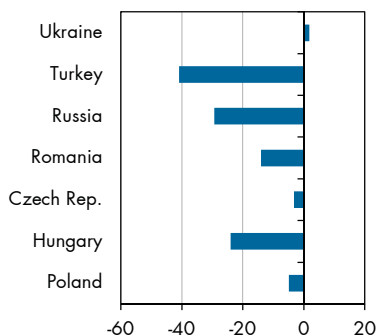




5Y USD CDS (BP change over WTD)



Source Bloomberg, Raiffeisen RESEARCH

Market snapshot

	curr.*	Dec-13	Mar-14	Jun-14
Poland				
EUR/PLN	4.20	4.15	4.10	4.00
Key rate	2.50	2.50	2.50	2.50
10y bond	4.2	4.6	4.6	4.7
Hungary				
EUR/HUF	297.7	300	305	300
Key rate	3.80	3.50	3.20	3.20
10y bond	5.8	6.5	6.8	6.5
Czech Rep.				
EUR/CZK	25.8	25.5	25.4	25.1
Key rate	0.05	0.05	0.05	0.05
10y bond	2.2	2.6	2.8	3.1
Romania				
EUR/RON	4.46	4.50	4.45	4.50
Key rate	4.50	3.75	3.50	3.50
10y bond	4.9	5.0	5.0	5.1
Croatia				
EUR/HRK	7.61	7.60	7.57	7.48
Key rate	6.25	6.00	6.00	6.00
10y bond	4.9	5.5	5.6	5.6
Russia				
USD/RUB	31.7	33.0	32.5	33.2
Key rate	8.25	5.25	5.25	5.25
10y bond	7.2	7.2	7.0	7.3
Turkey				
USD/TRY	1.96	1.95	2.00	2.10
Key rate	4.50	4.50	5.00	5.50
10y bond	8.5	9.2	9.7	10.0
EUR/USD	1.35	1.30	1.31	1.29

* prices as of 20 September 2013, 10:04 a.m. CET
Source: Thomson Reuters, Raiffeisen RESEARCH

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Open positions

CEE LCY bonds: long RON 2y; long SI 5y; short CZK >5y

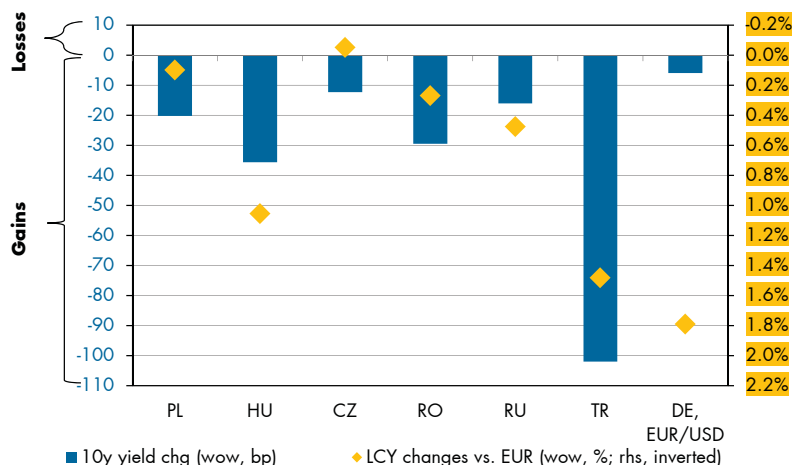
CEE FX: currently no open FX trading idea

Monetary policy decisions coming up

The surprising decision by the US Fed not to start reducing the bond buying program led to a positive reaction for yields and exchange rates in CEE. However, the first reaction soon started to fade off. While we would expect some moderate positive sentiment for the coming week due to the decision, the overall effects on CEE markets are likely to be short-lived. Next week will feature key rate decisions in Hungary and the Czech Republic. In Hungary we will see a continuation of the interest rate cutting cycle that started in August 2012. Given a positive market environment we could be in for more than a 10bp cut - we expect 20bp. The rate meeting in the Czech Republic will on the other hand focus on a possible FX intervention. Even though we do not expect the threat of intervention to materialize, the strong wording of the monetary council is likely to persist.

Given the recent (market) focus on fiscal issues and the pension reform in Poland we have a closer look at the planned 2014 budget in our Focus on section on page 2. All in all, we think that the 2014 budget assumptions are more or less realistic (compared to 2013). However, there remains a risk of modest negative surprises on the budget front in 2014 as well. Still negative surprises should be limited as tax revenue shortfalls are likely to be compensated by effects stemming from the recent pension reforms.

Last week's changes



Source: Bloomberg, Raiffeisen RESEARCH

Data highlights upcoming week

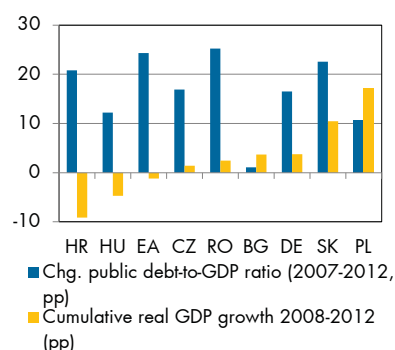
Date	Indicator	Period	est.	High	Mean	Low	Prev.
24-Sep	PL Retail sales, % yoy	Aug	3.8	4.2	2.8	1.2	4.3
24-Sep	HU Key rate, %	Sep	3.60	3.70	3.60	3.55	3.80
26-Sep	CZ Key rate, %	Sep	0.05	0.05	0.05	0.05	0.05
27-Sep	HU Current account, EUR mn	Q2	449	1180	500	296	549

Source: Bloomberg, Raiffeisen RESEARCH



Focus on: Poland – a critical look at the 2014 budget bill

Fiscal & growth vs. peers



Source: national sources, Eurostat, Raiffeisen RESEARCH

Government & Raiffeisen RESEARCH 2014 forecasts

Economic indicators (% yoy)	Government	Raiffeisen RESEARCH	Diff. (pp)
GDP	2.5	2.5	0
Private consumption	2.1	2.4	0.3
Gross fixed capital formation	4.4	2	-2.4
CPI	2.4	2.2	-0.2
Corporate wage fund	3.5	3.3	-0.2
Tax revenue (PLN bn)	Government	Raiffeisen RESEARCH	Diff. (PLN bn)
VAT	115.7	106.4	-9.3
Excise	62.1	60.5	-1.6
PIT	43.7	44.7	1
CIT	23.2	20	-3.2

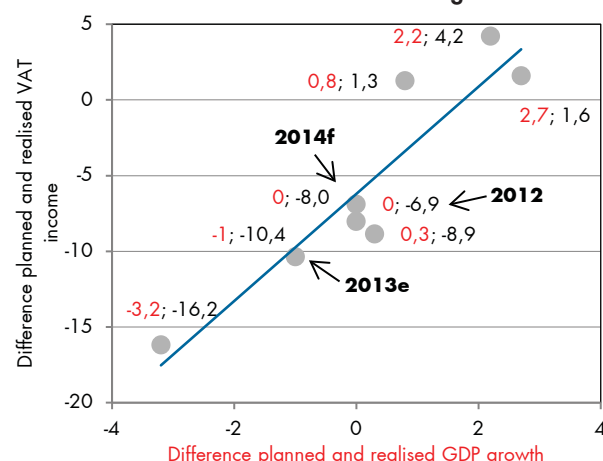
Source: national sources, Raiffeisen RESEARCH

It is obvious that fiscal consolidation is needed in Poland. Despite the positive economic performance, the country has seen a strong rise in its public debt-to-GDP ratio (prior to recent changes related to the pension system that will impact on this ratio). Moreover, Polish authorities had to present some unpleasant budget surprises in recent years. The overly optimistic government forecasts in 2012 were the main reason behind the revision of this year's budget, which was accompanied by the parliament's approval of the budget bill for 2014.

As we now have the 2014 budget bill, we analysed the revenues and macroeconomic indicators forecasted by the government. We tend to think that the 2014 budget is far more realistic than this year's, but risks remain resulting from tax revenue estimates. Risks to the budget mostly stem from the assumed GDP growth, which should be considered as an optimistic scenario. In particular, the assumed growth for gross fixed capital formation (+4.4% yoy) is a very optimistic call. On the other hand, most other macroeconomic parameters are approximately in line with our forecasts. Nevertheless, it should be noted that – historically speaking – realisation of VAT revenues as planned usually occurred in years when GDP growth exceeded the assumptions in the budget bill. However, when the actual GDP expansion was close its assumed path (as in 2012 or 2008), revenues from VAT were approximately 8% below assumed values. Based such trends we estimate that the 2014 VAT revenues will amount to around PLN 9 bn less than in the government plan. A similar analysis of the other remaining sources of tax revenue also suggests that overall 2014 tax revenue could be approximately PLN 10-15 bn lower than planned, which might result in a revenue gap of some 0.7-0.9% of GDP. Apart from possibly lower VAT revenues, we are especially sceptical about the planned excise revenues of PLN 62.1 bn, as complex secondary-round effects of the 15% higher tax rate on alcohols must not necessarily result in higher overall tax revenue. CIT revenues are also uncertain as these are strongly dependent on this year's GDP growth. On the other hand, it is possible that the PIT revenues will exceed the prognosis. However, even in case of modestly lower tax revenue than planned, there is little risk that the 2014 budget has to be revised substantially. The bill does not include a possible payment from the National Bank (NBP), which totalled PLN 5.3 bn in 2013. Moreover, the 2014 budget is based on the conservative premise that after the pension system reform only 50% of participants will transfer their assets to the state-owned Social Insurance Institution. We think that it is likely that this percentage will be higher,

which would result in lower-than-planned pension transfers and lower debt servicing costs. Therefore, even if the forecasted tax revenue is lower, realisation of the planned 2014 budget deficit at PLN 47.7 bn seems to be secure. However, it is still a bit worrying that the macroeconomic assumptions are closer to a fairly optimistic scenario rather than a cautious one. As a result, similar to 2013 there is still room for some negative surprises on the fiscal front, which would be partially unfavourable for Poland's creditworthiness in light of the recent changes in the pension system, surpassing the fiscal safety threshold and the revision of 2013 budget. We think that meeting the budget targets going forward is very important for Poland as the recent events mentioned previously boosted some mistrust in the domestic public debt governance framework.

Planned & Realised VAT income and GDP growth*



* data for the years 2007 until 2014
Source: national sources, Raiffeisen RESEARCH

Gunter Deuber, Paweł Radwański

Data calendar and country section

This week, previous week: key data releases						Upcoming week: key data releases								
Date		Indicator	Period	Actual	Prev.	Date		Indicator	Period	est.	High	Mean	Low	Prev.
Date	Coun-try	Indicator	Peri-od	Actual	Previ-ous	Date	Coun-try	Indicator	Peri-od	Fore-cast	High	Mean	Low	Previ-ous
13-Sep	RU	Refinancing rate, %	Sep	8.25	8.25	23-Sep	HR	Unemployment rate, %	Aug	18.3	n.a.	n.a.	n.a.	18.5
13-Sep	RU	O/N deposit rate, %	Sep	4.5	4.50	24-Sep	PL	Retail sales, % yoy	Aug	3.8	4.2	2.8	1.2	4.3
13-Sep	RU	O/N auction-based repo, %	Sep	5.5	5.50	24-Sep	PL	Unemployment rate, %	Aug	13	13.2	13.1	13	13.1
16-Sep	PL	Core CPI, % yoy	Aug	1.4	1.4	24-Sep	HU	Key rate, %	Sep	3.60	3.70	3.60	3.55	3.80
16-Sep	CZ	PPI, % yoy	Aug	0.5	1.1	24-Sep	TR	Capacity utilization, %	Sep	n.a.	n.a.	n.a.	n.a.	75.5
16-Sep	HR	CPI, % mom	Aug	0.1	-0.6	26-Sep	CZ	Key rate, %	Sep	0.05	0.05	0.05	0.05	0.05
16-Sep	HR	CPI, % yoy	Aug	1.9	2.3	27-Sep	HU	Current account, EUR mn	Q2	449	1180	500	296	549
16-Sep	BG	Unemployment rate, %	Aug	10.7	10.8	27-Sep	HU	Unemployment rate, %	Aug	10.0	10.0	10.0	10.0	10.1
16-Sep	TR	Unemployment rate, %	Jun	8.8	8.8	27-Sep	RU	Current account, RUB bn	Q2	n.a.	n.a.	n.a.	n.a.	6.9
16-Sep	RU	Industrial output, % yoy	Aug	0.1	-0.7									
17-Sep	PL	Employment, % yoy	Aug	-0.5	-0.7									
17-Sep	PL	Wages, % yoy	Aug	2	3.5									
17-Sep	TR	Benchmark repurchase rate, %	Sep	4.5	4.5									
17-Sep	TR	O/N lending rate, %	Sep	7.75	7.75									
17-Sep	TR	O/N borrowing rate, %	Sep	3.5	3.5									
17-Sep	UA	Industrial output, % yoy	Aug	-5.4	-4.9									
18-Sep	PL	Industrial output, % yoy	Aug	2.2	6.3									
18-Sep	PL	PPI, % yoy	Aug	-1.1	-0.8									
18-Sep	RU	Real wages, % yoy	Aug	5.9	6.6									
18-Sep	RU	Retail sales, % yoy	Aug	4	4.3									
18-Sep	RU	Unemployment rate, %	Aug	5.2	5.3									
18-Sep	RU	Investment, % yoy	Aug	-3.9	2.5									

Source: Bloomberg, Raiffeisen RESEARCH

Poland – The Polish bond market was supported by the surprisingly dovish rhetoric of the Fed, with yields falling across the curve. Still, the movement has so far proved only temporary, and supply pressure quickly returned. As QE3 tapering remains on horizon, long-term investors may be unwilling to buy Polish debt, which has probably started a mild, long-term bearish trend. Moreover, the 3% YTM offered on 2-year bonds is close to the gain one would expect by rolling capital in money market deposits, making Polish debt relatively expensive. In our view, the Fed decision will be quickly used to close long positions.

Analyst: Paweł Radwański (+48 22 585 20 00)

Hungary – Next Tuesday, the Monetary Council will cut main interest rate once again, the real is question by how much. Last month, the market was surprised by a larger-than-expected cut. On the other hand, this last cut divided the Council for the first time since the new members joined. We expect a 20-basis point cut to 3.6% and see a chance that the Council may even try to push the limits with a slightly larger cut (25bp).

Meanwhile, the Hungarian state is preparing to issue another round of FX bonds: a prospectus was filed with the U.S. Securities and Exchange Commission (SEC), which allows Hungary to sell debt securities of up to USD 5 bn. The issuance has the intention of rebuilding the country's foreign currency reserves (which plunged to a five-year low in August, after the state repaid its loans to the IMF). The last issuance was in February, when Hungary sold USD 3.25 bn of 5-year and 10-year bonds at comparable Treasury yields + 315-335 basis points. It must be noted, however, that yields on US Treasuries have risen around 100bp since then.

Analyst: Adam Keszeg (+36 1 484 4313)

Czech Republic – In the interview for Euromoney edited in August, the governor of the Czech National Bank repeated that further policy relaxation was going to be needed. As inflation should head down at the beginning of 2014, the CNB will probably stay on the verge of FX intervention. Another CNB board member, E. Zamrazilova, said she would rather leave this instrument (FX intervention) as a line of defence against any koruna appreciation unwarranted by fundamentals. At the CNB meeting next week we do not expect any change in monetary policy as the economy recovers, but we would keep in mind that the CNB is on the verge of FX intervention and inflation is below target. After the recent declines in bond yields, we change our recommendation on Czech government bonds to Sell CZGBs with maturities of 5 years and longer.

Analyst: Michal Brozka (+420 234 40 1489)

Romania – This week was positive for Romanian bonds, with yields decreasing before the Fed's surprising decision by between 3bp for 1y and 7bp for 7y maturities. Yields for 10y maturities even decreased by 16bp. The Fed's decision not to taper in September reduced yields by another 15-20bp. At the beginning of the week, the Ministry of Finance (MoF) sold RON 1 bn in 1y T-bills, at an average yield of 3.88%, below our expectations and secondary market levels. Up to now, MoF had already sold RON 2.5 bn this month, succeeding in covering two thirds of the announced issue plan which – based on its average maturity of about 4.3 years and targeted amount double than in previous months – we considered ambitious at first. We expect MoF to successfully sell the RON 1.2 bn from this month's plan in the two auctions announced for the next week without any pressure on yields, benefiting from the renewed interest of non-residents.

Analyst: Gabriel Bobeica (+40 21 306 1369)

Croatia – After the government failed to satisfy the European Commission's demands to bring back the legislation in line with the EU-aquis and to enable full implementation of European Arrest Warrant, the European Commission initiated a procedure to impose sanctions in form of limiting funds from the Schengen facility. Namely, just before the EU entry the government enacted changes in the legislation that limit the implementation of the European Arrest Warrant, specifically extradition of Croatian citizens. The European Commission calls for an immediate action, while the government asks for some time (until 15 July 2014) to harmonize its legislation with the European Arrest Warrant. On Wednesday the Commission has started the consultation with Member States on the proposed action. However, the government is convinced that the matter will be resolved soon and that sanctions will not be imposed.

As regards economic data, our estimates were confirmed when this week's consumer prices data were published. The annual increase in consumer prices slowed to 1.9% yoy in August (compared to 2.3% yoy in July), amid weakening of inflationary pressures from food prices. The effect of last year's food prices increase due to the drought vanished almost completely from the CPI. With sluggish domestic demand and the absence of foreign prices pressures (energy prices), inflation should remain low and stable. Next week features labour market data, i.e. unemployment rate (Aug) and wages (Jul). The unemployment rate declined in August, but current figures show an increase in number of unemployed persons in September, which is expected considering the return of seasonal workers to unemployment in autumn.

Analyst: Ivana Juric (+385 1 61 74 349)

Serbia – The government is contemplating the idea of another USD 1 bn Eurobond issue, expecting that the start of the IMF negotiations might be a trigger for a decline in yields, which currently stand at 708bp vs. 441bp in May 2013 for the 2021 Eurobond issue. Yet, despite the fact that government officials are constantly repeating that the IMF deal is a real option, the market remained risk-averse, and only the signing of the IMF Stand-By Agreement would push yields down. This prompted Deputy Prime Minister Aleksandar Vucic to turn to Sheikh Mohammed bin Zayed Al Nahyan, the Crown Prince of Abu Dhabi, for the United Arab Emirates (UAE) loan to Serbia between USD 2 bn and USD 3 bn, which would be paid back over 20 to 30 years, at the 0.5%-1% rate, as per the Finance Minister. Out of the total sum, USD 1 bn would be channelled into refinancing expensive loans, while the rest of the amount would be channelled into the economy. Although the deal seems appealing, especially the pricing, we have concerns about whether the loan would really be used for expensive debt early repayments and economic renewal, given the growing budget deficit needs, especially with the hinted tax reform agenda (i.e. wage tax cut).

After the reshuffle is finished, the government will be supported with the engagement of the former head of the International Monetary Fund (IMF) Dominique Strauss-Kahn, and former Austrian chancellor Alfred Gusenbauer, who have both accepted advisory roles. Mr Strauss-Kahn will deliver the proposal of the first order measures in the coming months, while he will focus on helping to restructure the country's large foreign debt, attracting foreign investment and managing relations with the IMF. Also, Bettina Nellen, an anti-corruption and money laundering expert from Germany could be engaged as Deputy Prime Minister Mr Vucic's adviser in this filed.

Analyst: Ljiljana Grubic (+381 11 2207178)

Russia – This week, the government discussed the medium term economic forecasts and budget plan. The meeting revealed the different views of the CBR and MinEc on the proposal to freeze indexation of regulated household utilities prices in 2014, i.e. the CBR sees the risks in 0% indexation, while the MinEc offers flexible scheme of indexation equal to CPI multiplied by 0.7 coefficient starting from 2014. The final decision hasn't appeared yet, causing the risks for revision of our current CPI forecasts. Meanwhile, macro statistics indicate ongoing stagnation. The major disappointing surprise of the published data turned out to be the decline in investments in capital formation by 3.9% yoy in August after its recovery by 2.5% yoy in July. Retail sales continue to grow at a lower rate than in the beginning of the year: only 4% yoy in August vs. 4.4% yoy in July, but its pace remains firm being the major contributor to GDP growth. Stagnation tendencies in investments, industrial production and construction are in line with recent MinEc's GDP forecast reduction to only 1.8% in 2013 (vs. 2.4% before).

Analyst: Maria Pomelnikova (+7 495 221-9845)

Trading ideas

Short-term trading ideas

Recommendation	Entry date	Entry level	Target	Stop	Comments
Buy SI T-Bond 5y (ISIN: XS0292653994)	28/06/2013	94.778	100	90	Back to start because of global sell-off, good risk/reward for recovery once global panic calms over summer
Buy RON T-bond 2y (ISIN: RO1214DBN068)	21/06/2013	101.564	102.0	98.0	Some mild recovery expected following the latest overshooting

Source: Thomson Reuters, Bloomberg

Recently closed trading ideas

Recommendation	Entry date	Entry level	Closing date	Close	Total return	Comments
Buy TRY Sell EUR	19/08/2013	2.61	22/08/2013	2.66	-1.9%	Stopped out
Buy TRY Sell EUR	25/06/2013	2.54	31/07/2013	2.58	-1.5%	Stopped out
Buy CZK Sell HUF	28/06/2013	8.85	31/07/2013	8.60	2.9%	Target reached
Buy PLN Sell EUR	21/06/2013	4.29	21/07/2013	4.35	2.2%	Closed early
Buy RUB Sell EUR	21/06/2013	43.46	09/07/2013	42.49	2.2%	Closed early
Buy RON T-bond 3y (ISIN: RO1215DBN073)	21/06/2013	101.3	06/08/2013	102.5	1.2%	Target reached
Buy 10y TRY T-bond (TRT080323T10)	23/07/2013	90.60	25/07/2013	87.40	-3.5%	Stopped out

Note: This list contains only the strongest trading ideas for the markets that we cover. Therefore not every market forecast that implies a buy recommendation is also listed as a trading idea! Trading ideas may also differ from our quarterly forecasts, as the time horizon can be different. The time horizon of the trade is at least two weeks, but not more than 3 months.

Monetary policy and money markets overview

CEE key interest and money markets outlook

Poland	current*	Dec-13	Mar-14	Jun-14	Sep-14
Key interest rate (% eop)	2.50	2.50	2.50	2.50	2.75
1m money market rate (% eop)	2.40	2.63	2.63	2.64	2.88
3m money market rate (% eop)	2.48	2.73	2.75	2.80	3.10
6m money market rate (% eop)	2.52	2.75	2.90	3.00	3.35
Hungary					
Key interest rate (% eop)	3.80	3.50	3.20	3.20	3.20
1m money market rate (% eop)	3.80	3.60	3.30	3.30	3.30
3m money market rate (% eop)	3.75	3.80	3.50	3.60	3.70
6m money market rate (% eop)	3.74	3.90	3.83	3.83	4.03
Czech Republic					
Key interest rate (% eop)	0.05	0.05	0.05	0.05	0.05
1m money market rate (% eop)	0.05	0.05	0.05	0.05	0.05
3m money market rate (% eop)	0.13	0.20	0.20	0.20	0.20
6m money market rate (% eop)	0.57	0.30	0.33	0.33	0.33
Romania					
Key interest rate (% eop)	4.50	3.75	3.50	3.50	3.50
1m money market rate (% eop)	3.20	2.85	2.70	2.80	2.85
3m money market rate (% eop)	3.28	3.00	2.90	2.90	2.95
6m money market rate (% eop)	3.59	2.80	2.75	2.75	2.95
Russia					
Key interest rate (% eop)	5.50	5.25	5.25	5.25	5.25
1m money market rate (% eop)	6.51	6.70	6.50	6.65	6.75
3m money market rate (% eop)	6.76	7.10	6.95	7.10	7.20
6m money market rate (% eop)	7.13	7.40	7.15	7.35	7.45
Turkey					
Key interest rate (% eop)	4.50	4.50	5.00	5.50	5.50
1m money market rate (% eop)	7.60	7.20	7.50	7.60	7.60
3m money market rate (% eop)	7.80	7.40	7.70	7.80	7.70
6m money market rate (% eop)	8.05	7.50	7.80	7.90	7.80
Benchmark key rates (% eop)					
ECB key interest rate (% eop)	0.50	0.50	0.50	0.50	0.50
Fed key interest rate (% eop)	0.09	0.25	0.25	0.25	0.25

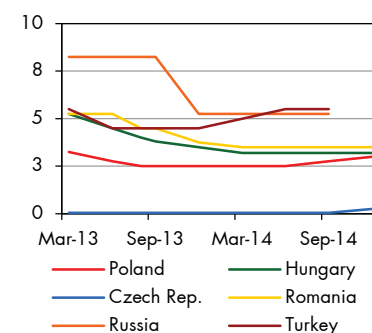
* Bid rates (for Hungary ask rates) as of 20 September 2013, 11:10 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

Central bank watch

Poland (NBP)	Hard economic data continue to support MPC stance that rate cut cycle is finished; still very subdued price developments, with modest upside pressure recently
Hungary (MNB)	Interest rate cutting cycle to continue, but at lower speed
Czech Republic (CNB)	No change in interest rates expected in 2013, threat of FX intervention by central bank prevails
Romania (BNR)	Another cut expected at the September meeting
Serbia (NBS)	NBS will wait for fiscal consolidation to cut key rate
Russia (CBR)	Russia changed the key rate from the symbolic refinancing rate of 8.25 (unchanged) to a 1w repo rate at 5.5%
Turkey (TCMB)	Unorthodox tightening measure instead of rate hikes unlikely to ease pressure on the lira markets

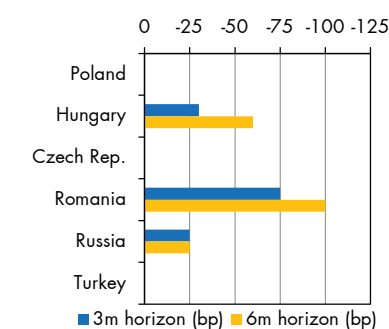
Source: Bloomberg, Reuters, Raiffeisen RESEARCH

Key rate trends (%)



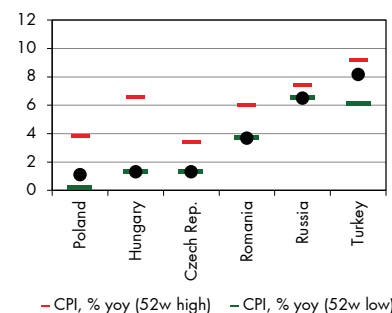
Source: Bloomberg

Key rate forecast (chg., bp)



Source: Bloomberg

Real key interest rates (%)*



— CPI, % yoy (52w high) — CPI, % yoy (52w low)

● CPI, % yoy (current)

* Key rate deflated by CPI
** Russia Central Bank Overnight Direct Auction Repo Announcement

Source: Thomson Reuters, Raiffeisen RESEARCH

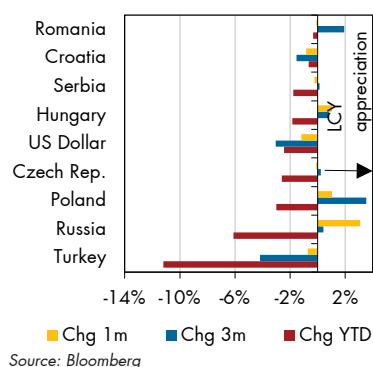
Rate setting meetings

	Sep	Oct
Poland (NBP)	4	2
Hungary (MNB)	24	29
Czech Rep. (CNB)	26	
Romania (BNR)	30	
Serbia (NBS)	12	17
Russia (CBR)	13	1st half
Turkey (TCMB)	17	23

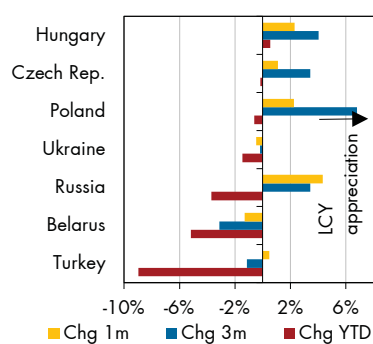
Source: National Central Banks, Raiffeisen RESEARCH

Foreign exchange market overview

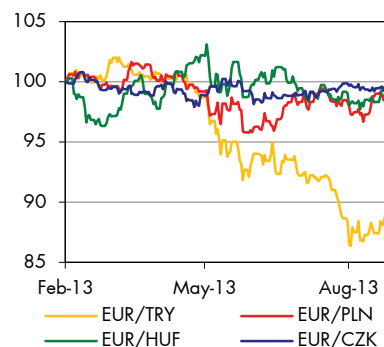
Change of LCY value to EUR (%)



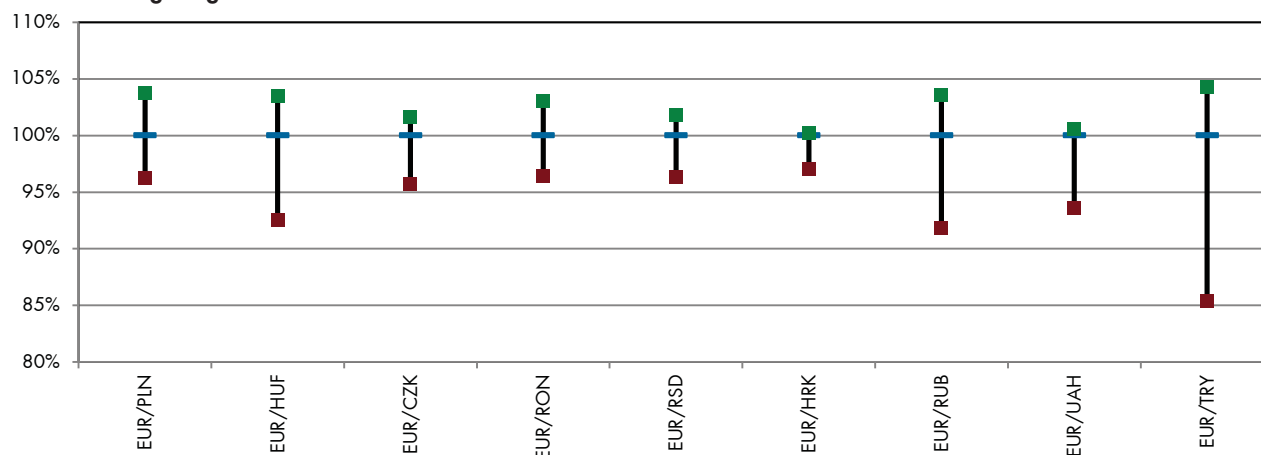
Change of LCY value to USD (%)



Exchange rate comparison



CEE FX trading range*



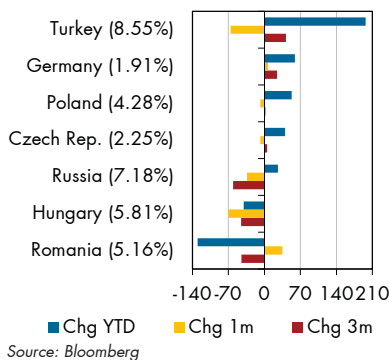
FX forecasts

EUR vs	current ¹	Dec-13	Mar-14	Jun-14	Sep-14	Comment
PLN	4.21	4.15	4.10	4.00	4.05	EUR/PLN likely to consolidate at current levels close or below 4.20
HUF	298.2	300.0	305.0	300.0	305.0	Even though the HUF was largely exempt from previous emerging market sell-off, the Fed decision triggered forint appreciation to a two month high
CZK	25.81	25.50	25.40	25.10	24.90	CNB meeting key to CZK development
RON	4.46	4.50	4.45	4.50	4.50	Limited appreciation potential, even in the favourable external context
HRK	7.61	7.60	7.57	7.48	7.52	Depreciation pressures intensified
RSD	114.3	115.0	113.0	112.0	114.0	EUR/RSD weakening to continue as new government has to prove
RUB	42.93	42.95	42.54	42.79	42.63	see rouble basket below
UAH	11.05	10.66	10.74	10.71	10.75	see USD/UAH below
BYR	12,224	12,700	13,500	13,900	14,600	see USD/BYR below
TRY	2.67	2.54	2.62	2.71	2.62	see USD/TRY below
USD	1.35	1.30	1.31	1.29	1.28	Outlook for Fed exiting expansionary policy earlier than ECB negative for EUR
USD vs	current ¹	Dec-13	Mar-14	Jun-14	Sep-14	Comment
RUB	31.74	33.04	32.47	33.17	n.a.	see rouble basket below
UAH	8.19	8.20	8.20	8.30	8.40	Pressure on the peg likely to rise in 2014. We do not rule out some weakening, after administrative measures prove insufficient
BYR	9,030	9,800	10,300	10,800	n.a.	We further increased our depreciation expectation on weakening fundamentals
TRY	1.96	1.95	2.00	2.10	2.05	Forecasts currently under revision; following moderate easing of depreciation pressure in Q4 lira to get under renewed pressure in mid-2014 due to increasing rate hike speculations in the US
RUB basket	36.78	37.50	37.00	37.50	37.50	First rebound after selloff

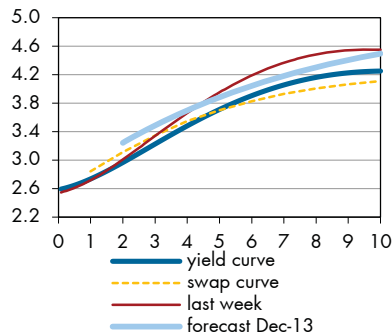
¹ as of 20 September 2013, 11:09 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

Local currency bond market overview

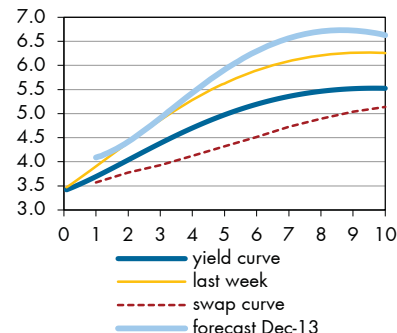
Change of LCY 10y bond yields (bp)



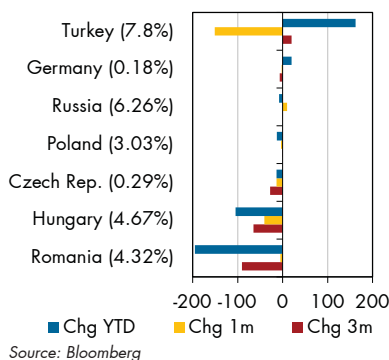
PLN yield curve



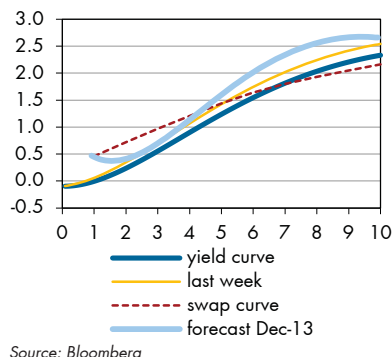
HUF yield curve



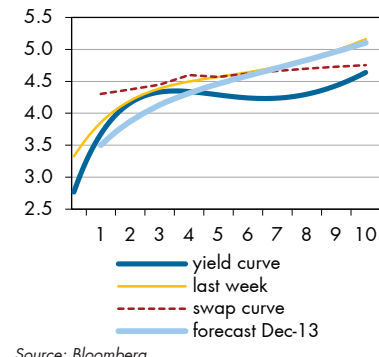
Change of LCY 2y bond yields (bp)



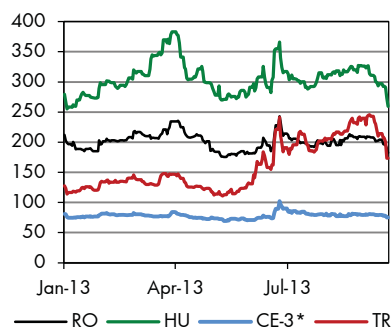
CZK yield curve



RON yield curve

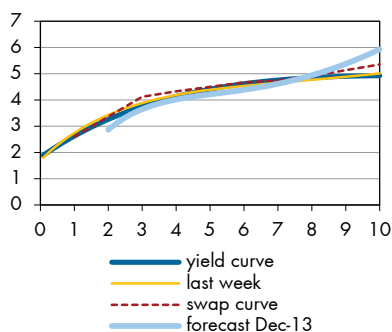


Spreads narrowed recently*

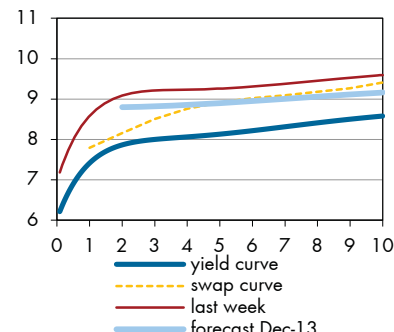


*10y yield spread vs. Bunds
Source: Bloomberg, Raiffeisen RESEARCH

HRK yield curve



TRY yield curve



Yield forecasts

2y T-bond yields (%)						10y T-bond yields (%)					
	current*	Dec-13	Mar-14	Jun-14	Sep-14		current*	Dec-13	Mar-14	Jun-14	Sep-14
Poland	3.00	3.2	3.4	3.5	3.6	Poland	4.24	4.6	4.6	4.7	4.8
Hungary	4.57	4.5	4.9	4.7	5.0	Hungary	5.79	6.5	6.8	6.5	6.8
Czech Rep.	0.20	0.3	0.4	0.6	0.8	Czech Rep.	2.21	2.6	2.8	3.1	3.2
Romania	4.20	4.0	3.9	3.9	3.9	Romania	4.92	5.0	5.0	5.1	5.2
Croatia	4.14	3.5	3.5	3.6	3.7	Croatia	4.88	5.5	5.6	5.6	5.6
Russia	6.17	6.2	6.0	6.3	6.0	Russia	7.17	7.2	7.0	7.3	7.2
Turkey	7.64	8.8	9.3	9.2	9.0	Turkey	8.50	9.2	9.7	10.0	9.9
Eurozone	0.18	0.3	0.4	0.6	0.8	Eurozone	1.91	2.1	2.3	2.7	2.8
USA	0.33	0.5	0.5	0.8	1.0	USA	2.73	3.0	3.1	3.2	3.3

* Ask yields as of 20 September 2013, 9:36 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

Local currency bond market overview

CEE local currency bond market snapshot

	Maturity	Coupon, %	Ask Price	YTM, %	Spread to Bunds, bp	MDur.	Comment
Poland							
PLN 2y Gov. Bond	25.07.2015	0.00	94.77	2.97	279	1.8	Despite short-term support from the FED yields are likely to remain in an upward trend
PLN 5y Gov. Bond	25.07.2018	2.50	94.98	3.62	272	4.6	
PLN 10y Gov. Bond	25.10.2023	4.00	97.81	4.24	233	8.2	
Hungary							
HUF 3y Gov. Bond	22.12.2016	5.50	102.67	4.59	424	3.0	Bonds rallied after Fed decision, 10y bonds back below 6%
HUF 5y Gov. Bond	20.12.2018	5.50	102.05	5.04	414	4.5	
HUF 10y Gov. Bond	24.11.2023	6.00	102.78	5.62	371	7.6	
Czech Republic							
CZK 2y Gov. Bond	11.04.2015	3.80	105.93	-0.04	-22	n.a.	Czech government bond yields dropped after Fed decision
CZK 5y Gov. Bond	18.08.2018	4.60	116.25	1.17	26	4.5	
CZK 10y Gov. Bond	12.09.2022	4.70	120.33	2.18	27	7.7	
Croatia							
HRK 5y Gov. Bond	10.07.2018	5.25	103.50	4.43	353	4.3	Bond prices increased slightly
HRK 8y Gov. Bond	05.03.2020	6.75	110.25	4.88	297	5.3	
Romania							
RON 3y Gov. Bond	29.08.2016	4.75	101.70	4.12	377	2.8	Short-term support due to Fed decision; prospects of further MP easing and loose liquidity to help
RON 5y Gov. Bond	26.07.2017	5.90	105.64	4.27	337	3.5	
Russia							
RUB 2y Gov. Bond	15.07.2015	6.88	101.35	6.17	599	1.8	Gains on global sentiment improvement
RUB 5y Gov. Bond	03.08.2016	6.90	101.60	6.38	548	2.7	
RUB 10y Gov. Bond	24.11.2021	7.00	98.00	7.10	519	6.1	
Turkey							
TRY 2y Gov. Bond	13.05.2015	5.00	96.10	7.55	737	1.6	We expect attractive entry opportunities after the announcement of QE3 tapering by the Fed
TRY 5y Gov. Bond	08.03.2017	9.00	102.60	8.12	722	3.0	
TRY 10y Gov. Bond	08.03.2023	7.10	90.10	8.65	674	6.8	

Prices as of 20 September 2013, 11:10 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

Bond auctions

		ISIN	Coupon	Maturity	Volume
23 September 2013					
RO	5y T-bond	RO1318DBN034	5.60%	28 Nov-18	RON 700 mn
24 September 2013					
UA	T-bond	n.a.	n.a.	n.a.	n.a.
25 September 2013					
RU	OFZ bond	n.a.	n.a.	n.a.	n.a.
26 September 2013					
RO	10y T-bond	RO1323DBN018	5.85%	26 Apr-23	RON 500 mn

Summary: Ratings & macro data

Country ratings: CE, SEE, CIS

	S&P			Moody's			Fitch		
	LCY	FCY	Outlook	LCY	FCY	Outlook	LCY	FCY	Outlook
CE									
Poland	A	A-	stable	A2	A2	stable	A	A-	positive
Hungary	BB	BB	negative	Ba1	Ba1	negative	BBB-	BB+	stable
Czech Republic	AA	AA-	stable	A1	A1	stable	AA-	A+	stable
Slovakia *	A	A	stable	A2	A2	negative	A+	A+	stable
Slovenia *	A-	A-	stable	Ba1	Ba1	negative	BBB+	BBB+	negative
SEE									
Romania	BB+	BB+	stable	Baa3	Baa3	negative	BBB	BBB-	stable
Bulgaria	BBB	BBB	stable	Baa2	Baa2	stable	BBB	BBB-	stable
Croatia	BB+	BB+	negative	Ba1	Ba1	stable	BBB	BBB-	negative
Serbia	BB-	BB-	negative	B1	B1	stable	BB-	BB-	negative
CIS									
Russia	BBB+	BBB	stable	Baa1	Baa1	stable	BBB	BBB	stable
Ukraine	B	B	negative	B3	B3	negative	B	B	negative
Belarus	B-	B-	positive	B3	B3	negative	not rated	not rated	not rated
Kazakhstan	BBB+	BBB+	stable	Baa2	Baa2	stable	A-	BBB+	stable
Turkey	BBB	BB+	stable	Baa3	Baa3	stable	BBB	BBB-	stable

* Eurozone (Euro currency) members; positive rating/outlook changes (in previous week) in green, negative changes in red

Source: rating agencies websites

Main macro data & forecasts*

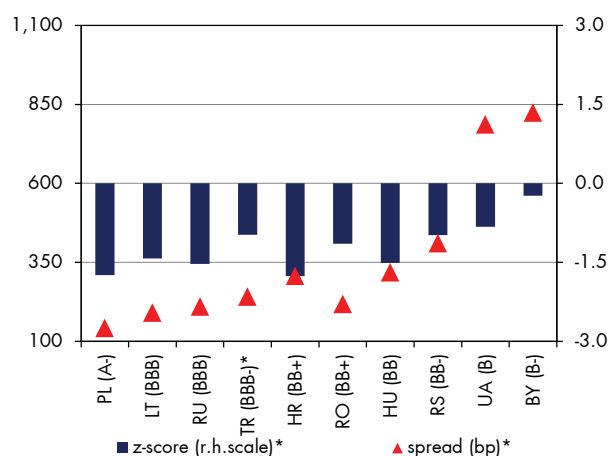
Country	Year	GDP, % avg. yoy	CPI, % avg. yoy	Unemployment, %	Nominal wages, EUR	Fiscal balance, % GDP	Public debt, % GDP	Export**, % GDP	C/A, % GDP	Ext. debt, % GDP	FXR*** % ext. debt	Import cover, months
Croatia	2012	-2.0	3.4	19.1	1047	-4.1	53.7	22.3	0.0	102.3	25.0	8.5
	2013e	-0.5	2.5	19.8	1027	-4.5	61.8	20.6	-0.7	103.1	24.5	8.7
	2014f	1.0	2.7	19.5	1024	-3.6	65.4	19.5	-0.9	99.8	24.7	8.8
Czech Rep.	2012	-1.2	3.3	6.8	1000	-4.4	45.9	67.2	-2.5	50.7	44.0	4.2
	2013e	-1.0	1.5	7.6	985	-2.9	48.4	69.1	-1.0	51.5	45.5	4.4
	2014f	1.9	1.2	7.4	1041	-2.9	49.6	71.6	-0.8	50.5	45.2	4.1
Hungary	2012	-1.7	5.7	10.9	771	-1.9	79.2	82.6	1.9	126.8	27.6	5.5
	2013e	0.5	2.0	10.6	783	-2.9	78.7	84.0	2.6	119.2	25.9	4.8
	2014f	1.5	2.5	9.9	802	-2.9	77.2	84.1	2.8	110.3	25.5	4.4
Poland	2012	1.9	3.7	12.8	842	-3.9	55.6	38.4	-3.5	72.4	29.9	6.5
	2013e	1.2	1.2	14.0	866	-4.1	57.1	39.5	-2.6	73.1	30.5	6.7
	2014f	2.5	2.0	13.1	926	-3.8	57.6	39.1	-4.0	70.9	30.3	6.3
Romania	2012	0.7	3.3	7.0	467	-2.9	37.8	34.2	-3.8	75.2	31.5	7.2
	2013e	2.5	4.2	7.3	493	-2.8	38.5	34.5	-1.0	70.9	31.5	7.0
	2014f	2.0	2.2	7.2	512	-2.5	38.9	36.2	-2.0	69.6	29.1	5.9
Russia	2012	3.4	5.1	5.7	671	0.4	10.5	26.3	3.7	30.9	76.3	17.0
	2013e	2.0	6.7	6.0	690	-0.5	11.0	24.3	2.8	33.7	67.2	16.9
	2014f	2.0	5.5	6.0	728	-0.2	11.5	23.5	2.0	34.0	61.6	15.6
Ukraine	2012	0.2	0.6	7.7	290	-5.5	36.8	40.0	-8.5	76.3	17.0	2.9
	2013e	1.0	-0.2	7.5	320	-4.0	37.5	37.4	-6.6	77.3	11.9	2.4
	2014f	1.5	5.0	7.0	350	-5.0	39.0	38.4	-6.5	76.5	11.7	2.2
Turkey	2012	2.2	9.0	9.1	362	-2.4	36.8	20.7	-6.1	44.3	27.7	5.2
	2013e	3.5	6.0	9.2	372	-2.2	35.0	21.0	-6.7	45.3	23.1	4.4
	2014f	3.5	6.7	8.5	403	-2.5	33.0	20.9	-6.6	46.4	18.3	3.7

* only for countries included in CEE bond market weekly, ** Export of Goods only, *** FXR - Foreign exchange reserves

Source: Thomson Financial Datastream, National Statistics

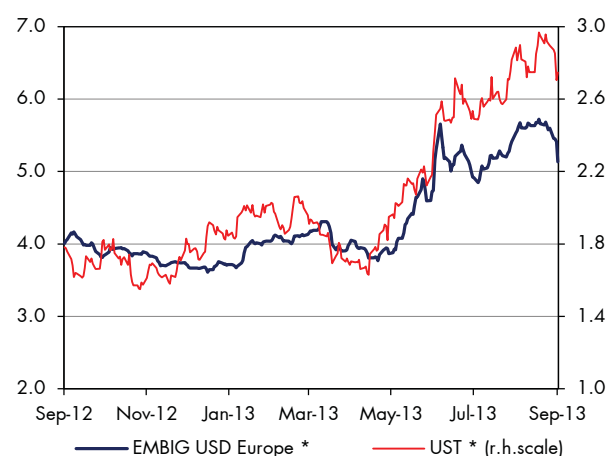
Eurobond market overview

CEE USD EMBIG spread valuation*



* z-score - EMBIG USD country spread deviation from mean normalised by 1 standard deviation, score at or below minus 1 = expensive, at or above 1 = cheap
Source: Thomson Reuters, Raiffeisen RESEARCH

CEE EMBIG USD vs. UST YTM*



* YTM - yield to maturity EMBI Global USD, UST - 10-year US Treasury note
Source: Thomson Reuters, Raiffeisen RESEARCH

Issuer/rate/due	Bid	Ask	Market Price			YTM mid.	Spread vs.	Mdur.	ISIN
			w/w %	52w max	52w min	% p. a.	Bmk, bp	years	—
EUR									
BGARIA 4 1/4 07/09/17	107.0	107.3	0.01	110.5	106.7	2.26	172	3.5	XS0802005289
CROATI 6 1/2 01/05/15	105.3	105.6	-0.16	112.7	104.9	2.15	197	1.2	XS0431967230
CROATI 5 7/8 07/09/18	107.0	107.5	1.07	111.3	103.6	4.16	333	4.1	XS0645940288
REPHUN 3 1/2 07/18/16	100.4	100.9	-0.08	100.7	93.4	3.24	293	2.6	XS0240732114
REPHUN 5 3/4 06/11/18	103.6	104.3	0.89	108.1	99.0	4.79	399	4.0	XS0369470397
REPHUN 6 01/11/19	104.5	105.5	1.16	109.3	99.6	4.91	397	4.3	XS0625388136
LITHUN 4.85 02/07/18	109.4	109.9	0.37	113.0	107.5	2.49	179	3.9	XS0327304001
POLAND 3 5/8 02/01/16	105.9	106.3	-0.34	108.7	106.0	0.98	73	2.2	XS0242491230
POLAND 1 5/8 01/15/19	99.1	99.9	0.29	102.3	98.0	1.72	79	5.0	XS0874841066
POLAND 3 3/4 01/19/23	106.7	107.5	0.25	113.1	104.5	2.87	107	7.7	XS0794399674
POLAND 3 3/8 07/09/24	100.8	101.8	0.96	107.4	99.3	3.23	122	8.9	XS0841073793
ROMANI 5 1/4 06/17/16	107.3	107.8	0.21	109.2	104.2	2.34	204	2.5	XS0638742485
ROMANI 4 7/8 11/07/19	104.2	104.7	0.73	109.4	99.0	4.04	297	5.0	XS0852474336
TURKEY 5 7/8 04/02/19	110.0	111.0	0.72	119.4	107.5	3.73	277	4.6	XS0285127329
TURKEY 5 1/8 05/18/20	105.6	106.6	0.93	115.9	102.4	4.05	286	5.5	XS0503454166
USD									
BGARIA 8 1/4 01/15/15	109.2	109.5	-0.03	116.4	109.4	1.02	84	1.2	XS0145623624
BELRUS 8 3/4 08/03/15	99.3	100.2	1.02	106.1	94.3	8.89	858	1.7	XS0529394701
BELRUS 8.95 01/26/18	98.4	99.5	4.18	111.2	90.0	9.25	802	3.5	XS0583616239
CROATI 6 3/8 03/24/21	106.5	107.0	4.34	118.5	101.4	5.27	305	6.0	XS0607904264
CROATI 5 1/2 04/04/23	99.5	100.0	3.75	109.0	93.9	5.54	288	7.1	XS0908769887
REPHUN 5 3/8 02/21/23	96.6	97.2	2.72	106.0	93.0	5.81	317	7.2	US445545AH91
REPHUN 7 5/8 03/29/41	107.8	108.5	3.51	125.3	97.0	6.96	329	11.6	US445545AF36
LITHUN 7 3/8 02/11/20	120.9	121.1	2.13	131.0	118.0	3.66	173	5.2	XS0485991417
LITHUN 6 5/8 02/01/22	117.1	117.3	2.28	128.9	113.7	4.17	176	6.5	XS0739988086
LATVIA 2 3/4 01/12/20	94.8	95.0	2.38	101.2	91.3	3.67	177	5.7	XS0863522149
LATVIA 5 1/4 06/16/21	108.0	108.5	2.38	117.4	105.2	4.00	173	6.3	XS0638326263
POLAND 3 7/8 07/16/15	105.2	105.4	0.09	107.8	104.2	0.91	61	1.7	US731011AS13
POLAND 6 3/8 07/15/19	117.4	117.9	2.21	125.9	114.3	3.03	129	4.9	US731011AR30
POLAND 3 03/17/23	92.1	92.6	3.58	101.3	87.4	3.98	133	8.1	US731011AT95
ROMANI 6 3/4 02/07/22	113.9	114.4	2.35	124.4	108.4	4.69	228	6.5	US77586TAA43
ROMANI 4 3/8 08/22/23	96.0	96.5	3.00	105.5	90.4	4.86	212	7.9	US77586TAC09
RUSSIA 4 1/2 04/04/22	103.5	103.5	3.67	116.2	97.7	4.01	157	6.9	XS0767472458
RUSSIA 7 1/2 03/31/30	118.5	118.7	2.22	128.7	114.6	3.82	73	4.7	XS0114288789
RUSSIA 5 5/8 04/04/42	103.6	103.6	4.48	125.0	95.6	5.38	166	14.0	XS0767473852
SERBIA 5 1/4 11/21/17	99.6	100.3	2.62	107.1	95.9	5.26	410	3.6	XS0856951263
SERBIA 4 7/8 02/25/20	93.1	93.9	3.75	99.0	89.3	6.11	417	5.4	XS0893103852
TURKEY 6 1/4 09/26/22	110.3	110.7	4.95	127.3	102.4	4.80	225	6.8	US900123BZ27
TURKEY 6 7/8 03/17/36	109.6	110.6	6.04	139.9	98.4	6.05	265	11.9	US900123AY60
TURKEY 6 3/4 05/30/40	108.9	109.5	6.97	139.7	97.2	6.05	243	12.6	US900123BG46
UKRAIN 7 3/4 09/23/20	91.4	91.4	3.77	108.1	87.4	9.46	734	5.2	XS0543783194
UKRAIN 7.8 11/28/22	89.9	90.6	5.01	107.0	85.7	9.41	682	6.1	XS0858358236
UKRAIN 7 1/2 04/17/23	88.9	89.6	5.39	101.8	83.6	9.21	654	6.3	XS0917605841

* w/w - week on week, 52w - 52 week, YTM mid - yield to maturity based on mid market price, Bmk - benchmark, Mdur - modified duration, ISIN - international security identification number; prices as of 20 September 2013, 09:33 a.m. CET
Source: Bloomberg, Raiffeisen RESEARCH

Global Head of Research:

Peter Brezinschek (1517)

Top-Down CEE Banking Sector:

Gunter Deuber (5707), Elena Romanova (1378)

Research Sales:

Werner Weingraber (5975)

Economics, Fixed Income, FX:

Valentin Hofstätter (Head, 1685), Jörg Angelé (1687), Eva Bauer (5644), Gunter Deuber (5707), Wolfgang Ernst (1500), Stephan Imre (6757), Lydia Kranner (1609), Matthias Reith (6741), Andreas Schwabe (1389), Gintaras Shlizhyus (1343), Gottfried Steindl (1523), Martin Stelzeneder (1614)

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Technical Analysis:

Robert Schittler (1537), Stefan Memmer (1421)

Layout:

Birgit Bachhofner (3518), Kathrin Rauchlatner (1518), Marion Stadler (1846)

Translation:

David Wietstruk (6781), William Burton, Sarah Fleissner, Marina Ivanova, Ventsislav Mishev, Benjamin-Zsolt Zombori

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Raiffeisen Bank International AG

Investment Banking Units

Raiffeisen Bank International AG, Vienna

Capital Markets

Head of Capital Market Sales: Harald Schönauer +43 1 71707-1148
 Financial Sales AT/DE: Harald Schönauer +43 1 71707-1148
 Financial Sales Europe: Alicja Kocwin-Gottwald +43 1 71707-3759
 FX, MM & Derivatives: Werner Pelzmann +43 1 71707-1793
 Corporates Treasury Solutions: Amir-Ali Ameri +43 1 71707-3962

Belgrade: Raiffeisenbank a.d. Serbia

Zoran Petrovic Tel: +381 11 2207006

Bratislava: Tatra banka, a.s.

Peter Augustin Tel: +421 2 59191440

Bucharest: Raiffeisen Capital & Investment S.A.

James Stewart Tel: +40 21 302 0082

Budapest: Raiffeisen Bank Zrt.

László Volosinovsky Tel: +36 1 484 4639

Kiev: Raiffeisen Bank Aval JSC

Christian Altenrieder Tel: +38044 499-1516
 Vladimir Kravchenko Tel: +380 44 495-4220

Maribor: Raiffeisen Banka d.d.

Gvido Jemensek Tel: +386 2 229 3111

Minsk: Priorbank JSC

Andrey Filazafovich Tel: +375 17 289 9 213

Moscow: ZAO Raiffeisenbank

Nikita Patrakhin Tel: +7 495 721 2834

Tirana: Raiffeisen Bank Sh.a.

Elona Shuperka Tel: +355 4 2381 444

Prague: Raiffeisenbank a.s.

Jan Pudil Tel: +420 234 401 863

Sarajevo: Raiffeisen BANK d.d. Bosnia and Herzegovina

Sanja Korene Tel: +387 33 287 122

Sofia: Raiffeisenbank (Bulgaria) EAD

Evelina Miltenova Tel: +359 2 91985 451

Warsaw: Raiffeisen Bank Polska S.A.

Krzysztof Lubkiewicz Tel: +48 691 335 510

Zagreb: Raiffeisenbank Austria d.d.

Ivan Zizic Tel: +385 1 45 66 466

Raiffeisen CENTROBANK AG

Institutional Equity Sales, Vienna

Head: Wilhelm Celeda Tel: +43 1 515 20 402
 Sales: Klaus della Torre Tel: +43 1 515 20 472

Merger & Aquisitions

Gerhard Grund Tel: +43 1 51520-302
 Henning von Stechow Tel: +43 1 51520-760

Commercial banks

Raiffeisen Bank International AG, Vienna

Corporate Customers: Joseph Eberle Tel: +43 1 71707 1487
 Financial Institutions: Axel Summer Tel: +43 1 71707 1476

RBI London Branch

Graham Page Tel: +44 20 7933 8108
 Mark Bowles Tel: +44 20 7933 8001

Raiffeisen Malta Bank plc., Sliema

Anthony Schembri Tel: +356 21 320 942

RB International Finance LLC (USA)

Dieter Beintrexler Tel: +1 212 845 4100
 Stefan Gabriele Tel: +1 212 600 2588

RBI Beijing Branch

Terence Lee Tel: +86 10 8531-9007

RBI Singapore Branch

Klaus Krombass Tel: +65 6305 6024

International Desk

Vienna: Raiffeisen Bank International AG

Rudolf Lercher Tel: +43 1 71707 3537

Belgrade: Raiffeisen banka a.d.

Sofija Davidovic Tel: +381 11 220 7807

Bratislava: Tatra banka, a.s.

Henrieta Hudecova Tel: +421 2 5919 1849

Bucharest: Raiffeisen Bank S.A.

Reinhard Zeiltberger Tel: +40 21 306 1564

Budapest: Raiffeisen Bank Zrt.

László Volosinovsky Tel: +36 1 484 4639

Kiev: Raiffeisen Bank Aval

Oksana Volchko Tel: +38 044 230 0348

Maribor: Raiffeisen Banka d.d.

Simona Vizintin Tel: +386 2 22 93 159

Minsk: Priorbank JSC

Anna Hmaruk Tel: +375 17 289 9321

Moscow: ZAO Raiffeisenbank Austria

Maria Maevskaya Tel: +7 495 775 5230

Prague: Raiffeisenbank a.s.

Roman Lagler Tel: +420 234 40 1728

Pristina: Raiffeisen Bank Kosovo J.S.C.

Anita Sopi Tel: +381 38 22 22 22 184

Sofia: Raiffeisenbank (Bulgaria) EAD

Yavor Russinov Tel: +3592 9198 5136

Sarajevo: Raiffeisen Bank d.d. Bosna i Hercegovina

Vildana Sijamhodzic Tel: +387 33 287 283

Tirana: Raiffeisen Bank Sh.a.

Jorida Zaimi Tel: +355 4 2381 445 2865

Warsaw: Raiffeisen Bank Polska S.A.

Zuzanna Szatkowska Tel: +48 22 585 2431

Zagreb: Raiffeisenbank Austria d.d.

Wolfgang Wöhry Tel: +385 1 4566 462