+44 207 826-7954
dan.bucsa@unicredit.eu

Gökçe Çelik
Senior CEE Economist
+44 207 826-6077
gokce.celik@unicredit.eu

Mauro Giorgio Marrano
Senior CEE Economist
+43 50505-82712
mauro.giorgiomarrano@unicredit.de

Artem Arkhipov
Head, Macroeconomic Analysis
and Research, Russia
+7 495 258-7258
artem.arkhipov@unicredit.ru

Hrvoje Dolenec
Chief Economist, Croatia
+385 1 6006-678
hrvoje.dolenec@unicreditgroup.zaba.hr

Dr. Ágnes Halász
Chief Economist, Head of Economics and
Strategic Analysis, Hungary
+36 1 301-1907
agnes.halasz@unicreditgroup.hu

Ľubomír Koršňák
Chief Economist, Slovakia
+421 2 4950 2427
lubomir.korsnak@unicreditgroup.sk

Anca Maria Negrescu
Senior Economist, Romania
+40 21 200-1377
anca.negrescu@unicredit.ro

Kristofor Pavlov
Chief Economist, Bulgaria
+359 2 9269-390
kristofor.pavlov@unicreditgroup.bg

Pavel Sobíšek
Chief Economist, Czech Republic
+420 955 960-716
pavel.sobisek@unicreditgroup.cz

UniCredit Research, Corporate & Investment Banking, UniCredit Bank AG, Am Eisbach 4, D-80538 Munich, globalresearch@unicredit.de
Bloomberg: UCCR, Internet: www.unicreditresearch.eu

MR 19/1

*UniCredit Research is the joint research department of UniCredit Bank AG (UniCredit Bank, Munich or Frankfurt), UniCredit Bank AG London Branch (UniCredit Bank, London), UniCredit Bank AG Milan Branch (UniCredit Bank, Milan), UniCredit Bank New York (UniCredit Bank, New York), UniCredit Bank AG Vienna Branch (UniCredit Bank, Vienna), UniCredit Bank Austria AG (Bank Austria), UniCredit Bulbank, Zagrebačka banka d.d., UniCredit Bank Czech Republic and Slovakia, ZAO UniCredit Bank Russia (UniCredit Russia), UniCredit Bank Romania.