

GSS Newsletter



January 2014

Issue 153

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

Welcome to
 **UniCredit**

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NEW YEAR'S ADDRESS



TOMASZ GRAJEWSKI
GLOBAL HEAD OF GSS

Dear Partners, Clients, Friends and Colleagues,

An exciting year full of challenges and new opportunities is over. Regulatory changes; especially the AIFM Directive, and many new rules that will be affecting the post-trading world in the U.S. and the EU particularly, were a major focus in 2013.

But none of these external factors has distracted us at UniCredit from our commitment to be the top securities services provider in our markets. It has remained our foremost priority to ensure premium service to clients and to help them constantly improve delivery to their own clients. A main and widely appreciated characteristic of our customer service approach is the dedication of time to our clients' questions and issues. Understanding that the additional obligations coming from the regulatory side create many new challenges for our clients; we have provided our team of experts with sufficient resources to fulfil these demands and to help them succeed.

The past year also brought a considerable change in the European securities services landscape with the departure of a major player, leading to a reshuffle in mandates. UniCredit GSS has proven its capacity to step in and react quickly by mitigating the uncertainties that arose among market users. Consequently, we have been awarded with a significant number of new mandates, both domestic and cross border.

2013 was also the year of substantial improvements on the IT side, of which I can proudly report. We are about to launch a major upgrade to our GWS platform, allowing remote instruction entry among other new facilities. We have launched our T2S development, with the business and IT specifications being finalised this year, as we structure our services to allow clients the flexibility of a business as usual model through to asset servicing support in that future environment. Moreover, we are seeking to enhance our collateral management offering, a project which will be continued this year. On top of that, we have fine-tuned our web offering further, resulting in a unified image vis-à-vis clients, irrespective of the locations they use. Combined with our initiative on common account opening documentation as well as a streamlining of settlement and corporate action deadlines, this is a remarkable success for our team.

As far as risk management is concerned, we have extended our risk policy to accommodate the increased liability we assume under the AIFMD regulations. We have also added clauses to address a series of other issues, some of them referring to U.S. requirements, others stemming from EU regulations but also some of local origin. In this respect I would like to emphasise that we at UniCredit GSS retain a clear focus on risk management, which is best reflected in our zero tolerance policy regarding any failure in operational or credit management.

In the name of the UniCredit GSS team I would like to thank you for your trust and confidence throughout the past year and the years before. A big thank you to the several clients who have decided to return to us after reviews in our markets. And in particular, I would like to welcome the many clients that have recently mandated us. We are determined to live up to your expectations to the full.

Let me wish you all the best for a prosperous 2014. UniCredit's GSS team is delighted to be at your side and looks forward to working with you and contributing to your success.

Yours sincerely,

Tomasz Grajewski
Global Head of GSS

EDITORIAL



MICHAL STUHLIK
HEAD OF GSS CZECH REPUBLIC

Dear Readers,

It is customary as one year ends and the next begins to take pause and evaluate the last twelve months. Not only for the evaluation itself, but more importantly for the assurance that we are going in the right direction; following our long-term plans, values, and meeting our milestones on the way. It is a good time to develop our plans more thoroughly, which in my experience helps with motivation, inner balance, and life satisfaction.

We do the same in the custody business; we look at our markets as our business environment, if it is following as planned, we review our business strategies, look for new opportunities, or work to be the first one to identify possible threats and risks. We tend to spend more time with our teams in order to better understand their thinking, recent experience, and feelings.

We at UniCredit have been custodians since the CEE capital markets opened up. We believe it is the right business and the right region for us to be successful in the long term. It is part of our strategy.

We also believe that our strategy is unique in CEE, due to the three pillars we focus on: sub-custody business for foreign clients, global custody for domestic financial institutions, and "depot" bank services for pension funds and investment companies.

We have remained confident in this strategy in the Czech Republic for years now and as a result we are the market leader in all the important segments: foreign global custody banks, domestic pension funds, insurance companies, and investment funds. This position and market share gives us stability, experience, motivation, and satisfaction.

My team learns a lot from our clients every day; we invest our time and efforts not only in advising, but in understanding our clients' specific needs and requirements as well.

Our success is also due to because our work together with other specialists within UniCredit to provide complex services to our clients. They understand GSS business, our priorities and our clients. We increasingly focus on regulatory changes in order to follow environmental developments.

The Czech custody market in 2013 focused on several areas; the two most important for foreign investors were new taxation rules challenging custodians in terms of their procedures and client communication skills and settlement pre-matching efficiencies via the CSD.

The market participants had previously drafted several ideas for the CSD to avoid outmoded manual over-the-phone pre-matching procedures. This year, we all reached an agreement and implemented a new matching mechanism and system at the CSD meeting ESF-ECSDA Market Standards. It increases the efficiency of matching and STP processing and saves time and potentially also related costs for the market. It enables the participants to use the hold/release function, a feature allowing users to change the status of the trade settlement from release to hold and vice-versa. In addition to this a new settlement cycle was introduced.

The tax environment in the Czech Republic changed significantly. The standard tax rate on dividends and interest income was increased from 15% to 35%, which impacted tax procedures by including additional documentation requirements and prolonged the whole process for all involved parties.

In the coming year AIFMD regulation will be implemented as well as the start of the CCP/CEE project. We are following our strategy so that in a year we and our clients can be satisfied with the results.

I wish you to be satisfied with the knowledge that you are headed in the right direction as you pursue your long-term plans and values, both in your private life and business.

Happy New Year!

Michal Stuchlik
Head of GSS Czech Republic

JOHN'S CORNER



JOHN GUBERT ON UNICREDIT'S LOGICAL REGION

Is Austria and CEE a logical region or is it a geographic grouping merely reflective of the business reach of the UniCredit Group? This was the interesting and challenging question that I was recently asked.

The rationale for the UniCredit business profile and treating CEE as an appropriate network region are linked. Austria is the traditional gateway into CEE and our Group's expansion eastwards was a logical by product of the dominance of Austrian banks in the region as well as their local market knowledge. And there was opportunity as the region sought to privatise formerly state owned enterprises. Banking follows trade and so we also saw other banks implant themselves in the region.

But there was a difference. Bank Austria (and UniCredit SpA as its parent and also the direct owner of the important Polish business) sought to ensure they had deep roots in each of the geographies. They did not build a limited purpose branch based presence in each of the countries, but established and grew a meaningful full service banking network in each location. This meant they had a proposition that covered a range of client groupings. Most importantly, from a GSS perspective, it included the potential to distribute financial products to a sizeable retail client base and to offer full banking, brokerage, capital markets, and custody services to the newly emerging financial institutions in the area. Such financial institutions ranged from new ventures through to subsidiaries of major global groupings in the financial and investment management sectors.

But such a rationale does not necessarily answer fully the true purpose of the question. T2S is encouraging clients to revisit their network strategies across Europe. Where does one position CEE in this scenario? For some, CEE includes Russia, for others it does not. But, generally speaking it encompasses the whole region.

Perhaps it does no harm noting a few issues that are fairly self-evident, but relevant to the question. The number of micro to mid-range markets, by comparison to global scale, across CEE makes client participation in those markets relatively high cost, both in terms of coverage staff needed as well as in the cost of managing the unique characteristics of those markets.

In addition, only a small subset of the markets are planning to be T2S eligible; these are the mid-sized Austrian market and the micro markets of Slovenia and Slovakia. Although Hungary and Romania plan a link with T2S, it is unlikely that this will be of any relevance to the global investor as it is based on the euro rather than domestic currency settlement of transactions.

In addition, the region is likely to be in change mode for the coming decade. It is difficult to forecast events, but in the long term the current nation based structures are not sustainable. We have already seen moves towards consolidation around Vienna's CEESEG, the cross listing strategy of Warsaw and Moscow's ambitions to reach out to the former CIS countries. Thus we would expect changes in several areas over and beyond any actions among the commercial service providers.

The CSD scenario is likely to change, whether this is due to the launch of regional groupings, with Warsaw and Vienna still in discussion, or alliances to enable shared infrastructure either through some of the regional powerhouses (Vienna, Warsaw, and Moscow) or an international CSD. The CCP scenario will evolve with either increased interoperability across CCPs, allowing internationals to bypass the local CCP or full mergers of the different structures as a cost saving strategy. Market practise is likely to converge as EU regulation takes grip although several markets in the region are outside the direct scope of such a trend. Moreover, some that are in scope have shown, in the past, a tendency to adopt some unique interpretations of specific regulations. And T2S will drive change beyond the initial three core markets, assuming that there is eventual expansion eastwards of the concept of the single currency.

So what are the core reasons that make the region a logical grouping from a network selection perspective? Firstly, it contains a large number of smaller markets each with distinct languages, different legal systems, mainly local currencies and separate infrastructures. Secondly, it is likely to see material change both in terms of regulation and structure over the coming decade. Thirdly, it is a growth region albeit from a small base. It would not be illogical to expect cross border asset allocation and additional supply to lead to a material growth in assets held by overseas investors in the region. On the brokerage side, remote brokerage will grow in the larger markets and thereby increase the footfall from that sector. And finally, there are unique risks inherent in the markets, not so much specific risk but the fact that the profiles differ from market to market. As we are also in a period of material change, the environment militates for proximity to the market to ensure strong cross border client influence for local market advocacy and short and direct lines of communication between clients, their agents, and local companies or infrastructures.

T2S has been the driver for the adoption of a strategy for consolidation of networks in European markets, but this strategy has some adverse consequences if applied automatically to the CEE region. The first is that any region or market grouping needs to have critical mass. That is in the interest of all parties. As UniCredit we create critical mass through the three legs of our client strategy, namely coverage of local institutional, cross border agents and corporates in each market. But a critical component of that critical mass is also the volume contribution we have from the major markets; namely Austria, Czech Republic, Hungary, Poland and Russia. The second is that T2S allows clients two core advantages; namely the potential for a single point of direct control over trade flow and greater ease in managing euro denominated securities cash accounts. However, we are conscious of the need to neutralise these benefits for clients and believe we overcome the first advantage through our asset servicing and operator models and the second by our preferred and mainly unsecured liquidity package.

We are conscious that ease of access across all markets is also an issue and are working on several solutions to ensure we can offer this, facilitated by our strong commitment to SWIFT 20022. There is a danger that the noise from T2S has drowned out the reality of many relationships. Quite simply, T2S is a settlement engine; it does not cover asset servicing, non CSD eligible instruments, cash full service "nostro" account management or local market support and knowledge. And those functions are definitely the key risk areas and business requirements of the global custodian community. They are also critical in risk mitigation terms to brokerage houses although liquidity management and credit appetite are even more critical and vital for those firms.

In short the answer to the question of whether Austria and CEE is a logical region is indeed yes. Its diversity, its development path, its unique structures and its risk profile all militate for keeping it separate from the bulk of the EU. The region has critical mass and the Austrian or Moscow boundaries are sensible if we believe that the past phase of consolidation of regional markets is a precursor of the bigger ones to come.

Sincerely yours,



John Gubert

Chairman

Global Securities Services

Executive Committee

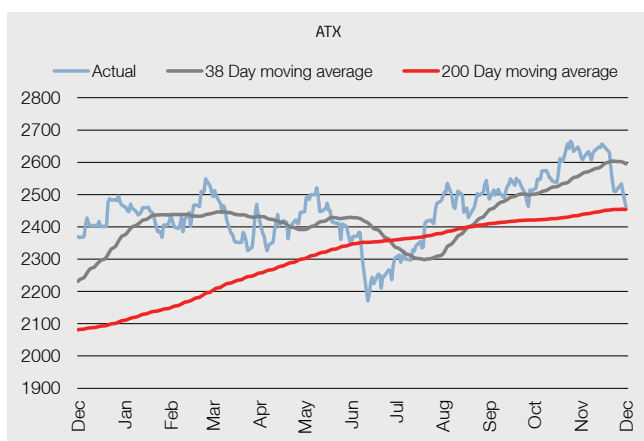
John Gubert also appears on blog.globalcustodian.com



AUSTRIA

| | |
|--|------------|
| Market Capitalisation | EUR 84.9bn |
| YTD Dev. of Market Capitalisation | 6.0% |
| Number of SE Transactions p.m. | n.a. |
| YTD Dev. of SE Transactions | n.a. |
| SE Turnover (Vienna SE) | EUR 1.8bn |
| Monthly Index Performance (ATX/VSE) | 1.6% |
| GDP per Capita (2013 in EUR) | 37,012 |
| GDP Real 2013 (Change against prev. year in %) | 0.3 |
| 3-Month Money Market Rate (current in %) | 0.35 |
| Inflation in 2013 (HVPI yearly average in %) | 1.9 |
| Upcoming Holidays | none |

Source: UniCredit, National Statistics



Source: UniCredit, National Statistics

The Service of a Paying and Information Agent in Austria

The Investment Fund Act (Investmentfondsgesetz 2011) states that an Investment Company which intends to offer shares in investment funds to the public in Austria must employ the services of a Paying and Information Agent

The services provided by UniCredit Bank Austria as a Paying and Information Agent (within the meaning of Section 141 of the Investment Fund Act) for foreign investment funds comprise:

- to ensure that redemption of funds and payments for unit holders domiciled in Austria can be settled through the Bank;
- efforts to get in contact with the fund administrator of the Investment Company to enable the settlement of any fund redemption;
- the monitoring of the legal and regulatory developments regarding the Austrian Investment Fund Act and the informing of the investment company on any changes which have an influence on the obligations of the investment company under the Paying Agency Agreement;
- the forwarding of documents to FMA: e.g. KIID's, Reports, Prospectuses upon request;
- the forwarding of documents and queries received from FMA to the Investment Company and
- the forwarding of documents to the official legal gazette for publication upon express request.

Feel free to contact your dedicated Relationship Manager or myself for any further details.

Impact on investors

For information purposes only.

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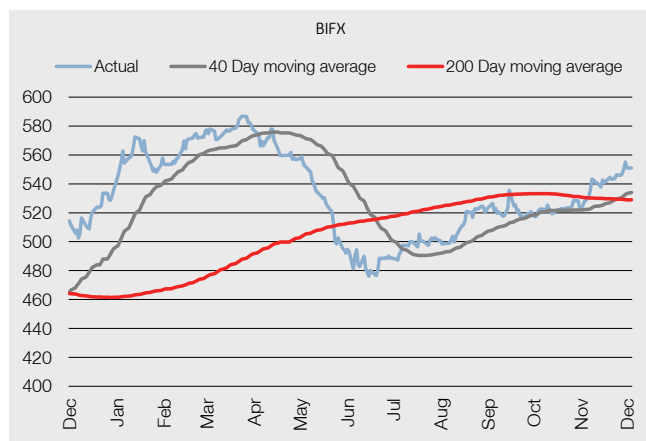
Thomas Rosmanitz
Head of Relationship Management Austria
Global Securities Services, Austria
Tel. +43 50505 58515
thomas.rosmanitz@unicreditgroup.at



BOSNIA AND HERZEGOVINA

| | |
|--|------------|
| Market Capitalisation (Sarajevo SE) | BAM 4.7bn |
| YTD Dev. of Market Capitalisation | 5.2% |
| Number of SE Transactions p.m. | 681 |
| YTD Dev. of SE Transactions | -25.5% |
| SE Turnover (SASE) | BAM 10.9mn |
| Monthly Index Performance (SASX-10/SASE) | -1.8% |
| Market Capitalisation (Banja Luka SE) | BAM 4.1bn |
| YTD Dev. of Market Capitalisation | 6.8% |
| Number of SE Transactions p.m. | 2,244 |
| YTD Dev. of SE Transactions | 1.0% |
| SE Turnover (BLSE) | BAM 9.6mn |
| Monthly Index Performance (BIRS/BLSE) | -3.5% |
| GDP per Capita (2013 in EUR) | 3,884 |
| GDP Real 2013 (Change against prev. year in %) | 3.3 |
| 3-Month Money Market Rate (current in %) | n.a. |
| Inflation in 2013 (yearly average in %) | 2.6 |
| EUR/BAM | 1.97 |
| Upcoming Holidays | 9 Jan |

Source: UniCredit, National Statistics



Source: Bloomberg

Banja Luka Stock Exchange conducts regular revision of Indices

The Commission for Establishment and Revision of the Banja Luka Stock Exchange indices has, in line with its methodology for establishment, calculating and revision of the indices, conducted the 19th regular revision of the BIRS and FIRS, as well as the 15th regular revision of the ERS10 on 22 November 2013.

The composition of the BIRS has changed; the new list of the companies included in the BIRS is available on the BLSE website. The composition of the FIRS and the ERS10 has not been changed.

Impact on investors

The composition of the BIRS has been altered.

Moody's report on Bosnia and Herzegovina

At the beginning of December Moody's Investors Service published its annual report on Bosnia and Herzegovina, which comments on the sovereign credit rating of the country, currently at B3 with stable outlook.

In the agency's view, the rating remains constrained by a number of factors, including the country's complex political system, its limited access to external financing and vulnerability to weaknesses in the euro area, sluggish economic growth, constrained household incomes, and high unemployment.

Though Moody's also notes that Bosnia and Herzegovina's credit strengths comprise of its favourable government debt profile relative to its rating peers (as its debt is mainly owed to multilateral and bilateral creditors on concessional terms), the currency board arrangement that has operated smoothly since its introduction after the war, and the country's external vulnerability indicator which is lower than both its rating peers and other emerging market countries with currency boards. In such an environment, large external trade and current account deficits, and lack of access to private global capital markets make the economy heavily dependent on capital inflows from concessional lenders.

According to the agency, the ratings could be upgraded if (1) its institutions were strengthened through the implementation of structural reforms and/or streamlining of the policymaking process; (2) inter-entity relations were to improve; and/or (3) the country were to qualify for EU member candidacy status. Downward pressure on the ratings could result from the country's failure to comply with the IMF SBA or to implement either the constitutional reforms needed to deepen its integration with the EU or the economic reforms demanded by its creditors.

Impact on investors

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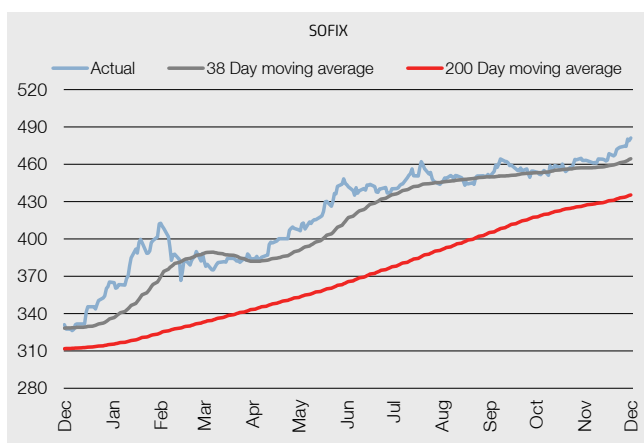
Enis Zejnić
Relationship Manager
Global Securities Services, Bosnia and Herzegovina
Tel. +387 51 348 050
enis.zejnic@unicreditgroup.ba



BULGARIA

| | |
|--|------------|
| Market Capitalisation | BGN 10.0bn |
| YTD Dev. of Market Capitalisation | -3.5% |
| Number of SE Transactions p.m. | 10,840 |
| YTD Dev. of SE Transactions | -55.6% |
| SE Turnover (Bulgarian Stock Exchange) | BGN 97.3mn |
| Monthly Index Performance (SOFIX) | 2.8% |
| GDP per Capita (2013 in EUR) | 6,022 |
| GDP Real 2013 (Change against prev. year in %) | 3.8 |
| 3-Month Money Market Rate (current in %) | 0.70 |
| Inflation in 2013 (yearly average in %) | 3.2 |
| EUR/BGN | 1.96 |
| Upcoming Holidays | none |

Source: UniCredit, National Statistics



Source: Thomson Datastream

2014 state budget adopted by Parliament

The Bulgarian Parliament has adopted the State Budget Act of the Republic of Bulgaria for 2014. The real economic growth for the next year is projected at 1.8%.

According to the Ministry of Finance the 2014 budget focuses on:

- restarting the economy and accelerating growth
- achieving a stable and predictable investment environment in Bulgaria
- improving taxation environment and increasing revenue collection

Impact on investors

The 2014 state budget aims at bringing the Bulgarian economy back on the track of sustainable growth and providing a stable and predictable investment environment in the country.

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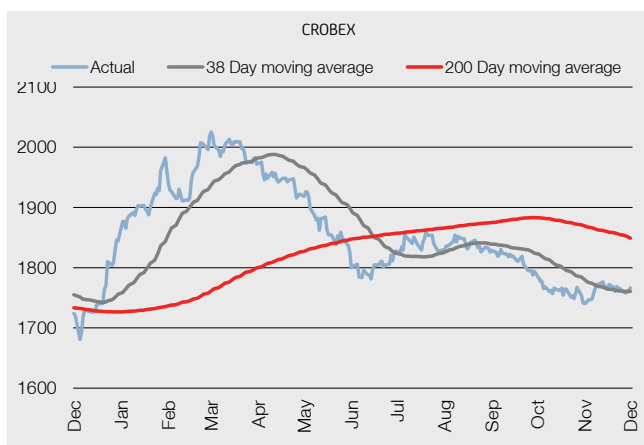
Borislav Hitov
Relationship Manager
Global Securities Services, Bulgaria
Tel. +359 2 923 2670
borislav.hitov@unicreditgroup.bg



CROATIA

| | |
|--|-------------|
| Market Capitalisation | HRK 183.2bn |
| YTD Dev. of Market Capitalisation | -4.4% |
| Number of SE Transactions p.m. | 18,990 |
| YTD Dev. of SE Transactions | 15.9% |
| SE Turnover (Zagreb SE) | HRK 219.9mn |
| Monthly Index Performance (Crobex/ZSE) | -0.4% |
| GDP per Capita (2013 in EUR) | 11,954 |
| GDP Real 2013 (Change against prev. year in %) | 2.5 |
| 3-Month Money Market Rate (current in %) | 1.15 |
| Inflation in 2013 (yearly average in %) | 2.8 |
| EUR/HRK | 7.65 |
| Upcoming Holidays | none |

Source: UniCredit, National Statistics



Source: Thomson Datastream

HNB frees up HRK 4.7 billion to stimulate enterprise

The Croatian National Bank (HNB) Council decided to reduce the mandatory reserve ratio from 13.5% to 12%, thus releasing HRK 4.7 billion to commercial banks to encourage business lending.

This amount consists of HRK 3.9 billion from the HRK component of the reserve requirement and HRK 800 million from the foreign currency component. The portion from the foreign currency component was released without any conditions, while the 3.9 billion from the HRK component had to be invested in HNB bills by 11 December. This will make it possible for the central bank to ensure that the funds are indeed lent on to companies.

HNB bills will mature in three years. They will be non-transferable; it will not be possible to sell them to other legal entities and will not bear an interest rate. Only the HNB will be allowed to purchase them from the banks.

The purpose of this measure is to encourage lending to businesses, given that bank loans in the first ten months of this year had increased by only 1%.

Impact on investors

For information purposes only.

Parliament passes 2014 budget, revises this year's budget

The Croatian parliament passed the state budget for 2014, with revenues projected at HRK 113.1 billion, expenditures at HRK 130.5 billion, and the deficit exceeding HRK 17 billion. All 40-odd amendments tabled by the opposition parties were dismissed.

Earlier, the parliament revised the 2013 state budget by a majority of votes while in session. It was the second budget revision this year, cutting revenues by HRK 2.9 billion to 110.25 billion and increasing expenditures by HRK 3.2 billion to 126.8 billion.

The deficit increased by HRK 6 billion, from 10.24 billion to 16.3 billion, accounting for 4.8% of GDP.

The growth projection was revised down to 0.2%, although projections by other institutions have continued to be negative, indicating a decline of between 0.2% and 0.7%.

Impact on investors

For information purposes only.

State to sell stake in biggest Croatian insurance company

The Croatian government chose Rovinj based Adris grupa d.d. as the most favourable investor for the purchase of part of the state-owned stake in Croatia osiguranje, and a further increase of the share capital.

Adris grupa d.d. will pay a total of EUR 118.6 million for 39.05% of Croatia osiguranje ordinary shares, and invest a further EUR 110 million in the share capital increase.

The Croatia osiguranje market share, based on the total premiums written by all insurance companies in Croatia and together with the business of its health insurance unit, stood at 31.1% in 2012.

Moreover, the Croatian government turned down a binding bid from Erste & Steiermaerkische Bank for the purchase of the 99.13% stake in Hrvatska postanska banka (HPB), with an explanation that the offered price was too low.

Impact on investors

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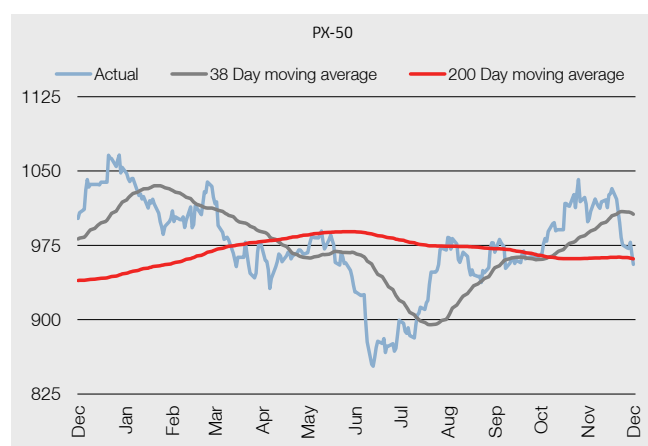
Jelena Bilušić
Relationship Manager
Global Securities Services, Croatia
Tel. +385 1 6305 137
jelena.bilusic@unicreditgroup.zaba.hr



CZECH REPUBLIC

| | |
|--|-------------|
| Market Capitalisation | CZK 1.1trn |
| YTD Dev. of Market Capitalisation | 0.6% |
| Number of SE Transactions p.m. | n.a. |
| YTD Dev. of SE Transactions | n.a. |
| SE Turnover (Prague SE) | CZK 119.5bn |
| Monthly Index Performance (PX) | 1.7% |
| GDP per Capita (2013 in EUR) | 16,406 |
| GDP Real 2013 (Change against prev. year in %) | 3.5 |
| 3-Month Money Market Rate (current in %) | 0.22 |
| Inflation in 2013 (yearly average in %) | 2.5 |
| EUR/CZK | 27.55 |
| Upcoming Holidays | none |

Source: UniCredit, National Statistics



Source: Thomson Datastream

CNB stress test results

The results of stress tests of the Czech banking sector performed using data available as of the end of 2013 Q3 still show that the banking sector is sufficiently resilient to potential adverse shocks. The capitalisation of the sector as a whole would remain above the regulatory minimum of 8% even in a stress scenario assuming a continuing and intensifying decline in economic activity in the Czech Republic and abroad over the next three years. The sector's resilience is based mainly on its sufficient capital adequacy ratio, which exceeded 17% at the end of September 2013.

The Czech National Bank regularly conducts stress tests to assess the impacts of highly adverse future economic scenarios on the domestic banking sector. The results of the November stress tests were conducted on the data as of 30 September 2013 and focus on the coming three years. In the assessment of the sector's resilience, the impact of future economic developments – represented by one baseline scenario and one stress scenario – on selected indicators of the banking sector's soundness was tested.

Impact on investors

CNB stress tests results show stability in the Czech Banking sector.

Hold/release function – new feature of settlement system

A new version of the settlement interface of the CSD Prague was launched on 2 December 2013, incorporating changes mainly in the field of matching.

The implemented changes enable effective control over inserting instructions and make the matching process more efficient. The new settlement interface is in compliance with international market standards and recommendations given by the European Securities Forum (ESF) and the European Central Securities Depositories Association (ECSDA) – ESF-ECSDA Matching Standards.

There following features were added to the settlement system of CSD Prague:

- Hold/release function
- Trade volume allowance
- Reverse date settlement instruction
- Change of the instruction
- Settlement cancelation
- Display of additional information for pairing
- New settlement cycle DVP at 10 a.m.

The new version of the settlement interface also reflects the changes in the amendment to the Civil Code, namely concerning collateral rights and the suspension of the right of owners to dispose of the investment instrument (PPN).

Impact on investors

The process and efficiency of the settlement system in the Czech market moved closer to global standards.

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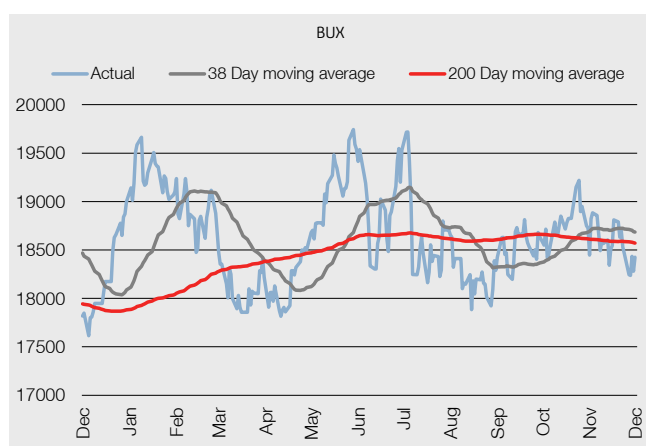
Tomáš Vácha
Senior Relationship Manager
Global Securities Services, Czech Republic
Tel. +420 955 960 777
tomas.vacha@unicreditgroup.cz



HUNGARY

| | |
|--|---------------|
| Market Capitalisation | HUF 17,703bn |
| YTD Dev. of Market Capitalisation | 5.4% |
| Number of SE Transactions p.m. | 152,449 |
| YTD Dev. of SE Transactions | 44.6% |
| SE Turnover (Budapest SE) | HUF 472,769mn |
| Monthly Index Performance (BUX) | -1.8% |
| GDP per Capita (2013 in EUR) | 12,381 |
| GDP Real 2013 (Change against prev. year in %) | 4.8 |
| 3-Month Money Market Rate (current in %) | 2.12 |
| Inflation in 2013 (yearly average in %) | 3.3 |
| EUR/HUF | 301.00 |
| Upcoming Holidays | none |

Source: UniCredit, National Statistics



Source: Thomson Datastream

Xetra introduced on Budapest Stock Exchange

On 6 December 2013 Xetra trading platform successfully went live on the Hungarian stock exchange replacing the previously used MMTS trading system. Xetra is a principal international trading platform that is used by almost 4500 brokers from 250 European brokerage companies and banks in 18 European countries. The widely used system is operated by Deutsche Börse and is already used by the other three members of the CEE Stock Exchange Group (CEESEG); Vienna, Ljubljana, and Prague.

With this implementation the Hungarian stock exchange has arrived at the next stage of integration into the CEE Stock Exchange Group. As of 6 December 2013 all members of CEESEG will use Xetra as their common trading platform. The Vienna Stock Exchange was the first in the group to replace its trading platform with Xetra in November 1999, followed by Ljubljana in December 2010 and Prague in November 2012.

This implementation is part of CEESEG's strategy to open national markets to foreign investors to the greatest extent possible. With Xetra, companies listed on the Hungarian exchange will be available directly to investors as well as for trades in 18 European countries; while the Hungarian investors and investment service providers will have direct access to thousands of new investment vehicles throughout Europe.

Using the new platform more than 11,000 shares, 900 ETF and 800,000 structure products are available to market participants. The technical barriers of connecting to the Hungarian market will be eliminated however Xetra may impact the concerned markets in different ways which are dependent on the development level of the relevant capital market. The appearance of new market participants and trading techniques may lead to an increase in trading turnover and the strengthening of liquidity on the BSE. Among the biggest beneficiaries of the introduction will be those companies whose shares and bonds are introduced on the Hungarian stock exchange.

According to the official announcement, with the Xetra introduction there will be some changes in the types of instructions and the rules of suspension, however, the settlement process will continue to be executed by KELER. Since Xetra replaced the MMTS system only on the cash market; derivative, option, and commodities trading will continue to remain on the MMTS system. The real-time calculated and published indexes of the BSE, the BUX and the BUMIX, as well as its regional CETOP20 index will remain unchanged, while Xetra will allow complete real-time calculation of BUX and BUMIX.

Impact on investors

With the opportunities provided by Xetra, the Hungarian market will be more accessible for foreign brokerage companies and banks, but ultimately for the investors along with thousands of investment instruments that are available to domestic investors and investment service providers. The implementation of Xetra is promoting the integration of the Hungarian capital market into the European region.

T2S status update

Since the Hungarian CSD, KELER, signed the Memorandum of Understanding with the European Central Bank (ECB) in June 2009 and the National User Group (NUG) was established in May 2011, there has been extensive work with the participation of all major market players to establish the Target2Securities (T2S) framework in Hungary and facilitate Hungary's accession to the system. It was an important joint decision of the National Bank of Hungary (NBH) and KELER in June 2012 to join T2S with the Hungarian ISINs but not with the national currency, HUF.

After signing the Framework Agreement in June 2012, KELER took part in the negotiation process where ECB together with the 24 CSDs committed to T2S and established the schedule of when each CSD shall become a T2S member. KELER will be part of the third wave scheduled for 12 September 2016. This decision is fully in line with the expectations of KELER, which was previously discussed with the market.

As part of the T2S project several harmonisation efforts are ongoing aiming at the standardisation of the European securities markets. ECB published a list of 26 points where unification shall be achieved. These are a mixture of legal, technical, business, and operational matters, 18 of them being high priority and important conditions for the launch of T2S. 16 topics have been fully determined, of which 15 are already being monitored. The following two global topics of the above 18 high priority remain to be defined:

- CSDR and technical standards
- Settlement Finality

Based on the priority map the following topics should be monitored and finalised on the Hungarian market:

- T2S schedule of settlement day: KELER is going to restructure its current schedule of settlement day in order to comply with the T2S standards as agreed upon and approved by the ECB. The solution is part of KELER's ongoing system change project.
- T2S Corporate Action standards: The Hungarian market supports the implementation plan that has been prepared complying with the T2S CA standards.
- Settlement finality II.: Ceasing of unilateral cancellation of matched instructions is part of KELER's ongoing system change project and will be introduced at migration to T2S.
- Settlement finality III.: Securities transfers shall be unconditional, irrevocable and enforceable in T2S. Implementation plan to comply with SF III rule is to identify and resolve any regulatory obstacles.

The testing process for KELER in regard to T2S will start in Q1 2015.

Regarding the migration of the Hungarian market the following actions have to be finalised and achieved:

By the migration date, KELER must have a new account management system that is fully compliant with the settlement platform's functionalities. Therefore last year KELER launched the System Modernisation Programme (SMP) with the aim of replacing its almost twenty-year-old account management system and ensuring that the new system becomes fully compliant with the T2S functionalities by September 2016. In the first phase of SMP KELER selected the services provider, Tata Consultancy Services (TCS), a part of the India based Tata Group. In the second phase of the project the parties engaged in intensive negotiations on the specifications of the system (called BaNCS). BaNCS will comply with the current service requirements of KELER and will also bring a number of innovations, which are compliant with T2S functionalities.

The T2S White Paper is under preparation by KELER, the document will be a summary of the T2S platform, including the conditions of the accession, the available services, and the brief plan of the joining process. In line with the migration plan the document will be published by KELER soon.

According to the schedule, the T2S Hungarian working groups will continue to work on the open topics and KELER is expected to organise their meetings where further updates will be presented.

Impact on investors

Extensive T2S related work is going on in the market with the leadership of KELER in order for the Hungarian market to join T2S as of 12 September 2016.

Written and edited by:

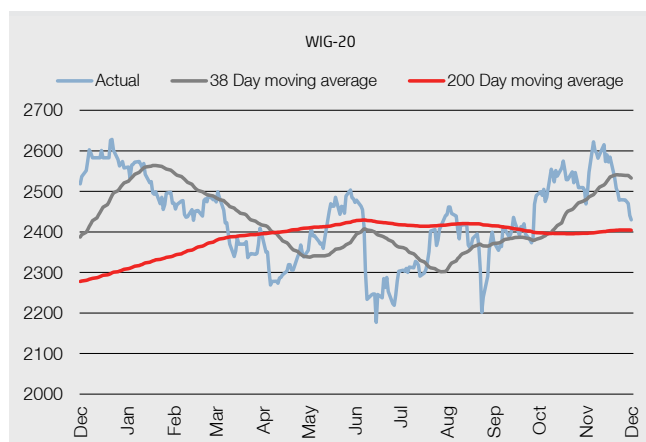
Melinda Czéh
Relationship Manager
Global Securities Services, Hungary
Tel. +36 1 301 1921
melinda.czeh@unicreditgroup.hu



POLAND

| | |
|--|-------------|
| Market Capitalisation | PLN 624.3bn |
| YTD Dev. of Market Capitalisation | 19.3% |
| Number of SE Transactions p.m. | 1,061,641 |
| YTD Dev. of SE Transactions | 17.0% |
| SE Turnover (WSE) | PLN 18.4bn |
| Monthly Index Performance (WIG20) | 1.9% |
| Monthly Index Performance (WIG) | 2.1% |
| GDP per Capita (2013 in EUR) | 11,664 |
| GDP Real 2013 (Change against prev. year in %) | 4.0 |
| 3-Month Money Market Rate (current in %) | 2.55 |
| Inflation in 2013 (yearly average in %) | 3.2 |
| EUR/PLN | 4.18 |
| Upcoming Holidays | none |

Source: UniCredit, National Statistics



Source: Thomson Datastream

KDPW_CCP has LEI code in the Central Securities Depository of Poland

On 12 December 2013, KDPW_CCP (Polish Central Counterparty) received the Legal Entity Identifier (LEI) in the Central Securities Depository of Poland (KDPW).

In line with a European Securities Market Authority (ESMA) decision, a LEI is required to report to trade repositories for details of derivative contracts concluded on the regulated market and in OTC trade. The reporting obligation takes effect as of 12 February 2014.

The obligation of reporting applies to legal entities concluding derivative contracts and may be delegated to another entity or to a central counterparty (CCP). In connection with the reporting obligation imposed on central counterparties under EMIR regulations, KDPW_CCP has implemented a new service; reporting to the Trade Repository (KDPW_TR) for derivative contracts at the request of KDPW_CCP clearing participants.

The service will be provided beginning with the enforcement of the reporting requirement, that is, on 12 February 2014.

On behalf of clearing participants, KDPW_CCP will report information to KDPW_TR concerning derivatives transactions recorded by KDPW_CCP on clearing accounts flagged for reporting concluded on either the organised market (ETD) or off the organised market (OTC).

There is no obligation to be a KDPW_TR participant, however, only KDPW_TR participants will be allowed to reconcile the transactions details reported by KDPW_CCP to the Trade Repository.

On 2 November 2012, KDPW launched the trade repository service in response to Regulation No. 648/2012 of the European Parliament and the Council of 4 July 2012 on OTC derivatives, central counterparties, and trade repositories ("EMIR") making this service available on the market.

A year later, on 7 November 2013, the ESMA registered the KDPW_TR officially, confirming that it fulfils all trade repository requirements under EMIR. The KDPW_TR is one of the first four such institutions to be registered in Europe.

Impact on investors

Starting from 12 February 2014, KDPW_CCP will require LEI in order to report to Trade Repository (KDPW_TR) for derivative transactions on behalf of clearing participants and their clients. Currently, KDPW is engaged in a project associated with obtaining a status of so called Local Operating Units (LOU), which is an entity having the right to grant LEI and to be able to get pre-LEI before the effective date of the reporting obligations.

Written and edited by:

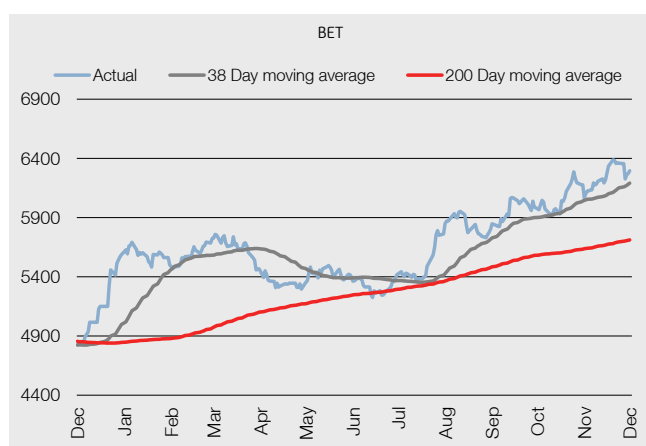
Marta Boboryk
Relationship Manager
Global Securities Services, Poland
Tel. +48 22 524 5861
marta.boboryk@pekao.com.pl



ROMANIA

| | |
|--|-------------|
| Market Capitalisation | RON 134bn |
| YTD Dev. of Market Capitalisation | 44% |
| Number of SE Transactions p.m. | 107,914 |
| YTD Dev. of SE Transactions | 63.1% |
| SE Turnover (Bucharest SE) | RON 3,261mn |
| Monthly Index Performance (BET/BSE) | 4.4% |
| GDP per Capita (2013 in EUR) | 7,301 |
| GDP Real 2013 (Change against prev. year in %) | 4.0 |
| 3-Month Money Market Rate (current in %) | 2.26 |
| Inflation in 2013 (yearly average in %) | 4.0 |
| EUR/RON | 4.45 |
| Upcoming Holidays | none |

Source: UniCredit, National Statistics



Source: Thomson Datastream

Bucharest Stock Exchange Indices have been adjusted

The shares of Romgaz and of Nuclearelectrica were included in BET, BET-XT, BET-BK, and, automatically, in BET-NG and BET-C indices. The inclusion of the two companies in the indices was done under the stipulations of the Index Manuals, following the successful roll out of their IPOs in the last quarter, and their ranking in the Top10 by liquidity coefficient.

The weighting factors of the indices - free float factor, representation factor, and price correction factor, have been determined based on the number of shares and the closing prices of the 13 December trading session. The new index structure became effective as of 23 December 2013.

Impact on investors

For information purposes only.

New Letter of Advice issued by Romanian Financial Supervisory Authority

The Romanian Financial Supervisory Authority has issued the Decision 1134/02.12.2013, which ceases the applicability of the former NSC Decision 962/2007. This decision had provided that between an Investment Management Company and its Undertaking for Collective Investments Funds, it is established to be a relation according to which they do not act in concert.

Therefore, the provisions of the new FSA Decision 1134/2013, state that the relationship between the above mentioned entities is such that they act in concert.

Impact on investors

Accommodation with the European legal framework regarding the information transparency obligations.

Written and edited by:

Andreea Albu
Relationship Manager
Global Securities Services, Romania
Tel. +40 21 2002678
andreea.albu@unicredit.ro

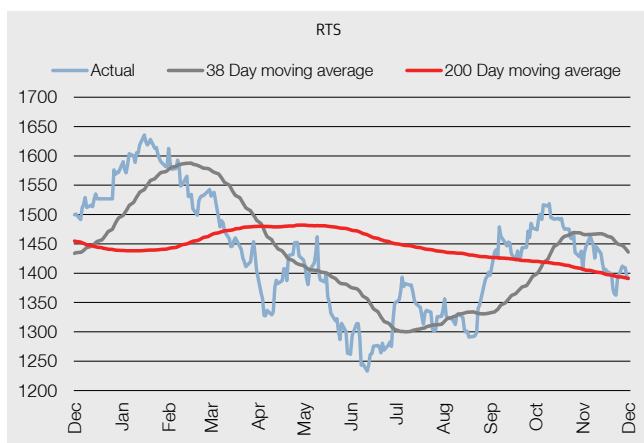
Iuliana Manastireanu
Account Manager
Global Securities Services, Romania
Tel. +40 21 2001494
iuliana.manastireanu@unicredit.ro



RUSSIA

| | |
|--|-------------|
| Market Capitalisation | RUB 25.7trn |
| YTD Dev. of Market Capitalisation | -1.5% |
| Number of SE Transactions p.m. (MICEX) | 6,663,478 |
| YTD Dev. of SE Transactions | -11.3% |
| SE Turnover (MICEX) | RUB 16.2trn |
| Monthly Index Performance (MICEX) | -1.7% |
| GDP per Capita (2013 in EUR) | 10,754 |
| GDP Real 2013 (Change against prev. year in %) | 3.8 |
| 3-Month Money Market Rate (current in %) | 6.55 |
| Inflation in 2013 (yearly average in %) | 6.4 |
| EUR/RUB | 45.28 |
| Upcoming Holidays | none |

Source: UniCredit, National Statistics



Source: Thomson Datastream

CBR liquidates its financial markets service

The Central Bank of Russia (CBR), a mega-regulator of the national financial market, has announced that its service on the financial markets will be disbanded on 3 March 2014. Instead of it, the Board of Directors of CBR has decided to create nine new structural divisions responsible for the functioning and development of the Russian financial market:

- Financial markets development department;
- Financial markets admittance department;
- Collection and non-banking financial organisations report processing department;
- Insurance market department;
- Collective investments and asset management department;
- Securities and commodity markets department;
- Main office of microfinance market;
- Main office of countering unfair practices behavior on the financial markets;
- Service of Bank of Russia on protection of investors and minority shareholders rights.

CBR has noted that these changes should help to raise the level of development of the financial market and the supervision of it. Special attention will be paid towards transferring to paperless technologies.

Earlier supervision on the financial market of insurers, microfinance organisations, pension funds, depositories, and exchanges was carried out by the Federal Financial Markets Service (FFMS). FFMS was abolished in July 2013 in connection with the decision to create a single mega-regulator for supervision of both the banking market and the other financial sector.

Impact on investors

The changes of CBR functioning is a new step towards the development of the Russian financial market and the protection of investors' rights.

50 Russian banks will be recognised as systemically important by CBR

CBR will expand the list of systemically important Russian banks to 50 banking institutions. The list will include the main state-owned banks and privately owned banks, which together hold 80% of the assets of the Russian banking system. The final list of systemically important banks will be approved in early 2014.

The main responsibility of the systemically important banks will be readiness to overcome the market fluctuations of different financial instruments and other conditions by their own resources.

CBR plans to review the systemically important banks in more detail than conventional financial institutions and to create a special department to do so.

Additionally, CBR will maintain the right to introduce their representatives in all banks for the accounting of assets of RUB 50 billion and more, and deposits more than RUB 10 billion.

Impact on investors

Strengthening of CBR control over the Russian banking system will improve the investment climate in Russia.

Draft law on financial assets securitisation

In December the Lower House of Parliament of Russia State Duma adopted the government's law on the regulation of financial assets securitisation in the third reading.

This document will amend the Civil Code and federal laws "On Banks and Banking Activities", "On the Central Bank of the Russian Federation", "On Joint Stock Companies", "On the Securities Market" etc. The document is expected to come into force on 1 July 2014, excluding separate provisions.

In accordance with the amendments, banks will have to hold on their balance sheets 20% of the risks securitising financial assets. There will be exceptions for any securitisation of infrastructure project instruments with a 10% limit.

The law also introduces the following novelties:

- Introduction of the provisions regulating specialised financial institutions activities;
- Determination of bankruptcy's peculiarities for specialised companies and mortgage agents;
- Implementation of the procedure for banks to open, maintain, and close nominal accounts to execute transactions with cash, the rights to which are held by another party, and also special escrow accounts to keep and block funds received from an account owner in order to transfer funds to another party (beneficial owner) based on the agreement concluded between a bank, a depositor, and a beneficial owner (escrow agreement);
- Introduction of obligation for financial institutions to disclose information on transactions as well as to cede monetary claims to mortgage agents or specialised entities in the manner stipulated by CBR;
- Implementation of the procedure for conducting professional activities on the securities market related to the maintenance of individual investment accounts;
- Regulation of the procedure for creating and the functioning of the Unified Information System of the Notariat; determination of peculiarities in the registration of movable collateral's notifications, notarial actions using electronic forms, etc.

Impact on investors

Implementation of financial asset securitisation law will increase the transparency of the Russian financial market and allow the use of escrow accounts.

AML legislation updates

In accordance with the adoption of Federal Law No. 134-FZ dated 28 June 2013 on combating illegal financial operations, CBR issued a number of the related regulations.

The Directive No. 3041-U regarding notification by banks to the Federal Service for Financial Monitoring (Rosfinmonitoring) of their refusals to open bank accounts came into force on 25 November 2013. The Directive implements the procedure for banks to notify Rosfinmonitoring about instances where they refused to open a bank account, refused to perform a client's instructions, or terminated a bank account agreement on the grounds established by AML. The Russian banks should notify about these actions not later than the working day following the day when they happened.

The Directive No. 407-P regarding the submission by banks of information about clients' operations at the request of Rosfinmonitoring entered into force on 5 December 2013. The Regulation describes the procedure for banks to submit to Rosfinmonitoring upon its request information about clients' operations, beneficial owners of the clients, and the movement of funds on the clients' accounts. Banks should provide such information in electronic form no later than five working days upon receipt of the request.

The Directive No. 3063-U regarding notification by banks to Rosfinmonitoring of freezing clients' funds came into force on 15 December 2013. The Directive describes the procedure for banks to notify Rosfinmonitoring about freezing (blocking) money and property of clients involved in terrorist activity and the results of these checks, which should be conducted no less than once every three months. Banks are obliged to notify about blocking measures on the same day when they were applied and about the results of checks; no later than three working days upon completion of the check, in electronic form.

Impact on investors

Changes in the Russian AML legislation will harmonise it with the best international standards and will provide better protection of investors' rights.

Written and edited by:

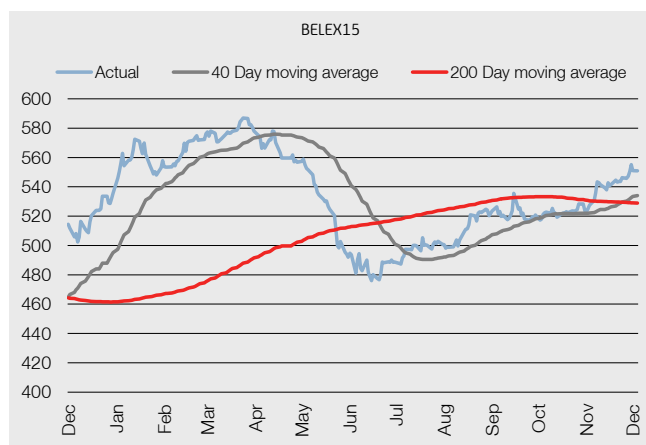
Ekaterina Konovalova
Relationship Manager
Global Securities Services, Russia
Tel. +7 495 258 7258, ext.3453
ekaterina.konovalova@unicredit.ru



SERBIA

| | |
|--|-------------|
| Market Capitalisation | RSD 768.4bn |
| YTD Dev. of Market Capitalisation | -3.8% |
| Number of SE Transactions p.m. | 19,375 |
| YTD Dev. of SE Transactions | -52.7% |
| SE Turnover (Belgrade SE) | RSD 1.4bn |
| Monthly Index Performance (Belex 15) | 3.6% |
| GDP per Capita (2013 in EUR) | 5,453 |
| GDP Real 2013 (Change against prev. year in %) | 3.0 |
| 3-Month Money Market Rate (current in %) | 8.68 |
| Inflation in 2013 (yearly average in %) | 5.8 |
| EUR/RSD | 114.97 |
| Upcoming Holidays | none |

Source: UniCredit, National Statistics



Source: Bloomberg

Serbia forms financial stability committee

Serbia held a constitutive meeting of the Financial Stability Committee. The Committee was founded by the Serbian Government, National Bank of Serbia (NBS), Deposit Insurance Agency (DIA), and the Securities Commission.

The Committee will meet at least once quarterly acting in the role of an advisory body by coordinating and strengthening cooperation between its founders. The goal of the Committee is to maintain stability of the Serbian financial system through the harmonisation of policies and measures of its founders. Through prompt and more efficient data exchange, the Committee will assess systemic risks to the country's financial system in crisis situations. The Committee will also have more powerful ways of making timely and adequate decisions leading to an overview of its policies and a means to measure its effects in the financial sector and the economy.

Impact on investors

Serbia formed the Financial Stability Committee to act as a coordinating body that will harmonise the policies and measures of its founders leading to financial and economical stability.

Written and edited by:

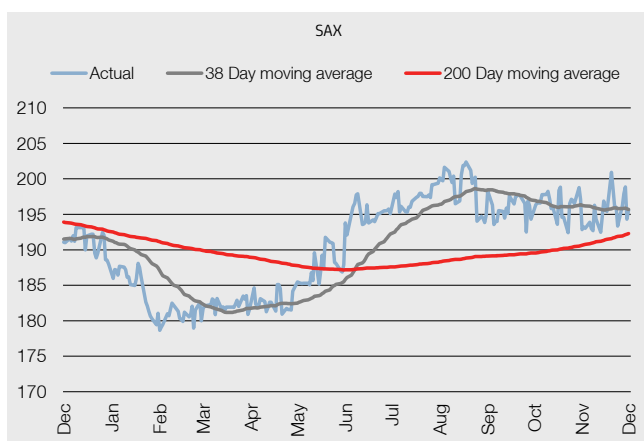
Aleksandra Ilijevski
Senior Relationship Manager
Global Security Services, Serbia
Tel. +381 11 3208 612
aleksandra.ilijevski@unicreditgroup.rs



SLOVAK REPUBLIC

| | |
|--|------------|
| Market Capitalisation | EUR 38.4bn |
| YTD Dev. of Market Capitalisation | 0.8% |
| Number of SE Transactions p.m. | 1,066.0 |
| YTD Dev. of SE Transactions | -4.0% |
| SE Turnover (Bratislava SE) | EUR 0.9bn |
| Monthly Index Performance (SAX/BSSE) | 80.0% |
| GDP per Capita (2013 in EUR) | 14,478 |
| GDP Real 2013 (Change against prev. year in %) | 4.3 |
| 3-Month Money Market Rate (current in %) | n.a. |
| Inflation in 2013 (yearly average in %) | 3.4 |
| Upcoming Holidays | none |

Source: UniCredit, National Statistics



Source: Thomson Datastream

Bratislava Stock Exchange trading results in November

In November 2013, the members of the Bratislava Stock Exchange (BSSE) used the electronic trading system during 20 business days. A total of 1,066 transactions were concluded in this period, in which 715,384,434 units of securities were traded and the achieved financial volume totalled EUR 895.999 million. In comparison with the previous month this is an increase in the amount of traded securities (+77.46%), an increase in the financial volume (+90.54%) and a decrease in the number of transactions (-4.05%).

The number of transactions decreased on a year-on-year basis by 19.43%, whereas the amount of traded securities and the achieved financial volume increased (+40.18% and +46.43%, respectively). Similar to previous periods, November 2013 saw negotiated deals dominate over electronic order book transactions (i.e. price-setting deals), with the former accounting for 99.26% of the total trading volume. A total of 317 negotiated deals (in a volume of EUR 889.34 million) were concluded, as opposed to 649 electronic order book transactions (in a financial volume of EUR 6.65 million).

Transactions concluded by non-residents in November 2013 accounted for 47.03% of the total volume, out of which the buy side represents 48.72% and the sell side does 45.33%.

The SAX index ended the month of November 2013 at 195.41 points, representing a 0.42% increase on a month-on-previous-month basis and a 1.86% increase year on year.

Impact on investors

For information purposes only.

Written and edited by:

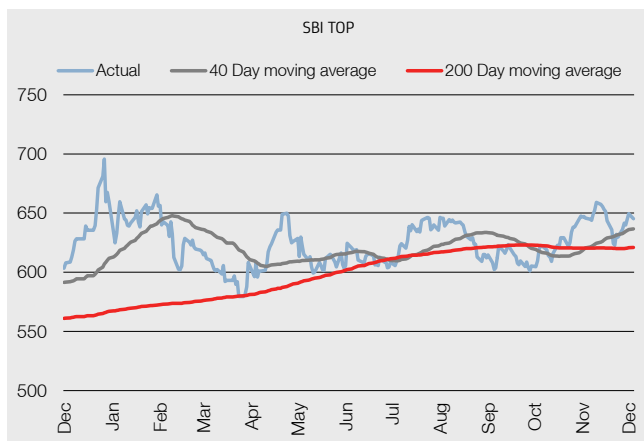
Rastislav Rajninec
Relationship Manager
Global Securities Services, Slovak Republic
Tel. +421 2 4950 2424
rastislav.rajninec@unicreditgroup.sk



SLOVENIA

| | |
|--|--------------|
| Market Capitalisation | EUR 17,214mn |
| YTD Dev. of Market Capitalisation | -2.0% |
| Number of SE Transactions p.m. | 4,629 |
| YTD Dev. of SE Transactions | -1.0% |
| SE Turnover (Ljubljana SE) | EUR 36,546mn |
| Monthly Index Performance (SBI TOP) | 2.3% |
| GDP per Capita (2013 in EUR) | 20,321 |
| GDP Real 2013 (Change against prev. year in %) | 2.5 |
| 3-Month Money Market Rate (current in %) | 0.35 |
| Inflation in 2013 (yearly average in %) | 2.6 |
| Upcoming Holidays | none |

Source: UniCredit, National Statistics



Source: Thomson Datastream

UniCredit tops stress tests, worst 3 banks in need of over EUR 3 billion capital

The banking stress test run in Slovenia uncovered a capital deficit of almost EUR 4.8 billion and an immediate capital need of over EUR 3 billion. UniCredit Banka Slovenija d.d. showed the strongest results among all participating banks, with no immediate capital need.

Impact on investors

Slovenia will not need EU funds to stabilise its banking sector and the capital shortfall of over EUR 3 billion will be covered in the form of state aid.

Written and edited by:

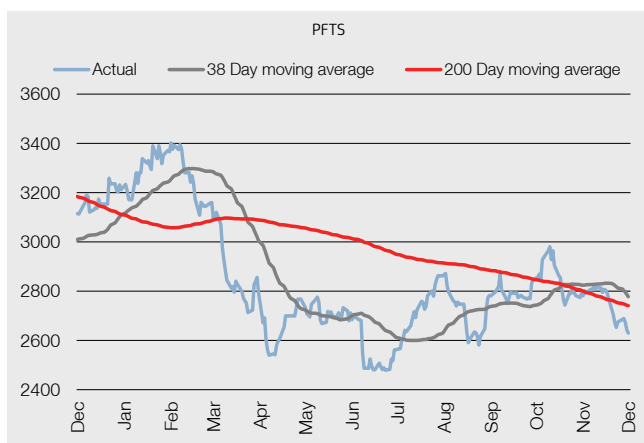
Elmedina Garibović
 Relationship Manager
 Global Securities Services, Slovenia
 Tel. +386 1 587 65 97
elmedina.garibovic@unicreditgroup.si



UKRAINE

| | |
|--|-------------|
| Market Capitalisation (UX) | UAH 248.5bn |
| YTD Dev. of Market Capitalisation (UX) | 53.0% |
| Number of SE Transactions p.m. (UX) | 27,357 |
| YTD Dev. of SE Transactions (UX) | -47.2% |
| SE Turnover (UX) | UAH 0.5bn |
| Monthly Index Performance (UX) | 4.5% |
| GDP per Capita (2013 in EUR) | 4,241 |
| GDP Real 2013 (Change against prev. year in %) | 4.4 |
| 3-Month Money Market Rate (current in %) | 10.50 |
| Inflation in 2013 (yearly average in %) | 8.7 |
| EUR/UAH | 11.42 |
| Upcoming Holidays | none |

Source: UniCredit, National Statistics



Source: Thomson Datastream

Market regulator to select stock exchanges for IFO bonds placement

Trading activity, as well as the number of registered securities, will be two of the indicators, on the basis of which the market regulator, National Securities and Stock Market Commission (NSSMC), will permit stock exchanges to participate in a tender to select stock platforms for placing bonds of international financial organisations (IFO).

According to the provision on a tender to select stock exchanges for placing IFO bonds approved by the NSSMC on 5 November 2013, bidders should lead in one of the following indicators: the number of securities in the exchange list and register, trading volume, and the number of signed and executed exchange contracts (the latter two indicators are to be for the six months preceding the date of applying for participation in the tender).

The tender commission will consider information regarding applicants for participation in the tender within 15 days.

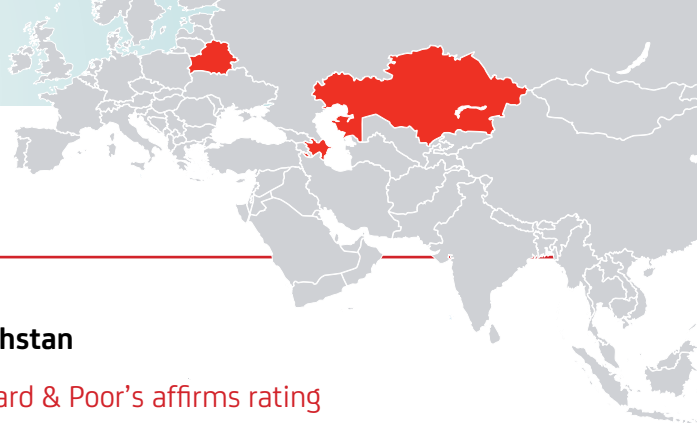
According to public sources, as of 6 December 2013 the list of PFTS consisted of 1,510 securities (including 384 in the stock register), Ukrainian Exchange (both based in Kyiv) – 293 equities (89), and Perspektiva stock exchange (Dnipropetrovsk) – 595 (146).

Impact on investors

Market regulator to select the stock platform for IFO bonds placement.

Written and edited by:

Kateryna Yevtushenko
Relationship Manager
Global Securities Services, Ukraine
Tel. +38 044 590 1210
kateryna.yevtushenko@unicredit.ua



AZERBAIJAN · BELARUS · KAZAKHSTAN

Azerbaijan

First investment fund will be licensed in 2014

The State Securities Committee of Azerbaijan announced that the first investment fund will receive a license in 2014.

Licensing is carried out in compliance with the Law on Investment Funds. It is a complex multistep process, which takes a lot of time.

The creation of an investment fund entails obtaining a license by its management company, and then such license should be also received by the investment fund.

Impact on investors

Implementation of a new form of securities activities, collective investment funds (mutual fund), will increase investment opportunities for investors.

Kazakhstan

Standard & Poor's affirms rating

Standard & Poor's, the international rating agency, has affirmed Kazakhstan's 'BBB+' long-term foreign currency sovereign credit rating, citing commodity exports supporting fiscal surpluses; the ratings outlook is 'stable'.

Impact on investors

For information purposes only.

Belarus

| | |
|--|---------------|
| Market Capitalisation | BYR 13tr |
| YTD Dev. of Market Capitalisation | n.a. |
| Number of SE Transactions p.m. (BCSE) | 1,031 |
| YTD Dev. of SE Transactions | 65.5% |
| SE Turnover (BCSE) | BYR 1,914.2bn |
| Monthly Index Performance (BCSE) | 3.6% |
| GDP per Capita (2013 in EUR) | 410 |
| GDP Real 2013 (Change against prev. year in %) | 1.10 |
| 3-Month Money Market Rate (current in %) | n.a. |
| Inflation in 2013 (yearly average in %) | 1.6 |
| BYR/EUR | 0.00008 |
| Upcoming Holidays | none |

Source: UniCredit, National Statistics

Written and edited by:

Ekaterina Kononova
Relationship Manager
Global Securities Services, Russia
Tel. +7 495 258 7258, ext.3453
ekaterina.kononova@unicredit.ru

YOUR CONTACTS

Central Team

Tomasz Grajewski
Tel. +48 22 524 5867
tomasz.grajewski@pekao.com.pl

Sven Trahan
Tel. +43 50505 57311
sven.trahan@unicreditgroup.at

Michael Slavov
Tel. +43 50505 58511
michael.slavov@unicreditgroup.at

Evelyne Wininger
Tel. +43 50505 42788
evelyne.wininger@unicreditgroup.at

Philipp Aschl
Tel. +43 50505 58508
philipp.aschl@unicreditgroup.at

Pawel Muszalski
Tel. +43 50505 57315
pawel.muszalski@unicreditgroup.at

Markus Winkler
Tel. +43 50505 58547
markus.winkler@unicreditgroup.at

Austria

UniCredit Bank Austria AG
Julius Tandler-Platz 3
A-1090 Vienna
Austria

Günter Schnaitt
Tel. +43 50505 58501
guenter.schnaitt@unicreditgroup.at

Thomas Rosmanitz
Tel. +43 50505 58515
thomas.rosmanitz@unicreditgroup.at

Tina Fischer
Tel. +43 50505 58512
tina.fischer@unicreditgroup.at

Stephan Hans
Tel. +43 50505 58513
stephan.hans@unicreditgroup.at

Bosnia and Herzegovina

UniCredit Bank d.d.
Zelenih beretki 24
71 000 Sarajevo
Bosnia and Herzegovina

Lejla Sabljica
Tel. +387 33 491 777
lejla.sabljica@unicreditgroup.ba

Amra Telačević
Tel. +387 33 491 816
amra.telacevic@unicreditgroup.ba

Belma Kovačević
Tel. +387 33 491 810
belma.kovacevic@unicreditgroup.ba

Enis Zejnić
Tel. +387 51 348 050
enis.zejnic@unicreditgroup.ba

Bulgaria

UniCredit Bulbank AD
7 Sveta Nedelya Square
BG-1000 Sofia
Bulgaria

Veselin Stefanov
Tel. +359 2 923 2818
veselin.stefanov@unicreditgroup.bg

Borislav Hitov
Tel. +359 2 923 2670
borislav.hitov@unicreditgroup.bg

Croatia

Zagrebacka Banka d.d.
Savska 62
HR-10000 Zagreb
Croatia

Valerija Bezak
Tel. +385 1 6305 430
valerija.bezak@unicreditgroup.zaba.hr

Jelena Bilušić
Tel. +385 1 6305 137
jelena.bilusic@unicreditgroup.zaba.hr

Czech Republic

UniCredit Bank Czech Republic a.s.
Zeletavska 1525/1
CZ-140 92 Prague 4
Czech Republic

Michal Stuchlík
Tel. +420 955 960 780
michal.stuchlik@unicreditgroup.cz

Tomáš Vácha
Tel. +420 955 960 777
tomas.vacha@unicreditgroup.cz

Alena Kalasova
Tel. +420 955 960 778
alena.kalasova@unicreditgroup.cz

Hungary

UniCredit Bank Hungary Zrt.
Szabadsag ter 5 – 6, 6th floor
H-1054 Budapest
Hungary

Júlia Romhányi
Tel. +36 1 301 1923
julia.barbara.romhanyi@unicreditgroup.hu

Melinda Czéh
Tel. +36 1 301 1920
melinda.czeh@unicreditgroup.hu

Beata Szőnyi
Tel. +36 1 301 1924
beata.szonyi@unicreditgroup.hu

Poland

Bank Polska Kasa Opieki SA
31 Zwirki i Wigury Street
PL-02-091 Warsaw
Poland

Tomasz Grajewski
Tel. +48 22 524 5867
tomasz.grajewski@pekao.com.pl

Mariusz Piękoś
Tel. +48 22 524 5852
mariusz.piekos@pekao.com.pl

Kamil Polak
Tel. +48 22 524 5863
kamil.polak@pekao.com.pl

Marta Boboryk
Tel. +48 22 524 58 61
marta.boboryk@pekao.com.pl

Krzysztof Pekrul
Tel. +48 22 524 5864
krzysztof.pekrul@pekao.com.pl

Marek Cioroch
Tel. +48 22 524 5862
marek.cioroch@pekao.com.pl

Romania

UniCredit Tiriac Bank S.A.
1F, Expozitiei Blvd.
RO-012101, Bucharest 1
Romania

Irina Savastre
Tel. +40 21 200 2670
irina.savastre@unicredit.ro

Viviana Traistaru
Tel. +40 21 200 2673
viviana.traistaru@unicredit.ro

Andreea Albu
Tel. +40 21 200 2678
andreea.albu@unicredit.ro

Russia

ZAO UniCredit Bank
9, Prechistsenskaya Emb.
RU-119034 Moscow
Russian Federation

Alexander Nazarov
Tel. +7 495 258 73 49
alexander.vl.nazarov@unicreditgroup.ru

Ksenia Liskina
Tel. +7 495 258 7258 – 3455
ksenia.liskina@unicreditgroup.ru

Yulia Umnova
Tel. +7 495 232 5298
yuliya.umnova@unicredit.ru

Serbia

UniCredit Bank Serbia JSC
Omladinskih Brigada 88
RS-11070 Belgrade
Serbia

Jasmina Radičević
Tel. +381 11 3028 611
jasmina.radicevic@unicreditgroup.rs

Aleksandra Ilijevski
Tel. +381 11 3028 612
aleksandra.ilijevski@unicreditgroup.rs

Olja Matijas
Tel. +381 11 3028 613
olja.matijas@unicreditgroup.rs

Slovakia

UniCredit Bank Slovakia A.S.
Sancova 1/A
SK-811 04 Bratislava
Slovak Republic

Zuzana Milanová
Tel. +421 2 4950 3702
zuzana.milanova@unicreditgroup.sk

Rastislav Rajnynec
Tel. +421 2 4950 2424
rastislav.rajnynec@unicreditgroup.sk

Slovenia

UniCredit Bank Slovenija d.d.
Wolfova 1
SI-1000 Ljubljana
Slovenia

Vanda Močnik-Kohek
Tel. +386 1 5876 450
vanda.mocnik@unicreditgroup.si

Elmedina Garibović
Tel. +386 1 5876 597
elmedina.garibovic@unicreditgroup.si

Barbara Zajc
Tel. +386 1 5876 453
barbara.zajc@unicreditgroup.si

Ukraine

PJSC UniCredit Bank
14a, Yaroslaviv Val
UA-01034 Kyiv
Ukraine

Bogdana Yefremova
Tel. +380 44 230 3341
bogdana.yefremova@unicredit.ua

Kateryna Yevtushenko
Tel. +380 44 590 1210
kateryna.yevtushenko@unicredit.ua

Websites

gss.unicreditgroup.eu
www.gtb.unicredit.eu
www.unicreditgroup.eu
www.bankaustria.at

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Corporate & Investment Banking
UniCredit Bank Austria AG
Julius Tandler-Platz 3
A-1090 Wien

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Corporate & Investment Banking

Global Transaction Banking
UniCredit Bank Austria AG
Global Securities Services
Julius Tandler-Platz 3
A-1090 Vienna
Tel. +43 50505 0

Information requirements pursuant to the Austrian E-Commerce Act

Registered office and postal address

Schottengasse 6 – 8
A-1010 Vienna

Swift:

BKAUATWW
Austrian bank code:
12000

Registered

under no. FN 150714p Companies Register at the Commercial Court
Vienna

Kind of business

Credit institution under section 1 (1) Austrian Banking Act

Supervisory authority

Austrian Financial Market Supervisory Authority (Finanzmarktaufsicht),
departments banking supervision and securities supervision
Otto-Wagner-Platz 5
A-1090 Vienna
www.fma.gv.at

Memberships

Austrian Federal Economic Chamber, bank and insurance division
Wiedner Hauptstraße 63
A-1040 Vienna
www.wko.at
Austrian Bankers' Association
Boerse gasse 11
A-1010 Vienna
www.voebb.at

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