1st Workshop – April 15th
- “Overview of the Financial System”, Almir Mirica, executive director SASE
- “The Role of Privatization in the development of the capital market”, Dr. Matej Živković, Securities Commission FBiH

2nd Workshop – May 13th
- “Sarajevo Stock Exchange – An Overview”, Dr. Tarik Kurbegović, CEO SASE
- “Trading on the Sarajevo Stock Exchange”, Almir Mirica, executive director SASE
- “Introduction to Valuation”, Feđa Krivošević, SASE

3rd Workshop – May 27th
- “Regulation of the Financial System”, Dr. Matej Živković, Securities Commission of FBiH
- “Corporate Governance, Reporting & Disclosure”, Almir Mirica, executive director SASE
- “Municipal Bonds”, Feđa Krivošević, SASE
SARAJEVO STOCK EXCHANGE
An Overview

Dr Tarik Kurbegović
CEO SASE
Contents

- The Bosnian Capital market
  - Privatisation in the Federation of B&H
  - Participants on the Capital Market
  - Legal Framework

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  - Exchange Bodies & Organisational Structure
  - Market Organisation

- Market Development
  - Phases of Market Development
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- International Cooperation and Affiliations

- Challenges for developing the capital market in B&H
The state Bosnia-Hercegovina consists of two political entities:
- Federation of Bosnia-Hercegovina (FB&H)
- Republika Srpska (RS)

Political division results in two separate economic territories, including separate capital markets with two sets of institutions (Securities Commissions, Securities Registries, Stock Exchanges, brokerage houses and banks)
- Sarajevo Stock Exchange is the stock exchange in the Federation of Bosnia-Hercegovina

Brčko Distrikt has Securities Commission and Registry, but (fortunately) no own Stock Exchange

Bosnia-Hercegovina, as a republic in former Yugoslavia, had a socialist economy
- Predominant state ownership in companies
- Planned economy
Role of privatization was to transfer the ownership in state companies to private investors

Three methods:
- Direct sales to “strategic investors”
- Mass-privatization through vouchers, which could be invested in Privatization Investment Funds (PIF’s) or directly into companies
- (Later: privatization through Stock Exchange)

Result of privatization:
- Large number of shareowners (not necessarily shareholders): in 2011, still 355,500
- Large portions of former state ownership in the portfolios of PIF’s
- Expected restructuring of companies through PIF’s failed (no cash was invested into PIF’s, ownership caps for PIF’s in privatized companies)
Participants on the Capital market

Securities Commission of the FB&H (market regulator)

Issuers of securities:
- Firms (financing through issuing securities)
- State / subnational levels (issuing T-Bills and bonds)

Brokerage houses & Banks

Demand and offering for securities; Market prices

Clearing & Settlement

Investors – invest on the Primary and Secondary market)
Legal Framework

**Laws**

- **Securities Market Law**
  - Regulates all operations with regard to securities such as securities trading, issuance, requirements of securities issuers and securities owners, disclosure requirements, penalties etc. Also regulates the foundation and operations of the Stock Exchange and other regulated public markets.

- **Business Companies Law**
  - Regulates the operations, administration and management issues of business companies.

- **Law on Investment Funds**
  - Regulates the operations related to investment fund administration and encompasses rules and regulations that pertain to business of Fund management Companies and Investment Funds.

- **Law on Takeovers**
  - Regulates the tako-overs of business companies. Defines the thresholds for publishing tender offers for take overs.

- **Law on the Securities Commission**
  - Regulates the scope of activities of the regulator of the capital market

- **Law on the Securities Registry**
  - Regulate the main operations of the Securities Registry
Bylaws of the Securities Commission

- Bylaw about intermediation in dealings with securities
  - Defines broker and dealer activities, the lending of securities, off-the-Exchange trading etc.
- Bylaw about the licenced participants on the capital market

Legal Acts of the Sarajevo Stock Exchange

- (Trading) Rules
  - governing the market segments, membership requirements, trading process and market surveillance carried out by the Exchange
- Statute
- Bylaws regulating primary auctions, public offerings, extraordinary auctions...
SASE Fact Sheet

- Founded in 2001 as a central marketplace for trading in securities in the Federation of Bosnia-Hercegovina; start of trading on April 12th, 2002
- 12 trading members (9 brokerage houses and 3 banks)
- 181 listed companies
- Trading material
  - Equities: mostly from privatization process
  - Debt securities: Government bonds and t-bills
- SASE is the primary venue for government bonds and T-Bills auctions
- SASE ownership structure:
  - Domestic brokerage houses and banks (85%)
  - Istanbul Menkul Kiymetler Borsasi, IKMB Settlement and Custody Bank Inc., Central Registry Agency (15%)
Bodies of the Exchange:
- Shareholder Assembly (19 shareholders currently)
- Supervisory Board (5 members)
- Board of Directors (general manager + 2 executive directors)
- Listing Committee, Audit Committee, Arbitrage; Exchange Commission

Organizational structure:
- 12 employees
- 3 departments:
  - Trading & Surveillance (4 employees)
  - Legal Affairs (2 employees)
  - IT-Department (2 employees)
Market Organisation

Prime Market
- Company securities
- Closed End Funds
- Bonds

Free Market
- Bankruptcy
- Tertiary Free Market
- Secondary Free Market
- Primary Free Market
<table>
<thead>
<tr>
<th>Requirement</th>
<th>Prime Market</th>
<th>Free Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Min. requirements</td>
<td>4 million KM share capital; 2 million KM share issue; 150 shareholders; 25% free float</td>
<td>-</td>
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<tr>
<td>Periodic financial reports</td>
<td>Annual, semi-annual and quarter reports</td>
<td>Annual and semi-annual reports</td>
</tr>
<tr>
<td>Ad-Hoc reporting</td>
<td>Stock Exchange + newspaper</td>
<td>Stock Exchange + newspaper</td>
</tr>
<tr>
<td>Corporate Governance Code</td>
<td>Mandatory adoption; “comply or explain” principle</td>
<td>Voluntary adoption</td>
</tr>
<tr>
<td>Price protection</td>
<td>-5/+10%</td>
<td>Based on market sub-segment</td>
</tr>
</tbody>
</table>
2002. – 2004: The “PIF-Phase”
- Trading with shares of Privatization Investment Funds accounts to cca 40% of total turnover
- Beginning of ownership consolidation (Klas, Central Profit Bank...)
- 361 million KM turnover

- Intensified ownership consolidation (Tvornica Cementa Kakanj, ABS Banka, Tuzlanska banka, UPI-Banka...)
- Large number of block trades (15% of total turnover)
- First privatization over the Exchange
- Total turnover: 2,48 billion KM
Phases of Market Development

2008 - 2010: “The Fall”
- Sharp decline in equity-trading turnover (1,274 billion in 2007. → 377 million in 2008.)
- First major public offering over the Exchange (UniCredit bonds)
- Ban of block trades by Securities Commission; introduction of “Off-Exchange trading”, with mandatory reporting to the Exchange
- Listing of first government bonds and gradual increase of bond trading in total turnover (24% in 2010)
- Total turnover: 804 million KM

2011, 2012
- First government T-Bill and bond auctions through SASE
- Increase of “Off-Exchange trading” (12 % of total turnover)
- September 2011: Delisting of 410 very low liquidity securities (0,51% of total turnover in 12 month period); more stringent listing rules for the Free Market
Who trades on SASE?

**Investor structure - buy side**

- 2008: Custody 11.30%, Foreign 37.71%, Domestic 51.00%
- 2009: Custody 26.01%, Foreign 20.20%, Domestic 53.80%
- 2010: Custody 26.15%, Foreign 9.67%, Domestic 64.18%
- 2011: Custody 36.17%, Foreign 15.13%, Domestic 48.70%
- 2012: Custody 41.08%, Foreign 21.08%, Domestic 34.82%

**Investor structure - sell side**

- 1: Custody 16.13%, Foreign 27.25%, Domestic 56.62%
- 2: Custody 16.09%, Foreign 24.64%, Domestic 59.27%
- 3: Custody 18.56%, Foreign 20.16%, Domestic 61.29%
- 4: Custody 29.33%, Foreign 18.95%, Domestic 51.72%
- 5: Custody 46.97%, Foreign 16.54%, Domestic 36.49%
Main trading material

Turnover Structure

<table>
<thead>
<tr>
<th>Year</th>
<th>Off-Exchange</th>
<th>Primary Issues</th>
<th>Debt</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>17.407.013,00</td>
<td>100,000,000,00</td>
<td>54.209,10</td>
<td>377.022,166,37</td>
</tr>
<tr>
<td>2009</td>
<td>1.124.188,41K</td>
<td>4.383.787,35</td>
<td>864.888,76</td>
<td>196.393,011,89</td>
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<tr>
<td>2010</td>
<td>29.128.818,11</td>
<td>436.918,65</td>
<td>26.326,064,01</td>
<td>80.667,208,34</td>
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<tr>
<td>2011</td>
<td>22.327.361,24 K</td>
<td>90.978.615,26</td>
<td>23.504,604,05</td>
<td>101.175,074,69</td>
</tr>
<tr>
<td>2012</td>
<td>250.646,447,05</td>
<td>15.714,858,03 K</td>
<td>84.888,821,38 K</td>
<td></td>
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</tbody>
</table>
Membership in international organizations
- Member of the Federation of Euro-Asian Stock Exchanges (FEAS)
- Corresponding member of the Federation of European Stock Exchanges (FESE)

International cooperation
- Memorandum of Understanding with Banja Luka SE and Montenegro SE: End-goal is a common trading platform
- Data-vending agreement with Wiener Boerse (WBAG)
- Cooperation with WBAG and BLSE in the BATX
- Memorandum of Understanding with Ex-Yugoslavia Exchanges
  - Annual Roadshows, Common information internet portal
  - Benchmark index of the region

- Institutions from the Turkish capital market have ownership of cca. 15% in SASE (Istanbul Menkul Kiymetler Borsasi – now Borsa Instanbul, IKMB Settlement and Custody Bank Inc., Central Registry Agency – each 4.97%)
Challenges for Developing the Market

**Liquidity trap**

- Shallow capital market
- Lack of profitable and transparent companies with good corporate governance deters new investors from the market
- Companies shy away from the market because of low liquidity and high costs of “breaking the ice”
Corporate Governance & Transparency

- The mass-privatization programm resulted very often in “insider entrenchment”, with limited or no changes in the management practices
  - Weak accountability
  - Failure to maximise shareholders’ value

- Modern principles of corporate governance are not widely adopted
  - Majority owners often fail to acknowledge the separation of the ownership and the control function in the company
  - Independent members of Supervisory boards are rarely appointed
  - Members of the Supervisory boards represent the interests of those shareholder who appointed them
  - Profits are often not distributed to all shareholders, but extracted through affiliated companies; in extreme cases: asset stripping

- The biggest companies (predominantly state-owned) are not listed on the Prime market of the Exchange
  - What could be the argument against increased transparency?!
Challenges for Developing the market

Other challenges

- Political and economical instability
  - Deters foreign investors
  - Dumpens the entrepreneurial spirit of the population

- Lack of understanding of the role and function of capital market on the side of
  - government officials
  - shareholders / “shareowners”
  - management of companies
  - market participants

- Lack of institutional base
  - No pension funds
  - Investment funds not overly active
THANK YOU FOR YOUR ATTENTION!