

Austrian Banks

Alert: Austria to Raise Bank Levy by €100m

- **Higher Austrian Bank Tax** -- Reuters and Bloomberg report that the new Austrian government has agreed to increase the surcharge on the bank levy introduced in 2011 from 25% to 45% to raise an additional €100m. A bank levy based on adjusted assets and the size of derivative portfolios was introduced in 2011 that raised c€500m for the Austrian State. The surcharge imposed last year of 25% to fund the bailout of Volksbank raised the total tax to €625m. The planned increase in the surcharge to 45% is to increase the total tax intake to €725m.
- **Back of the Envelope Calculation of Impact on Erste and RBI** -- In 9M13 Erste Bank has paid €125m in Austrian bank levies and Raiffeisen Bank International (RBI) €77m. Annualising these figures and assuming that both banks' share in the incremental new tax is the same as today we calculate an impact of c€27m for Erste Bank and €16m for RBI.
- **Scope & Basis of New Tax May Be Changed** – Reuters has reported that the basis of the tax may be changed to exclude derivatives. Additionally we think the scope of the tax may also be changed. Currently the size of the tax varies depending on the size of balance sheets with small banks with less than €1bn of asset paying no tax. This may be changed and the number of banks subject to the tax may be increased. We think both possible changes are likely to be beneficial for the large banks like Erste Bank and RBI. Thus the back of the envelope calculation of the impact of the higher bank levy outline above may be too pessimistic.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Erste Bank

(ERST.VI; €23.93; 2)

Valuation

We value the bank using 1) a sum-of-the-parts approach based on P/B multiples and actual (not allocated) equity by business; and 2) a warranted equity valuation approach. Our estimate for the normalised Group ROTE is c. 12%, achieved in 2015E. We derive estimates for the cost of equity for each business depending on 10y sovereign yields in the host countries, with the Group cost of equity at c. 11.6%. Our target price of €25 is set between the fair value outcomes from these approaches with a bias towards the sum-of-the-parts approach.

Risks

The following specific risks could cause the shares to deviate from our target: the uncertain macroeconomic outlook in key markets partially counterbalanced by the bank's improving capital position; exchange rate volatility in its key CEE markets given the bank's significant exposure to FX-denominated lending to unhedged retail customers in the region; a return to weak global credit markets or a continuation of the sovereign risk crisis. We also highlight the group's complex nature, namely that it captures risks from numerous fully consolidated, but not fully controlled, small Austrian savings banks. If the impact on the company from any of these factors proves to be greater or less than we anticipate, the stock will either have difficulty achieving our target price or materially outperform our target.

Raiffeisen Bank Intl

(RBIV.VI; €24.98; 3)

Valuation

We value RBI using a Warranted Equity Valuation approach. We consider two different scenarios for capital shortfall which produce two different fair value outcomes for the shares. The main parameters in arriving at the different fair values are as follows: sustainable ROE of 9.9%-10.8% (depending on two capital shortfall scenarios of a targeted 10% CET 1 ratio under 1) fully loaded Basel 3 and 2) under Basel 2 / 2.5); cost of equity of 12.5%; sustainable, long-term growth rate of 3%. Given that its key peer enjoys a much higher fully loaded Basel 3 CET 1 ratio, we weigh our valuation 100% towards the more pessimistic capital raise scenario and set our target price at €24.7.

Risks

RBI operates in the less developed banking markets of Central and Eastern Europe where asset quality and competition remain major risks. With regards to Raiffeisen, we would highlight the following specific risks that could cause the shares to deviate from our target: an uncertain macroeconomic outlook in key markets, partially counterbalanced by the bank's improving capital position; exchange rate volatility in its key CEE markets, given the bank's significant exposure to FX-denominated lending to unhedged retail customers in the region (notably in Hungary); a strong recovery or deterioration in global credit markets or a resolution/deepening of the sovereign risk crisis. If the impact on the company from any of these factors proves

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Appendix A-1

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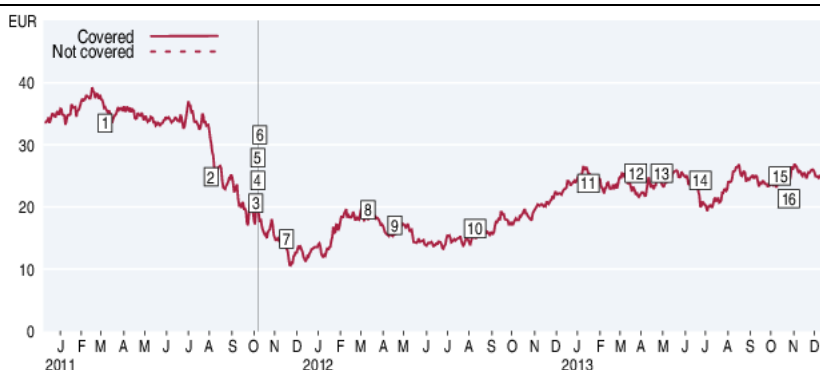
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Ratings and Target Price History Fundamental Research

Analyst: Simon Nellis

Covered since August 13 2013



	Date	Rating	Target Price	Closing Price
1	7-Mar-11	*2M	*37.80	36.08
2	3-Aug-11	2M	*34.82	30.18
3	5-Oct-11	*1M	*28.85	19.12
4	7-Oct-11	Stock rating system changed		
5	7-Oct-11	*1	28.85	20.59
6	11-Oct-11	1	*22.88	17.56

* Indicates change

	Date	Rating	Target Price	Closing Price
7	17-Nov-11	*1H	*19.90	13.19
8	12-Mar-12	*2	*20.89	17.90
9	18-Apr-12	*1	*21.89	15.59
10	9-Aug-12	1	*19.90	15.01
11	16-Jan-13	*2	*25.87	25.46
12	25-Mar-13	2	*24.87	21.94

	Date	Rating	Target Price	Closing Price
13	30-Apr-13	2	*25.87	23.68
14	24-Jun-13	*2H	*22.88	19.99
15	13-Oct-13	*2	*25.50	24.30
16	25-Oct-13	2	*25.00	24.35

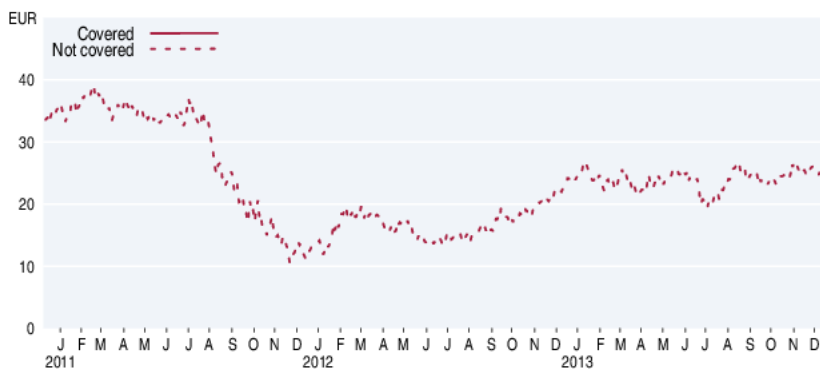
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Erste Bank (ERST.VI)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Simon Nellis

Covered since August 13 2013



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Rating/target price changes above reflect Eastern Standard Time

Raiffeisen Bank Intl (RBIV.VI)

Ratings and Target Price History

Fundamental Research

Analyst: Simon Nellis
Covered since August 13 2013



	Date	Rating	Target Price	Closing Price
1	1-Apr-11	*2H	41.00	40.00
2	28-Jun-11	*1H	*40.00	33.54
3	6-Oct-11	1H	*32.00	21.62
4	7-Oct-11	Stock rating system changed		
5	8-Oct-11	*1	32.00	22.25

* Indicates change

	Date	Rating	Target Price	Closing Price
6	26-Oct-11	1	*25.00	21.68
7	24-Jan-12	1	*30.00	23.00
8	23-Aug-12	*2	*29.00	27.69
9	19-Dec-12	*3	*27.50	31.56
10	25-Mar-13	*2	*28.00	26.58

	Date	Rating	Target Price	Closing Price
11	5-Aug-13	2	*25.50	23.00
12	20-Sep-13	2	*25.00	24.24
13	26-Sep-13	*3	*23.00	23.91
14	4-Dec-13	3	*24.70	25.62

Rating/target price changes above reflect Eastern Standard Time

Raiffeisen Bank Intl (RBIV.VI)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Simon Nellis
Covered since August 13 2013



	Date	Rating	Target Price	Closing Price
1	11-May-11	*ADD LP	-	37.54
2	1-Jul-11	*REM LP	-	37.00

* Indicates change

	Date	Rating	Target Price	Closing Price
3	7-Jan-13	*ADD LP	-	32.77
4	8-Apr-13	*REM LP	-	26.20

Rating/target price changes above reflect Eastern Standard Time

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