

Erste Group expects higher risk costs in 2014; updates outlook for 2014 and 2015

Erste Group today announces that it expects risk costs to rise from the planned EUR 1.7bn to about EUR 2.4bn in 2014 as a result of increased provisions in Hungary and Romania. In Hungary this is related to the planned government action on retail FX loans, which is expected to be related primarily to the retroactive correction of bid-ask spreads applied to FX loans and the abolition of unilateral interest rate and fee changes and is set to be approved by parliament on 4 July 2014. Any potential additional costs related to the complete phase-out of retail FX loans announced by government officials for H2 2014 are – in line with recent High Court decisions – not expected and hence not included in the above estimate. Increased risk provisions in Romania reflect recently increased efforts by the Romanian National Bank, ahead of the ECB's asset quality review (AQR), to reduce NPLs in the banking system in an accelerated manner, and the implementation of lower recovery assumptions by BCR, based on offer prices received for large volume NPL packages.

As a result of increased provisions in Romania Erste Group will carry out an impairment test on the entire amount of Romanian intangibles (goodwill, brand, value of customer relationships) of about EUR 800m, which may result in the full write-off of such intangibles. Such action may also lead to the write-off of deferred tax assets of about EUR 200m.

As a result of this development Erste Group expects:

- **For the geographic segment Romania:** a full normalisation of risk costs at 100-150bps of average gross customer loans starting in 2015, accompanied by an accelerated NPL reduction (down about EUR 800 million or 25%, compared to year-end 2013) already in 2014; a significant rise in the NPL coverage ratio; a lower, but sustainable operating result due to a lower unwinding impact on net interest income
- **For the geographic segment Hungary:** a gradual normalisation of risk costs to 150-200bps (by 2016) of average gross customer loans once all government actions have been completed; a lower, but sustainable operating result due to lower net interest income
- **For Erste Group (consolidated):**
 - A group operating result, which – despite stable underlying group operating trends – will be pushed slightly below guidance in 2014 due to weaker operating results in Romania and Hungary;
 - A net loss for 2014 of EUR 1.4-1.6 bn;
 - A CET 1-ratio (fully loaded, based on current definitions) of about 10.0% at year-end without any need to issue equity; during the year CET1-ratio may be lower, as losses are included in the calculation but unaudited profit is not;
 - Strongly improved post-provision result and net profit (ROTE: 8-10%) in 2015, despite still disproportionate banking levies.

A full business update will be provided with publication of H1 2014 results on 31 July 2014.

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