Monday, October 26, 2015 | special comment

Banks – Regulator Tightens Capital Requirements for Banks

Banks, Poland

Analyst: Michał Konarski +48 22 438 24 05

As warned, Poland's financial regulator KNF has ordered five banks with large Swiss-franc mortgage loan portfolios to set aside more capital to cover the FX risk. According to available data the five banks told to increase their total capital ratios (TCR) and Tier-1 ratios are mBank (TCR: 4.39%; Tier 1: 3.29%), Bank Millennium (TCR: 3.83%; Tier 1: 2.87%), Getin Noble Bank (TCR: 2.03%; Tier 1: 1.52%), PKO BP (TCR: 0.76%; Tier 1: 0.57%), and BZ WBK (TCR: 0.72%; Tier 1: 0.54%). According to our estimates (there is no information on standalone capital ratios available for BZ WBK or Millennium), mBank, PKO BP, and BZ WBK meet the minimum capital requirements and the requirements needed to be able to distribute 50% of annual income as dividends. On the other hand Millennium has insufficient Tier 2 capital and GNB lacks the Tier 1 and Tier 2 capital to satisfy the minimum capital requirements. Note that as of 1 January 2016 the KNF is planning to raise the Tier 1 and total capital requirements by 1.25ppts to 10.25% and 13.25%, respectively, for all Polish banks. The regulator did not specify in its press release whether next year's capital requirements will be calculated based on Tier 1 of 9% and TCR of 12% or based on respective levels of 10.25% and 13.25%. The tighter capital adequacy rules may affect the share price of GNB today as they increase the likelihood of a capital raise. Millennium should be able to set aside the new TCR without having to issue shares.

Getin Noble Bank

GNB's standalone capital adequacy ratios as of 30 June 2015 stood at 9.41% Tier 1 and 12.57% TCR, which means they fell short of the respective KNF requirements of 10.52% and 14.03%. We have calculated that in order to achieve the required Tier 1 ratio GNB needs about PLN 564m of additional capital. The Bank can probably fill the gap by retaining earnings, selling receivables, and restructuring RWAs, but its owners may opt for a share issue as well.

Overview of bank capital ratios

	mBank	PKO BP	BZ WBK	Millennium	GNB
Actual consolidated capital ratios at 30 June 2015					
Tier 1	13.45%	12.60%	13.80%	14.60%	9.92%
TCR	16.38%	13.88%	14.28%	15.16%	13.05%
Actual standalone capital ratios at 30 June 2015					
Tier 1	15.35%	13.00%	14.25%	13.70%	9.41%
TCR	18.85%	14.26%	14.83%	14.26%	12.57%
Additional capital cushion requirement					
Tier 1	3.29%	0.57%	0.54%	2.87%	1.52%
TCR	4.39%	0.76%	0.72%	3.83%	2.03%
New individual capital requirements					
Tier 1	12.29%	9.57%	9.54%	11.87%	10.52%
TCR	16.39%	12.76%	12.72%	15.83%	14.03%
Deadline	-	-	-	-	June 2016
Capital ratios needed to make 50% net income distribution					
Tier 1	15.29%	12.57%	12.54%	14.87%	13.52%
TCR	16.89%	13.26%	13.22%	16.33%	14.53%
Capital ratios needed to make 100% net income distribution					
Tier 1	15.29%	12.57%	12.54%	14.87%	13.52%
TCR	19.89%	16.26%	16.22%	19.33%	17.53%
Current regulatory minimum capital requirements					
Tier 1	9.00%	9.00%	9.00%	9.00%	9.00%
TCR	12.00%	12.00%	12.00%	12.00%	12.00%
Regulatory capital requirements as of 2016					
Tier 1	10.25%	10.25%	10.25%	10.25%	10.25%
TCR	13.25%	13.25%	13.25%	13.25%	13.25%
Individual capital requirements as of 2016					
Tier 1	13.54%	10.82%	10.79%	13.12%	11.77%
TCR	17.64%	14.01%	13.97%	17.08%	15.28%

Source: Banks, Dom Maklerski mBanku; the standalone figures for BZ WBK and Millennium are estimates

List of abbreviations and ratios contained in the report.
EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

Recommendations of Dom Maklerski mBanku S.A.:
A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:
BUY – we expect that the rate of return from an investment will be at least 15%
ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from –5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
Recommendations are updated at least once every nine months.

The present report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgment at this date and time, and are subject to change without notice. The present report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which Dom Maklerski mBanku S.A. considers reliable, including information published by issuers, shares of which are subject to recommendations. However, Dom Maklerski mBanku S.A., in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document nor any copy hereof is not to be distributed directly or indirectly in the United States, Australia, Canada or Japan.
Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation.

Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

Dom Maklerski mBanku S.A. bears no responsibility for investment decisions taken on the basis of the present report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

It is possible that Dom Maklerski mBanku S.A. renders, will render or in the past has rendered services for companies and other entities mentioned in the present report.

Dom Maklerski mBanku S.A. does not rule out offering brokerage services to an issuer of securities being the subject of a recommendation. Information concerning a conflict of interest arising in connection with issuing a recommendation (should such a conflict exist) is located on the final page of this report.

This Special Comment was not transferred to the issuer prior to its publication.

Dom Maklerski mBanku S.A., its shareholders and employees may hold long or short positions in the issuers' shares or other financial instruments related to the issuers' shares. Dom Maklerski mBanku S.A., its affiliates and/or clients may conduct or may have conducted transactions for their own account or for account of another with respect to the financial instruments mentioned in this report or related investments before the recipient has received this report.

Copying or publishing the present report, in full or in part, or disseminating in any way information contained in the present report requires the prior written agreement of Dom Maklerski mBanku S.A. Recommendations are addressed to all Clients of Dom Maklerski mBanku S.A.

The activity of Dom Maklerski mBanku S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Dom Maklerski mBanku S.A. serves as underwriter for the following issuers: Asseco Business Solutions, Bakalland, BOŚ, Capital Park, Erbud, Es-System, Indata Software, Kruk, Magellan, Mieszko, Neuca, Oponeo, Pemug, Polimex Mostostal, Polna, Solar, Tarczyński, Vistal, ZUE.

Dom Maklerski mBanku S.A. serves as market maker for the following issuers: Asseco Business Solutions, Bakalland, BOŚ, Capital Park, Erbud, Es-System, KGHM, Kruk, LW Bogdanka, Magellan, Mieszko, Neuca, Oponeo, PGE, Pekao, PKN Orlen, PKO BP, Polimex Mostostal, Polna, Polwax, PZU, Solar, Tarczyński, Vistal, ZUE.

Dom Maklerski mBanku S.A. receives remuneration from issuers for services rendered to the following companies: AB, Agora, Alior Bank, Alchemia, Ambra, Bakalland, BNP Paribas, Boryszew, BPH, mBank, BZ WBK, Deutsche Bank, Elemental Holding, Elzab, Enea, Energoaparatura, Erbud, Erste Bank, Es-System, Farmacol, Ferrum, Getin Holding, Groclin, Grupa o2, Handlowy, Impexmetal, Indata Software, ING BSK, Intergroclin Auto, Ipopema, Kęty, Koelner, Kruk, LW Bogdanka, Magellan, Mennica, Mercor, Mieszko, Millennium, Mostostal Warszawa, Netia, Neuca, Odratrans, Oponeo, Orbis, OTP Bank, Paged, PA Nova, Pekao, Pemug, Pfleiderer Grajewo, PGE, PGNiG, PKO BP, Polimex-Mostostal, Polnord, PRESCO GROUP, Prochem, Projprzem, PZU, RBI, Robyg, Rubikon Partners NFI, Seco Warwick, Skarbiec Holding, Sokołów, Solar, Sygnity, Tarczyński, Techmex, TXN, Unibep, Uniwheels, Vistal, Wirtualna Polska S.A., Work Service, ZUE.

In the last 12 months Dom Maklerski mBanku S.A. has been an offering agent of the issuer's shares in a public offering for the following companies: HTL Strefa, Indata Software, Uniwheels.

Asseco Poland provides IT services to Dom Maklerski mBanku S.A.

Dom Maklerski mBanku S.A. has a cash service agreement in place with Pekao and a phone subscription agreement in place with Orange Polska S.A.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of Dom Maklerski mBanku S.A. authorised to access the premises in which recommendations are prepared and/or individuals having to access to recommendations based on their corporate roles, other than the analysts mentioned as the authors of the present recommendations.

Strong and weak points of valuation methods used in recommendations:
DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.
Relative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

Michał Marczak
członek zarządu
tel. +48 22 438 24 01
michal.marczak@mdm.pl
strategia, surowce, metale

Departament analiz:

Kamil Kliszcz
dyrektor
tel. +48 22 438 24 02
kamil.kliszcz@mdm.pl
paliwa, chemia, energetyka

Michał Konarski
tel. +48 22 438 24 05
michal.konarski@mdm.pl
banki, finanse

Jakub Szkopek
tel. +48 22 438 24 03
jakub.szkopek@mdm.pl
przemysł

Paweł Szpigiel
tel. +48 22 438 24 06
pawel.szpigiel@mdm.pl
media, IT, telekomunikacja

Piotr Zybała
tel. +48 22 438 24 04
piotr.zybala@mdm.pl
budownictwo, deweloperzy

Piotr Bogusz
tel. +48 22 438 24 08
piotr.bogusz@mdm.pl
handel

Departament sprzedaży instytucjonalnej:

Piotr Gawron
dyrektor
tel. +48 22 697 48 95
piotr.gawron@mdm.pl

Marzena Łempicka-Wilim
wicedyrektor
tel. +48 22 697 48 82
marzena.lempicka@mdm.pl

Zespół Prywatnego Maklera:

Jarosław Banasiak
dyrektor biura aktywnej sprzedaży
tel. +48 22 697 48 70
jaroslaw.banasiak@mdm.pl

Maklerzy:

Krzysztof Bodek
tel. +48 22 697 48 89
krzysztof.bodek@mdm.pl

Michał Jakubowski
tel. +48 22 697 47 44
michal.jakubowski@mdm.pl

Tomasz Jakubiec
tel. +48 22 697 47 31
tomasz.jakubiec@mdm.pl

Szymon Kubka, CFA, PRM
tel. +48 22 697 48 16
szymon.kubka@mdm.pl

Anna Łagowska
tel. +48 22 697 48 25
anna.lagowska@mdm.pl

Jędrzej Łukomski
tel. +48 22 697 48 46
jedrzej.lukomski@mdm.pl

Paweł Majewski
tel. +48 22 697 49 68
pawel.majewski@mdm.pl

Adam Mizera
tel. +48 22 697 48 76
adam.mizera@mdm.pl

Adam Prokop
tel. +48 22 697 47 90
adam.prokop@mdm.pl

Michał Rożmiej
tel. +48 22 697 49 85
michal.rozmiej@mdm.pl

Dom Maklerski mBanku S.A.
Departament analiz
ul. Senatorska 18
00-082 Warszawa
www.mDomMaklerski.pl