

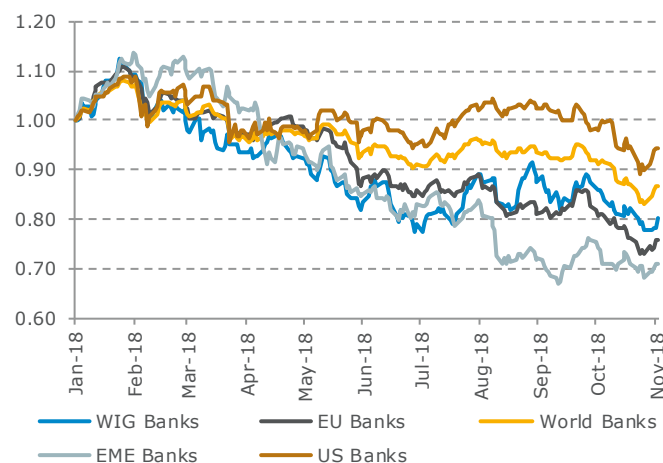
Monday, November 05, 2018 | special comment

## Banks – EBA stress test results

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On Friday, 2 November, EBA published the results of the 2018 stress test, which involved 48 banks from 15 countries, covering broadly 70% of total EU banking sector assets. The adverse scenario has an impact of -395 bps on banks' CET1 fully loaded capital ratio (-410 bps on a transitional basis), leading to a 10.1% CET1 capital ratio at the end of 2020 (10.3% on a transitional basis). According to the EBA, the test showed a much stronger resilience of the banking sector to adverse macroeconomic and capital conditions compared to the previous 2016 test. The EBA exercise was not a "pass-or-fail" test. Importantly, all 48 banks reported CET1 and Tier1 capital ratios above the 4.5% and 6% minimum requirement, respectively. The biggest adverse effect on the capital ratios was reported by UK banks, anticipating a hard Brexit; the smallest, by the Polish banks. It is important to note the results of the German banks, in particular DB, which exceeded analysts' expectations. In our opinion, the test should bolster the sentiment for the UE banking industry, mainly by dispelling some doubts concerning the impact of a hard Brexit as well as the condition of the Italian and German banks. Despite a favourable operating environment and forecasts which still expect interest rate hikes, the European banks' MSCI dropped 24% YTD on the back of concerns about the capital position of the sector, Brexit and the Italian public deficit. In our opinion, the EBA test results should have a positive impact on PKO BP (expected higher dividend) and a potentially negative impact on Erste Bank, whose sensitivity to the adverse scenario is still very high.

### Banking indices performance



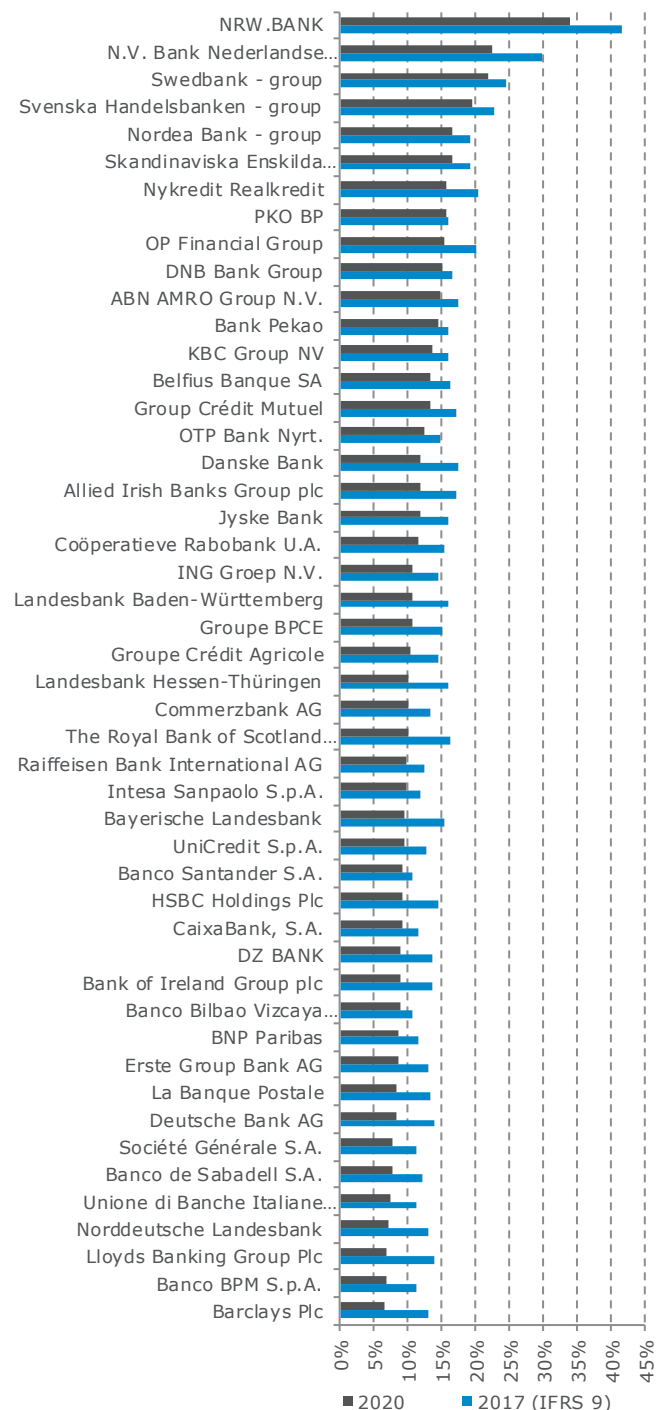
Source: Bloomberg, Dom Maklerski mBanku

### Covered banks

The banks we cover reported capital ratios well above the EBA's minimum but Erste Group's sensitivity to the stress test increased vs. 2016. PKO BP came in the lead as its CET1 (IFRS9 fully loaded) dropped by only 29 bps to 14.55% (the best result among all 48 banks), followed by Bank Pekao (-144 bps to 14.55%), OTP Bank (-247 bps to 12.40%), RBI (274 bps to 9.73%) and Erste Group (-456 bps to 8.45%). CET1 in the adverse scenario dropped much less than it did in 2016 in the case of PKO BP, RBI, OTP Bank, but more in the case of Erste Group. Bank Pekao did not take part in the 2016 stress test.

In our opinion, the results will have little effect on Polish banks with the exception PKO BP, expected to see a reduction of the stress-test capital buffer which has been imposed by KNF and is factored into the dividend equation; consequently, its dividend payout may increase as soon as 2019. The market may be somewhat negative about the stress test result of Erste Bank, which ranks in the bottom 10.

### Fully loaded CET1 (2017 vs 2020 adverse)



Source: EBA, Dom Maklerski mBanku

### UK, German, Italian banks

Preliminary comments of the markets stress the surprisingly strong results of the Italian banks and the weak results of the UK banks. However, the latter had to face much more stringent criteria than the other countries, proving resilience of the UK banks to a hard Brexit. In our opinion, this narration should bolster the sentiment for the sector, especially in view of the supporting operating environment, including expected eurozone rate hikes in late 2019.

The UK banks reported the lowest 2020 capital ratios (Barclays CET1 = 6.37%) but German banks are among those most sensitive to the adverse scenario (4 of the top 10). The worst performing Italian banks are Banco BPM (CET1 = 6.67%) followed by Unione di Banche Italiane Società per Azioni (7.46%). Deutsche Bank's CET1 was 8.14%, exceeding analysts' expectations.

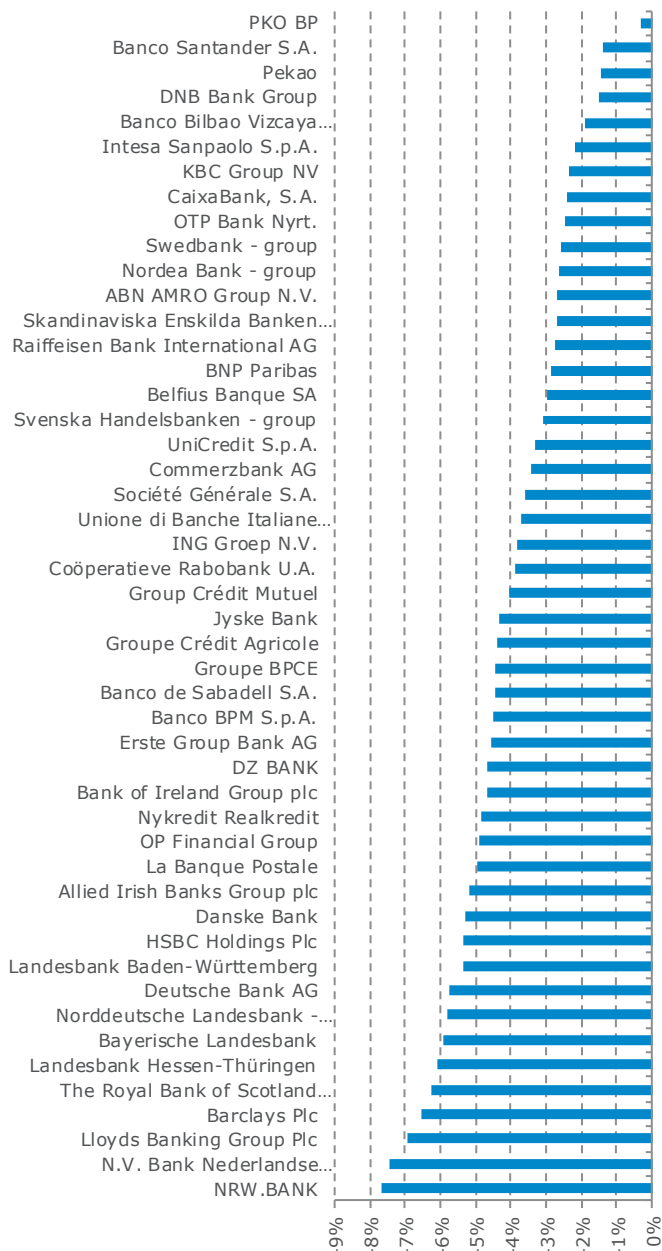
### Adverse scenario 2017-2020

The scenario included a compound GDP drop of 2.7 pps, an unemployment rate at 9.7%, compound inflation of 1.7%, and compound drop in the value of residential property by 19.1% and commercial property by 20.0%.

For full results, see the next page or visit:

<https://www.eba.europa.eu/risk-analysis-and-data/eu-wide-stress-testing/2018/results>

### Diff. between 2017 (IFRS9) CET1 and 2020 (in adverse scenario)



Source: EBA, Dom Maklerski mBanku

## EBA stress test impact on CET1 ratios (transition period)

Bank		2017	2017*	2020B	2018N	2019N	2020N	Delta (17-20N)
AT	RBI	12.89%	12.55%	13.61%	10.54%	10.08%	9.73%	-2.82%
AT	Erste Group	13.37%	13.43%	13.31%	10.64%	9.69%	8.56%	-4.87%
BE	KBC groep	16.46%	16.14%	18.56%	14.63%	13.95%	13.60%	-2.54%
BE	Belfius Banque	16.08%	16.17%	17.67%	13.85%	13.58%	13.21%	-2.96%
DE	DZ BANK	13.81%	13.77%	14.33%	9.76%	9.25%	8.97%	-4.80%
DE	Landesbank Baden-Württemberg	15.79%	16.15%	16.03%	12.52%	11.28%	10.69%	-5.46%
DE	Deutsche Bank	14.80%	14.65%	13.45%	9.18%	8.25%	8.14%	-6.51%
DE	Commerzbank	14.94%	14.10%	14.36%	10.64%	10.15%	9.93%	-4.17%
DE	Norddeutsche Landesbank - Girozentrale	12.40%	13.15%	13.57%	8.76%	7.78%	7.07%	-6.08%
DE	Bayerische Landesbank	15.32%	15.40%	15.46%	12.82%	10.78%	9.44%	-5.96%
DE	Landesbank Hessen-Thüringen	15.40%	16.10%	16.15%	11.70%	10.08%	9.96%	-6.14%
DE	NRW.BANK	41.74%	41.74%	39.92%	35.72%	34.75%	33.96%	-7.78%
DK	Danske Bank	17.62%	17.58%	16.36%	14.05%	13.42%	12.77%	-4.81%
DK	Jyske Bank	16.35%	16.01%	16.57%	12.83%	12.13%	11.69%	-4.32%
DK	Nykredit Realkredit	20.69%	20.55%	21.96%	18.72%	15.80%	15.63%	-4.92%
ES	Banco Santander S.A.	12.26%	12.31%	14.07%	9.47%	9.61%	9.72%	-2.59%
ES	Banco Bilbao Vizcaya Argentaria S.A.	11.67%	11.59%	13.00%	8.85%	9.12%	9.25%	-2.34%
ES	CaixaBank, S.A.	12.73%	12.54%	13.60%	9.89%	9.51%	9.11%	-3.43%
ES	Banco de Sabadell S.A.	13.44%	13.51%	13.50%	9.95%	9.13%	8.40%	-5.11%
FI	OP Financial Group	20.10%	20.20%	21.25%	18.49%	16.90%	15.28%	-4.92%
FR	BNP Paribas	11.77%	11.62%	12.54%	9.11%	8.78%	8.64%	-2.98%
FR	Groupe Crédit Agricole	14.84%	14.54%	16.33%	11.93%	10.75%	10.21%	-4.33%
FR	Société Générale S.A.	11.57%	11.38%	11.83%	8.09%	7.72%	7.61%	-3.77%
FR	Group Crédit Mutuel	17.44%	17.25%	18.90%	15.20%	14.21%	13.26%	-3.99%
FR	Groupe BPCE	15.28%	15.16%	17.24%	12.33%	11.27%	10.69%	-4.47%
FR	La Banque Postale	13.07%	12.82%	13.66%	9.51%	8.85%	8.22%	-4.60%
GB	Barclays Plc	13.28%	13.32%	13.82%	8.52%	7.37%	7.28%	-6.04%
GB	Lloyds Banking Group Plc	14.06%	14.03%	15.96%	11.27%	9.22%	8.55%	-5.48%
GB	HSBC Holdings Plc	14.50%	14.62%	15.72%	10.67%	9.56%	9.42%	-5.20%
GB	The Royal Bank of Scotland Group Plc	15.91%	16.17%	18.50%	11.16%	9.90%	9.93%	-6.24%
HU	OTP Bank Nyrt.	15.21%	15.40%	16.11%	14.75%	13.87%	13.03%	-2.37%
IE	Bank of Ireland Group plc	15.82%	15.81%	16.23%	13.29%	12.14%	11.15%	-4.66%
IE	Allied Irish Banks Group plc	20.81%	20.80%	21.09%	17.65%	16.46%	14.81%	-5.99%
IT	UniCredit S.p.A.	13.73%	12.80%	13.76%	10.31%	9.58%	9.34%	-3.46%
IT	Intesa Sanpaolo S.p.A.	13.27%	13.24%	13.04%	10.80%	10.64%	10.40%	-2.84%
IT	Banco BPM S.p.A.	12.36%	13.94%	15.74%	9.93%	9.40%	8.47%	-5.47%
IT	Unione di Banche Italiane Società Per Azioni	11.56%	11.70%	12.49%	9.76%	9.25%	8.32%	-3.38%
NL	N.V. Bank Nederlandse Gemeenten	30.35%	29.45%	31.92%	21.99%	22.47%	22.33%	-7.12%
NL	ABN AMRO Group N.V.	17.70%	17.54%	19.70%	16.26%	15.65%	14.85%	-2.69%
NL	ING Groep N.V.	14.71%	14.53%	13.99%	11.47%	10.96%	10.70%	-3.83%
NL	Coöperatieve Rabobank U.A.	15.77%	15.58%	16.03%	12.02%	11.62%	11.44%	-4.14%
NO	DNB Bank Group	16.21%	16.18%	18.51%	13.55%	13.75%	15.03%	-1.15%
PL	PKO BP	16.50%	16.45%	17.39%	15.79%	15.88%	15.93%	-0.52%
PL	Bank Pekao	16.41%	16.60%	16.50%	15.85%	15.84%	15.47%	-1.13%
SE	Skandinaviska Enskilda Banken - group	19.35%	19.18%	22.02%	17.39%	16.38%	16.47%	-2.71%
SE	Nordea Bank - group	19.49%	19.34%	20.16%	17.10%	16.17%	16.68%	-2.66%
SE	Swedbank - group	24.61%	24.58%	27.30%	21.88%	21.98%	21.98%	-2.60%
SE	Svenska Handelsbanken - group	22.73%	22.61%	24.85%	21.01%	20.04%	19.53%	-3.08%

Source: EBA, Dom Maklerski mBanku; \*IFRS9; B=base scenario, N=adverse scenario

**EBA stress test impact on CET1 ratios (fully loaded)**

Bank		2017	2017*	2020B	2018N	2019N	2020N	Delta (17-20N)
AT	RBI	12.71%	12.47%	13.61%	10.54%	10.08%	9.73%	-2.74%
AT	Erste Group	12.95%	13.01%	13.13%	10.50%	9.57%	8.45%	-4.56%
BE	KBC groep	16.35%	15.96%	18.56%	14.63%	13.95%	13.60%	-2.36%
BE	Belfius Banque	15.88%	16.17%	17.67%	13.85%	13.58%	13.21%	-2.96%
DE	DZ BANK	13.74%	13.64%	14.33%	9.76%	9.25%	8.97%	-4.67%
DE	Landesbank Baden-Württemberg	15.67%	16.05%	16.03%	12.45%	11.28%	10.69%	-5.36%
DE	Deutsche Bank	14.03%	13.90%	13.45%	9.18%	8.25%	8.14%	-5.76%
DE	Commerzbank	14.12%	13.34%	14.36%	10.64%	10.15%	9.93%	-3.41%
DE	Norddeutsche Landesbank - Girozentrale	11.92%	12.89%	13.57%	8.75%	7.78%	7.07%	-5.82%
DE	Bayerische Landesbank	15.30%	15.36%	15.46%	12.82%	10.78%	9.44%	-5.92%
DE	Landesbank Hessen-Thüringen	15.19%	16.04%	16.15%	11.70%	10.08%	9.96%	-6.08%
DE	NRW.BANK	41.65%	41.65%	39.92%	35.72%	34.75%	33.96%	-7.69%
DK	Danske Bank	17.53%	17.28%	16.17%	13.18%	12.52%	11.97%	-5.31%
DK	Jyske Bank	16.35%	16.01%	16.57%	12.83%	12.13%	11.69%	-4.32%
DK	Nykredit Realkredit	20.61%	20.47%	21.96%	18.72%	15.80%	15.63%	-4.84%
ES	Banco Santander S.A.	10.84%	10.61%	13.87%	8.51%	8.88%	9.20%	-1.41%
ES	Banco Bilbao Vizcaya Argentaria S.A.	11.04%	10.73%	12.72%	8.44%	8.58%	8.80%	-1.93%
ES	CaixaBank, S.A.	11.65%	11.50%	13.60%	9.45%	9.53%	9.11%	-2.39%
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FR	BNP Paribas	11.68%	11.52%	12.54%	9.08%	8.78%	8.64%	-2.88%
FR	Groupe Crédit Agricole	14.88%	14.58%	16.33%	11.93%	10.75%	10.21%	-4.37%
FR	Société Générale S.A.	11.39%	11.24%	11.83%	7.98%	7.72%	7.61%	-3.63%
FR	Group Crédit Mutuel	17.42%	17.23%	18.81%	15.12%	14.13%	13.18%	-4.05%
FR	Groupe BPCE	15.25%	15.13%	17.24%	12.28%	11.26%	10.68%	-4.45%
FR	La Banque Postale	13.41%	13.16%	13.66%	9.51%	8.85%	8.22%	-4.94%
GB	Barclays Plc	13.28%	12.94%	13.56%	6.93%	6.00%	6.37%	-6.57%
GB	Lloyds Banking Group Plc	14.06%	13.75%	15.71%	7.48%	6.78%	6.80%	-6.95%
GB	HSBC Holdings Plc	14.50%	14.51%	15.64%	9.89%	9.14%	9.18%	-5.33%
GB	The Royal Bank of Scotland Group Plc	15.91%	16.17%	18.50%	9.89%	9.48%	9.92%	-6.25%
HU	OTP Bank Nyrt.	15.21%	14.87%	15.83%	13.65%	12.83%	12.40%	-2.47%
IE	Bank of Ireland Group plc	13.82%	13.61%	15.13%	8.68%	8.58%	8.93%	-4.68%
IE	Allied Irish Banks Group plc	17.48%	17.03%	18.69%	13.19%	12.64%	11.83%	-5.20%
IT	UniCredit S.p.A.	13.61%	12.68%	13.76%	10.32%	9.58%	9.34%	-3.34%
IT	Intesa Sanpaolo S.p.A.	12.87%	11.85%	12.28%	9.76%	9.74%	9.66%	-2.19%
IT	Banco BPM S.p.A.	11.92%	11.20%	14.32%	7.03%	7.01%	6.67%	-4.53%
IT	Unione di Banche Italiane Società Per Azioni	11.43%	11.20%	12.22%	8.88%	8.54%	7.46%	-3.74%
NL	N.V. Bank Nederlandse Gemeenten	30.80%	29.76%	31.92%	21.99%	22.47%	22.33%	-7.43%
NL	ABN AMRO Group N.V.	17.65%	17.53%	19.70%	16.25%	15.65%	14.85%	-2.68%
NL	ING Groep N.V.	14.68%	14.51%	13.99%	11.47%	10.96%	10.70%	-3.81%
NL	Coöperatieve Rabobank U.A.	15.50%	15.34%	16.03%	12.01%	11.62%	11.44%	-3.90%
NO	DNB Bank Group	16.56%	16.53%	18.51%	13.55%	13.75%	15.03%	-1.50%
PL	PKO BP	16.25%	15.91%	16.89%	15.39%	15.52%	15.62%	-0.29%
PL	Bank Pekao	16.43%	15.99%	16.14%	14.40%	14.39%	14.55%	-1.44%
SE	Skandinaviska Enskilda Banken - group	19.35%	19.18%	22.02%	17.39%	16.38%	16.47%	-2.71%
SE	Nordea Bank - group	19.49%	19.34%	20.16%	17.10%	16.17%	16.68%	-2.66%
SE	Swedbank - group	24.61%	24.58%	27.30%	21.88%	21.98%	21.98%	-2.60%
SE	Svenska Handelsbanken - group	22.73%	22.61%	24.85%	21.01%	20.04%	19.53%	-3.08%

Source: EBA, Dom Maklerski mBanku; \*IFRS9; B=base scenario, N=adverse scenario

# 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

**OVERWEIGHT (OW)** – a rating which indicates that we expect a stock to outperform the broad market  
**NEUTRAL (N)** – a rating which indicates that we expect the stock to perform in line with the broad market  
**UNDERWEIGHT (UW)** – a rating which indicates that we expect the stock to underperform the broad market

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**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%  
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**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.

**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**NAV** – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

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