Deutsche Bank
Markets Research

Industry
European Banks

Date
17 June 2015

Europe

Banks

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F.I.T.T. for investors

Basel 4 - Truth and Advertising

Basel 4: another capital hill to climb. Some look well placed to move forward

The next steps in post-crisis regulatory change to strengthen the banking sector will be to improve how banks measure the "riskiness" of their balance sheets and "advertising" of their ratios. In this comprehensive report, we evaluate proposals dubbed "Basel 4". The sector looks well placed to absorb additional capital requirements. Banks' rehabilitation as dividend paying equities should be able to continue: stocks we like are Lloyds, Danske, Unicredit, Banco Popolare, CBK and Bankinter. But we think the Basel 4 impact on end ratios might be underestimated at the French banks and ring-fenced UK entities.

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On Basel 4 Nordics still have the highest core tier 1 and France the lowest

In our base case, we expect sector RWA inflation of 14% or EUR 1.2tn. We expect a Basel 4 ratio of 9.9% on 2015, a 1.7% reduction from Basel 3, or EUR 120bn in equity. Given sector 2017 profits of EUR 130bn and 2019 implementation period, we think on average the sector is well placed to absorb the changes. By country, Nordics have the highest B4 ratios and France the lowest. Despite having the highest RWA inflation, Nordics still end up with the strongest B4 ratio because of high pre-existing buffers. France has the lowest B4 ratio by country given starting points and RWA inflation.

A wide range of outcomes is still possible depending on finalization

The range of outcomes could be wide, or impact sooner, depending on how the proposals are finalized. Two risks are; i) more granular, portfolio-based, RWA floors could lift sector RWA inflation to 22% and catch out more banks costing a further 0.6% of CT1; ii) national regulators may move faster than 2019 on harmonizing RWA by adjusting banks' internal models tackling so called model risk. Our feedback is that management may have this higher up the immediate agenda because it may come sooner. In our *9 June 2014 Truth in Advertising* report we looked at the issue of model risk.

We screen stocks on Basel 4 and potential for payout surprise

Despite finalization of rules in the next year, and implementation not before 2019, guidance from banks will likely impact perceptions around capital and payout. Stocks we like on our base case are Lloyds, Unicredit, Banco, Danske, CBK and Bankinter. For Unicredit and CBK in particular, perceptions around relative capital strength could be weak, wrongly in our view. Our analysis shows they are better placed on Basel 4 than some may think with reasonable valuation. Out of this list, Lloyds and Banco could be more impacted if we get a tougher implementation of more granular RWA floors.

Valuation and Risks

After a 13% YTD rally the sector trades on PTBV 2016E 1.12x for ROTE of 10.4%. Key upside risks for the sector include rises in interest rates (which we think would drive upside to NII forecasts), further sovereign tightening, or a sharp turn for the better in the Euro zone economy. Key downside risks, especially for our top picks, include persistently low inflation and expectations and an even longer low-rate cycle, weak economic recovery, and credit risk in Emerging Markets exposures.

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Figure 1: Deutsche Bank European Banks Team

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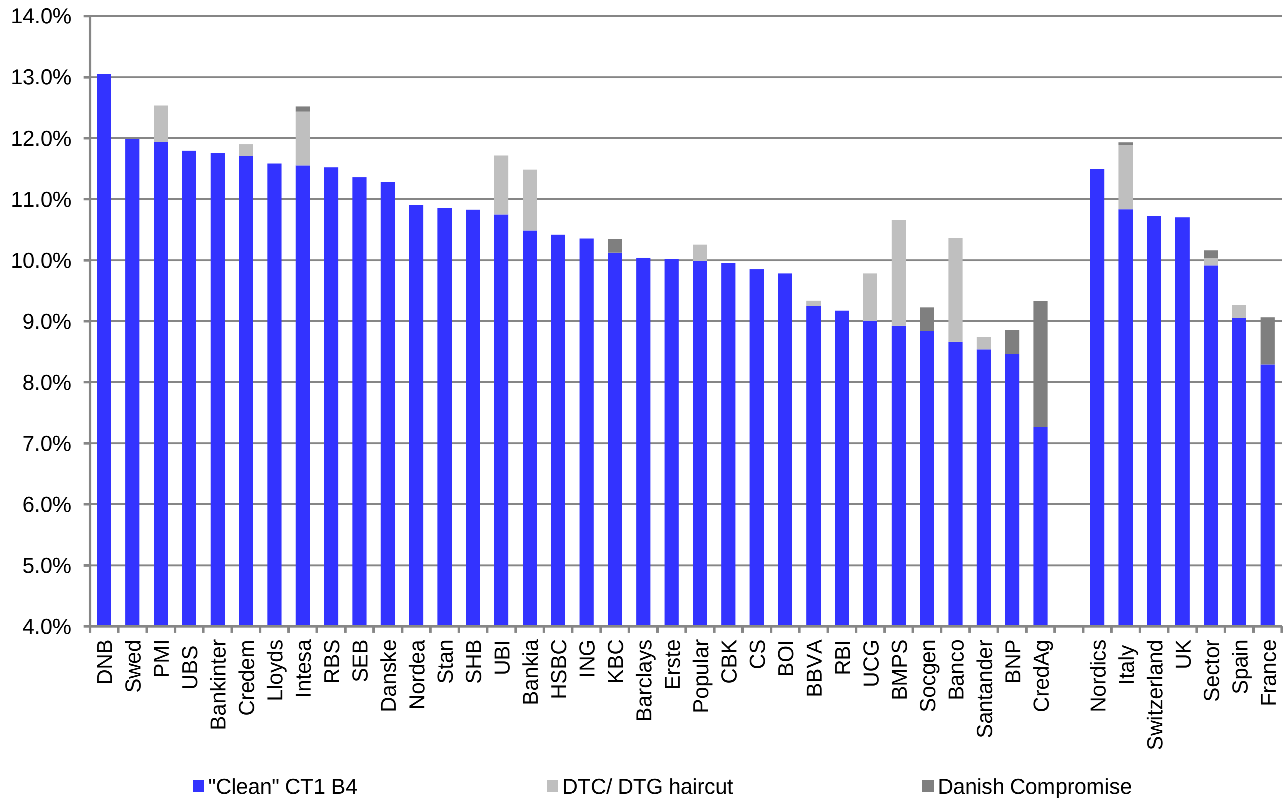
Source: Deutsche Bank

Key chart

"There should be "truth in advertising" for the regulatory ratios that banks present." Speech by Mr Stefan Ingves, Governor of the Sveriges Riksbank and Chairman of the Basel Committee on Banking Supervision, at the Federal Reserve Bank of Chicago Annual International Banking Conference, Chicago, 6 November 2014.

Figure 2: CT1 B4 ratios and capital quality (2015 estimates)



Source: Deutsche Bank estimates
**In line with our base case, our deductions for DTC are based upon a) a 17% haircut in Spain from corporate tax rate harmonization; and b) 30% haircut in Italy given our view banks will at least be able to use up c70% on average within 5 years.*
**Santander - our estimates exclude the benefit of +20bps to its FL CET1 ratio announced on 4 June 2015 relating to litigation provision releases in Brazil.*

Executive summary

Strengthening the risk weight system

The "Basel 4" package aims to strengthen the risk weight system

New regulation in the seven years since the Global Financial crisis has primarily aimed at increasing the quantity and quality of equity banks hold against losses. The next steps, coming to be dubbed "Basel 4", look to change how banks measure the "riskiness" of their balance sheets and "advertise" their capital ratios. Last year, in our European Banks report *Truth in Advertising 9 June 2014,* we looked at how this could happen. We have since had detailed proposals published from the Basel Committee. In this report, we evaluate the impact of Basel 4 by using European banks' pillar 3 data, giving us the most granular and up to date bank by bank analysis available.

Policymakers' next steps are to improve how banks measure the "riskiness" of their balance sheets and "advertise" their capital ratios.

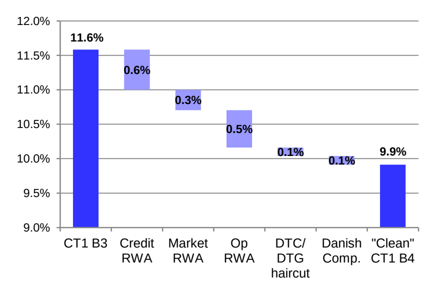
The key changes in the Basel 4 package of measures

In our framework to think about RWA inflation from Basel 4 we consider four key proposal; i) Credit risk – revisions to standardized approach; ii) Market risk - Fundamental review of the trading book. We wrote about this extensively recently in our report *9 April report, Driving change at Credit Suisse: the FRTB and RWA inflation*; iii) Operational risk – revisions to simpler approach; and iv) Capital floors – for banks that use their own internal models to calculate balance sheet risk. We also take into consideration further steps to "clean up" banks' regulatory equity base.

Basel 4 is broadly manageable but outcomes could vary widely

Depending on calibration of capital floors and other measures, Basel 4 could potentially have a wide range of outcomes. In our base case of a risk-category based floor of 75%, we expect the sector to see 14% RWA inflation. On 2015 balance sheets, this would add EUR 1.2tn to listed European banks' risk weighted assets. This would reduce our B3 forecast from 11.6% to a B4 figure of 9.9% including further measures on equity. However if capital floors are applied more granularly under the so-called portfolio-based measures, RWA inflaton could rise to 22% and impact core tier 1 ratio by a further 0.6%, reducing the sector figure to 9.3%.

Figure 3: European banks core tier 1 waterfall for Basel 4



Source: Deutsche Bank estimates

Granular analysis by bank, where some may face more payout constraints

In this report we include a detailed template of RWA inflation for each bank under our coverage, with commentary on sensitivities. We summarize in the table on the next page the impacts of the various proposals on core tier 1 ratios for each bank in our universe. Compared to a doubling of equity requirements under Basel 3, the Basel 4 package of measures is likely to be more manageable. However, some banks' ability to raise payouts will be constrained as they retain capital, thus disappointing market expectations.

2019 implementation, but the market may fully load the impact quicker

Most of the proposals we consider will come into effect in 2018/ 2019. A key piece of feedback from our **DB Global Financials Conference** is that Basel 4 as a topic is increasingly being discussed by management teams and investors. As such we have an expectation that pressure will increase to guide on the potential impact with the full year results or over the course of the year. The market, as with previous regulation, is likely to fully load the impact into valuations. We have already seen the potential of Basel 4 to drive share prices. In the table below we detail the impact on capital ratios we expect to see from each source given our base case assumptions.

Figure 4: Per bank impact of proposals on CT1 ratios assumed a risk category based floor set at 75 % – ranked by surplus or deficit to assumed hurdle rate

	CT1 B3 2015E	Credit RWA	Market RWA	Operational RWA	CT1 B4 2015E	DTC/ DTG haircut	Danish Comp.	"Clean" CT1 B4	Assumed B4 hurdle	Deficit/ surplus	*Extra impact of portfolio floors*
PMI	12.8%	0.0%	-0.1%	-0.1%	12.5%	-0.6%	0.0%	11.9%	9.5%	2.4%	*0.0%*
Credem	12.2%	0.0%	-0.1%	-0.2%	11.9%	-0.2%	0.0%	11.7%	9.5%	2.2%	*0.0%*
Intesa	13.4%	0.0%	-0.4%	-0.5%	12.5%	-0.9%	-0.1%	11.6%	9.5%	2.1%	*-0.4%*
Bankinter	12.1%	0.0%	-0.1%	-0.3%	11.8%	0.0%	0.0%	11.8%	10.0%	1.8%	*-0.8%*
UBI	12.2%	0.0%	-0.1%	-0.4%	11.7%	-1.0%	0.0%	10.7%	9.5%	1.2%	*-1.0%*
Bankia	11.7%	0.0%	-0.1%	-0.1%	11.5%	-1.0%	0.0%	10.5%	10.0%	0.5%	*-0.1%*
Swed	20.7%	-7.5%	-0.3%	-0.9%	12.0%	0.0%	0.0%	12.0%	12.0%	0.0%	*-0.3%*
Popular	10.6%	0.0%	0.0%	-0.3%	10.3%	-0.3%	0.0%	10.0%	10.0%	0.0%	*-1.1%*
CBK	10.4%	0.0%	-0.5%	0.0%	10.0%	0.0%	0.0%	10.0%	10.0%	0.0%	*-0.7%*
ING	12.2%	-1.7%	-0.2%	0.0%	10.4%	0.0%	0.0%	10.4%	10.5%	-0.1%	*-0.6%*
Danske	14.0%	-1.8%	-0.4%	-0.5%	11.3%	0.0%	0.0%	11.3%	11.5%	-0.2%	*-0.7%*
KBC	13.2%	-1.8%	-0.2%	-0.9%	10.4%	0.0%	-0.2%	10.1%	10.5%	-0.4%	*-0.5%*
UCG	10.0%	0.0%	-0.2%	-0.1%	9.8%	-0.8%	0.0%	9.0%	9.5%	-0.5%	*-0.5%*
Lloyds	14.4%	-1.3%	-0.1%	-1.4%	11.6%	0.0%	0.0%	11.6%	12.1%	-0.5%	*-0.9%*
SEB	17.0%	-4.5%	-0.6%	-0.6%	11.4%	0.0%	0.0%	11.4%	12.0%	-0.6%	*-0.1%*
Stan	12.3%	-0.6%	-0.3%	-0.6%	10.9%	0.0%	0.0%	10.9%	11.5%	-0.6%	*-0.5%*
Banco	11.2%	-0.5%	-0.2%	-0.1%	10.4%	-1.7%	0.0%	8.7%	9.4%	-0.7%	*-1.0%*
BBVA	10.0%	0.0%	-0.2%	-0.5%	9.3%	-0.1%	0.0%	9.2%	10.0%	-0.8%	*-0.9%*
DNB	15.0%	-1.3%	-0.2%	-0.5%	13.1%	0.0%	0.0%	13.1%	14.0%	-0.9%	*-1.1%*
Erste	10.9%	0.0%	0.0%	-0.9%	10.0%	0.0%	0.0%	10.0%	11.0%	-1.0%	*-0.5%*
RBS	12.5%	0.0%	-0.3%	-0.7%	11.5%	0.0%	0.0%	11.5%	12.5%	-1.0%	*-0.5%*
Nordea	16.0%	-3.9%	-0.3%	-0.9%	10.9%	0.0%	0.0%	10.9%	12.0%	-1.1%	*-0.2%*
CS	10.7%	-0.1%	-0.7%	0.0%	9.9%	0.0%	0.0%	9.9%	11.0%	-1.1%	*-0.6%*
Socgen	10.1%	-0.2%	-0.5%	-0.2%	9.2%	0.0%	-0.4%	8.8%	10.0%	-1.2%	*-0.8%*
SHB	21.0%	-9.3%	-0.1%	-0.7%	10.8%	0.0%	0.0%	10.8%	12.0%	-1.2%	*-0.3%*
UBS	14.0%	-1.8%	-0.4%	0.0%	11.8%	0.0%	0.0%	11.8%	13.0%	-1.2%	*-0.8%*
BOI	10.0%	0.0%	0.0%	-0.2%	9.8%	0.0%	0.0%	9.8%	11.0%	-1.2%	*-0.7%*
BMPS	10.9%	0.0%	-0.3%	0.0%	10.7%	-1.7%	0.0%	8.9%	10.2%	-1.3%	*-0.9%*
Santander	10.1%	0.0%	-0.2%	-1.1%	8.7%	-0.2%	0.0%	8.5%	10.0%	-1.5%	*-0.5%*
BNP	10.6%	-0.9%	-0.2%	-0.6%	8.9%	0.0%	-0.4%	8.5%	10.0%	-1.5%	*-0.7%*
HSBC	11.5%	0.0%	-0.1%	-1.0%	10.4%	0.0%	0.0%	10.4%	12.0%	-1.6%	*-0.8%*
RBI	10.2%	-0.2%	-0.2%	-0.6%	9.2%	0.0%	0.0%	9.2%	11.0%	-1.8%	*-0.9%*
Barclays	10.7%	0.0%	-0.4%	-0.3%	10.0%	0.0%	0.0%	10.0%	12.0%	-2.0%	*-0.4%*
CredAg	10.4%	-0.5%	-0.2%	-0.4%	9.3%	0.0%	-2.1%	7.3%	9.5%	-2.2%	*-0.4%*
Italy	12.6%	-0.1%	-0.3%	-0.4%	11.9%	-1.1%	0.0%	10.8%	9.5%	1.3%	*-0.6%*
Nordics	16.4%	-3.9%	-0.3%	-0.7%	11.5%	0.0%	0.0%	11.5%	11.5%	0.0%	*-0.5%*
Spain	10.2%	0.0%	-0.2%	-0.8%	9.3%	-0.2%	0.0%	9.1%	10.0%	-0.9%	*-0.7%*
Sector	11.6%	-0.6%	-0.3%	-0.5%	10.2%	-0.1%	-0.1%	9.9%	11.0%	-1.0%	*-0.6%*
Switzerland	12.1%	-0.8%	-0.6%	0.0%	10.7%	0.0%	0.0%	10.7%	11.9%	-1.2%	*-0.7%*
UK	11.9%	-0.2%	-0.2%	-0.8%	10.7%	0.0%	0.0%	10.7%	12.0%	-1.3%	*-0.6%*
France	10.4%	-0.6%	-0.3%	-0.4%	9.1%	0.0%	-0.8%	8.3%	9.9%	-1.6%	*-0.6%*

Source: Deutsche Bank estimates, company data
**Detail of our assumed B4 hurdle rates is in the capital quality section of the report.*
**Santander - our estimates exclude the benefit of +20bps to its FL CET1 ratio announced on 4 June 2015 relating to litigation provision releases in Brazil.*

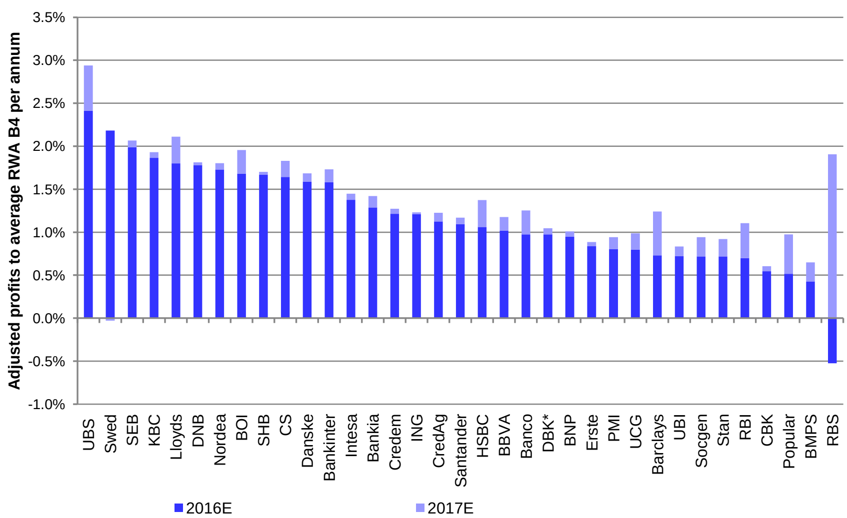
Stock calls and country summary

Many of our banks generate decent levels of capital to help compliance

We believe investors are likely to be more comfortable with stocks that are perhaps 100bp away from complying with Basel 4 in 2015 given that a) many of our stocks generate capital quickly with 2019 implementation; and b) our figures are before any management mitigation. In the two charts below we look at capacity to generate new capital and payout potential.

We look at capital generation by comparing adjusted net profit to average RWA B4. Some banks see a more meaningful uplift in profitability in 2017E.

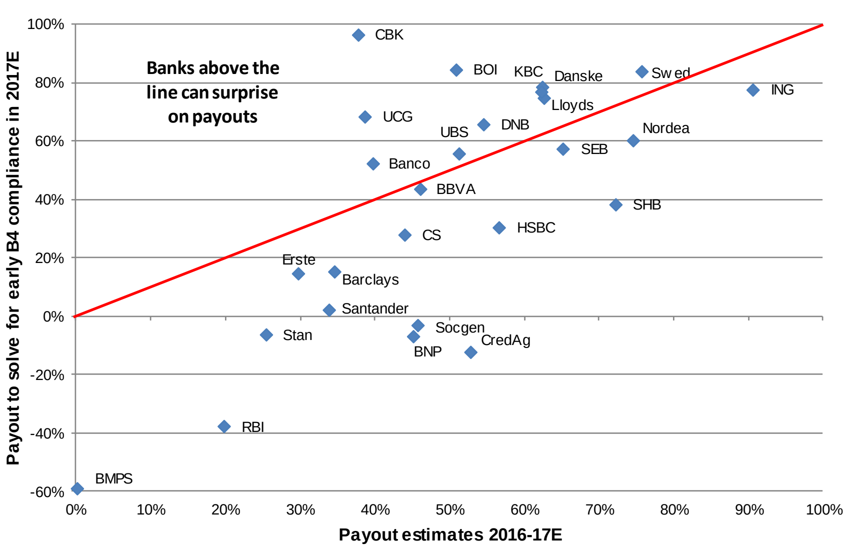
Figure 5: Per annum capital generation chart



Source: Deutsche Bank estimates

On the x-axis we show our 2016-17E payout. On the y axis we solve the payout for 2016-17E for Basel 4 and leverage ratio if we assume early end 2017 compliance. Banks above the red line could surprise on payouts before considering mitigation actions by management. Also note the solved payout is theoretical, and might be used for other purposes such as growth.

Figure 6: Solving 2016-17E payouts for 2017 B4 and leverage compliance



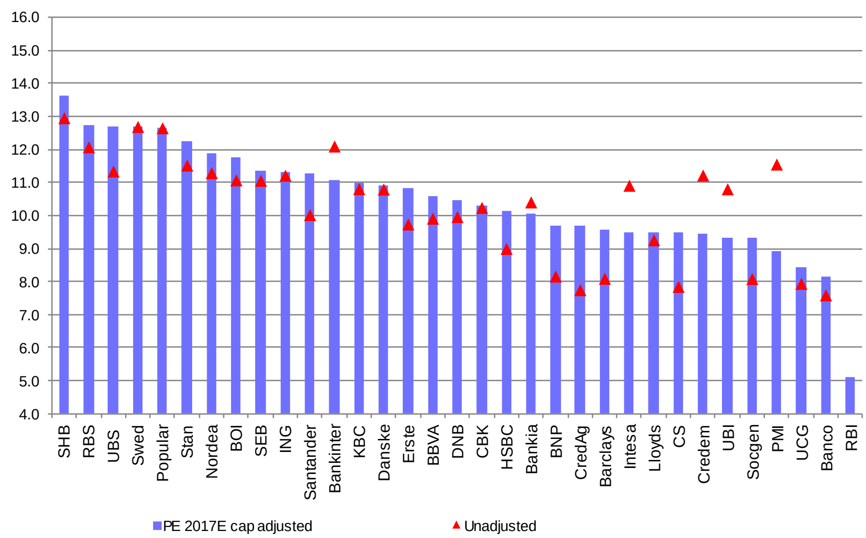
Source: Deutsche Bank estimates

Using capital-adjusted PE multiples as a valuation tool

The previous charts informed us on profitability and payout, but not valuation. Below, are PE 2017E multiples. We think investors should take an early look at 2017 given the market will look to roll forward in the second half. We adjust the PE multiple to take account of Basel 4 capital ratios.

Market will likely increase focus on 2017 earnings in the next few months.
Lloyds, Unicredit, Banco Popolare and Commerzbank look particularly attractive.

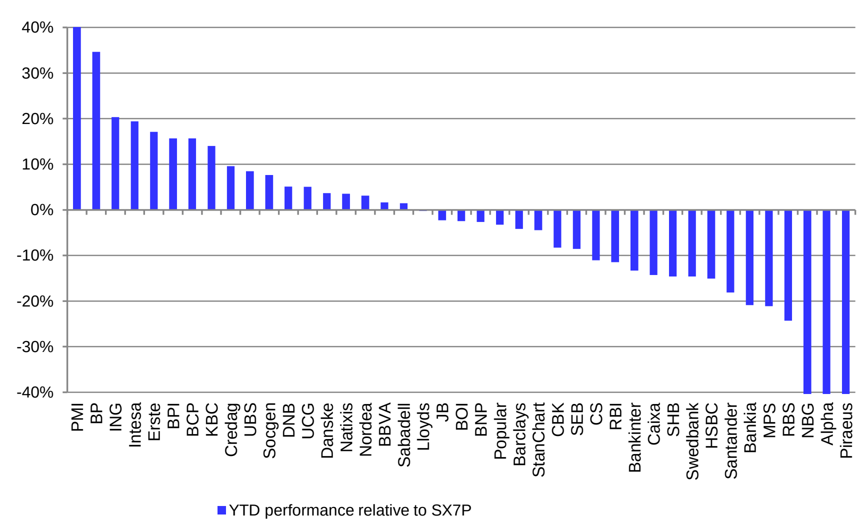
Figure 7: Basel 4 capital-adjusted PE 2017E



Source: Deutsche Bank estimates

We also show YTD performance in the chart below relative to the sector. **We want to catch stocks which; i) rank well on Basel 4 capital; ii) have potential to surprise positively on payouts as part of the "next wave"; iii) attractive valuations and iv) may have underperformed YTD** and may undergo a change of market perception as we get more colour from various banks on their expectations around regulation.

Figure 8: YTD European banks performance relative to SX7P

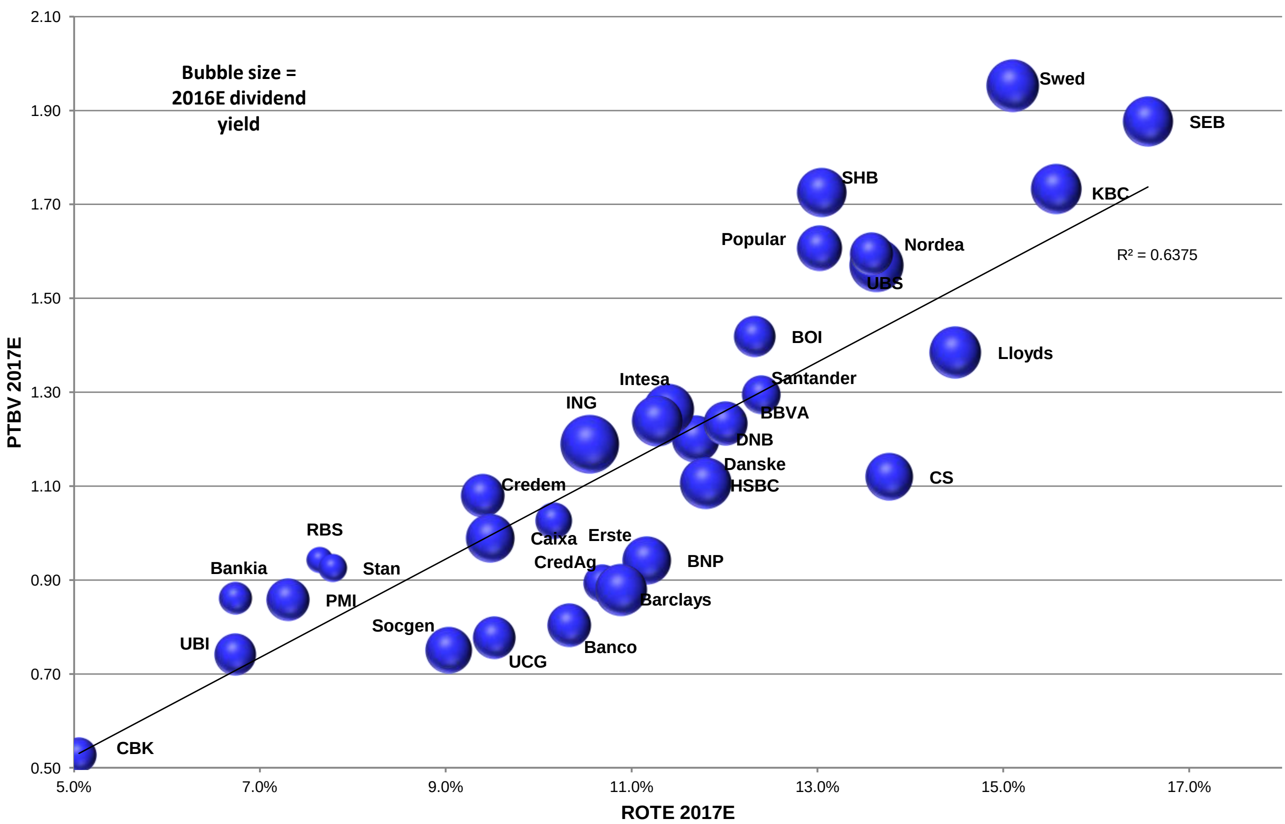


Source: Deutsche Bank, Datastream

Stocks that look well placed to move forwards (rather than those that may have already surprised) are Lloyds, Unicredit, Banco Popolare, Danske, SEB, Commerzbank and Bankinter:

- **Lloyds (Buy TP GBp 97)** – we think the bank is attractively valued, given capital generation well in excess of organic needs which should lead in time to a valuable flow of dividends. Under our B4 base case, we estimate CT1 would still be above 12% in 2017.
- **Unicredit (Buy TP EUR 7.7)** – UCG is a play on public QE, and macro recovery in Italy and Europe. Additionally, we see important company-specific upside potential from; 1) further de-risking and improvements in Italy; 2) German and Austria restructuring; 3) asset management focus; and 4) further cost cutting. We forecast a 10% CT1 B3 ratio for 2015 with limited B4 impact. Valuation on 2017E earnings also looks attractive.
- **Banco Popolare (Buy TP EUR 17.6)** – we see restructuring potential for Banco, especially now the capital increase and balance sheet clean up have been addressed. Banco still has a high stock of problem loans, but the new bankruptcy/ foreclosure rules in Italy should support NPL disposal. Our screening flags the stock is relatively well placed on Basel 4, but we would specify that we see potential for payout increase as theoretical since we see excess capital being used for Popolari banks consolidation.
- **Danske (Buy TP DKK 215)** – we think Danske is well placed for a Basel 4 world. While a buyback programme is in progress, ultimately we expect the ordinary payout policy to move to 75%.
- **Commerzbank (Buy TP EUR 14)** – after the ABB, CBK finally has a B3 CT1 above 10%. We think CBK looks well placed in our Basel 4 base case with 5% RWA inflation versus the sector average of 14%. Thereby the investment case has de-risked further, aside from non-core being smaller and starting to improve. This allows the bank to focus on benefiting from fee income tailwinds, loan growth and LLP. We also think the discounted valuation looks attractive.
- **Bankinter (Buy TP EUR 7.6)** – BKT has a focused business model on Spain and best in class CET1. Assuming a 11.5% threshold even, we think the bank can fund its organic growth, maintain a 50% payout, and look to accelerate capital returns to shareholder via buybacks. Our estimated 3% RWA B4 inflation supports this hypothesis. We also see good value in the general insurance subsidiary.

Figure 9: European banks ROTE and PTBV map



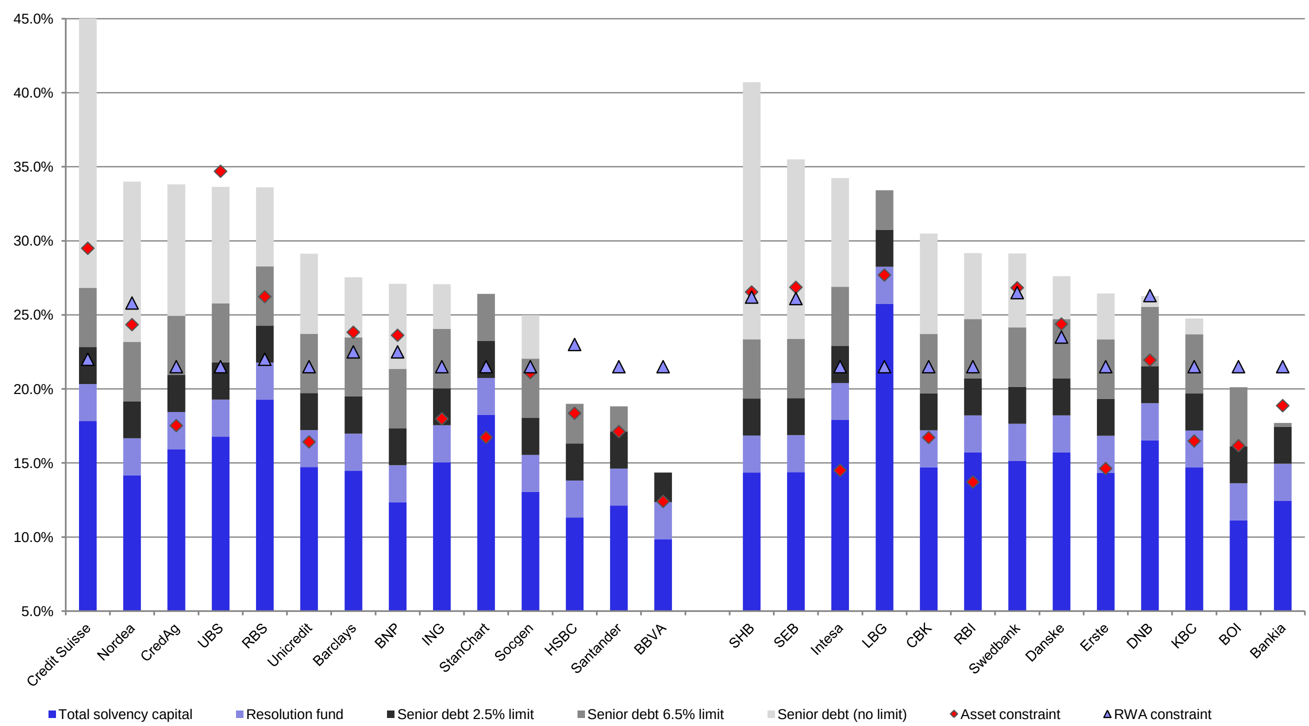
Source: Deutsche Bank estimates

Other Basel 4 implications such as TLAC

Basel 4 will likely increase our universe TLAC needs to EUR 800bn

One of the implications of Basel 4 is that it will increase capital requirements to banks where the RWA constraint dominates. We wrote about the TLAC proposals last year in our *10 November report TLAC: Opex and NII are the issues*. Broadly the principles are consistent, those with OpCo structures and less wholesale funding will face bigger challenges in meeting the proposed rules. For Swedish banks, while the asset constraint is still binding, the RWA constraint is now fairly equal. For the banks in the chart, TLAC needs over and above existing solvency capital are EUR 800bn. In dovish outcomes where all existing senior unsecured debt can count or be rolled over into bail in-able debt the actual TLAC deficit is closer to EUR 120bn.

Figure 10: Potential TLAC available and constraints (as a percentage of RWA B4) – 2015 estimates (G-SIB banks on the left hand side, other large European banks on the right)



Source: Deutsche Bank, company data

Basel 4 impact may be underestimated at UK ring-fenced entities

For the UK banks the two key sources of RWA inflation are credit risk and operational risk. For credit risk, a key area of focus is mortgages: average risk weights in the UK are well below the 35% standardised level – for 2013 we estimate that the average level was around 13%. For banks (such as Lloyds) where lower-risk weight mortgages form a large part of the balance sheet, this is the key source of credit RWA inflation. A key outstanding issue for the UK also remains how risk weight floors will be applied on UK ring-fenced entities, which are likely (by definition) to have a high proportion of mortgage assets (HSBC in particular could be affected by this).

Elsewhere, we estimate that the new operational risk weighting standards could have an impact for HSBC, RBS, Lloyds and Standard Chartered given the size of the revenue base at these banks. Barclays is the only bank on an advanced operational risk weight model at present and has already guided for higher risk weights here in Q2/Q3 2015. Overall, our estimates suggest that Barclays and RBS are least affected by RWA changed (7% and 9% inflation respectively), followed by HSBC (10%), Standard Chartered (14%) and Lloyds (24%).

Capital floors

"An integral component of the new capital framework"

Consulting on the design of a framework based on standardised approaches

CFOs have commented with Q1 conference calls that the Basel Committee is discussing setting capital floors in the range of 65-95%.

The document on the proposed capital floors was published in December (link here). This was born out of a drive to enhance reliability of risk-weighted capital ratios after observed variation between banks partly due to differences in internal models. Our analysis on the potential impact of capital floors in this report show it does exactly what it says on the tin. It reduces the level of observed variation in capital ratios across banks.

Basel views capital floors as integral to the capital framework

It seems clear from the Basel documents that a permanent floor is going to be introduced. The objectives of the floors are; 1) ensure level of capital in banks does not fall below a certain level; 2) mitigate model risk and measurement error; 3) address incentive-compatibility issues; and 4) enhance comparability of capital outcomes across banks.

Our base case is a risk-category based floor set at 75%

Our base case is a middle of the road method of risk-category based floor, though with a level set at 75%

The uncertainty is in the calibration. We have seen the transitional floors to Basel 1 have been set at 80%. Broadly there are three methods under consideration which:

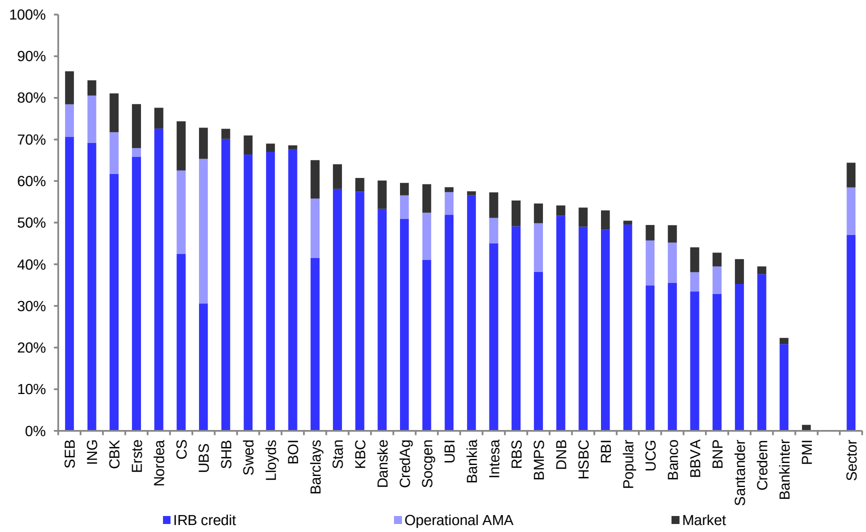
- **Aggregate RWA floor** – this applies a floor on total RWA. Though we think it might be seen as a weak argument why credit risk should offset market risk for example.
- **Risk-category based floor** – this sets floor by each risk-category (credit, market and operational). We would argue we are likely to get a category based floor. We see it as a middle of the road option and see little reason why the Basel committee would deem it suitable for high types of one risks to offset other low risks. It's also more a backstop rather than a granular intervention by portfolio.
- **Portfolio-based floor** – this would set floors by each credit risk portfolio as well, e.g. corporates, mortgages and so on. This would be the most bearish of the three as it is applied more granularly.

At the first quarter results, CFOs of two G-SIFIs confirmed the range of floors being discussed is 65-95%. In this report we work with 75%. Though not much lower than the 80% experience of transitional floors for the move from Basel 1 to Basel 2, it still implies banks can reduce their capital requirements by a quarter compared to the more risk-sensitive standardised approach as a reward for a more advanced risk culture.

Capital floors are relevant for banks with internal models

Capital floors are relevant for banks that make heavy use of their own internal models to calculate the riskiness of their balance sheet. Banks with most model use and the lowest risk weights are likely to be most impacted by capital floors. Most of our listed universe in the European banks sector makes heavy use of models. In the chart below, we show the proportion of capital requirements that is generated through the use of internal models (we assume this is IRB models for credit risk, AMA models for operational risk, and market risk). We estimate our listed universe generates roughly 65% of its capital requirements using internal models.

Figure 11: Proportion of capital requirements from model approaches (assumed to be credit risk on IRB + operational risk on AMA + market risk)

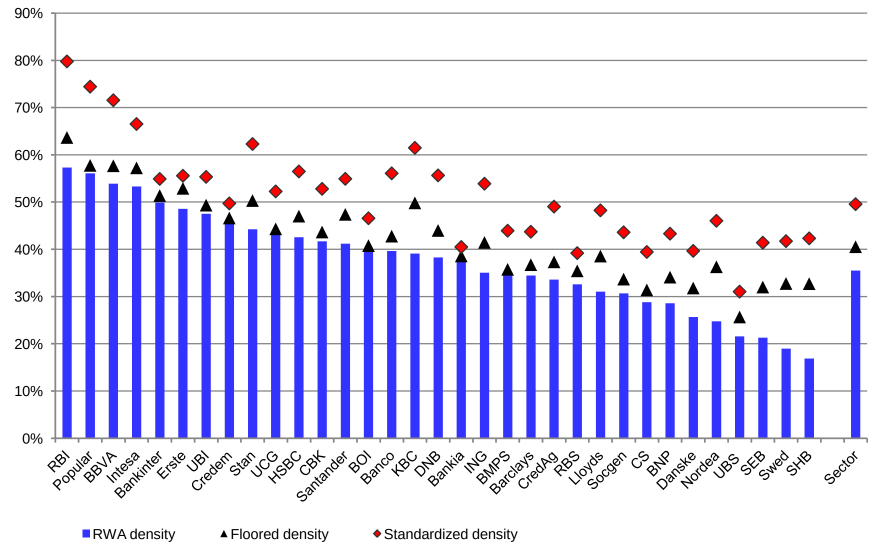


Source: Deutsche Bank, company data

Estimating the impact of capital floors on RWAs

To estimate the impact of capital floors on model banks, we must a) work out standardised RWAs under the new proposed methodologies – which we tackle in this note; and then b) estimate the RWA inflation from setting a risk-category based floor at 75%. Banks whose model RWA are more than 25% below the standardised figure will see some inflation. We show below current risk weight densities, and what inflation we can expect from the floor. Bank by bank detail can be found in the later sections of this report.

Figure 12: Impact of Basel 4 package and capital floors on current RWA density in 2014 (RWA density = RWA B3: leverage assets)

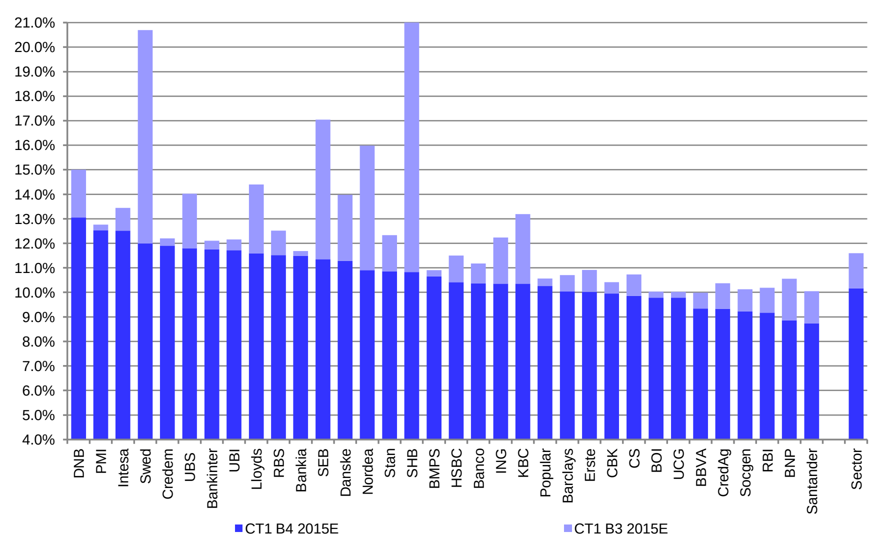


Source: Deutsche Bank, company data

Estimating the impact of capital floors on RWAs

Using RWA inflation from our framework, we show in the chart below how Basel 4 core tier 1 ratios would look pro forma for 2015 before management mitigation actions. Basel 4 would reduce the sector core tier 1 ratio by 1.4% from 11.6% to 10.2%.

Figure 13: Pro forma 2015 core tier 1 ratios for "Basel 4" package

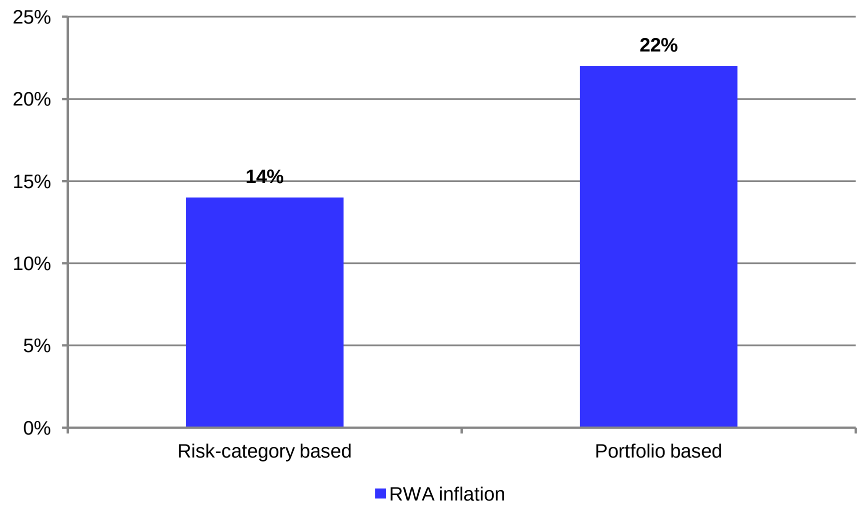


Source: Deutsche Bank estimates

Our base case is a risk-category based floor set at 75%

We discussed above that our base case is a risk-category based capital floor set at 75%. Though for completeness we outline in the chart below how the outcome could be different under a more granular portfolio based floor. The more granular level that the floors are applied, then the less offsetting that can happen between buckets.

Figure 14: European banks RWA inflation from Basel 4 under different capital floors methodologies



Source: Deutsche Bank estimates

Model risk could lower CT1 by an extra 0.6% in Europe

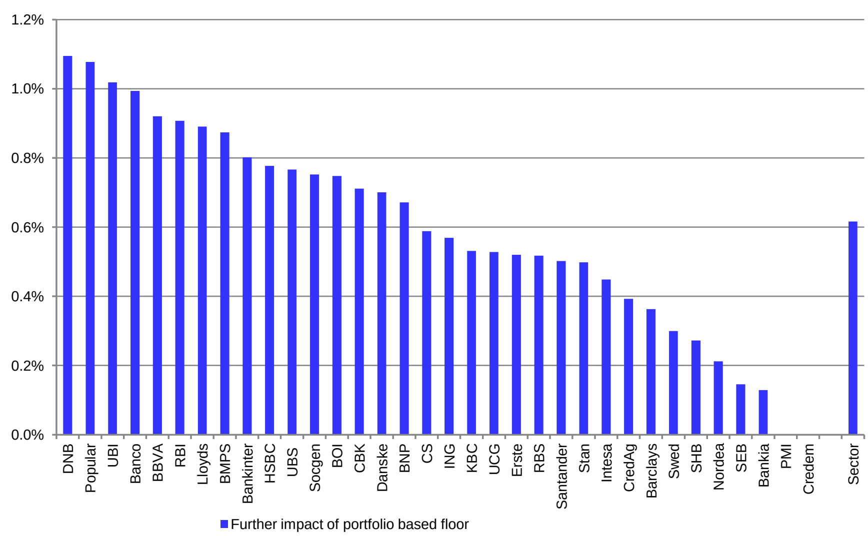
Scope for model risk correction by comparing to standardized

An interesting piece of feedback from our discussions with management teams is that the impact on RWA from model risk could be a more pressing concern for some. The reason for this, is that while Basel 4 and capital floors implementation is not likely before 2019, national regulators and the ECB could move ahead of time in pushing outliers in modeling to raise their RWA.

Last year, in our *9 June report Truth in Advertising* we assessed in detail where there could be anomalies in model parameters such as PD and LGD. We assessed that model risk could trap EUR 50bn of additional capital.

A good way to think about the scope for RWA inflation in the 2016-2018 period from model adjustments and before capital floors implementation is to think of how RWA on granular portfolios would increase if standardised rules applied. We show this in the chart below. The bars represent the additional impact of the portfolio based floor over the risk-category based floor. Interestingly this would be a 0.6% impact on sector core tier 1 which is EUR 50bn as well.

Figure 15: Additional impact on CT1 ratios of using a portfolio based floor (2015E)



Source: Deutsche Bank estimates

Credit Risk

Key points

- Overall, we expect the proposals to lead to a 7% increase in credit RWA in the sector. We expect the credit risk proposals and capital floors to account for c40% of the total RWA inflation of 14% that we forecast for Basel 4 in the sector.
- In December 2014, the BCBS announced its proposed revisions to the standardised approach for calculating the "riskiness" of banks' lending books.
- The broad principles of the revisions are 1) less reliance on external credit ratings; 2) more risk sensitivity to the standardised approach; and 3) less national discretion.
- Under the proposed new method, banks will have to determine the risk weights for their senior corporate exposures according to the obligor's revenue and leverage
- For corporates, we expect highly rated corporates (AAA to A-) will see increases in risk weights. We think most unrated healthy SMEs will see corporate risk weights either unchanged at 100% or see some slight improvement of c10-20%. Leverage SME will see high increases in risk weights.
- We look at how European countries rank in terms of leverage and SME importance. By country, we could expect corporate risk weights in Europe under the proposed standardised method to range from 65% in Switzerland to nearly 80% in Italy.
- Broadly we expect limited change to standardised risk weights for mortgages (currently at 35%).
- Under the proposed new method, the mortgage risk weight will be determined according to the exposure's loan-to-value (LTV) ratio. This would set a risk weight between 25% and 100% (currently 35%).
- For mortgages, we would expect standardised risk weights of 35% to be more or less unchanged for most countries. This is driven by our analysis of banks' LTV distributions where data is available. We expect higher risk weights in Netherlands and Ireland where LTVs are high. We expect lower risk weights in Switzerland and Sweden where LTVs are low.

Proposed revisions to the standardised approach

Less reliance on external ratings and more risk sensitivity

On 22 December, the Basel released a consultative document titled "Revisions to the standardised approach for credit risk" (link here). As previously communicated in various policymaker speeches and documents, Basel said it would take measures to reduce variability in how banks assess risk weights. The broad principles of the revisions are 1) less reliance on external credit ratings; 2) more risk sensitivity to the standardised approach; and 3) less national discretion.

In the table below we summarize the standardised risk weights for various types of exposures under Basel 1, Basel 3, and under the proposed revisions.

Figure 16: Consultative document for standardised approach for credit risk

	Basel I Previous domestic standard	Basel Ⅲ Current domestic standard (FSA)	Basel Ⅲ Consultative document
Claims on sovereigns and central banks	0%	0～150% according to external credit rating	0～150% according to external credit rating
Exposures to banks	20%	20～150% according to external credit rating	30～300% accoring to CET1 ratio and NPA ratio
Exposures to corporates	100%	20～150% according to external credit rating	60～300% according to Leverage and Revenue
Mortgages	50%	35%	25～100% according to LTV and Debt Service Coverage ratio
Other retail exposures	100%	75% or 100%	75% or 100%

Source: Deutsche Bank, BCBS

In the following sections, we explore how corporate and mortgage risk weights primarily may change under the new proposals.

Corporate risk weights

Old approach – reliant on external credit ratings

The old approach to calculating standardised risk weights for corporate exposures relied on external credit ratings. They generated risk weights ranging from 20% for AAA exposures to 150% for exposures below BB-.

Figure 17: Corporate exposures – current standardised risk weighting method

Credit assessment	AAA to AA-	A+ to A-	BBB+ to BB-	Below BB-	Unrated
Risk weight	20%	50%	100%	150%	100%

Source: Deutsche Bank

New method to calculate corporate risk weights

Under the proposed new method, banks will have to determine the risk weights for their senior corporate exposures according to the obligor's revenue and leverage in accordance with the table below. To calculate leverage and revenue, banks will have to use the obligor's year-end accounts for the most recent financial year available.

Figure 18: Corporate exposures – proposed standardised risk weighting method

		Revenue			
		below €5mn	€5mn-€50m	€50mn-€1bn	above €1bn
Leverage	1-3x	100%	90%	80%	60%
	3-5x	110%	100%	90%	70%
	above 5x	130%	120%	110%	90%
	Negative equity	300%	300%	300%	300%

Source: BCBS

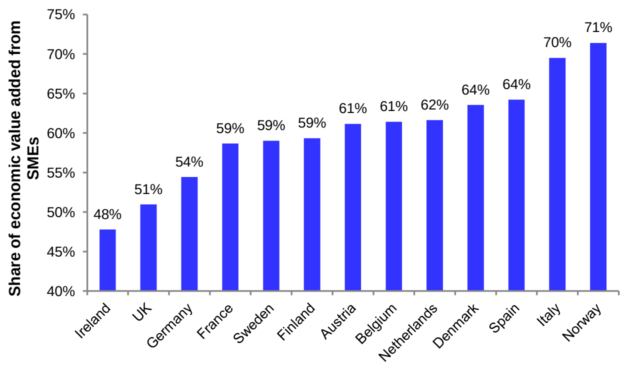
Highly rated corporates likely to see increases but not necessarily good SMEs

A large AAA to AA- corporate will likely see and increase from 20% to 60%, A+ to A- will see a little increase, BBB+ to BB- with low leverage will see some decrease. SMEs likely to be unrated and carrying a 100% RW could either see no change to capital requirements if revenues are below EUR 5m, to decreases in requirements to 90% or 80%. However highly levered SMEs will likely see meaningful increases in risk weights.

Calculating new standardised risk weights for corporates by country

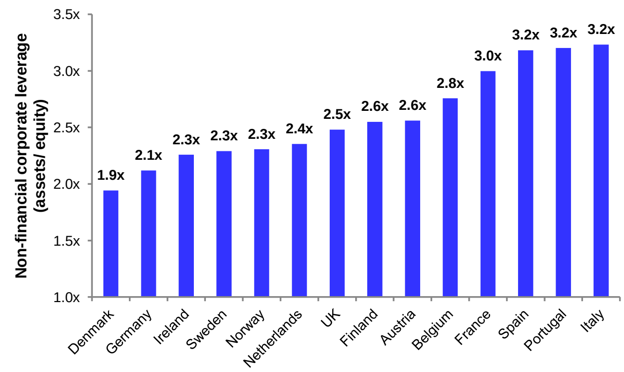
Granular bank by bank data for the revenues and leverage of their corporate exposures is not available. As such we must approximate using high level system data. We believe this will at least give us a good feel of how corporate risk weights can differ between countries under the new rules. In the two charts below, we show; i) metrics of small business importance (share of value added from SMEs); ii) measure of corporate leverage by country.

Figure 19: Measure of small business importance



Source: Deutsche Bank, EU

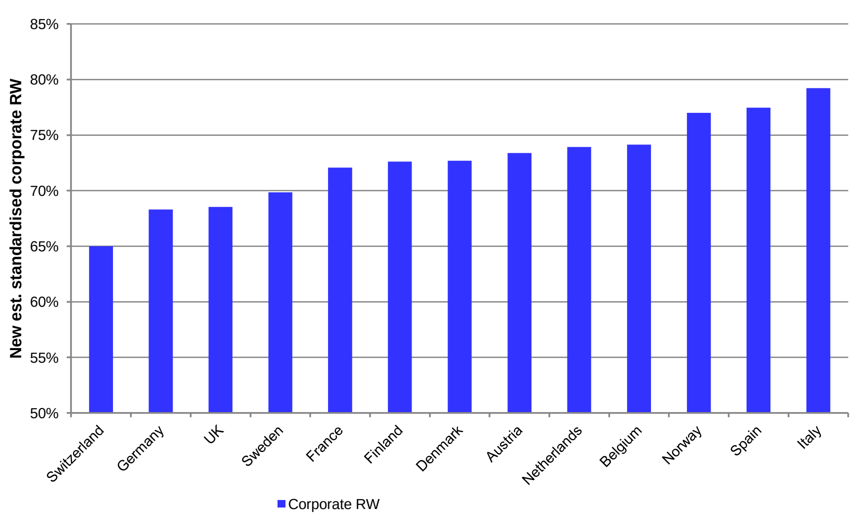
Figure 20: Measure of corporate leverage



Source: Deutsche Bank, Bloomberg

This allows us to at least create an ordinal ranking between different countries. We can rank the countries on SME importance and leverage. We can then use the proposed new matrix to get the countries in the right order. Under the proposals, we believe new standardised corporate risk weights will range from c65% in Switzerland and could be close to 80% in Italy.

Figure 21: Estimated new corporate risk weights by country

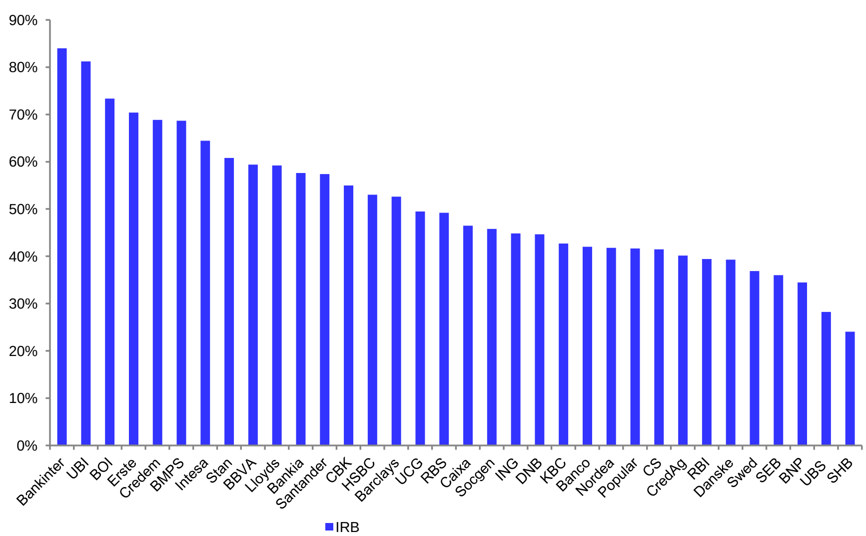


Source: Deutsche Bank estimates

Estimating standardised risk weights needed to calculate floored risk weights

The banks in our universe use the IRB approach (model approach). Given; i) we know what the IRB corporate risk weights are for each bank from pillar 3 data; and ii) we have a good feel of new proposed standardised corporate risk weights by country, we can use this to see which banks will be corporate by capital floors in their corporate loan books. In the chart below, we show the IRB corporate risk weights for banks in our universe.

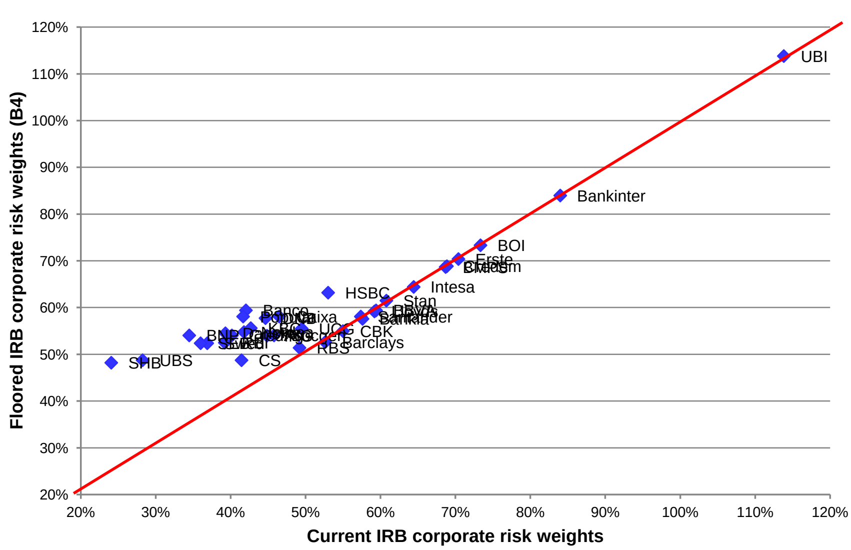
Figure 22: Current IRB corporate risk weights



Source: Deutsche Bank, company data

In the chart below we show the current IRB risk weights on the x-axis. On the y-axis we show what the new risk weight would be when applying a 75% capital floor. Under these conditions, generally banks will have some impact if their IRB corporate risk weights are below c50%. The fact that we have introduced some sensitivity for nationalities into our methodology creates results that to us make sense. SHB and UBS would still have among the lowest corporate risk weights in the sector, despite the greatest amount of inflation.

Figure 23: Current IRB corporate risk weights versus floored



Source: Deutsche Bank, company data

Italian banks association position paper

The Italian banks association (ABI) published an interesting position paper on these proposals[1]. Their key conclusion is that the revision of the standardised approach is very penalising for SME exposures. Clearly, this topic is critical for the Italian banks and for Italy in general, given the relevant weight of SMEs in the Italian economy.

In particular, in answering the proposal, the ABI argues that in Italy there is no correlation between size and risk, while there is correlation between leverage and risk. This evidence comes from a CRIF survey of 400k corporations from 2010 to 2014. Therefore, the ABI proposes the risk weight patterns that we report in Figure 24.

Figure 24: Italy – ABI proposed corporate risk weights, no correlation between size and risk, and correlation between leverage and risk

	Revenues (Euro m)			
	<5	5-50	50-1000	>1000
Leverage 1-3	100%	65%	65%	55%
Leverage 3-5	110%	90%	90%	90%
Leverage >5	130%	105%	100%	100%

Source: ABI, Deutsche Bank

The ABI also underlines that, while the IRB models allow a preferred treatment for SMEs, the standardised model would adopt an incoherent view on the same exposures with higher RW for smaller corporate clients which seems incoherent.

Mortgage risk weights

New method to calculate mortgage risk weights

The proposals are likely to lead to lower standardised mortgage risk weights in Switzerland and Sweden, higher risk weights in the Netherlands and Ireland, everywhere else more or less unchanged around 35%.

Under the proposed new method, the risk weight applicable to the full exposure amount will be assigned, as determined by the table below, according to the exposure's loan-to-value (LTV) ratio, and in the case of exposures to individuals, also taking into account the debt service coverage (DSC) ratio. Banks will not be able to tranche their exposures across different LTV buckets; the applicable risk weight will apply to the full exposure amount. A bank that does not have the necessary LTV information for a given residential real estate exposures must apply a 100% risk weight to such an exposure.

Higher standardised risk weights likely in Ireland and the Netherlands lower in Switzerland and Sweden

Standardised risk weights for mortgages under the current rules are 35%. Banks with weighted average LTV round about 50-60% will probably see risk weights of around 35% unchanged – possibly lower or higher depending on the distribution. Swedish and Swiss banks are likely to see lower standardised risk weights of under 30% due to high stock of low LTV loans. Netherlands and Ireland are likely to see increases in standardised risk weights due to a higher proportion of high LTV loans.

[1] https://www.abi.it/DOC_Mercati/Rischi/Rischio-Credito-e-Sme-Sf/PP_ABI_revisione_metodi_standard_marzo2015.pdf

Some countries could see meaningful house price inflation before 2019

Likely implementation of the new rules would be in 2019, by which time we could have seen a few years of house price inflation. As such some of the mortgage risk weights could certainly come down but look unlikely to be much lower than 30%.

Figure 25: Mortgages – proposed standardised risk weighting method

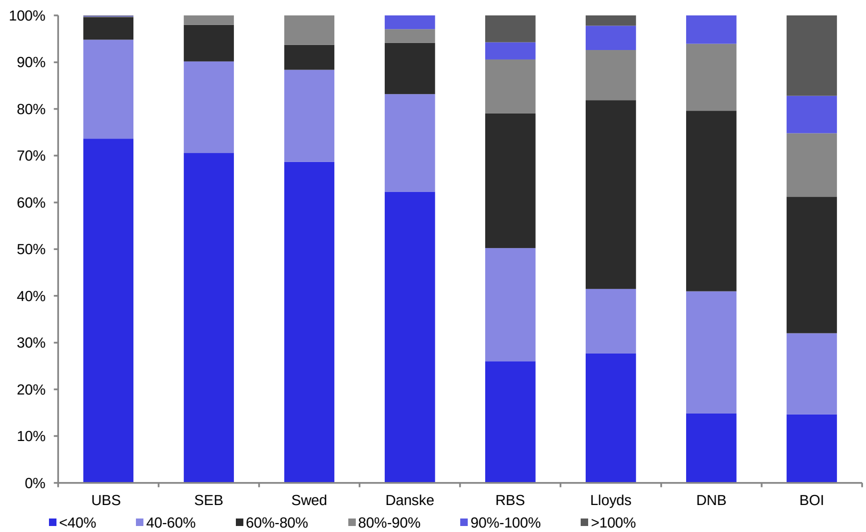
		LTV					
		below 40%	40-60%	60-80%	80-90%	90-100%	above 100%
DSC	less than 35%	25%	30%	40%	50%	60%	80%
	more than 35%	30%	40%	50%	70%	80%	100%

Source: BCBS Note : DSC = Debt Service Coverage ratio

Estimating mortgage risk weights by distribution of LTV by bank

We can calculate the new standardised mortgage risk weights for each bank if we know the LTV distribution. As can be seen from the table above, this is the input with most influence over the risk weight outcome. In the current rate environment, most coverage ratios are likely to be low. However not all banks provide this information. Switzerland and Sweden look to have the best LTV distribution while Ireland and the Netherlands have the worst.

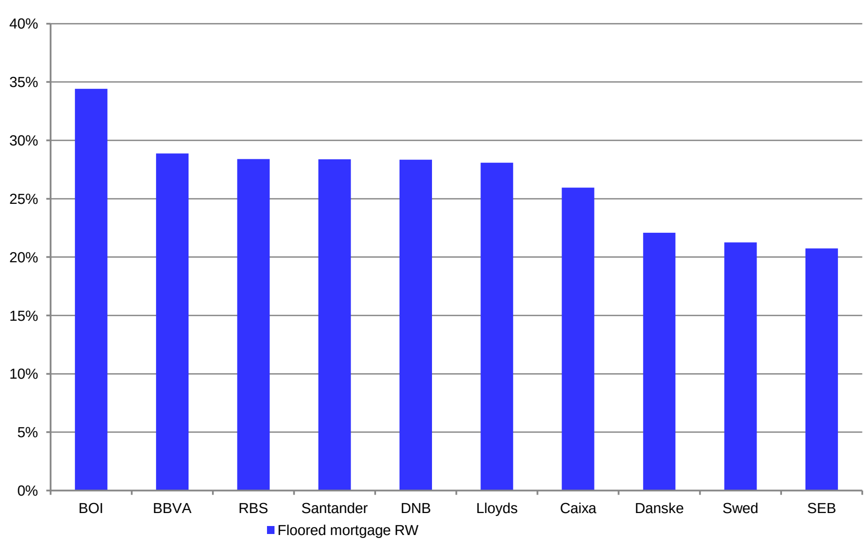
Figure 26: Examples of mortgage LTV distribution by bank



Source: Deutsche Bank, company data

Below are the floored risk weights. While the method would generate Swedish mortgage risk weights of 20%, the regulator already imposes a 25% floor.

Figure 27: Mortgage risk weight with 75% capital floors



Source: Deutsche Bank

Market Risk and FRTB

Key points

- Banks can be thought of as having assets in their trading book (for trading) or their banking book (assets they might intend to hold to maturity as part of ongoing retail or commercial banking business). The split between these two has in the past been subject to regulatory arbitrage.

*We wrote about Market risk and FRTB extensively in our report **9 April F.I.T.T. for investors, Driving change at Credit Suisse: the FRTB and RWA inflation**.*

- So far, regulators have spent a lot of time on the composition of capital (CET1 versus T1, deductions) and on credit risk (floors, changes in weightings), but little time on the calculation of RWAs from the trading book of banks.
- In May 2012 the Basel Committee of Banking Supervisors announced its latest review, the Fundamental Review of the Trading Book. In broad terms, we expect the FRTB to increase the RWAs for the trading book from internal model approach (IRB), but to decrease the RWAs for the trading book under the standardised approach.

Basel 2.5 established the incremental risk charge supplement, and stressed VaR. The first QIS on the FRTB indicated market RWA inflation could be c60%.

- In this section of the report, we briefly outline what we see as the key changes from the FRTB for internal models based banks, and why they matter. We expect a substantial increase overall in RWAs from the Trading Book, especially from Fixed Income, Currencies and Commodities (FICC) RWAs.
- We estimate an overall 50% increase in FICC RWAs, but within this, we see particularly large increases for credit RWAs and securitisation RWAs, which could be as high as 100%. In contrast, we expect a modest reduction in RWAs for equity RWAs.
- Another big change is that diversification will be allowed to a modest extent under the standardised approach for calculating trading risk. This will narrow the gap between IRB and Standardised Approaches, but is less relevant for the large banks in our coverage universe, which use the IRB approach almost exclusively.
- We expect the requirements of the FRTB to become binding on the banks from 2018, still some way off. But as with all regulation, we expect investor attention to increase before this date, and management teams will likely make decisions on affected businesses once the final rules are set, probably in 2016.
- Among the banks we make a more detailed analysis for of market RWA inflation, we expect French banks to fare worst, and UK banks best. This is in a large part due to absence of a framework currently for risks not in VAR (RNIV), and most reliance on models for calculating market risk.

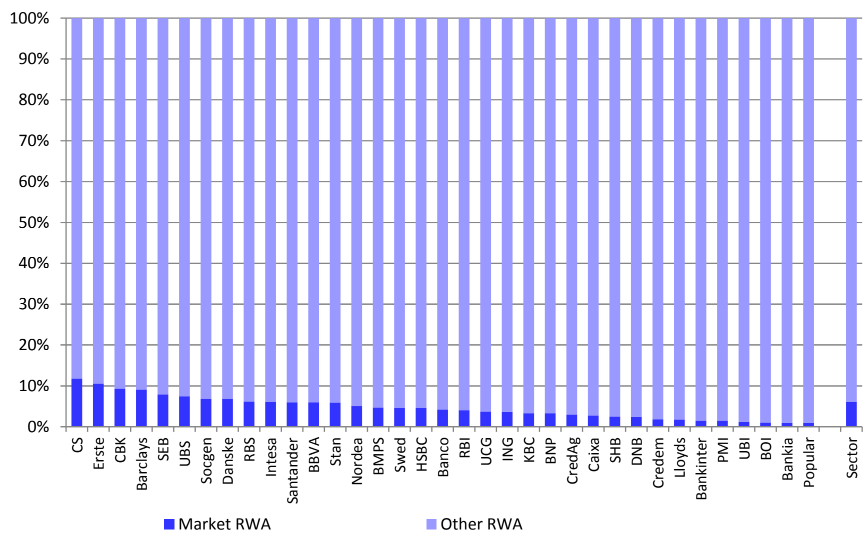
Among banks we look at, French banks likely to fare worse than the mean, and UK banks better than the mean.

Market risk versus credit risk: a problem

Top down – not enough capital set against market risk

Banks face risks across a number of categories, and need to set capital against each of those risks. A key problem with the current Basel framework is that – top down – not enough capital is set against market risk. We can see this by looking at the range of market risk RWAs versus credit risk and operational risk in the chart below. We find it implausible that 6% of the "riskiness" of the largest European banks comes from market risk.

Figure 28: Role of Market Risk RWAs within total weighted average of just 6% of RWAs from Market Risk



Source: Deutsche Bank chart based on bank end-2014 data

Regulators find this implausible as well. There have been some modifications to the basic Basel II Framework for capturing risk in the trading book, notably those announced in 2009[2], also known as Basel 2.5:

- Improvements to capturing migration risk and default risk (via the incremental risk charge or IRC).
- Tougher rules for securitizations
- The addition of Stressed VaR to existing VaR based measures of capital requirements.

Basel III increased the amount of capital held against trading risks indirectly

Later on, Basel III also increased the amount of capital held against trading risks indirectly, by increasing the amount and quality of capital banks would have to hold against any given risk.

But overall, even post Basel III, BCBS ratios still do not adequately capture the risks from trading. And the leverage ratio is no help either in capturing trading risks that do not always generate period-end assets. This has led to the Basel Committee proposing its Fundamental Review of the Trading Book, with

[2] http://www.bis.org/publ/bcbs/basel2enh0901.htm and http://www.bis.org/press/p090713.htm

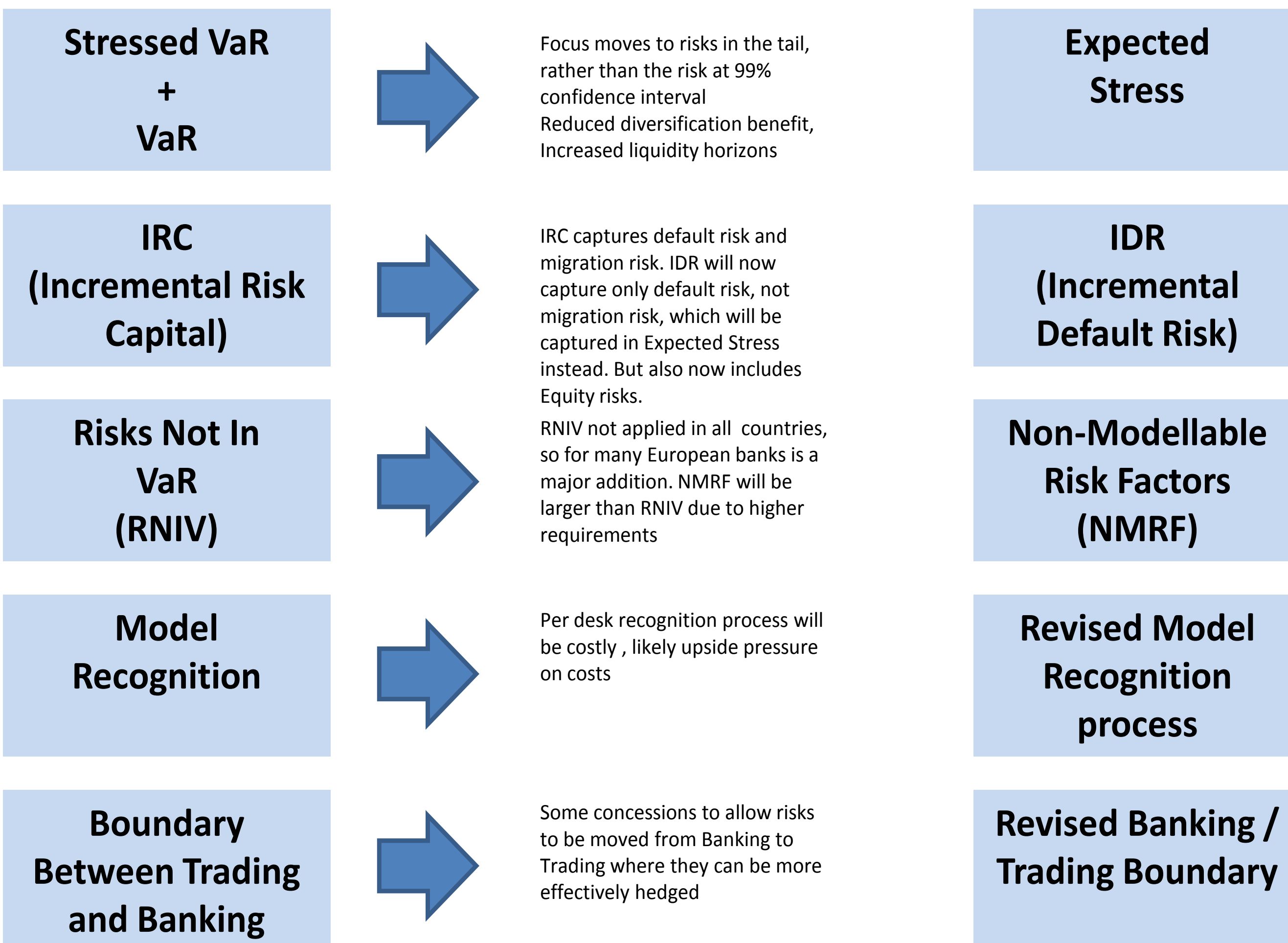
substantial revisions to both the building blocks of market risk RWAs, and the methodological underpinning.

We look at the changes in the building blocks in the next section.

Changing the building blocks

The BCBS has issued a number of discussion papers on the FRTB, and as a result, we have a good idea of the new framework. Below we summarise the key new building blocks in chart format.

Figure 29: **From current trading book rules to the FRTB view of trading RWAs**



Source: Deutsche Bank graphic

In simple terms, the changes that will be most painful for the banks are:

- **The extended liquidity horizon**. Under simple assumptions, VaR and hence RWAs and capital requirements vary with the square root of the number of days in the holding period. VaR holding periods were a standard 10 days, but will increase to 75 days or more under the new approach for instruments like illiquid credit.

VaR holding periods were a standard 10 days, but will increase to 75 days or more under the new approach for instruments like illiquid credit

- **The loss of full diversification benefits**. Many banks reduce their trading book RWAs from VaR by 50% or more via diversification benefits. These will be capped with a rho of 0.50, i.e. diversification benefits will be halved.
- **The practical costs of requiring desk level model approvals**. Although not always top of investor minds when thinking about RWAs, the actual costs involved in desk-level recognition of internal trading models will be high (most major banks will have under 100 regulatory trading desks, but this is still a large difference versus firm-level approval). This will add to the narrative of rising compliance costs.

Bringing IRB and Standardised closer together

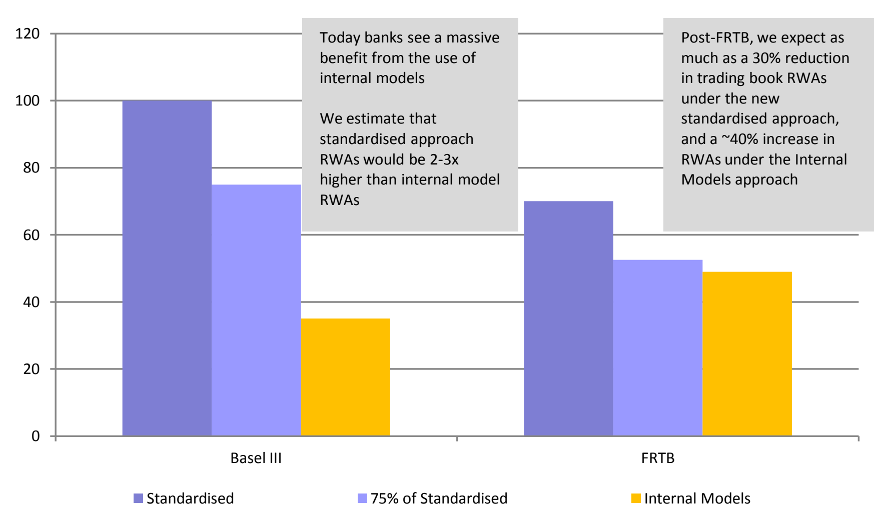
We also see some common themes in the BCBS' current initiatives, especially around bringing IRB approaches and the Standardised approach closer together.

Our working assumption is that there will be a floor versus standardised risk weights of 75%

One obvious mechanism for this is the establishment of floors on RWAs at a set level of the standardised approach. This was set out in a recent BCBS paper, and our working assumption is that there will be a floor versus standardised risk weights of 75%. This will have a marked impact on highly-rated corporates and low risk mortgages, which should see very low risk weights under a modeled approach, but will see these weights floored at 75% of the standardised risk weighting.

With trading risk, we see an additional form of convergence. Although not the focus of this report, the standardised approach to trading risk will also be overhauled, allowing for example diversification for the first time. Effectively, the standardised approach will become a more credible alternative to the internal models approach.

Figure 30: **Convergence between Standardised and Internal Model RWAs**



Source: Deutsche Bank

At the industry level we forecast around a 40% uplift on existing trading book RWAs for banks operating under the Internal Models approach. For banks operating under the standardised approach, we expect a meaningful benefit, implying that the total amount of capital in the system may not change too much (albeit we still expect an aggregate increase).

At the industry level we forecast around a 40% uplift on existing trading book RWAs

QIS: what have we learned, what has the BIS changed

Analysing the results of the first QIS

The Basel Committee routinely engages in Quantitative Impact Studies (QIS) with the banks, to road-test what the results of changes in regulation might be. For the FRTB, three QIS will have taken place, two in 2014, and one in early 2015.

So far, we have only seen results from the first QIS, which asked the banks to model the impact of the FRTB on a series of hypothetical portfolios. The BIS asked the banks to model the impact of the FRTB proposals on portfolios of equity risk, interest rate risk, commodities risk, FX risk, and a number of portfolios including mixed asset classes. 41 banks from 13 countries took part.

So far, we have only seen results from the first QIS

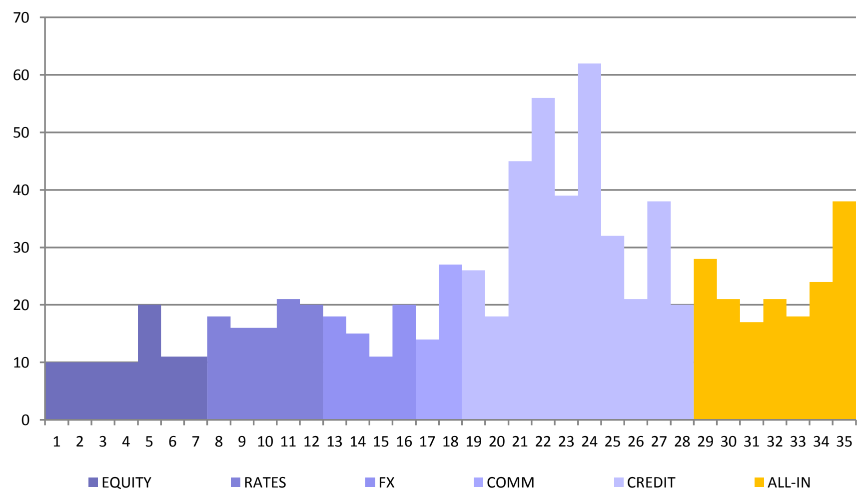
The QIS reached the following conclusions.

- Constraining diversification increases the absolute amount of capital requirements and increases the variability of capital requirements from IRB, as measured by different banks. *In isolation*, for the largest portfolio, the difference between rho of 0 (no diversification) and 1 (full diversification allowed) was a 35% reduction in expected stress. Conversely, going from rho of 1 (as currently allowed) to 0 would increase capital by 54%, and with rho set to 0.5, presumably would increase capital required by 30%.
- Banks delivered the most variation in their IRB measurement of capital requirements in equity and credit spread portfolios. So the same portfolio creates different capital requirements, depending which bank owns it. The FRTB does not seem to have eliminated this core problem with IRB approaches.
- The move from VaR plus SVaR to ES results in additional capital increases. We think that the bulk of this will have come from the increased liquidity holding periods. *In isolation*, for a large diversified portfolio, the extension of liquidity requirements increases the risk measure (and presumably capital required) by 67%.
- The additional capital requirements from non-modellable risk factors (NMRF, the replacement for RNIV) were generally small.
- The additional capital requirement from IDR was also generally small, especially for rates, equities, FX and commodities, but quite large for credit. For sovereign CDS trading, the IDR was especially large as an add-on (likely because the incremental credit risk on the counterparty trading sovereign CDS is bigger than the sovereign credit risk).
- The overall capital increase for a diversified portfolio is around 60%.

There is, however, a lot of variation by asset classes. Focusing on liquidity horizons as the biggest determinant, below we summarise the liquidity horizons for different products. By far the biggest increase applies to credit, with the single largest being single-name CDS, a business area we expect to fall away almost completely.

By far the biggest increase applies to credit

Figure 31: **Liquidity horizons (in days holding period) by type of portfolio: Credit is by far the worst affected**



Source: Deutsche Bank

Another crucial point from the QIS is that several lucrative areas of FICC sales and trading are excluded. The "riskiest" part of FICC in the QIS is credit, but the type of credit dealt with is all investment grade.

Figure 32: **Basel Committee QIS: credit portfolio characteristics**

Portfolio	Instruments	Risk Increase vs 10 day
19 Credit	Short Sovereign CDS (all G10)	61%
20 Credit	Long Sovereign CDS (all G10)	34%
21 Credit	Short financials CDS (all IG)	112%
22 Credit	Short index CDS	137%
23 Credit	Short concentrated index portfolio (IG)	97%
24 Credit	Short corporate CDS (all IG A- to AA)	149%
25 Credit	Index basis	79%
26 Credit	CDS bond basis	45%
27 Credit	Short index put on iTraxx	95%
28 Credit	Quanto CDS on Spain with delta hedge	41%

Source: Deutsche Bank

In other words, High Yield and Emerging Markets, which would certainly have even higher liquidity requirements, are not even included in the QIS. We would expect liquidity horizons for these portfolios to be very high indeed (although not more than one year, which we think the BCBS sees as a practical ceiling for liquidity horizons).

High Yield and Emerging Markets, which would certainly have even higher liquidity requirements, are not even included in the QIS

How has the BIS responded

Following the first QIS, the BIS did make a number of concessions. These were:

- The BCBS proposed to allow some **transfers of risk from the banking book** to the trading book more easily. The rationale for this was that some banking book risks need to be hedged, and that it would be more optimal for the trading book to do so. In this situation, two hedges would be undertaken, one internally (to move the risk to the trading book), and one to move the risk outside the bank. The BCBS is proposing to allow Internal Risk Transfers or IRTs for credit, equity and general interest rate risk. This is an important technical concession, but not too important for our analysis (we can simply assume that the BCBS will avoid accidental RWA inflation from IRTs).
- Further modifications were made to **the revised standardised approach**. This was originally intended to be based on cash flows, without sophisticated measurement of market risk. The revised standardised approach also allows diversification within asset classes, whilst excluding it fully between asset classes. The latest BCBS proposals provide an alternative sensitivity based approach to the cash flows approach. They also modify the treatment of basis risk and vega risk. Overall, though, the net effect will still be a reduction in RWA requirements from the standardised Approach. This is less relevant for the large banks in our coverage universe that mainly use internal models.

The net effect will still be a reduction in RWA requirements from the Standardised Approach

- Most importantly, modifications were made to **the treatment of market illiquidity and liquidity horizons**. This is important because greater liquidity horizons were a key reason for the increase in RWAs under the IRB. But the changes were mostly modest and related to macro products. The liquidity horizon was reduced from 20 days to 10 for domestic currency interest rate risk, and liquid currency FX pairs. Interest rate risk in other (non-domestic) currencies was reduced from 60 days to 20 days. This excludes, however, ATM volatility rate risk and which stays at 60 days. These changes are modest, except for very macro-heavy FICC franchises.

The changes to liquidity horizons were mostly modest and related to macro products

Overall, we view the BCBS' changes to the FRTB in the latest discussion paper as modestly helpful, but probably not doing much to reduce the overall level of RWA increases we will see in the large banks' trading books.

What do we conclude?

Our conclusions from looking at the latest (December 2014) proposals and the QIS results are as follows. These then inform our thinking about individual bank analysis.

- The BCBS has stated that it does not overall seek an increase in the amount of capital held against trading book risks
- We think the increase in RWAs in the IRB banks will be compensated for by decreased RWAs by banks using the standardised approach
- The BCBS does appear to be willing to make concessions, and we think there will be further concessions following the second and third QIS
- But we still think that overall, there will be a clear increase in RWAs in the trading book for IRB banks. We think this increase will be between 20% and 50%, with a markedly higher increase both for banks with a focus on credit risk, as opposed to macro franchises (rates and FX), and also for banks that rely heavily on diversification.

We still think that overall, there will be a clear increase in RWAs in the trading book for IRB banks

Using Pillar 3 disclosures to model the impact

To model the impact of the FRTB on individual banks we can use Pillar 3 disclosures. The trading book / trading portfolios capital charge at present is built up from a number of components, and each of these will either be replaced or supplemented as part of the FRTB. The table below provides a summary of the key changes.

Figure 33: **Summary of FRTB changes by building block**

Category	FRTB changes	Comments
RWAs from the Standardised Approach	The methodology for the Standardised Approach will be updated and brought closer to the IRB approach	We expect a reduction in RWAs from the Standardised Approach, as the FRTB introduces diversification within asset classes
RWAs from VaR x3 RWAs from Stressed VaR x3	Replaced with Expected Stress x3.	We expect a substantial increase in RWAs from the expansion of liquidity horizons. This varies by VaR category (see below)
Loss of diversification benefits	As a second order effect, diversification will be capped with rho = 0.5 instead of 1.0	We halve the diversification benefit available to banks
Incremental Risk Charge	The basic concept of incremental risk charges to cover migration risk and default risk will not change, although the calculation will change	We do not expect a marked increase in RWAs from the change in framework from IRC to IDR
CVA Risks	CVA will be calculated using Expected Stress instead of VaR	CVA charges will increase, but given the reduction in correlation trading portfolios, many banks will be unaffected
RWAs from the Comprehensive Risk Measure		
Securitisation / Re-securitisation risk in the trading book	Although the treatment of securitization in the banking book will not change, there will be additive RWAs for securitization in the trading book to better capture credit spread risk	We include a 20% increase in securitization / re-securitization risks in the trading book
RNIV or Risks Not In VaR	The current RNIV will be replaced with a Non-Modellable Risk Factor measure.	We have included a small uplift to be conservative for banks with RNIV. For banks that do not currently capture RNIV, the uplift is larger.

Source: Deutsche Bank

Not all components are used by all current regulators, so in some cases the FRTB changes will be a straight addition, rather than an adjustment.

In addition, the impact of each row will vary according to whether the business mix is Equities heavy or FICC heavy. As a proxy for how Equities heavy or FICC heavy the franchise is, we use the distribution of VaR / Stressed VaR to approximate the distribution of risk. We use the following assumptions.

Figure 34: **Assumptions used by VaR category**

VaR category	Change implied by Liquidity Horizons	Our assumed "compromise" change
Rates	35%	20%
Equity	8%	0%
Credit	89%	100%
FX	26%	10%
Commodities	43%	20%

Source: Deutsche Bank

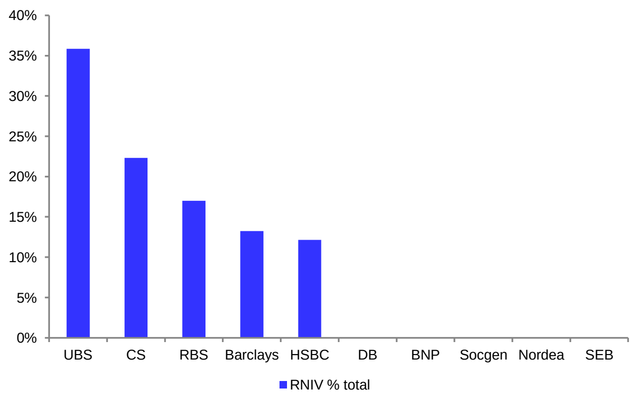
This gives us an overall increase in RWAs that we can set capital against at the company's target CET1 ratio, for an overall incremental capital charge.

UK banks look better placed, French banks worse

More difficult starting point for Eurozone and Nordic names

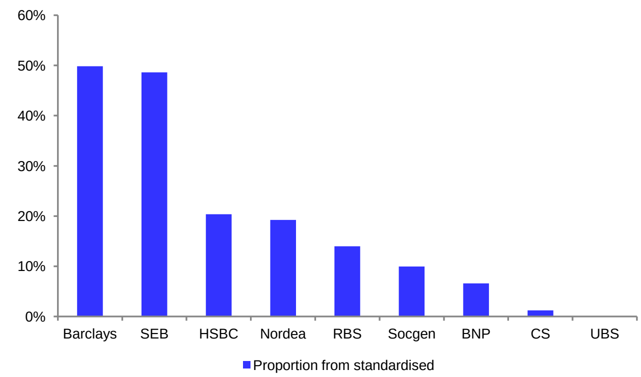
We find that Eurozone and Nordic banks do not currently capture RNIV. We believe this could be a key source of higher market RWA inflation at these banks than the UK or Swiss names. On the chart on the left hand side below, we show the proportion of market RWA that is due to the RNIV framework. Banks that do not currently have this in place will face higher levels of RWA inflation. On the chart on the right hand side, we show the proportion of market RWA calculated using the standardized method.

Figure 35: Proportion of Market RWA from "risks not in VaR or RNIV"



Source: Deutsche Bank

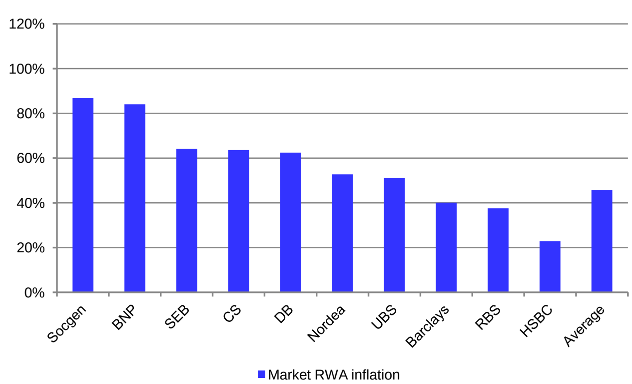
Figure 36: Proportion of Market RWA calculated using standardized method



Source: Deutsche Bank

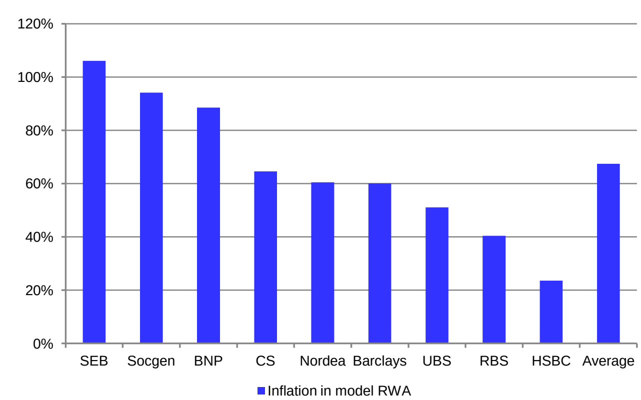
Below on the left hand chart we show the results for market RWA inflation from our framework to assess the impact of the FRTB. We find average inflation to be c65%, fairly in line with the findings from the QIS. SEB while still above average, is closer to the mean than the French banks. While currently in the camp without an RNIV framework, they are somewhat saved by the fact they have 35-50% of market RWA on standardized.

Figure 37: Total market RWA inflation due to FRTB



Source: Deutsche Bank

Figure 38: Market RWA inflation in internal models only



Source: Deutsche Bank

Timing for the Fundamental Review of the Trading Book

A summary of the key dates is set out below.

Figure 39: Key dates for the FRTB

Development	Key date	References
Consultative document: FRTB	May 2012	http://www.bis.org/publ/bcbs219.pdf
Second consultative document	October 2013	http://www.bis.org/publ/bcbs265.pdf
First QIS	September 2014	http://www.bis.org/publ/bcbs288.pdf
Second QIS	H2 2014	Results not yet published
Third consultative document	December 2014	http://www.bis.org/bcbs/publ/d305.pdf
Third QIS	Q1 2015	Results not yet published
Final FRTB rules	We think end-2015	NA
Implementation	We think 1 January 2018	NA

Source: Deutsche Bank

To some extent, 1 January 2018 (as an earliest possible date) is still a long way off. But once the new rules are clear, by end-2015, we expect European and US banks with large trading books to be asked:

- How big the incremental RWAs will be.
- What each bank's strategic response will be to the increase in RWAs, whether to tolerate it (business is still worth doing), to seek re-pricing to compensate, or to simply cut back on businesses that become unattractive.

In the rest of this report we try to provide some early thoughts on what we think the answers to these two questions will be. Especially for Credit Suisse, these questions come at an interesting time, given the new CEO incoming[3].

Re-pricing or withdrawal: which will it be?

In general, we have found the banks unwilling to engage on the issue of the FRTB because the rules are not yet set. And even when the rules become clearer, we expect the banks to focus on potential for re-pricing to improve profitability, as well as optimization by withdrawal.

But we think this is too simplistic an approach. In reality, banks make money in two ways, through charging their clients, and through trading for their own account. We think we can draw some conclusions based on past experience.

- Business areas most likely to be damaged by regulation: In some areas such as G10 Rates, increased regulatory complexity and capital requirements have tended to lead to straightforward capital withdrawal and very little re-pricing. We show aggregate revenue estimates for the largest 10 banks in the Annex to this report, and have previously looked at global investment banking revenue pools in-depth. G10 Rates revenues have declined precipitously since pre-crisis (admittedly this is also partly due to volatility).

[3] Credit Suisse announced on 10 March that it had appointed "Tidjane Thiam as the new CEO. He will take over this position from Brady W. Dougan." With new management comes the potential for a new strategy, and we expect regulatory change to play a major part in Thiam's thinking.

- The worst affected areas are likely to be those where repricing is difficult due to commoditization and where banks previously made money through inventory and prop-trading.
- Business areas least likely to be damaged by regulation: In other areas increased capital requirements have delivered resilient or rising revenues. The best example of this is prime finance, which under a leverage ratio constraint has become markedly more capital intensive, and yet in 2014 according to CoalitionIndex the Prime Services global revenue pool rose from USD 8.4bn to USD 8.8bn, outperforming the 7% overall decline in the Equity Sales and Trading revenue pool. Hedge Funds do not in general have alternative providers of prime services or leverage and given the fees involved (and oftentimes the ability to charge these fees to end-users), we believe they may be less price sensitive than other investment bank counterparties. Certainly, the amount that hedge funds paid "The Street" in 2014 went up, and increased capital requirements in this area have been less damaging than in G10 Rates. And banks don't prop trade their prime finance clients as such.
- **The least affected areas are likely to be those where repricing is easier due to lack of alternative providers and where banks previously did not make money through inventory and prop-trading**.

An in-depth discussion of revenue drivers and the interaction between regulation and pricing is set out in our previous FITT report on the issue[4], but in short, we tend to think that re-pricing is most likely to happen in price-insensitive products where banks are the sole providers of liquidity. When products are commoditised, re-pricing we think does not tend to happen. This would also fit with basic economics and common sense!

Illiquid products such as those affected by the FRTB by definition are not commoditised, and we think some re-pricing in favour of the investment banks is possible. But on the other side, these areas are also businesses where some inventory gains would have been likely (if not on the scale of previous cycles, e.g. in 2010). We don't really know what the overall impact on the revenue pool of reduced inventory and prop trading opportunities versus repricing might be; our best guess is these two factors will mostly offset.

4 *Long-run drivers of demand for investment banking services,* published 31 August 2014 and authored by Matt Spick and Bilal Hafeez.

Operational Risk

Key points

- In October 2014, the BCBS announced its proposed revisions to the simpler approach for calculating operational risks. Capital requirements to for operational risks would be there to absorb losses from such things as conduct issues and fines that have dogged the sector in recent years.
- Despite an increase in the number and severity of operational risk events during and after the financial crisis, capital requirements for operational risk have remained stable or even fallen for the standardised approaches.
- This indicates that the existing set of simple approaches for operational risk – the Basic Indicator Approach (BIA) and the Standardised Approach (TSA), including its variant the Alternative Standardised Approach (ASA) – do not correctly estimate the operational risk capital requirements of a wide spectrum of banks.
- Analytical work showed that the original business lines used for calculating operational risk do not differ significantly in their risk profiles, but the size of a bank was the dominant factor in operational risk exposure.
- We believe the proposed revisions and a 75% capital floors would see inflation in operational RWA of c45%.
- We believe the proposed revisions would see the Beta factor increase from 15% to an implied floored beta of 22% (partially due to a higher Beta and partially due to a grossed up version of revenues being used called the business indicator).

Operational risk likely to increase across the board

BCBS views the current rules as on average under-calibrated

The standardised approach to operational risk is currently under review. The latest proposals were set out in the BCBS paper on operational risk, *Operational risk - Revisions to the simpler approaches - consultative document* (link here).

"The current standardised framework comprising the BIA, TSA and ASA is on average under-calibrated"

Previously, the standardised approach had been based upon operational risk being proportionate to gross income as a proxy indicator for operational risk. But of course a bank seeing a collapse in income due to operational risk failures would see a reduction in its gross-income derived operational risk RWAs. This would not be sensible! The revised approach is intended to increase the amount of operational risk RWAs especially given the BCBS' view that "*the current standardised framework comprising the BIA, TSA and ASA is on average under-calibrated, especially for large and complex banks, and that Advanced Measurement Approaches (AMA) capital charges are often benchmarked against this under-calibrated capital requirement*."

The BCBS instead proposes a Business Indicator approach. But in reality, this is just an adjusted form of Gross Income, where the absolute values of trading income are included, and where fee income and fee expense are recorded gross and summed. For the purposes of our analysis we assume a consistent 10% inflation in revenues to the business indicator. In other words:

Figure 40: **Methodology for calculating the Business Indicator base for deriving operational risk capital requirements**

Component	Methodology
Interest component	Absolute value (Interest Income – Interest Expense)
Services component	Fee Income + Fee Expense + Other Operating Income + Other Operating Expense
Financial component	Absolute value (Net P&L on Trading Book) + Absolute Value (Net P&L on Banking Book)
Total Business Indicator value	Sum of Above

Source: Deutsche Bank

The sum of these items is then calibrated as follows, by total size of Business Indicator.

Figure 41: **Headline and "effective" coefficients for standardised approach risk capital charges**

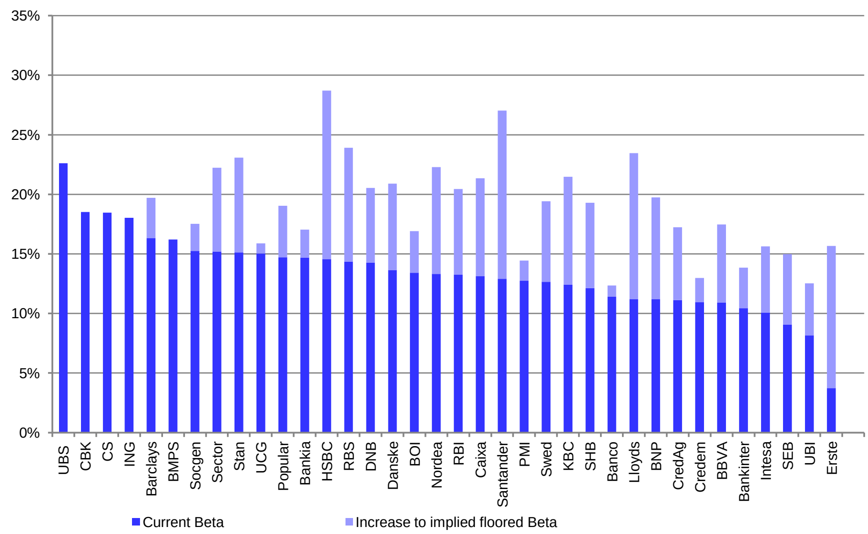
BI (€ millions)	Coefficient	Range of "effective" coefficients within a bucket
0–100	10%	10%
>100–1,000	13%	10%–12.7%
>1,000–3,000	17%	12.7%–15.57%
>3,000–30,000	22%	15.57%–21.36%
>30,000	30%	21.36%–30% (approx)

Source: Deutsche Bank

Estimating the impact on operational RWA across the sector

We use the new proposals and assumed capital floors to calculate the implied inflation in operational RWA across the sector. The results are in the charts below. The first part of the column shows the current Beta (in other words, capital for operational risk as a proportion of revenues). The second column shows the increase in capital for operational risk as a proportion of revenues as implied by the proposals.

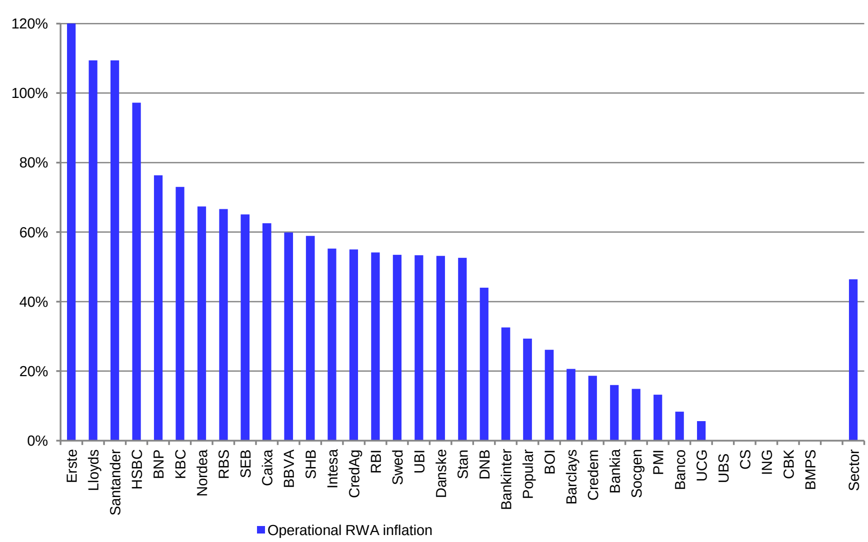
Figure 42: Implied increase in Beta/ coefficient from new rules on op risk



Source: Deutsche Bank

In the chart below we show the percentage increase in capital required for operational risk under the proposals.

Figure 43: Operational RWA inflation from proposals and capital floors



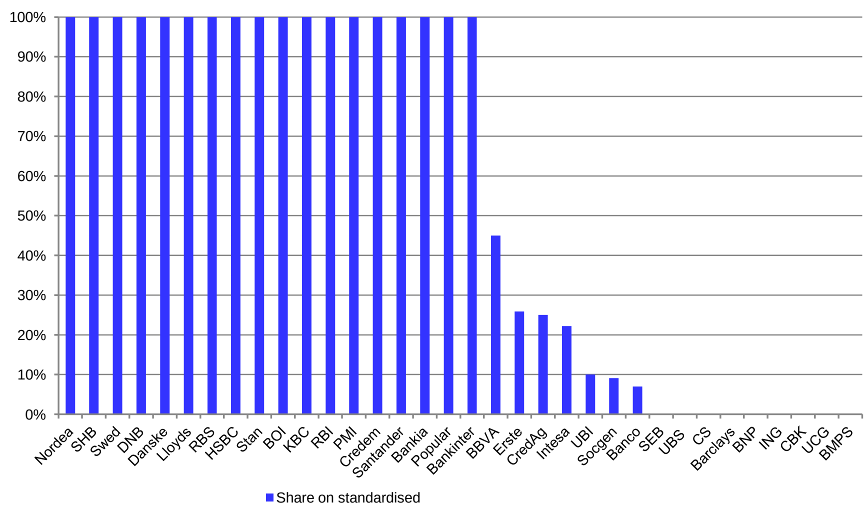
Source: Deutsche Bank

Large retail banks on standardized are likely to see the greatest percentage increases. This is due to the fact that banks with more revenues will have bigger multiplier applied. Also there is no lower multiplier applied anymore for business lines perceived as less risky. Erste, Lloyds and Santander would see the largest increases in operational RWA under the proposals.

Swiss banks have higher operational RWA already applied. As such we think that UBS and CS would not see any upward pressure from a 75% floor on operational risk.

We expect UBS, CS, ING, Commerzbank, and BMPS in our coverage will not see any RWA inflation in operational risk.

Figure 44: Proportion of operational risk using standardized methods – rest is assumed to be on models (AMA)



Source: Deutsche Bank

Capital quality and build

Danish compromise and DTC are localized issues

Further measures on quality of equity likely to come through

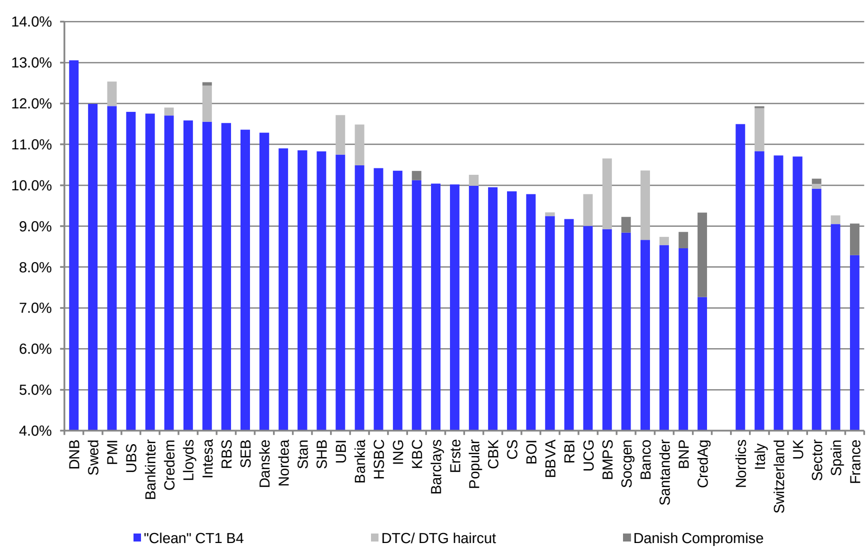
While we focus in the report on how measures for balance sheet riskiness will change, we also see a push towards harmonization in the sector and lifting of anomalies in capital calculations. We think these are likely to be relatively localized issues, either to peripheral banks or specific names in the sector.

We assume that exclusion of the Danish compromise costs 10bp of capital in the sector, mainly focused in France. As regard for DTC, we take into consideration our base case for Spain and Italy. In Spain we assume a 17% haircut on corporate tax rate harmonization, and in Italy we haircut by average 30% and assume at least 70% can be used in the next 5 years). We have recently written Spanish and Italian banks reports exactly on this issue, highlighted on the right hand side.

We published two reports recently looking at this topic 21 May 2015 "Spanish Banks: Deferred tax credits – regulatory risks with a silver lining?" 25 May 2015 "Italian banks - Quality is the magic word".

On the chart below, we overlay our quality of the core tier 1 capital base analysis on B4 risk weighted assets.

Figure 45: Quality of core tier 1 capital overlaid on pro forma "Basel 4" risk weighted assets (2015 estimates)



Source: Deutsche Bank

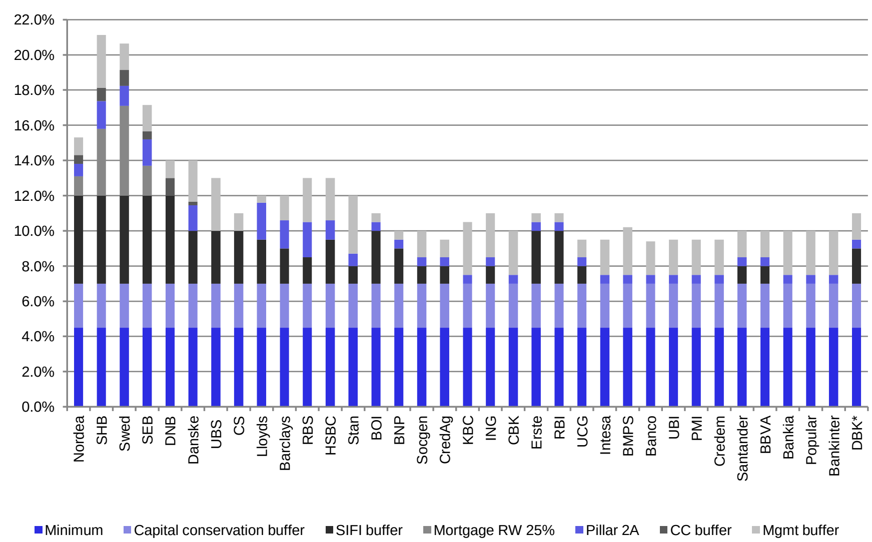
Capital stacks likely to be lower in places

Special buffers and management buffers may decline on Basel 4

Arguably (whether rightly or wrongly) a more credible RWA figure means regulators and investors will be happier accepting a lower core tier 1 ratio, all else equal. One could also argue that implied management buffers are larger in places just so to account for this issue.

Current hurdle rates may already factor in some degree of RWA inflation from regulatory change.

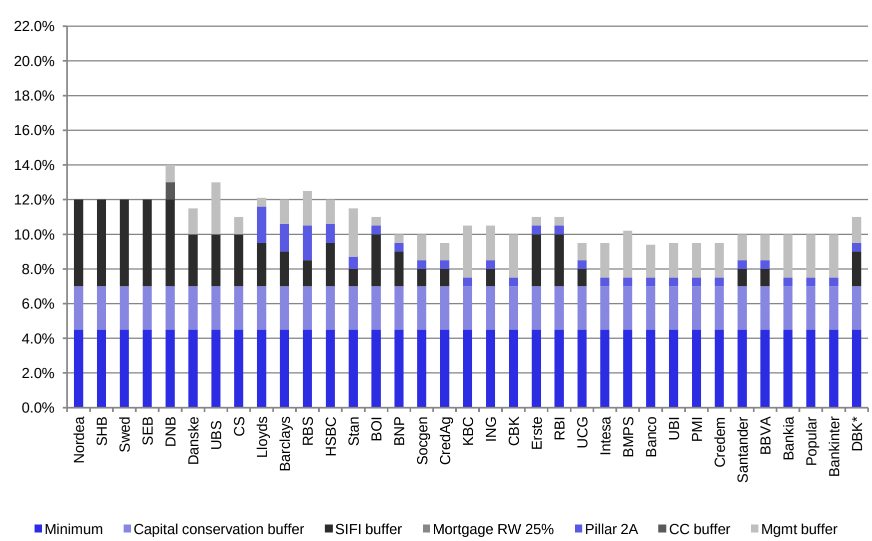
Figure 46: DB base case hurdle rates under Basel 3



Source: Deutsche Bank

In the Nordics we assume the pillar 2A framework is pulled back under Basel 4 or other buffers can be reduced. Though we find it difficult to see how the total requirement can be less than 12%.
In other places we reduce the management buffer where we think it is appropriate.

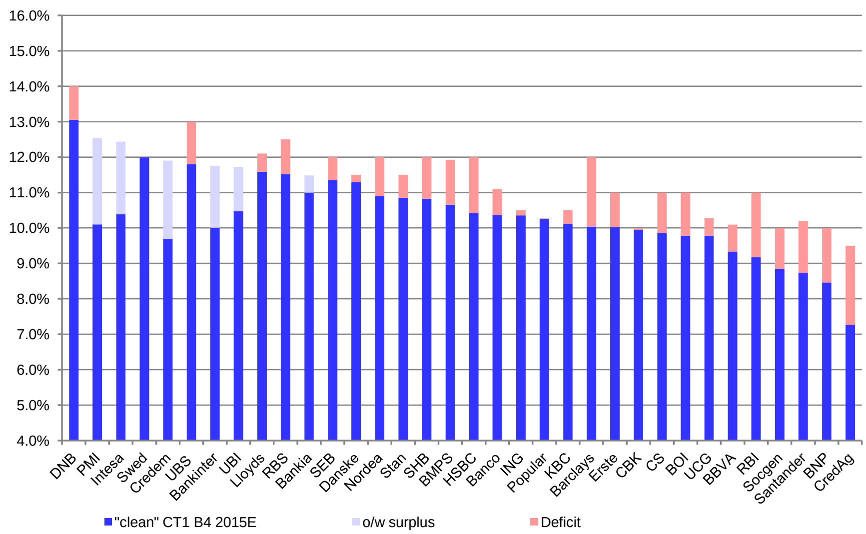
Figure 47: DB base case hurdle rates under Basel 4



Source: Deutsche Bank

If we take the Nordics as an example, arguably the regulator could reduce the capital stack and high buffers imposed on Swedish banks on Basel 4 implementation. Management teams may also reduce their own buffers they hold because there may have been space for RWA inflation already built into their assumptions. In the chart below we show the banks' Basel 4 ratios and highlight where there may either be surpluses or deficits relative to our assumed new Basel 4 hurdle rates.

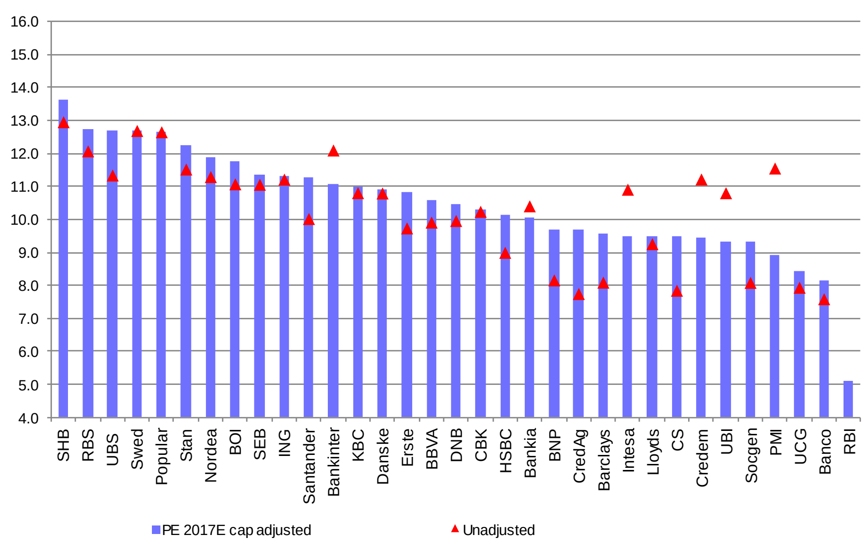
Figure 48: European banks Basel 4 2015 ratios with surpluses and deficits



Source: Deutsche Bank

Below we show PE 2017E for European banks capital adjusted for Basel 4.

Figure 49: Basel 4 capital-adjusted PE 2017E



Source: Deutsche Bank

Combining constraints on core tier 1 and leverage ratio

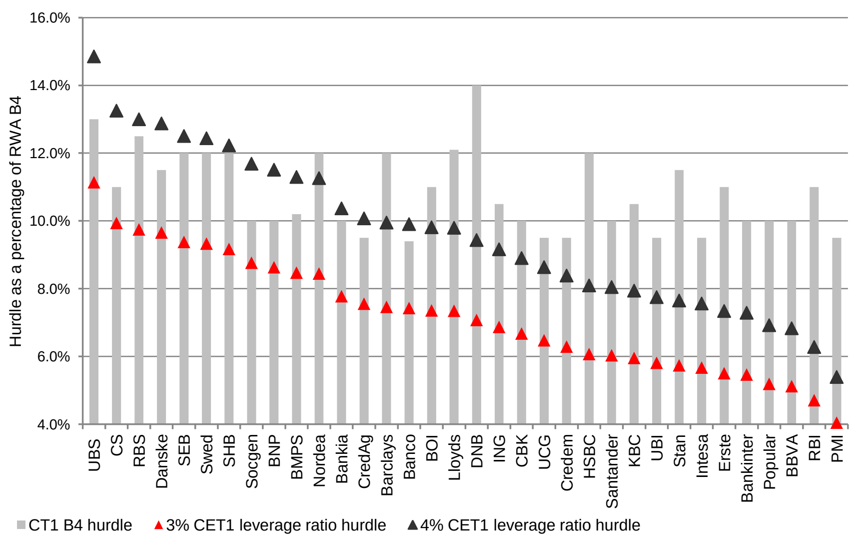
At 3%, CT1 ratio rather than leverage is overwhelmingly binding

We have focused on Basel4 impacts so far in this report. We have also assessed how new core tier 1 ratio hurdle rates could be different under the new regulatory regime. Leverage ratio is the other capital constraint that investors tend to focus on when looking at bank stocks. The 3% leverage ratio requirement for European banks still applies with the risk of an increase to 4%. In Switzerland we think 5% is likely with 4% from CET1 and 1% from AT1. Some banks have already discussed their own targets above the 3% minimum.

A 3% leverage ratio requirement remains a backstop to capital for all our banks. A 4% level would make the leverage ratio the front stop for a number of banks in the sector.

In the chart below, we show what a 3% or 4% leverage ratio constraint looks like as a proportion of RWA B4. Readers can think of this as a measure of how "binding" the leverage ratio constraint is. What we can see is that a move to a 4% leverage ratio requirement would capture more banks in the bracket where leverage ratio is the binding constraint. This increasingly moves the leverage ratio away from being a back stop measure to being a front stop measure which runs contrary to many stated policy objectives. As such we can see inflation in RWA under the Basel 4 regime as a useful tool in ensuring that it is the core tier 1 ratio that remains the primary front stop tool.

Figure 50: Leverage ratio – where is it most binding relative to RWA B4 2017

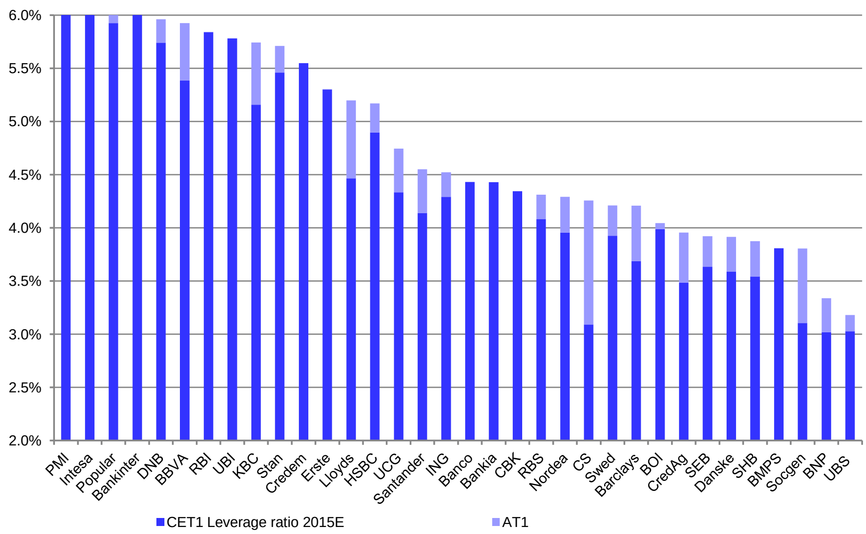


Source: Deutsche Bank

European banks mostly compliant on leverage ratio

In the chart below, we show our 2015 forecasts for leverage ratio, and identify the component currently coming from AT1 rather than regulatory common equity. Broadly, assuming the 3% leverage ratio requirement is unchanged, then we think European banks are broadly compliant on this metric. Where gaps to fill do exist, they primarily will be based on the core tier1 ratio, with a few exceptions.

Figure 51: European banks leverage ratio 2015E

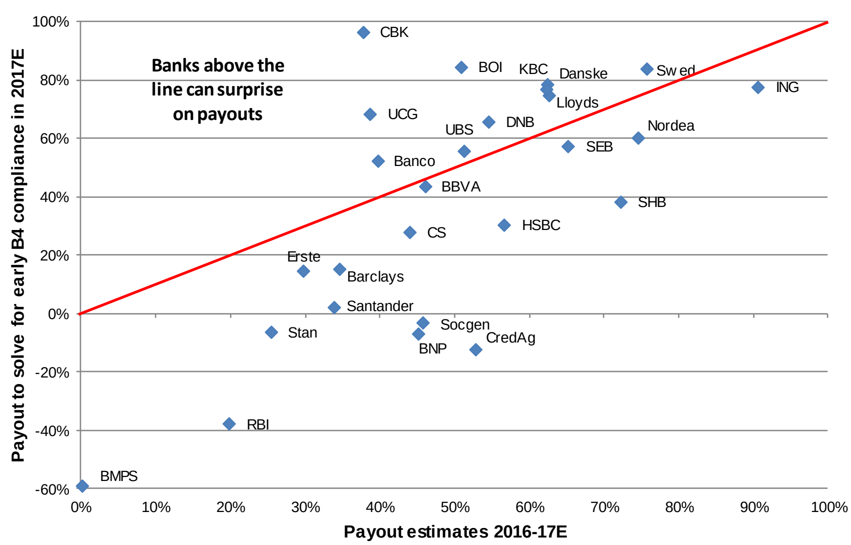


Source: Deutsche Bank

Solving payout ratios for 2017 compliance

The new rules will likely be implemented in 2018/19. However, as in previous years it is likely the market will fully load the impact into valuations or demand faster compliance than the regulatory timetable. In the chart below, we solve the payout ratio for 2017 compliance with B4 and leverage constraints. We then compare with our existing estimates to gauge the potential surprise or disappointment. It is important here to flag that our analysis is pre-management mitigation and the end outcome of proposals could vary from our base case assumed in this report.

Figure 52: Solving 2016-17E payouts for 2017 B4 and leverage compliance



Source: Deutsche Bank

On the x-axis we show our 2016-17E payout. On the y axis we solve the payout for 2016-17E for Basel 4 and leverage ratio if we assume early end 2017 compliance. Banks above the red line could surprise on payouts before considering mitigation actions by management.

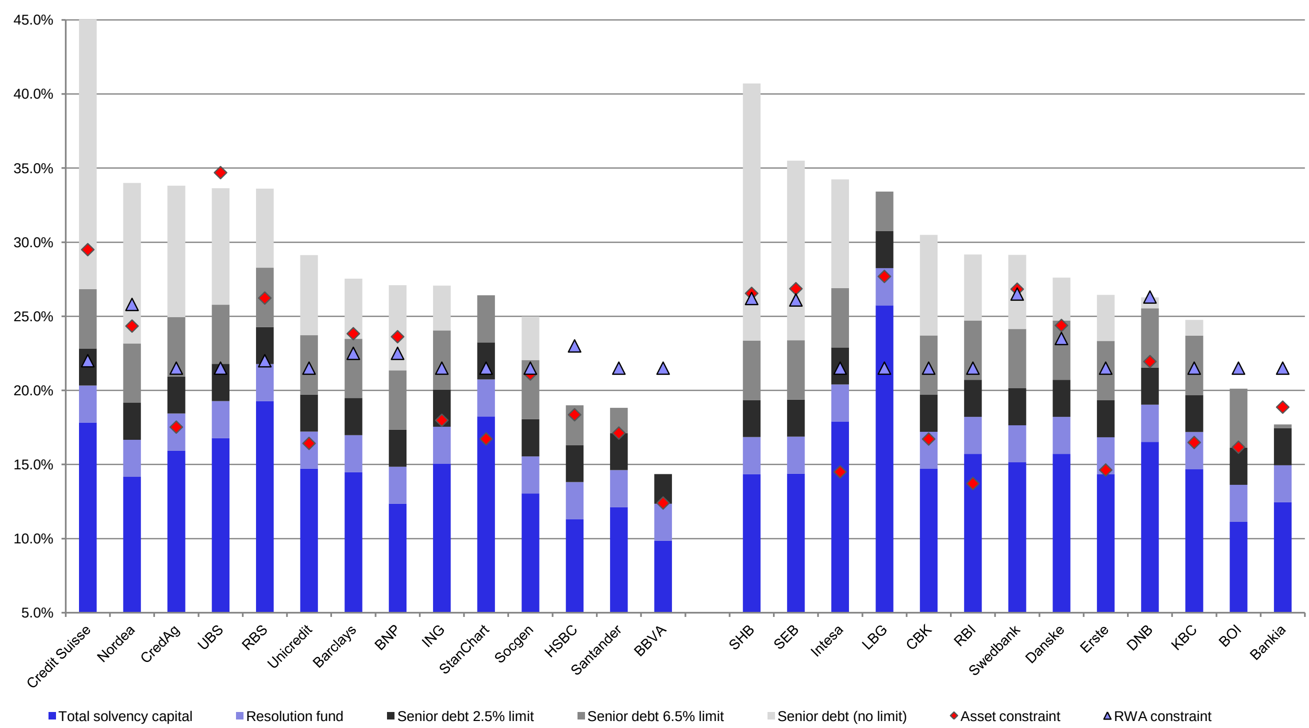
TLAC implications

Higher TLAC needs for RWA constrained banks

Listed European banks TLAC need at EUR 800bn

We wrote about the impact of TLAC last year in our report *10 November report TLAC: Opex and NII are the issues.* TLAC proposals mean to avert the need for taxpayer money in any future major bank resolutions. The shape will be finalized ahead of the G20 summit 2015. TLAC needs are calculated in a double constraint related to RWAs and leverage assets of a bank. Given Basel 4 is likely to lead to RWA inflation in 2019; it also implies an increase in TLAC needs. For the large listed European banks in the chart below, we estimate TLAC needs above solvency capital to be about EUR 800bn.

Figure 53: Potential TLAC available and constraints (as a percentage of RWA B4) – 2015 estimates (G-SIB banks on the left hand side, other large European banks on the right)



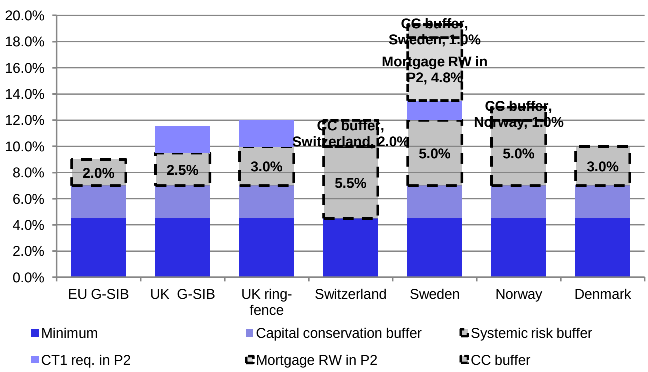
Source: Deutsche Bank, company data

Consultative document from November was in line with press reports

On Sunday the Financial Stability Board (FSB) published a consultative document on TLAC for G-SIBs (link here) for those that want the detail. In line with press reports, G-SIBs will be required to hold TLAC of 16-20% of RWAs excluding regulatory capital buffers. Additionally, there is an asset constraint for TLAC at twice the Basel 3 leverage ratio. The greater constraint will be binding.

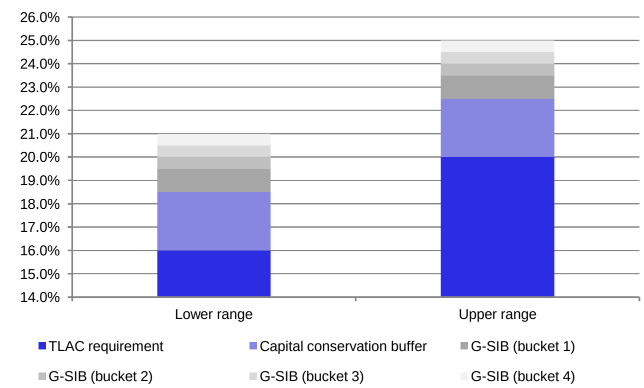
In the chart on the left hand side, we show the current minimum core tier 1 requirements for European banks by geography. On the right hand side, we illustrate the build to the TLAC requirement. We show how a bucket 1 G-SIB in the Eurozone could see a TLAC requirement range of 19.5%-23.5% (2.5% capital conservation buffer and 1% G-SIB buffer).

Figure 54: Reminder of core tier 1 requirements



Source: Deutsche Bank

Figure 55: Potential range of TLAC requirement for RWA



Source: Deutsche Bank

Material subsidiaries and internal TLAC

Each material subsidiary that is not a resolution entity should meet an internal TLAC requirement. The principle here is that national regulators should have confidence in resources available and reduce incentives to ring fence assets. If a subsidiary is incorporated in a different national jurisdiction, it can be defined as material for these purposes if revenues, RWA or assets are >5% of the group. Each of these must maintain internal TLAC of 75-90%, which should be pre-positioned.

Next steps

The FSB will revise the principles and term sheet following a) a public consultation; and b) findings from a quantitative impact study (QIS) and market survey. A final version will then be submitted to the G20 by the 2015 summit. The conformance period for the TLAC requirement will be informed by the QIS, but will be 1 January 2019 at the earliest. Banks moving into the list in future will have 12-36 months to comply.

The rules as they are seem to penalize banks that are deposit funded and have high RWAs. We note that G-SIBs headquartered in emerging markets will not, initially, be subject to the common TLAC requirement.

Sovereign risk weights

A political decision

ESRB proposals on sovereign risk

On 10-Mar-15, the ESRB (European Systemic Risk Board) published a report on the regulatory treatment of the sovereign exposures[5]. This report is an important step in the ongoing dialogue between policymakers and the regulator on the link between banks and sovereigns. The ESRB does not drive any conclusion on sovereign treatment, but lists and analyses the possible options.

We wrote about this topic from the perspective of Italy, in our report *25 May 2015 Italian banks - Quality is the magic word*. Despite the size and concentration of the Italian banks' sovereign holdings, we think that a tightening of the capital requirement will be manageable: 1) banks are already diversifying their portfolios, and reducing their NII dependence on carry trades; 2) the introduction of the new rules will be gradual, allowing progressive adjustments. Possible options include:

- **Removal of the domestic carve-out in the standardised approach**. This would imply that European sovereign exposures would no longer be zero risk weighted, but would be treated according to the general procedures defined for other sovereign exposures. In this case, given DBRS rating (A low, stable outlook), the Italian sovereign exposures would be 50% risk weighted.
- **Introducing a non-zero RW for all sovereign exposures**. Currently, the general Basel rule allows a zero RW for AAA to AA- sovereigns, while one of the ERSB proposals suggests removing this class and revising the standardised models.
- **Developing alternatives to the use of the sole credit rating agency ratings in the standardised approach**. The general Basel rules define RW classes only on the rating agencies valuation of each country risk; the ESRB considers instead using "slow-moving indicators" such as i) moving averages of public and external debt to GDP ratios, ii) moving average of long-term interest rates, iii) moving average of volatility of GDP denominated in the currency of the sovereign debt, iv) prior default history.
- **Setting a minimum (regulatory) floor in the IRB models**. In order to have a non-zero risk weight also under IRB models, a simple approach would be to impose a hard floor for the RW versus the standardised approach or, an alternative could be to define regulatory PD and LGD.
- **Diversification**. Banks might be requested to limit their holding of government bonds of a single country to 25% of their equity (following

[5] The BIS has also addressed this topic: http://www.bis.org/review/r150423b.pdf *"The start of the activities of the SSM and the completion of the AQR were critical steps in helping to achieve a healthier monetary policy transmission process. In general, the SSM within the banking union – and in combination with the actions of the Single Resolution Mechanism and the Single Resolution Fund – will further contribute to breaking the nexus between sovereigns and banks."*

the CRR article on large exposures). This would mean that banks have to diversify their sovereign portfolios beyond their home country and, in the case of the Italian banks, it would imply a significant change (currently the Italian sovereign exposures weight more than 200% of tangible equity).

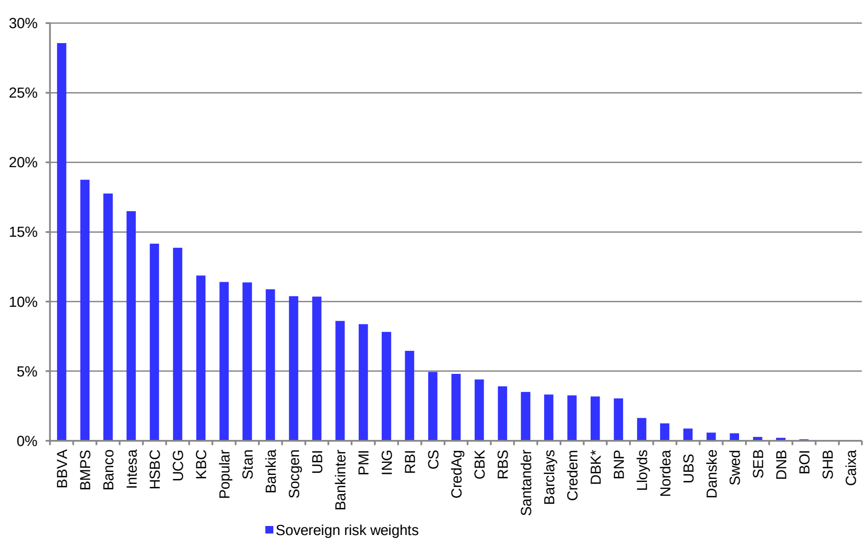
- **Coverage of sovereign exposures in macro prudential regulation**. Based on this proposal, an additional capital requirement would be activated when macro-prudential authorities judged that the sustainability of the sovereign finances comes into question, or lending to that sovereign is deemed underpriced, or financial institutions are building a too significant exposure towards a certain sovereign.
- **Pillar 2 requirements**. The Pillar 2 requirements could include explicit and direct recommendation from the assessment of the sovereign risk exposure of each bank, and could provide guidance on diversification.
- **Enhance disclosure requirements on banks sovereign exposures**. This could be addressed via a more detailed analysis of sovereign risks in the Pillar 3.

Figure 56: Exposure to Sovereigns and central banks Risk weight

	External credit rating					
	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	below B-	Unrated
Risk weight	0%	20%	50%	100%	150%	100%

Source: BCBS

Figure 57: Existing European banks' sovereign risk weights 2014



Source: Deutsche Bank, company data

Company section

Example Basel 4 company template

Figure 58: **Template explained** – modeling pro-forma 2014 RWA inflation from Basel 4 by category before management action

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign		0%		0%	0	0%	0	0
Institution	35,688	24%	8,409	30%	10,706	24%	8,409	0
Corporate	784,299	39%	308,250	73%	570,125	55%	427,594	119,344
Retail	762,160	16%	124,439	37%	284,614	28%	213,460	89,021
o/w mortgage	630,062	15%	93,765	29%	185,540	22%	139,155	45,390
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	132,098	23%	30,674	75%	99,074	56%	74,305	43,631
Other	27,622	74%	20,468	74%	20,468	74%	20,468	0
IRB	1,609,769	29%	461,566	55%	885,913	41%	664,435	202,869
Sovereign	168,545	1%	981	1%	981	1%	981	0
Institution	6,636	29%	1,926	30%	1,991	29%	1,926	0
Corporate	107,893	93%	100,274	73%	78,430	93%	100,274	0
Retail	147,119	42%	61,319	42%	61,319	42%	61,319	0
Other	153,630	21%	31,998	21%	31,998	21%	31,998	0
Standardised	583,823	34%	196,498	30%	174,719	22%	131,039	0
Other		na		na	0	na	0	0
Credit Risk	**2,193,592**	**30%**	**658,064**	**48%**	**1,060,632**	**36%**	**795,474**	**137,410**
Operational Risk		**na**	**74,001**	**na**	**113,316**	**na**	**84,987**	**39,315**
Other risk (settlement, failed trades, equity risk outside trading book)		na	74,668	na	74,668	na	74,668	0
Market Risk		**na**	**59,089**	**na**	**88,634**	**na**	**88,634**	**29,545**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	**2,193,592**	**39%**	**865,822**	**61%**	**1,337,249**	**48%**	**1,043,762**	**206,269**
RWA inflation								24%

We apply the **75% capital floor** at the **total credit risk level** given we are using a risk-category based floor.

For the banks' op risk on standardised, we apply the proposals. For those on models (AMA), we apply the 75% floor on the standardised method proposals.

For banks with large IB operations, we calculate an individual increase based on pillar 3 data. Otherwise we apply a uniform 50% increase figure.

Total RWA B4 increase is credit + op + market RWA increase. A portfolio based floor would increase the credit risk RWA inflation.

Source: Deutsche Bank, Company data

France

BNP Paribas (Hold, TP EUR 60)

Investment thesis summary

On the positive side, we think BNPP is the French bank that presents the lowest uncertainty in relation to litigation risk, and we expect the bank to benefit from its USD and capital markets exposure this year. But on the negative side, we think the valuation leaves limited upside potential (trading at 1x TBV 2016 for just below 11% RoTE), especially as we view the current capital situation of BNPP as slightly tight at ~10% CET1 ratio, considering (1) that the bank has a higher SIFI buffer than other Eurozone banks (2% for BNPP), (2) that BNPP has a lower leverage ratio than many other European banks (3.4% in Q1-15), and (3) that BNPP has a low total capital ratio (12.6% in Q1-15). Hold.

19% potential RWA inflation from Basel 4, due to credit and operational risk

Our Basel 4 model points, for BNPP, to total RWA inflation of 19% (+E119bn of RWAs out of E620bn total RWAs at end-2014). The bulk of the RWA increase is expected to come from credit risk RWAs (+E60bn or 51% of RWA inflation), but also from operational risk RWAs (+E42bn or 35%), while the impact coming from market risk RWAs is more limited (+E17bn or 14%). Within **credit risk**, we expect in particular a significant increase in RWAs linked to corporate loans calculated using the IRB method. BNPP currently has an average RW of 34% on such loans, which is at the low end of European banks and which we consider will grow to a much higher level of 54% (75% capital floor applied to a standardised RW of 72% assumed in our analysis). We also expect a higher RW on RWAs linked to mortgage loans calculated using the IRB method (currently RW of 13% which we forecast will go to 26% with a 75% capital floor applied to a standardised RW of 35%). In **operational risk** we expect a significant increase in RWAs, mainly due to the fact that BNPP should, in our view, have a Beta (RWA / 12.5 * 3Y average revenues) of 20% in Basel 4 (after applying the 75% capital floor), compared to only 11% currently, we estimate. In **market risk** terms, we expect the bulk of RWA inflation to come from the risks not in VaR (RNIV) and from the fact that BNPP makes very limited use of the standardised method when calculating market risk RWAs (only 7% of market risk RWAs are calculated using the standardised method).

Higher RWA inflation than most other banks – before any mitigation though

We forecast RWA inflation of 19% for BNPP under Basel 4 compared to Basel 3 RWAs at end-2014. This is more than the average 14% RWA inflation we forecast at sector level, and also above the respective increase of 10% for SocGen and 11% for CredAg, but below the 27% increase we forecast for KBC. As explained above, this higher RWA inflation at BNPP is linked in particular to (1) in credit risk, a low RW on corporate loans and to a lower extent on mortgages, and (2) in operational risk, a low Beta, which we think will be revised up sharply. We point out, though, that our analysis is based on a draft document that could be loosened in its final iteration, and that our analysis is also before considering any kind of mitigation from the company.

Without mitigation such RWA inflation would bring CT1 ratio below 10% target

The bank targets a CET1 ratio of 10%, which implies a 1% management buffer over the regulatory requirement of 9% (7% + 2% SIFI buffer). According to our analysis, if no mitigation is done, we forecast that BNPP’s CET1 ratio would be reduced by ~175bps by switching to Basel 4 as per current drafts. That would bring BNPP’s CET1 ratio to 8.9%-9.4% in 2015-17E vs. our current 10.6%-11.2% forecasts under Basel 3.

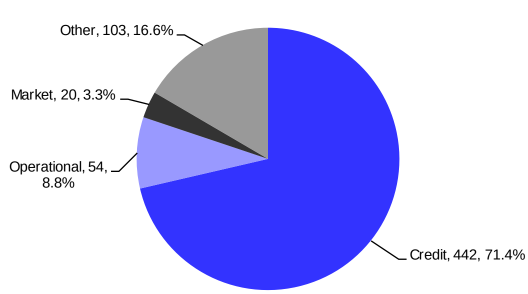
Figure 59: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	620	655	673	693
RWA capital floors	739	780	803	826
RWA standardised	939	991	1,019	1,049
Leverage assets	1,963	2,289	2,332	2,377
RW density B3	32%	29%	29%	29%
RW density B4 capital floors	38%	34%	34%	35%
RW density B4 on fully standardised	48%	43%	44%	44%
CT1 B3	64	69	73	78
AT1	7	7	8	8
CT1 B4	10.3%	10.6%	10.9%	11.2%
CT1 B4 capital floors	**8.6%**	**8.9%**	**9.1%**	**9.4%**
CT1 B4 on standardised	6.8%	7.0%	7.2%	7.4%
Leverage ratio	3.6%	3.3%	3.5%	3.6%

Source: Deutsche Bank, Company data

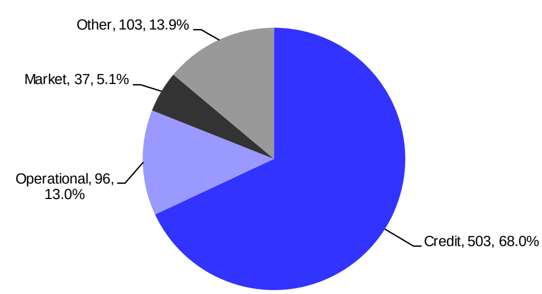
Under our framework, BNPP will experience RWA inflation of 19%.

Figure 60: RWA B3 2014



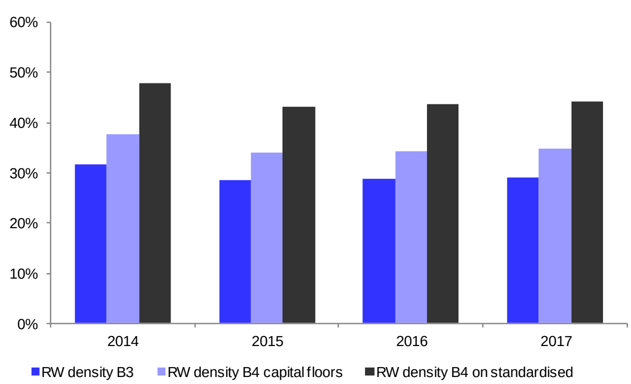
Source: Deutsche Bank, Company data

Figure 61: RWA B4 2014E



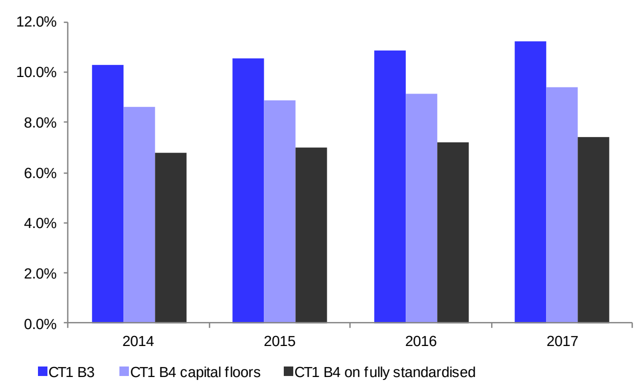
Source: Deutsche Bank, Company data

Figure 62: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 63: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 64: BNP Paribas – modelling pro-forma 2014 RWA inflation by category before management action

BNPP.PA

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	221,860	2%	3,545	2%	3,545	2%	3,545	0
Institution	71,289	17%	12,138	30%	21,387	23%	16,040	3,902
Corporate	436,716	34%	150,540	72%	314,771	54%	236,079	85,539
Retail	203,588	19%	37,699	46%	94,432	35%	72,177	34,478
o/w mortgage	115,522	13%	14,734	35%	40,433	26%	30,325	15,591
o/w Lombard or collateralised	23,280	23%	5,410	23%	5,410	23%	5,410	0
o/w other	64,786	27%	17,555	75%	48,590	56%	36,442	18,887
Other	325	40%	129	40%	129	40%	129	0
IRB	933,778	22%	204,051	47%	434,264	35%	325,698	121,647
Sovereign	28,493	14%	4,069	14%	4,069	14%	4,069	0
Institution	20,512	39%	7,972	30%	6,154	39%	7,972	0
Corporate	131,790	73%	95,586	72%	94,990	73%	95,586	0
Retail	184,334	49%	90,432	49%	90,432	49%	90,432	0
Other	113,068	36%	40,248	36%	40,248	36%	40,248	0
Standardised	478,197	50%	238,307	49%	235,893	37%	176,920	0
Other	0	na	0	na	0	na	0	0
Credit Risk	**1,411,975**	**31%**	**442,358**	**47%**	**670,157**	**36%**	**502,618**	**60,260**
Operational Risk		**na**	**54,433**	**na**	**127,980**	**na**	**95,985**	**41,552**
Other risk (settlement, failed trades, equity risk outside trading book)		na	102,679	na	102,679	na	102,679	0
Market Risk		**na**	**20,357**	**na**	**37,465**	**na**	**37,465**	**17,108**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	1,411,975	44%	619,827	66%	938,282	52%	738,747	118,920
RWA inflation								19%

Source: Deutsche Bank, Company data

Model updated:30 April 2015

Running the numbers

Europe

France

Banks

BNP Paribas

Reuters: BNPP.PA | Bloomberg: BNP FP

Hold

Price (15 Jun 15)	EUR 53.96
Target Price	EUR 60.00
52 Week range	EUR 44.94 - 59.17
Market Cap (m)	EURm 67,018
	USDm 75,523

Company Profile

BNP Paribas is the largest French bank in terms of market capitalisation. It operates in retail banking, corporate investment banking, asset gathering activities and in diversified specialised financial services. The bank is present in more than 80 countries including all the main international financial markets. Its domestic markets are France but also Italy (with BNL) and Belgium (with Fortis). It also has retail banking activities in the US through its subsidiary Bancwest.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	5.17	3.68	-0.08	5.31	6.03	6.62
EPS (DB) (EUR)	5.43	4.55	5.50	5.53	6.03	6.62
Growth Rate - EPS (DB) (%)	-27.6	-16.2	20.8	0.6	9.1	9.8
DPS (EUR)	1.50	1.50	1.50	2.39	2.71	2.98
BVPS (stated) (EUR)	61.64	63.45	61.69	65.14	68.71	72.63
Tang. NAV p. sh. (EUR)	50.79	53.47	50.80	53.75	57.32	61.24
Market Capitalisation	51,741	70,317	61,181	67,018	67,018	67,018
Shares in issue	1,215	1,241	1,242	1,242	1,242	1,242
Valuation Ratios & Profitability Measures						
P/E (stated)	8.2	15.4	-630.7	10.2	8.9	8.2
P/E (DB)	7.8	12.5	9.0	9.8	8.9	8.2
P/B (stated)	0.7	0.9	0.8	0.8	0.8	0.7
P/Tangible equity (DB)	0.8	1.1	1.0	1.0	0.9	0.9
ROE(stated)(%)	8.7	5.9	-0.1	8.4	9.0	9.4
ROTE (tangible equity) (%)	11.2	8.8	10.5	10.6	10.9	11.2
ROIC (invested capital) (%)	9.1	7.3	8.8	8.7	9.0	9.4
Dividend yield(%)	4.3	3.2	2.8	4.4	5.0	5.5
Dividend cover(x)	3.4	2.5	-0.1	2.2	2.2	2.2
Profit & Loss (EURm)						
Net interest revenue	22,107	21,732	22,161	23,742	24,235	24,880
Non interest income	16,965	16,677	17,007	18,220	18,598	19,093
Commissions	7,761	7,629	7,780	8,335	8,508	8,735
Trading Revenue	3,699	3,637	3,709	3,973	4,056	4,163
Other revenue	5,504	5,411	5,518	5,911	6,034	6,195
Total revenue	39,072	38,409	39,168	41,962	42,834	43,973
Total Operating Costs	26,543	25,968	26,524	28,210	27,512	27,732
Employee Costs	0	0	0	0	0	0
Other costs	26,543	25,968	26,524	28,210	27,512	27,732
Pre-Provision profit/(loss)	12,529	12,441	12,644	13,752	15,322	16,241
Bad debt expense	3,941	4,599	9,705	4,155	3,815	3,597
Operating Profit	8,588	7,842	2,939	9,597	11,507	12,644
Pre-tax associates	1,791	397	211	780	600	616
Pre-tax profit	10,379	8,239	3,150	10,377	12,107	13,260
Tax	3,059	2,742	2,642	3,080	3,841	4,196
Other post tax items	-1,042	-932	-605	-699	-777	-844
Stated net profit	6,278	4,565	-97	6,598	7,488	8,220
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	316	1,080	6,923	267	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	6,594	5,645	6,826	6,866	7,488	8,220
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	552,000	560,000	620,000	654,512	673,346	692,965
Interest-earning assets	976,906	979,723	1,079,481	1,148,180	1,177,766	1,208,241
Customer Loans	630,520	612,455	657,403	710,672	731,992	753,952
Total Deposits	539,513	553,497	641,549	702,418	723,490	745,195
Stated Shareholder Equity	74,891	78,753	76,619	80,902	85,344	90,210
Equals: Tangible Equity	61,715	66,370	63,091	66,755	71,197	76,063
Tier 1 capital	75,000	71,900	70,400	76,398	81,017	86,038
Tier 1 ratio (%)	14	13	11	12	12	12
o/w core tier 1 capital ratio (%)	11.8	11.7	10.3	10.6	10.9	11.2
Credit Quality						
Gross NPLs/Total Loans(%)	7.13	7.56	6.92	6.47	6.39	6.37
Risk Provisions/NPLs(%)	61	57	60	60	59	58
Bad debt / Avg loans (%)	0.61	0.74	1.53	0.61	0.53	0.48
Bad debt/Pre-Provision Profit(%)	31.5	37.0	76.8	30.2	24.9	22.1
Growth Rates & Key Ratios						
Growth in revenues (%)	-8	-2	2	7	2	3
Growth in costs (%)	2	-2	2	6	-2	1
Growth in bad debts (%)	-42	17	111	-57	-8	-6
Growth in RWA (%)	-10	1	11	6	3	3
Net int. margin (%)	2.26	2.22	2.15	2.13	2.08	2.09
Cap.-market rev. / Total revs (%)	27	25	25	24	24	22
Total loans / Total deposits (%)	117	111	102	101	101	101
ROTE Decomposition						
Revenue % ARWAs	6.70	6.91	6.64	6.58	6.45	6.44
Net interest revenue % ARWA	3.79	3.91	3.76	3.73	3.65	3.64
Non interest revenue % ARWA	2.91	3.00	2.88	2.86	2.80	2.79
Costs/income ratio (%)	67.9	67.6	67.7	67.2	64.2	63.1
Bad debts % ARWAs	0.68	0.83	1.64	0.65	0.57	0.53
Tax rate (%)	35.6	35.0	89.9	32.1	33.4	33.2
Adj. Attr. earnings % ARWA	0.82	0.94	1.12	0.95	1.04	1.11
Capital leverage (ARWA/Equity)	9.9	8.7	9.1	9.8	9.6	9.3
ROTE (Adj. earnings/Ave. equity)	8.2	8.2	10.2	9.4	10.0	10.3

Source: Company data, Deutsche Bank estimates

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Credit Agricole (Hold, TP EUR 14.5)

Investment thesis summary
For CASA, we find that over the past few years, some excellent progress has been achieved in relation to reducing the risks, improving the earnings performance and, very importantly, improving the solvency, and that the strategic repositioning on activities such as French retail banking, insurance and asset management deserves a re-rating of the shares. However, we believe this is now reflected in the shares. At the current level of valuation, and given we see some potentially large downside risk to capital (with Switch mechanisms contributing ~240bps of CET1 ratio, Danish compromise ~250bps and latent AFS gains ~130bps), we don't think the risk-reward is interesting and rate the shares Hold. We also don't believe there will be a change in corporate governance in the short-term that would help return more value to CASA minority shareholders. Hold.

11% potential RWA inflation from Basel 4, due to credit and operational risk
Our Basel 4 model, for CASA, points to total RWA inflation of 11% (+E33bn of RWAs out of E293bn total RWAs at end-2014). The bulk of the RWA increase is expected to come from credit risk RWAs (+E15bn or 45% of RWA inflation), but also from operational risk RWAs (+E12bn or 37%) while the impact coming from market risk RWAs is more limited (+E6n or 18%). Within **credit risk**, we expect, in particular, an increase in RWAs linked to corporate loans calculated using the IRB method. CASA currently has an average RW of 40% on such loans and we think it will grow to a much higher level of 54% (75% capital floor applied to a standardised RW of 72% assumed in our analysis). Note that in our analysis, we continue to consider that the E265bn of internal transactions recorded in loans due from credit institutions will remain risk-weighted at zero. In **operational risk,** we expect a significant increase in RWAs, mainly due to the fact that CASA should, in our view, have a Beta (RWA / 12.5 * 3Y average revenues) of 17% in Basel 4 (after applying the 75% capital floor) compared to only 11% currently, we estimate. In **market risk,** we expect the bulk of RWA inflation to come from the risks not in VaR (RNIV) and from the fact that only 18% of RWAs are calculated using the standardised method.

RWA inflation is slightly lower than the 14% we forecast for the sector
We forecast RWA inflation of 11% for CASA under Basel 4. This is lower than the average 14% RWA inflation we forecast at sector level. This is also well below the respective increases of 27% for KBC and 19% for BNPP, but is roughly in line with the 10% increase we forecast for SocGen. Compared to other European banks, we expect a higher increase in operational risk RWA at CASA, which is due to the fact that the bank had a lower Beta. We point out that our analysis is based on a draft document that could be loosened in its final iteration, and that our analysis is also before considering any kind of mitigation from the company.

Without mitigation such RWA inflation will increase risks on CASA solvency
CASA targets a CET1 ratio of 9.5%, which implies a 1.5% management buffer over the regulatory requirement of 8% (7% + 1% SIFI buffer). According to our analysis, if no mitigation is done, we forecast that CASA's CET1 ratio will be reduced by ~110bps by switching to Basel 4 as per current drafts. That would bring CASA's CET1 ratio to 9.3%-10.1% in 2015-17E vs. our current 10.4%-11.2% forecasts under Basel 3.. Note that there could be downside risk to our forecasts as we considered no change made to the Danish compromise, AFS gains and switch mechanisms.

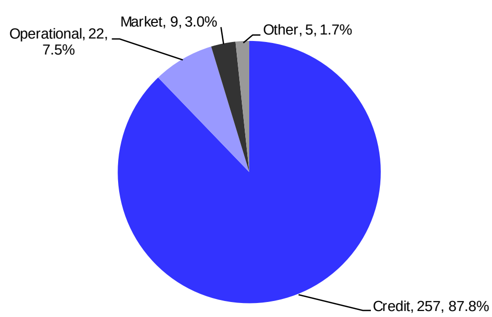
Under our framework, CASA will experience RWA inflation of 11%.

Figure 65: Capital sensitivities

Reporting FXbn	2014	2015	2016	2017
RWA B3	293	320	334	349
RWA capital floors	326	355	372	388
RWA standardised	428	466	488	510
Leverage assets	950	951	964	978
RW density B3	31%	34%	35%	36%
RW density B4 capital floors	34%	37%	39%	40%
RW density B4 on standardised	45%	49%	51%	52%
CT1 B3	30	33	36	37
AT1	4	5	6	6
CT1 B3	10.4%	10.4%	10.8%	11.2%
CT1 B4 capital floors	**9.3%**	**9.3%**	**9.7%**	**10.1%**
CT1 B4 on fully standardised	7.1%	7.1%	7.4%	7.7%
Leverage ratio	3.6%	4.0%	4.4%	4.4%

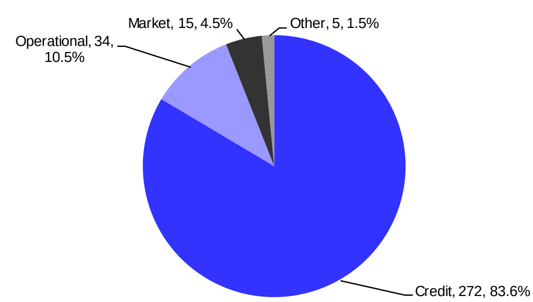
Source: Deutsche Bank, Company data

Figure 66: RWA B3 2014



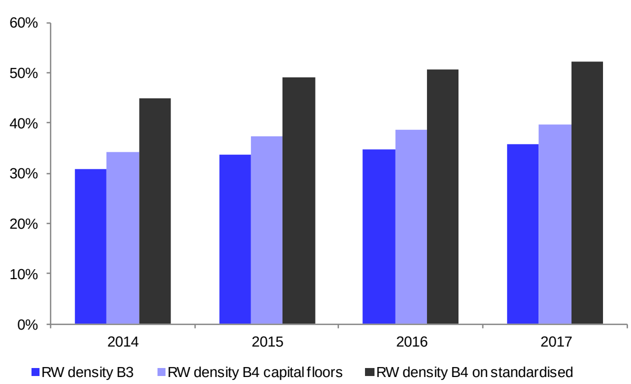
Source: Deutsche Bank, Company data

Figure 67: RWA B4 2014E



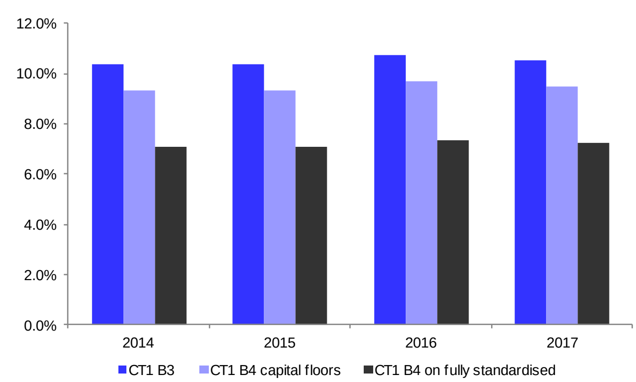
Source: Deutsche Bank, Company data

Figure 68: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 69: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 70: Credit Agricole – modelling pro-forma 2014 RWA inflation by category before management action

CAGR.PA

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	148,700	2%	2,300	2%	2,300	2%	2,300	0
Institution	89,000	13%	11,800	30%	26,700	23%	20,025	8,225
Corporate	180,500	40%	72,500	72%	130,099	54%	97,574	25,074
Retail	136,200	24%	33,000	49%	66,899	37%	0	0
o/w mortgage								
o/w Lombard or collateralised								
o/w other								
Other	43,100	69%	29,600	69%	29,600	69%	29,600	0
IRB	597,500	25%	149,200	43%	255,598	32%	191,699	
Sovereign	34,200	19%	6,500	19%	6,500	19%	6,500	0
Institution	311,600	4%	11,500	30%	13,980	23%	10,485	0
Corporate	65,900	77%	51,000	72%	47,499	77%	51,000	0
Retail	27,700	68%	18,800	68%	18,800	68%	18,800	0
Other	14,400	83%	11,900	83%	11,900	83%	11,900	0
Standardised	453,800	22%	99,700	22%	98,679	16%	74,009	
Other	0	na	8,400	na	8,400	na	8,400	0
Credit Risk	**1,051,300**	**24%**	**257,300**	**34%**	**362,677**	**26%**	**272,008**	**14,708**
Operational Risk		**na**	**22,000**	**na**	**45,468**	**na**	**34,101**	**12,101**
Other risk (settlement, failed trades, equity risk outside trading book)		na	4,900	na	4,900	na	4,900	0
Market Risk		**na**	**8,800**	**na**	**14,540**	**na**	**14,540**	**5,740**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	**1,051,300**	**28%**	**293,000**	**41%**	**427,585**	**31%**	**325,549**	**32,549**
RWA inflation								11%

Source: Deutsche Bank, Company data

Model updated:16 June 2015

Running the numbers

Europe

France

Banks

Credit Agricole SA

Reuters: CAGR.PA Bloomberg: ACA FP

Hold

Price (16 Jun 15)	EUR 13.07
Target Price	EUR 14.50
52 Week range	EUR 9.90 - 14.34
Market Cap (m)	EURm 34,364
	USDm 38,668

Company Profile

Credit Agricole SA (CASA) was listed in 2001 and it is now the third French bank by market capitalisation. 54% of CASA is owned by its regional banks. CASA is the leader of retail banking in France, and this position has been reinforced in 2003 with the acquisition of Le Credit Lyonnais (LCL). CASA is also a diversified group with strong positions in asset gathering activities, corporate and investment banking but also in international retail.

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Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	-2.58	1.01	0.92	1.07	1.53	1.69
EPS (DB) (EUR)	1.11	1.00	1.28	1.28	1.45	1.61
Growth Rate - EPS (DB) (%)	-20.4	-9.7	27.6	-0.1	13.4	11.7
DPS (EUR)	0.00	0.35	0.35	0.54	0.76	0.85
BVPS (stated) (EUR)	15.90	16.91	18.02	18.96	19.67	20.35
Tang. NAV p. sh. (EUR)	9.63	10.95	12.24	13.79	14.59	15.40
Market Capitalisation	15,198	23,277	27,722	34,364	34,364	34,364
Shares in issue	2,476	2,485	2,540	2,626	2,676	2,748
Valuation Ratios & Profitability Measures						
P/E (stated)	-2.4	9.2	11.7	12.2	8.6	7.7
P/E (DB)	5.5	9.3	8.4	10.2	9.0	8.1
P/B (stated)	0.4	0.6	0.6	0.7	0.7	0.6
P/Tangible equity (DB)	0.6	0.8	0.9	0.9	0.9	0.8
ROE(stated)(%)	-15.5	6.1	5.3	5.8	8.0	8.6
ROTE (tangible equity) (%)	11.6	9.7	11.0	9.9	10.3	10.9
ROIC (invested capital) (%)	6.6	6.1	7.3	7.0	7.5	8.2
Dividend yield(%)	0.0	4.6	3.2	4.1	5.8	6.5
Dividend cover(x)	nm	2.9	2.6	2.0	2.0	2.0
Profit & Loss (EURm)						
Net interest revenue	11,803	11,603	11,727	12,819	13,540	14,240
Non interest income	4,150	4,079	4,123	4,507	4,760	5,006
Commissions	3,880	3,814	3,855	4,214	4,451	4,681
Trading Revenue	4,317	4,243	4,289	4,688	4,952	5,208
Other revenue	-4,047	-3,978	-4,021	-4,395	-4,642	-4,883
Total revenue	15,953	15,682	15,849	17,326	18,300	19,246
Total Operating Costs	11,624	11,133	11,088	11,571	11,825	12,033
Employee Costs	6,835	6,546	6,520	6,804	6,953	7,075
Other costs	4,789	4,587	4,568	4,767	4,872	4,958
Pre-Provision profit/(loss)	4,329	4,549	4,761	5,755	6,475	7,213
Bad debt expense	3,703	2,894	2,204	2,715	2,084	2,017
Operating Profit	626	1,655	2,557	3,040	4,391	5,196
Pre-tax associates	-2,347	1,274	678	1,493	1,561	1,632
Pre-tax profit	-1,721	2,929	3,235	4,533	5,951	6,828
Tax	391	98	470	1,247	1,453	1,751
Other post tax items	-4,278	-322	-421	-472	-414	-425
Stated net profit	-6,390	2,509	2,344	2,815	4,084	4,652
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	9,133	-23	897	535	-216	-216
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	2,744	2,486	3,242	3,349	3,868	4,437
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	293,100	299,600	293,000	319,509	334,408	349,306
Interest-earning assets	1,046,610	1,013,067	1,037,740	1,047,296	1,060,014	1,072,988
Customer Loans	329,756	303,837	314,379	331,219	337,893	344,702
Total Deposits	483,638	477,263	473,984	503,113	523,542	544,800
Stated Shareholder Equity	39,727	42,294	46,423	49,866	52,711	55,983
Equals: Tangible Equity	24,044	27,398	31,545	36,266	39,111	42,383
Tier 1 capital	34,200	32,694	34,463	37,627	41,972	45,244
Tier 1 ratio (%)	12	11	12	12	13	13
o/w core tier 1 capital ratio (%)	9.2	9.9	10.4	10.4	10.8	11.2
Credit Quality						
Gross NPLs/Total Loans(%)	4.72	5.00	4.77	4.62	4.53	4.44
Risk Provisions/NPLs(%)	76	72	72	73	73	73
Bad debt / Avg loans (%)	1.02	0.91	0.71	0.84	0.62	0.59
Bad debt/Pre-Provision Profit(%)	85.5	63.6	46.3	47.2	32.2	28.0
Growth Rates & Key Ratios						
Growth in revenues (%)	-18	-2	1	9	6	5
Growth in costs (%)	-6	-4	0	4	2	2
Growth in bad debts (%)	-13	-22	-24	23	-23	-3
Growth in RWA (%)	-12	2	-2	9	5	4
Net int. margin (%)	1.12	1.13	1.14	1.23	1.29	1.34
Cap.-market rev. / Total revs (%)	30	29	29	32	32	32
Total loans / Total deposits (%)	68	64	66	66	65	63
ROTE Decomposition						
Revenue % ARWAs	5.09	5.29	5.35	5.66	5.60	5.63
Net interest revenue % ARWA	3.77	3.92	3.96	4.19	4.14	4.17
Non interest revenue % ARWA	1.32	1.38	1.39	1.47	1.46	1.46
Costs/income ratio (%)	72.9	71.0	70.0	66.8	64.6	62.5
Bad debts % ARWAs	1.18	0.98	0.74	0.89	0.64	0.59
Tax rate (%)	62.4	5.9	18.4	41.0	33.1	33.7
Adj. Attr. earnings % ARWA	1.62	0.41	0.87	0.61	0.71	0.82
Capital leverage (ARWA/Equity)	13.2	11.5	10.1	9.0	8.7	8.4
ROTE (Adj. earnings/Ave. equity)	21.5	4.7	8.7	5.5	6.1	6.9

Source: Company data, Deutsche Bank estimates

Société Générale (Buy, TP EUR 48)

Investment thesis summary

SocGen is the only French bank we currently rate Buy and it is, therefore, our preferred play among French banks. The reasons for our stance: first, despite the share price rally YTD, we still find SocGen's valuation attractive, at a PE just below 9x and PTBV below 0.8x in 2016 for ~10% RoTE on our forecasts – which incorporate some USD2.0bn litigation costs on OFAC and a net loss in Russia larger than management guidance. We also like the recent outperformance in French retail (38% of SocGen net profit), the upside risk from capital market revenues (25% of group revenues), the play on European recovery (high beta stock) and the more limited risk on solvency vs. other French banks, in our view.

10% potential RWA inflation under Basel 4, coming mainly from market risk

Our Basel 4 model for SocGen points to total RWA inflation of 10% (+E34bn of RWAs out of E353bn total RWAs at end 2014). The bulk of the RWA increase is expected to come from market risk RWAs (+E21bn or 61% of RWA inflation), with the rest coming from credit risk RWAs (+E7bn or 20%) and operational risk RWAs (+E7bn or 19%). In **market risk** we expect the bulk of RWA inflation to come from the risks not in VaR (RNIV), and from the fact that SocGen makes very limited use of the standardised method when calculating market risk RWAs (only 10% of market risk RWAs are calculated using the standardised method). Within **credit risk**, we expect some increase in RWAs linked to corporate loans calculated using the IRB method. SocGen currently has an average RW of 46% on such loans and we consider it will grow to 54% (75% capital floor applied to a standardised RW of 72% assumed in our analysis). We also expect some higher RW on RWAs linked to mortgage loans calculated using the IRB method (currently RW of 16% which we forecast will go to 26% with a 75% capital floor applied to a standardised RW of 35%). In **operational risk,** we expect a limited increase in RWAs, mainly due to the fact that SocGen already had a higher Beta (RWA / 12.5 * 3Y average revenues) than other banks with 15% under Basel 3, we estimate, and to go to 18% in Basel 4 (after applying the 75% capital floor).

RWA inflation is slightly lower than the 14% we forecast for the sector

We forecast RWA inflation of 10% for SocGen under Basel 4. This is lower than the average 14% RWA inflation we forecast at sector level. This is also much lower than the respective increases of 27% for KBC and 19% for BNPP, but roughly in line with the 11% increase we forecast for CASA. Compared to other European banks, we expect (1) a particularly high increase in market risk RWA at SocGen, which is due to the fact that the bank makes heavy use of the internal rate method and currently has no RWAs linked to RNIV, and (2) a lower increase in operational risk RWA at SocGen, which is due to the fact that the bank already has a higher Beta. We point out that our analysis is based on a draft document that could be loosened in its final iteration, and that our analysis is also before considering any kind of mitigation from the company.

Without mitigation such RWA inflation would bring CT1 ratio below 10% target

The bank targets a CET1 ratio of 10%, which implies a 2% management buffer over the regulatory requirement of 8% (7% + 1% SIFI buffer). According to our analysis, if no mitigation is done we forecast that SocGen CET1 ratio will be reduced by ~90bps by switching to Basel 4 as per current drafts. That would bring SocGen CET1 ratio to 9.2%-9.6% in 2015-17E vs. our current 10.1%-10.5% forecasts under Basel 3.

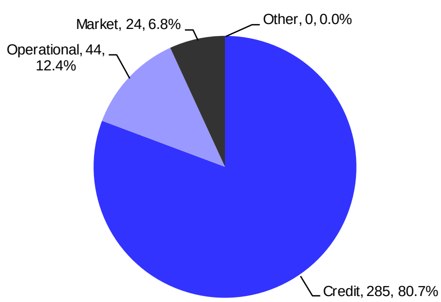
Under our framework, SocGen will experience RWA inflation of 10%.

Figure 71: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	353	382	391	400
RWA capital floors	388	419	429	439
RWA standardised	502	542	555	568
Leverage assets	1,173	1,244	1,263	1,283
RW density B3	30%	31%	31%	31%
RW density B4 capital floors	33%	34%	34%	34%
RW density B4 on fully standardised	43%	44%	44%	44%
CT1 B3	36	39	40	42
AT1	9	9	9	10
CT1 B4	10.1%	9.2%	9.4%	9.6%
CT1 B4 capital floors	**9.2%**	**9.2%**	**9.4%**	**9.6%**
CT1 B4 on standardised	7.1%	7.1%	7.2%	7.4%
Leverage ratio	3.8%	3.8%	3.9%	4.0%

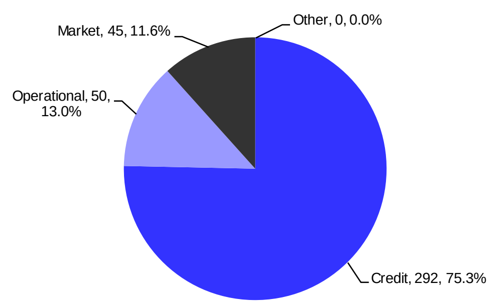
Source: Deutsche Bank, Company data

Figure 72: RWA B3 2014



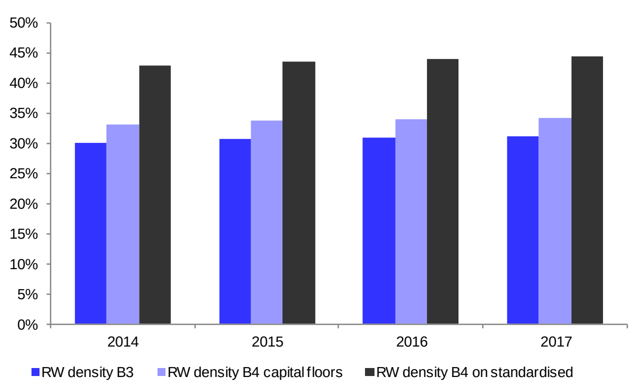
Source: Deutsche Bank, Company data

Figure 73: RWA B4 2014E



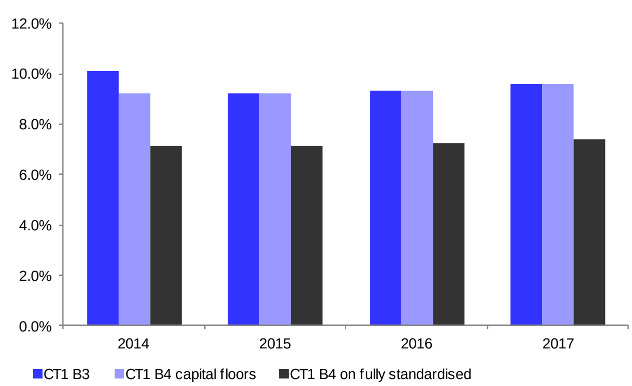
Source: Deutsche Bank, Company data

Figure 74: RW densities



Source: Deutsche Bank, Company data Future data based on forecasts

Figure 75: CT1 capital ratios



Source: Deutsche Bank, Company data Future data based on forecasts

Figure 76: Societe Generale – modelling pro-forma 2014 RWA inflation by category before management action

SOGN.PA

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	147,707	4%	5,187	4%	5,187	4%	5,187	0
Institution	55,205	19%	10,737	30%	16,562	23%	12,421	1,684
Corporate	212,882	46%	97,480	72%	153,439	54%	115,079	17,599
Retail	133,926	23%	30,163	49%	65,782	37%	49,972	19,809
o/w mortgage	82,403	16%	13,436	35%	28,841	26%	21,631	8,195
o/w Lombard or collateralised	5,656	45%	2,541	45%	2,541	45%	2,541	0
o/w other	45,867	31%	14,186	75%	34,400	56%	25,800	11,614
Other	15,035	11%	1,629	11%	1,629	11%	1,629	0
IRB	564,755	26%	145,196	43%	242,599	32%	181,949	36,753
Sovereign	10,181	110%	11,221	110%	11,221	110%	11,221	0
Institution	33,519	11%	3,722	30%	10,056	23%	7,542	3,820
Corporate	74,336	71%	53,112	72%	53,579	71%	53,112	0
Retail	45,418	60%	27,458	60%	27,458	60%	27,458	0
Other	47	796%	374	796%	374	796%	374	0
Standardised	163,501	59%	95,887	63%	102,688	47%	77,016	0
Other	0	na	44,012	na	44,012	na	44,012	0
Credit Risk	**728,256**	**39%**	**285,095**	**53%**	**389,298**	**40%**	**291,974**	**6,879**
Operational Risk		**na**	**43,931**	**na**	**67,277**	**na**	**50,458**	**6,527**
Other risk (settlement, failed trades, equity risk outside trading book)		na		na	0	na	0	0
Market Risk		**na**	**24,170**	**na**	**45,148**	**na**	**45,148**	**20,978**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	728,256	48%	353,196	69%	501,724	53%	387,580	34,384
RWA inflation								10%

Source: Deutsche Bank, Company data

Model updated:07 May 2015

Running the numbers

Europe

France

Banks

Societe Generale

Reuters: SOGN.PA — Bloomberg: GLE FP

Buy

Price (15 Jun 15)	EUR 41.91
Target Price	EUR 48.00
52 Week range	EUR 32.83 - 46.76
Market Cap (m)	EURm 33,006
	USDm 37,194

Company Profile

Societe Generale is the second-largest French bank in terms of market capitalisation. It operates in retail banking, investment banking, asset gathering activities as well as in diversified specialised financial services. It employs around 155,000 employees in 85 countries. Besides France (its domestic market) the bank operates mainly in Russia, Czech Republic, Romania, Poland and North Africa.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	0.66	2.29	2.90	4.45	3.88	5.20
EPS (DB) (EUR)	4.48	4.68	4.06	4.39	4.77	5.20
Growth Rate - EPS (DB) (%)	3.9	4.6	-13.3	8.1	8.6	9.0
DPS (EUR)	0.45	1.00	1.20	2.20	1.94	2.60
BVPS (stated) (EUR)	56.92	56.60	58.00	61.95	63.50	66.71
Tang. NAV p. sh. (EUR)	46.59	48.09	50.45	54.29	55.84	59.05
Market Capitalisation	21,368	32,769	27,473	33,006	33,006	33,006
Shares in issue	752	766	781	786	786	786
Valuation Ratios & Profitability Measures						
P/E (stated)	43.0	18.4	12.1	9.4	10.8	8.1
P/E (DB)	6.3	9.0	8.6	9.5	8.8	8.1
P/B (stated)	0.5	0.7	0.6	0.7	0.7	0.6
P/Tangible equity (DB)	0.6	0.9	0.7	0.8	0.8	0.7
ROE(stated)(%)	1.2	4.1	5.1	7.4	6.2	8.0
ROTE (tangible equity) (%)	10.1	9.9	8.2	8.4	8.6	9.0
ROIC (invested capital) (%)	8.0	8.3	7.1	7.3	7.6	8.0
Dividend yield(%)	2.1	3.0	2.9	5.2	4.6	6.2
Dividend cover(x)	1.5	2.3	2.4	2.0	2.0	2.0
Profit & Loss (EURm)						
Net interest revenue	11,004	10,688	11,218	11,897	12,354	12,792
Non interest income	12,106	11,757	12,341	13,088	13,591	14,072
Commissions	6,472	6,285	6,597	6,997	7,266	7,523
Trading Revenue	3,995	3,880	4,073	4,320	4,485	4,644
Other revenue	1,639	1,592	1,671	1,772	1,840	1,905
Total revenue	23,110	22,445	23,559	24,985	25,945	26,864
Total Operating Costs	16,418	16,047	16,037	16,619	17,334	17,785
Employee Costs	9,315	9,105	9,099	9,430	9,835	10,091
Other costs	7,103	6,942	6,938	7,190	7,499	7,694
Pre-Provision profit/(loss)	6,692	6,398	7,522	8,366	8,612	9,080
Bad debt expense	3,935	4,050	2,964	2,658	3,211	2,400
Operating Profit	2,757	2,348	4,558	5,708	5,401	6,680
Pre-tax associates	-1,192	586	-202	193	220	228
Pre-tax profit	1,565	2,934	4,356	5,901	5,621	6,908
Tax	341	528	1,378	1,642	1,755	1,913
Other post tax items	-729	-647	-713	-756	-819	-909
Stated net profit	495	1,759	2,265	3,503	3,047	4,086
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	2,872	1,832	908	-51	700	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	3,367	3,591	3,173	3,452	3,747	4,086
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	324,100	316,000	353,200	381,548	390,812	400,076
Interest-earning assets	652,681	648,273	656,300	702,848	721,481	740,800
Customer Loans	350,241	333,535	344,400	354,732	367,148	379,998
Total Deposits	337,230	344,687	349,700	360,191	370,997	382,127
Stated Shareholder Equity	42,919	43,929	45,541	48,791	50,012	52,539
Equals: Tangible Equity	35,132	37,324	39,608	42,758	43,979	46,506
Tier 1 capital	40,499	41,508	44,700	47,324	48,810	51,803
Tier 1 ratio (%)	12	13	13	12	12	13
o/w core tier 1 capital ratio (%)	10.7	11.2	10.1	10.1	10.3	10.5
Credit Quality						
Gross NPLs/Total Loans(%)	6.77	7.47	6.88	6.85	6.62	6.39
Risk Provisions/NPLs(%)	57	58	61	62	63	64
Bad debt / Avg loans (%)	1.10	1.18	0.87	0.76	0.89	0.64
Bad debt/Pre-Provision Profit(%)	58.8	63.3	39.4	31.8	37.3	26.4
Growth Rates & Key Ratios						
Growth in revenues (%)	-10	-3	5	6	4	4
Growth in costs (%)	-4	-2	0	4	4	3
Growth in bad debts (%)	-9	3	-27	-10	21	-25
Growth in RWA (%)	-7	-2	12	8	2	2
Net int. margin (%)	1.69	1.64	1.72	1.75	1.73	1.75
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	104	97	98	98	99	99
ROTE Decomposition						
Revenue % ARWAs	6.86	7.01	7.04	6.80	6.72	6.79
Net interest revenue % ARWA	3.27	3.34	3.35	3.24	3.20	3.23
Non interest revenue % ARWA	3.60	3.67	3.69	3.56	3.52	3.56
Costs/income ratio (%)	71.0	71.5	68.1	66.5	66.8	66.2
Bad debts % ARWAs	1.17	1.27	0.89	0.72	0.83	0.61
Tax rate (%)	12.4	22.5	30.2	28.8	32.5	28.6
Adj. Attr. earnings % ARWA	1.35	0.94	1.01	0.89	0.91	0.98
Capital leverage (ARWA/Equity)	10.1	8.8	8.7	8.9	8.9	8.7
ROTE (Adj. earnings/Ave. equity)	13.7	8.3	8.8	7.9	8.1	8.5

Source: Company data, Deutsche Bank estimates

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Benelux

ING Groep (Hold TP EUR (14.4)

Investment thesis

ING has made good progress on its disposal program so far. ING is required to sell its stake NN Group by the end of 2016, at which point it will be a 100% retail & commercial bank. ING reinstated dividends in 4Q14, and targets paying >40% of Group earnings as a dividend. Longer term, we expect ING to return excess capital to shareholders. We have a Hold rating.

Very geared to change on Dutch mortgages and corporates

On our framework, ING is one of the most affected in terms of risk weighted asset inflation, driven by two key areas: mortgage risk weightings and corporate risk weightings. We go through these in detail below.

Mortgage risk weightings: Currently, ING's E275bn exposure to mortgages is risk weighted at 18%. The new Basel consultation paper proposes introducing risk weight by LTV bucket (see the earlier section of this report for more details). Mortgage LTVs in the Netherlands are high vs. the rest of Europe: ING's average LTV here is 87%. We don't have an LTV distribution by bucket for ING in NL, but we do for ABN AMRO, which has a slightly lower average LTV. Using this, we estimate a new standardised risk weight of 54% for Dutch mortgages. For the other countries, we use 35%, in line with the current standardised approach (we lack LTV distribution). This gives us a blended standardised risk weight of 44%, which on a capital floor of 75% is a 33% risk weight or E43bn of additional RWAs. Note: this assumes any NHG guarantee in the Netherlands (19% of ING balances) is ignored and not weighted lower or at zero.

Clearly these new risk weightings – if they come in – would particularly impact ING. We note that total Dutch mortgage impairments over 2011-14 have been E968m, which on average balances of E138bn represents just 70bps cumulatively, over a period in which house prices have fallen, and unemployment has risen.

Corporate risk weightings: Currently, ING's E225bn IRB corporate exposure is risk weighted at 45%. Under the new Basel proposals, we estimate 72% as the new standardised risk weight for corporate for ING: a combination of our estimates for ING's core European markets (NL, Belgium, Germany). On a 75% capital floor, this represents 54% new risk weight, an increase of an additional E21bn RWAs. Note that for all ING's business lending (E262bn of loans), 36% is fully covered by collateral, and an additional 31% is partially covered by collateral. So our interpretation of the Basel paper does not take into account this collateral.

Implications for capital returns story

Across Credit Risk and Market risk, we estimate an additional E54bn of RWAs, representing RWA inflation of 18%, and a CET1 impact of 175bps. ING targets an 11% CET1 ratio, and (pro-forma for the remaining NN Group sales) had a group CET1 ratio of 13.5% as at 1Q15. So 175bps of impact would still put this at ~11.8% pro-forma today – above the target. Where the RWA inflation could

Figure 77: ING mortgage LTVs by country

	LTV	% of total
Netherlands	87%	48%
Germany	71%	23%
Australia	61%	11%
Belgium / Luxembourg	74%	10%
Spain	65%	3%
Italy	57%	3%
Poland	59%	1%
Turkey	54%	0%
Romania	67%	0%
Total	**77%**	**100%**

Source: Deutsche Bank

have greater impact is on the dividend expectations for ING: we forecast a payout ratio of 75% in 2015, 90% in 2016 and 90% in 2017 – effectively paying out the capital surplus from the sale of NN Group. The capital surplus would fall from 250bps of CET1 at 1Q15 to 80bps.

Given the collateral, NHG guarantees, and low cumulative losses on Dutch mortgages, it is our view that the risk weighted asset approach implemented by regulators for ING will be diluted / adjusted to take these into account. However, we are clear that RWA changes on mortgages and corporate remain clear risk factors for ING’s capital surplus story.

Valuation & risks

We use a sum-of-the-parts approach to value bank divisions. Given that at the end of 2016, ING Group will 100% be a bank, we use 2016e bank earnings, allocating 2016e group equity using forecast RWAs by division, and then value each subdivision (retail banking, commercial banking) based on P/E multiples. For the 'Retail Challengers & Growth markets - Other' we have included the various stakes that ING owns: Bank of Beijing, ING Bank Slaski, Vysya Bank (now merged with Kotak Bank), and TMB Bank, less a 10% liquidity discount. For the remainder of this division, we assume a value of EUR 2.0bn. This gives us a value for the bank, which we then add to dividends in 2015 & 16, and excess capital over 12.5% CET1 in 2016; all discounted back at a cost of equity of 10%.

Key upside risks: better sale values for NN Group, improved loan growth and economies in core markets, lower or more relaxed regulatory requirements for the bank, faster-than-expected capital distributions. Key downside risks: lower sale values for insurance, drag on growth prospects due to oil price, deteriorating Dutch/European/EM economies; higher regulatory requirements – in particularly risk weights, risks relating to Russian/Ukrainian exposures.

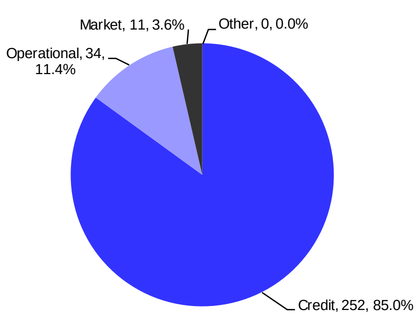
Figure 78: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	296	311	331	352
RWA capital floors	350	368	391	416
RWA standardised	455	478	509	541
Leverage assets	829	888	917	954
RW density B3	36%	35%	36%	37%
RW density B4 capital floors	42%	41%	43%	44%
RW density B4 on fully standardised	55%	54%	55%	57%
CT1 B3	34	38	42	43
AT1	0	2	2	2
CT1 B4	11.4%	12.2%	12.7%	12.1%
CT1 B4 capital floors	**9.6%**	**10.4%**	**10.7%**	**10.2%**
CT1 B4 on standardised	7.4%	8.0%	8.2%	7.8%
Leverage ratio	4.1%	4.5%	4.8%	4.7%

Source: Deutsche Bank, Company data

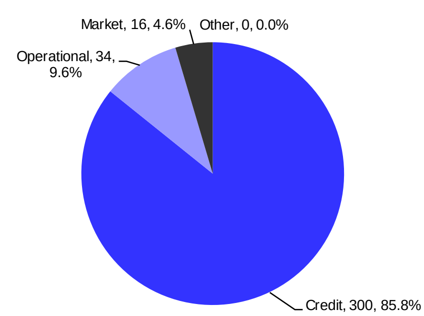
Under our framework, ING will experience RWA inflation of 18%.

Figure 79: RWA B3 2014



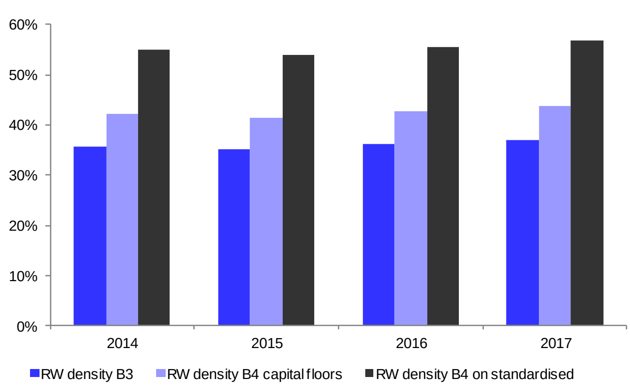
Source: Deutsche Bank, Company data

Figure 80: RWA B4 2014E



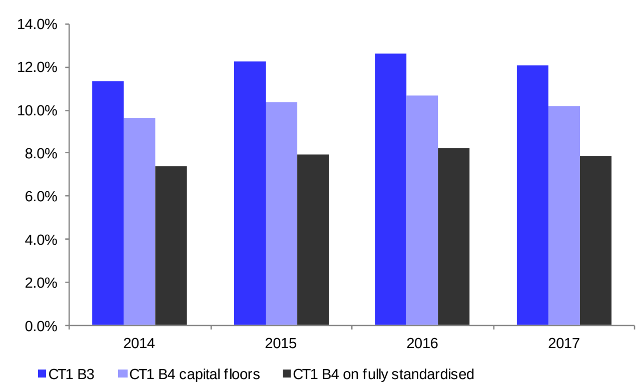
Source: Deutsche Bank, Company data

Figure 81: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 82: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 83: ING Groep – modelling pro-forma 2014 RWA inflation by category before management action

ING.AS

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	100,763	6%	6,166	6%	6,166	6%	6,166	0
Institution	111,288	28%	31,015	30%	33,386	28%	31,015	0
Corporate	226,843	45%	101,738	72%	163,327	54%	122,495	20,757
Retail	315,230	21%	66,072	48%	152,359	36%	114,269	48,197
o/w mortgage	275,492	18%	49,233	44%	122,555	33%	91,916	42,683
o/w Lombard or collateralised		0%		0%	0	0%	0	0
o/w other	39,738	42%	16,839	75%	29,804	56%	22,353	5,514
Other		0%		0%	0	0%	0	0
IRB	754,124	27%	204,990	47%	355,238	35%	266,429	61,439
Sovereign	2,374	80%	1,902	80%	1,902	80%	1,902	0
Institution	2,118	45%	950	30%	635	45%	950	0
Corporate	7,649	88%	6,725	72%	5,507	88%	6,725	0
Retail	16,265	61%	9,988	61%	9,988	61%	9,988	0
Other		0%		0%	0	0%	0	0
Standardised	28,408	69%	19,563	63%	18,033	48%	13,525	0
Other		na	27,298	na	27,298	na	27,298	0
Credit Risk	**782,532**	**32%**	**251,850**	**51%**	**400,568**	**38%**	**300,426**	**48,576**
Operational Risk		**na**	**33,750**	**na**	**38,759**	**na**	**29,070**	**0**
Other risk (settlement, failed trades, equity risk outside trading book)		na		na	0	na	0	0
Market Risk		**na**	**10,725**	**na**	**16,088**	**na**	**16,088**	**5,363**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	**782,532**	**38%**	**296,325**	**58%**	**455,415**	**44%**	**345,583**	**53,939**
RWA inflation								18%

Source: Deutsche Bank, Company data

Model updated:07 May 2015

Running the numbers

Europe

Netherlands

Banks

ING

Reuters: ING.AS Bloomberg: INGA NA

Hold

Price (15 Jun 15)	EUR 14.35
Target Price	EUR 14.40
52 Week range	EUR 9.60 - 15.17
Market Cap (m)	EURm 55,471
	USDm 62,511

Company Profile

ING Groep N.V. offers financial services to individuals, corporations, and other institutions. ING received E10bn in capital support from the Dutch State during the crisis, of which E1.5bn remains (as of December 2013). The group is currently in the process of a complex restructuring programme (under EC requirements), which will eventually see it sell all its insurance operations, leaving the group a 100% retail & commercial bank at the end of 2016.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	0.71	0.92	0.33	1.27	1.19	1.29
EPS (DB) (EUR)	0.70	0.79	1.00	1.04	1.18	1.28
Growth Rate - EPS (DB) (%)	-50.1	13.3	26.8	3.9	13.1	8.4
DPS (EUR)	0.00	0.00	0.12	0.95	1.07	1.16
BVPS (stated) (EUR)	na	na	na	na	na	na
Tang. NAV p. sh. (EUR)	12.89	8.13	9.45	11.10	12.08	12.21
Market Capitalisation	26,839	38,754	41,745	55,471	55,471	55,471
Shares in issue	3,831	3,841	3,850	3,864	3,870	3,870
Valuation Ratios & Profitability Measures						
P/E (stated)	10.0	10.9	33.3	11.3	12.1	11.2
P/E (DB)	10.1	12.8	10.8	13.7	12.2	11.2
P/B (stated)	na	na	na	na	na	na
P/Tangible equity (DB)	0.5	1.2	1.1	1.3	1.2	1.2
ROE(stated)(%)	5.4	8.4	3.5	12.1	10.2	10.6
ROTE (tangible equity) (%)	5.8	7.6	11.4	10.2	10.2	10.6
ROIC (invested capital) (%)	nm	nm	nm	nm	nm	nm
Dividend yield(%)	0.0	0.0	1.2	6.6	7.4	8.1
Dividend cover(x)	nm	nm	2.7	1.3	1.1	1.1
Profit & Loss (EURm)						
Net interest revenue	11,664	11,804	12,376	12,975	13,478	14,046
Non interest income	2,649	3,501	2,921	3,432	3,435	3,474
Commissions	2,757	2,563	2,496	2,566	2,588	2,617
Trading Revenue	0	0	0	0	0	0
Other revenue	-108	938	424	866	847	857
Total revenue	14,313	15,305	15,296	16,407	16,913	17,520
Total Operating Costs	8,638	8,694	8,979	8,816	8,982	9,152
Employee Costs	8,427	8,558	8,891	8,763	8,929	9,100
Other costs	211	136	88	54	53	52
Pre-Provision profit/(loss)	5,675	6,611	6,317	7,590	7,932	8,368
Bad debt expense	2,121	2,288	1,594	1,766	1,603	1,512
Operating Profit	3,554	4,323	4,724	5,825	6,329	6,856
Pre-tax associates	159	0	0	0	0	0
Pre-tax profit	3,713	4,323	4,724	5,825	6,329	6,856
Tax	948	1,078	1,221	1,568	1,689	1,833
Other post tax items	-88	302	-2,251	632	-50	-50
Stated net profit	2,677	3,548	1,252	4,889	4,590	4,972
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	0	-506	2,614	-855	-20	-18
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	2,677	3,041	3,866	4,034	4,570	4,954
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	278,656	282,503	296,319	311,094	331,042	352,298
Interest-earning assets	0	0	0	0	0	0
Customer Loans	519,700	492,645	507,540	540,856	559,628	586,134
Total Deposits	460,362	474,783	489,282	514,895	532,900	553,107
Stated Shareholder Equity	51,777	32,805	38,064	42,893	46,706	47,198
Equals: Tangible Equity	48,981	31,199	36,409	42,893	46,706	47,198
Tier 1 capital	39,974	38,232	37,100	45,174	48,986	49,479
Tier 1 ratio (%)	13	14	13	15	15	14
o/w core tier 1 capital ratio (%)	11.9	11.7	11.2	12.3	12.7	12.1
Credit Quality						
Gross NPLs/Total Loans(%)	0.00	3.23	3.33	3.14	2.93	2.83
Risk Provisions/NPLs(%)	nm	38	35	37	37	37
Bad debt / Avg loans (%)	0.40	0.45	0.32	0.34	0.29	0.26
Bad debt/Pre-Provision Profit(%)	37.4	34.6	25.2	23.3	20.2	18.1
Growth Rates & Key Ratios						
Growth in revenues (%)	-2	7	0	7	3	4
Growth in costs (%)	-4	1	3	-2	2	2
Growth in bad debts (%)	58	8	-30	11	-9	-6
Growth in RWA (%)	-16	1	5	5	6	6
Net int. margin (%)	1.35	1.46	1.53	1.51	1.49	1.50
Cap.-market rev. / Total revs (%)	0	0	0	0	0	0
Total loans / Total deposits (%)	113	104	104	105	105	106
ROTE Decomposition						
Revenue % ARWAs	4.70	5.45	5.29	5.40	5.27	5.13
Net interest revenue % ARWA	3.83	4.21	4.28	4.27	4.20	4.11
Non interest revenue % ARWA	0.87	1.25	1.01	1.13	1.07	1.02
Costs/income ratio (%)	60.3	56.8	58.7	53.7	53.1	52.2
Bad debts % ARWAs	0.70	0.82	0.55	0.58	0.50	0.44
Tax rate (%)	26.7	24.9	25.8	26.9	26.7	26.7
Adj. Attr. earnings % ARWA	0.83	1.08	1.34	1.33	1.42	1.45
Capital leverage (ARWA/Equity)	6.6	7.0	8.6	7.7	7.2	7.3
ROTE (Adj. earnings/Ave. equity)	5.5	7.6	11.4	10.2	10.2	10.6

Source: Company data, Deutsche Bank estimates

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KBC (Buy, TP EUR 66)

Investment thesis summary

KBC presents what we consider a low risk profile (no known litigation, strong core franchise in Belgium and Czech Republic, limited exposure to oil & gas, Greece, Russia and i-banking), high profitability (16% RoTE in 2015-17E), leading market shares in key markets (20%+ in Belgium & Czech Republic), good earnings momentum (resilient NII, fees & commissions growing rapidly, costs contained and provision normalisation esp. in Ireland) and high dividend payout potential (~200bps capital build-up per year before dividend payout and organic growth). Despite the strong rally in the share price over the past six months, we continue to rate KBC Buy for the attractive risk-reward profile and the considerable excess capital that should accumulate, a large part of which we expect will be returned to shareholders at some point.

27% potential RWA inflation from Basel 4, due to credit and operational risk

Our Basel 4 model for KBC points to total RWA inflation of 27% (+E25bn of RWAs out of E91bn total RWAs at end-2014). The bulk of the RWA increase is expected to come from credit risk RWAs (+E15bn or 62% of RWA inflation), but also from operational risk RWAs (+E8bn or 32%), while the impact coming from market risk RWAs is more limited (+E2bn or 6%). Within **credit risk**, we expect some quite widespread increase in RWAs coming from RWAs linked to corporate loans, mortgages and other retail loans calculated using the IRB method. KBC currently has an average RW of 43% on corporate loans and we think it will grow to a much higher level of 56% (75% capital floor applied to a standardised RW of 74% assumed in our analysis). We also expect some higher RW on RWAs linked to mortgage loans calculated using the IRB method (currently RW of 18%, which we forecast will go to 30% with a 75% capital floor applied to a standardised RW of 40%). In **operational risk,** we expect a significant increase in RWAs, mainly due to the fact that KBC should, in our view, have a Beta (RWA / 12.5 * 3Y average revenues) of 21% in Basel 4 (after applying the 75% capital floor) compared to only 12% currently, we estimate. In **market risk,** we considered a 50% increase, in line with the sector, but the impact is non-significant, as they represent only 3% of group RWAs.

Higher RWA inflation than most other banks – before any mitigation though

We forecast RWA inflation of 27% for KBC under Basel 4 compared to Basel 3 RWAs at end-2014. This is more than the average 14% RWA inflation we forecast at sector level, and also above the respective increases of 10% for SocGen, 11% for CredAg and 19% for BNPP. We point out, though, that our analysis is based on a draft document that could be loosened in its final iteration, and that our analysis is before considering any mitigation from the company.

Without mitigation such RWA inflation would reduce excess capital

The bank targets a CET1 ratio of 10.5%. According to our analysis, if no mitigation is done, we forecast that KBC's CET1 ratio will be reduced by a significant ~300bps by switching to Basel 4 as per current drafts. That would bring KBC's CET1 ratio to 10.4%-11.3% in 2015-17E vs. our current 13.2%-14.4% forecasts under Basel 3. While KBC would still be above its regulatory requirement of 10.5%, that would reduce the excess capital of the bank and thereby, in our view, either limit potential acquisitions by KBC or limit the excess capital that KBC would ultimately return to shareholders.

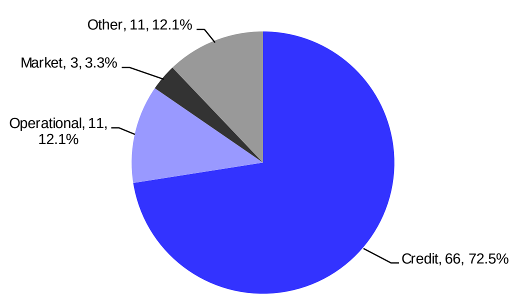
Under our framework, KBC will experience RWA inflation of 27%.

Figure 84: Capital sensitivities

Reporting FXm	2014	2015E	2016E	2017E
RWA B3	91	93	95	97
RWA capital floors	116	119	122	124
RWA standardised	143	147	150	153
Leverage assets	226	239	243	246
RW density B3	40%	39%	39%	40%
RW density B4 capital floors	51%	50%	50%	50%
RW density B4 on fully standardised	63%	61%	62%	62%
CT1 B3	13	12	13	14
AT1	1	1	1	1
CT1 B4	14.3%	13.2%	13.8%	14.4%
CT1 B4 capital floors	**11.3%**	**10.4%**	**10.8%**	**11.3%**
CT1 B4 on standardised	9.1%	8.4%	8.8%	9.1%
Leverage ratio	6.4%	5.7%	6.0%	6.2%

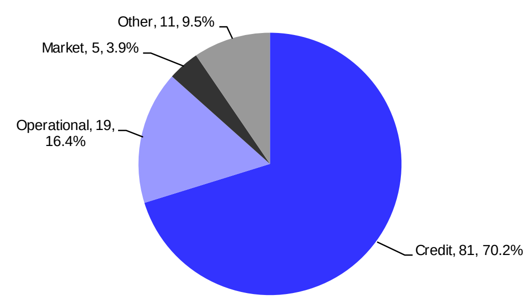
Source: Deutsche Bank, Company data

Figure 85: RWA B3 2014



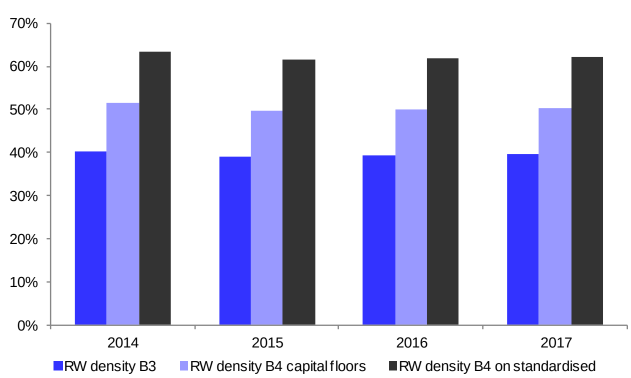
Source: Deutsche Bank, Company data

Figure 86: RWA B4 2014E



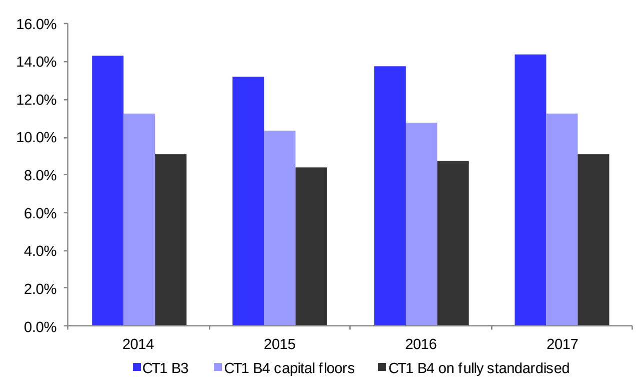
Source: Deutsche Bank, Company data

Figure 87: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 88: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 89: KBC Bank – modelling pro-forma 2014 RWA inflation by category before management action

KBC>BR

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	48,016	13%	6,104	13%	6,104	13%	6,104	0
Institution	9,473	25%	2,361	30%	2,842	25%	2,361	0
Corporate	60,831	43%	25,967	74%	45,109	56%	33,831	7,864
Retail	74,743	18%	13,618	49%	36,755	37%	27,566	13,948
o/w mortgage	55,150	18%	10,014	40%	22,060	30%	16,545	6,531
o/w Lombard or collateralised	0	0%	0	0%	0	0%	0	0
o/w other	19,593	18%	3,604	75%	14,695	56%	11,021	7,417
Other	4,100	104%	4,246	104%	4,246	104%	4,246	0
IRB	197,163	27%	52,296	48%	95,055	36%	71,291	18,995
Sovereign	3,707	1%	38	1%	38	1%	38	0
Institution	107	52%	56	30%	32	52%	56	0
Corporate	803	101%	810	74%	595	101%	810	0
Retail	1,334	68%	911	68%	911	68%	911	0
Other	3,943	301%	11,876	301%	11,876	301%	11,876	0
Standardised	9,894	138%	13,691	136%	13,453	102%	10,089	0
Other	0	na	0	na	0	na	0	0
Credit Risk	**207,057**	**32%**	**65,987**	**52%**	**108,508**	**39%**	**81,381**	**15,394**
Operational Risk		**na**	**11,000**	**na**	**19,030**	**na**	**14,273**	**8,030**
Other risk (settlement, failed trades, equity risk outside trading book)		na		na	0	na	0	0
Market Risk		**na**	**3,000**	**na**	**4,500**	**na**	**4,500**	**1,500**
Net insurance		na	11,013	na	11,013	na	11,013	na
Deductions		na		na	0	na	0	na
RWA Basel III	207,057	44%	91,000	69%	143,051	54%	111,166	24,924
RWA inflation								27%

Source: Deutsche Bank, Company data

Model updated:12 May 2015

Running the numbers

Europe

Belgium

Banks

KBC Group

Reuters: KBC.BR Bloomberg: KBC BB

Buy

Price (15 Jun 15)	EUR 58.19
Target Price	EUR 66.00
52 Week range	EUR 38.01 - 62.36
Market Cap (m)	EURm 24,311
	USDm 27,396

Company Profile

KBC Group is an integrated bancassurance group based in Belgium serving mainly retail, SME and midcap customers. It concentrates on its home markets of Belgium and certain countries in CEE. The company is organized in four business units: Belgium, CEE, Merchant Banking (which includes Ireland) and Corporate Center (which includes non-strategic assets).

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	-1.08	1.04	3.41	2.76	5.28	5.58
EPS (DB) (EUR)	4.38	3.91	4.57	4.96	5.09	5.39
Growth Rate - EPS (DB) (%)	35.6	-10.8	16.8	8.7	2.6	5.9
DPS (EUR)	1.00	0.00	2.00	0.00	3.17	3.35
BVPS (stated) (EUR)	34.40	28.36	31.44	34.73	36.65	38.69
Tang. NAV p. sh. (EUR)	30.62	25.30	28.43	31.67	33.59	35.63
Market Capitalisation	9,198	17,202	19,408	24,311	24,311	24,311
Shares in issue	352	417	417	418	418	418
Valuation Ratios & Profitability Measures						
P/E (stated)	-24.1	39.5	13.6	21.1	11.0	10.4
P/E (DB)	6.0	10.6	10.2	11.7	11.4	10.8
P/B (stated)	0.8	1.5	1.5	1.7	1.6	1.5
P/Tangible equity (DB)	0.9	1.6	1.6	1.8	1.7	1.6
ROE(stated)(%)	-3.5	3.6	11.4	8.3	14.8	14.8
ROTE (tangible equity) (%)	16.5	15.3	17.0	16.5	15.6	15.6
ROIC (invested capital) (%)	14.1	13.6	15.3	15.0	14.2	14.3
Dividend yield(%)	5.8	0.0	4.6	0.0	5.4	5.8
Dividend cover(x)	-1.1	nm	1.7	nm	1.7	1.7
Profit & Loss (EURm)						
Net interest revenue	4,531	3,989	4,268	4,313	4,411	4,513
Non interest income	2,956	3,143	2,378	2,955	3,016	3,084
Commissions	1,324	1,473	1,581	1,755	1,774	1,818
Trading Revenue	1,221	1,334	439	811	812	812
Other revenue	411	336	358	389	430	454
Total revenue	7,487	7,132	6,646	7,268	7,427	7,597
Total Operating Costs	4,184	3,798	3,775	3,906	3,947	3,975
Employee Costs	4,184	3,798	3,775	3,906	3,947	3,975
Other costs	0	0	0	0	0	0
Pre-Provision profit/(loss)	3,303	3,334	2,871	3,362	3,480	3,622
Bad debt expense	1,195	1,724	616	470	480	465
Operating Profit	2,108	1,610	2,255	2,892	2,999	3,157
Pre-tax associates	-31	31	26	21	20	20
Pre-tax profit	2,077	1,641	2,281	2,913	3,019	3,177
Tax	552	660	652	762	815	847
Other post tax items	-1,907	-546	-206	-1,000	0	0
Stated net profit	-382	435	1,424	1,151	2,204	2,330
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	1,923	1,195	481	921	-79	-79
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	1,541	1,630	1,905	2,072	2,126	2,251
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	102,135	91,216	91,236	93,490	95,451	97,411
Interest-earning assets	202,783	193,077	205,744	215,777	219,377	223,067
Customer Loans	139,225	130,153	135,784	144,000	147,600	151,290
Total Deposits	170,813	159,693	169,796	180,000	184,500	189,113
Stated Shareholder Equity	12,098	11,826	13,124	14,508	15,311	16,164
Equals: Tangible Equity	10,770	10,549	11,866	13,231	14,034	14,887
Tier 1 capital	14,062	11,711	14,476	13,730	14,533	15,386
Tier 1 ratio (%)	14	13	16	15	15	16
o/w core tier 1 capital ratio (%)	11.7	12.8	14.3	13.2	13.8	14.4
Credit Quality						
Gross NPLs/Total Loans(%)	5.31	6.05	5.65	5.26	5.00	4.74
Risk Provisions/NPLs(%)	66	72	68	69	71	73
Bad debt / Avg loans (%)	0.82	1.28	0.46	0.34	0.33	0.31
Bad debt/Pre-Provision Profit(%)	36.2	51.7	21.5	14.0	13.8	12.8
Growth Rates & Key Ratios						
Growth in revenues (%)	2	-5	-7	9	2	2
Growth in costs (%)	-19	-9	-1	3	1	1
Growth in bad debts (%)	-10	44	-64	-24	2	-3
Growth in RWA (%)	-19	-11	0	2	2	2
Net int. margin (%)	2.17	2.02	2.14	2.05	2.03	2.04
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	82	82	80	80	80	80
ROTE Decomposition						
Revenue % ARWAs	6.55	7.38	7.29	7.87	7.86	7.88
Net interest revenue % ARWA	3.97	4.13	4.68	4.67	4.67	4.68
Non interest revenue % ARWA	2.59	3.25	2.61	3.20	3.19	3.20
Costs/income ratio (%)	55.9	53.3	56.8	53.7	53.1	52.3
Bad debts % ARWAs	1.05	1.78	0.68	0.51	0.51	0.48
Tax rate (%)	26.2	41.0	28.9	26.4	27.2	26.8
Adj. Attr. earnings % ARWA	1.38	1.65	2.06	2.22	2.23	2.31
Capital leverage (ARWA/Equity)	12.3	9.1	8.1	7.4	6.9	6.7
ROTE (Adj. earnings/Ave. equity)	16.9	15.0	16.8	16.3	15.4	15.4

Source: Company data, Deutsche Bank estimates

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Italy

Banca Popolare Milano (Hold, TP EUR 0.92)

Investment thesis summary

With a CET1 ratio of >12% before the validation of its IRB models, as confirmed by our analysis in this report, we note BPM is over-capitalised for the nature of its business. This means that BPM could integrate weaker/smaller players, or in any case, is ready to take part in the Popolari M&A after the recent governance reform approved by the Italian government. Additionally, the previous management team worked on cost cutting, and the current management team has completed a capital increase, and balance sheet clean-up, and it is ready to commercially re-launch the bank. We think most of this potential (M&A on the one hand, and fundamentals on the other hand) is already reflected in the share price, thus we keep our Hold rating on the stock.

No Basel 4 credit RWAs inflation as BPM is still using standardised models

BPM is still using standardised models, and its current **credit RWAs** are already calculated with more severe parameters than the ones we use for the new standardised approach (i.e. corporate risk weight is 91% versus 79% we apply to our sample). Therefore no credit RWA inflation is expected. BPM sees only some RWA inflation from the Basel 4 rules on operational and market risk in our analysis. **Operational RWAs** inflated because BPM measures them under the standardised approach, and we recalculate them on the new standardised method. Clearly in the presence of IRB model, the final RWAs would be c.25% lower (in our example, using a 75% floor). We also calculate some **market RWAs** inflation, as we apply a standard 50% increase to market RWAs for all banks. This could be overly penalising for some of the domestic players, and for Intesa.

CET1 ratio constantly above 12% in our assumptions

We calculate the RWA inflation would be about 2% for BPM versus 4% for the other Italian banks' average. Therefore, BPM's Basel 4 CET1 ratio remains above 12%, which we think represents a strong competitive advantage in the presence of M&A. In fact, with this level of solvency ratios, BPM could be a candidate for a surprisingly rich dividend policy, but we expect the excess capital to be mostly used to foster external growth options.

The upcoming validation of the IRB models would further significantly strengthen BPM capital ratios. In our report, *The quality and the quantity* (2-Mar-15), using EBA data, we compared the risk weight per bank and concluded that BPM could improve its CET1 ratio by 70bps on the mortgage book, and 150bps on the corporate book, by simply using the average risk weight of the other Italian banks under coverage already using IRB models.

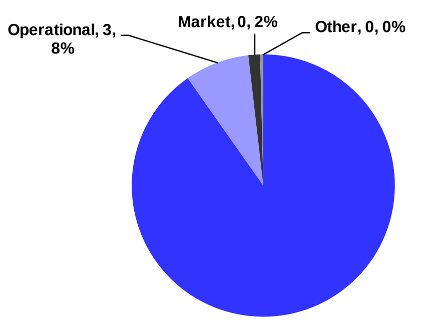
Figure 90: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	34	34	35	36
RWA capital floors	34	35	36	37
RWA standardised	34	35	36	37
Leverage assets	44	45	48	50
RW density B3	77%	76%	74%	73%
RW density B4 capital floors	78%	77%	75%	74%
RW density B4 on fully standardised	78%	77%	75%	74%
CT1 B3	4	4	5	5
AT1	0	0	0	0
CT1 B4	12.4%	12.8%	12.8%	12.8%
CT1 B4 capital floors	**12.2%**	**12.5%**	**12.5%**	**12.6%**
CT1 B4 on standardised	12.2%	12.5%	12.5%	12.6%
Leverage ratio	9.5%	9.7%	9.4%	9.3%

Source: Deutsche Bank, Company data

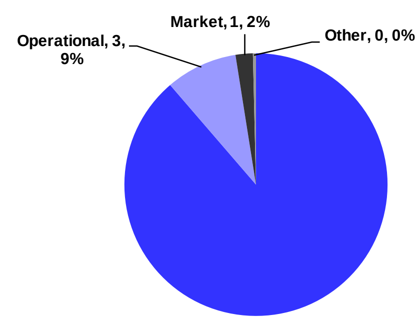
Under our framework, BPM will experience RWA inflation of 2%.

Figure 91: RWA B3 2014



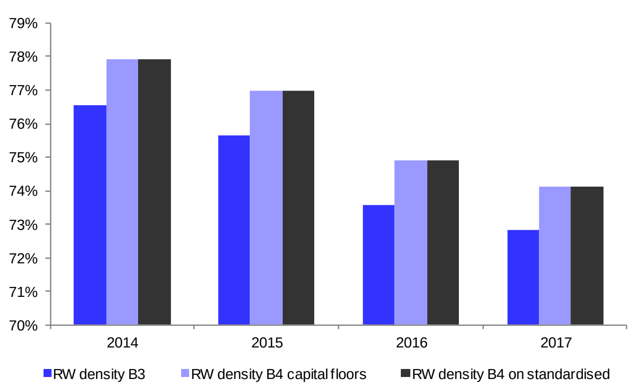
Source: Deutsche Bank, Company data

Figure 92: RWA B4 2014E



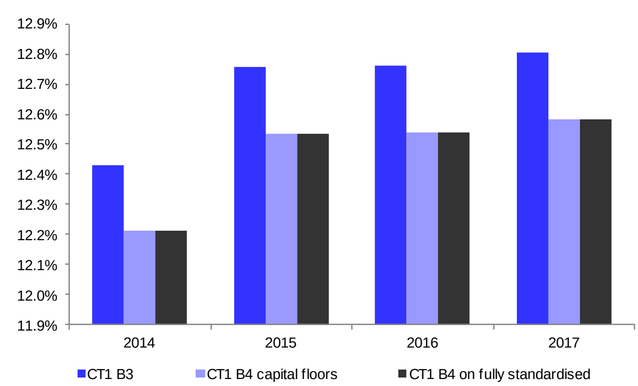
Source: Deutsche Bank, Company data

Figure 93: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 94: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 95: Banca Popolare Milano – modelling pro-forma 2014 RWA inflation by category before management action

PMII.MI

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign		0%		0%	0	0%	0	0
Institution		0%		30%	0	23%	0	0
Corporate		0%		79%	0	59%	0	0
Retail		0%		0%	0	0%	0	0
o/w mortgage		0%		35%	0	26%	0	0
o/w Lombard or collateralised		0%		0%	0	0%	0	0
o/w other		0%		75%	0	56%	0	0
Other		0%		0%	0	0%	0	0
IRB	0	0%	0	0%	0	0%	0	0
Sovereign	10,568	8%	885	8%	885	8%	885	0
Institution	3,917	42%	1,660	42%	1,660	42%	1,660	0
Corporate	13,748	91%	12,527	91%	12,527	91%	12,527	0
Retail	15,310	49%	7,572	49%	7,572	49%	7,572	0
Other	6,798	114%	7,754	114%	7,754	114%	7,754	0
Standardised	50,341	60%	30,397	60%	30,397	45%	22,798	0
Other		na		na	0	na	0	0
Credit Risk	**50,341**	**60%**	**30,397**	**60%**	**30,397**	**45%**	**22,798**	**0**
Operational Risk		**na**	**2,667**	**na**	**3,020**	**na**	**2,265**	**353**
Other risk (settlement, failed trades, equity risk outside trading book)		na	128	na	128	na	128	0
Market Risk		**na**	**485**	**na**	**728**	**na**	**728**	**243**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	50,341	67%	33,677	68%	34,273	51%	25,919	595
RWA inflation								2%

Source: Deutsche Bank, Company data

Model updated:13 May 2015

Running the numbers

Europe

Italy

Banks

Banca Popolare Milano

Reuters: PMII.MI Bloomberg: PMI IM

Hold

Price (15 Jun 15)	EUR 0.91
Target Price	EUR 0.92
52 Week range	EUR 0.51 - 0.97
Market Cap (m)	EURm 3,981
	USDm 4,486

Company Profile

Banca Popolare di Milano (BPM) is a Popolare or cooperative bank, based in Milan. As of Q3-14, it had Euro 32bn of customer loans and approximately 700 branches. After the merger of Anima (its asset management subsidiary, formed by the integration between Anima and Bipiemme Gestioni) and Prima (MPS's asset management subsidiary), it has a stake of 19% in the new entity.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	-0.14	0.01	0.05	0.04	0.06	0.08
EPS (DB) (EUR)	0.04	0.01	0.03	0.04	0.06	0.08
Growth Rate - EPS (DB) (%)	129.0	-78.0	214.9	49.3	49.6	20.8
DPS (EUR)	0.00	0.00	0.02	0.02	0.04	0.04
BVPS (stated) (EUR)	1.14	1.12	1.03	1.05	1.08	1.12
Tang. NAV p. sh. (EUR)	1.12	1.09	1.01	1.03	1.06	1.09
Market Capitalisation	1,242	1,296	2,383	3,981	3,981	3,981
Shares in issue	3,230	3,230	4,392	4,392	4,392	4,392
Valuation Ratios & Profitability Measures						
P/E (stated)	-2.9	43.8	10.3	20.9	13.9	11.5
P/E (DB)	9.6	43.4	18.6	20.9	13.9	11.5
P/B (stated)	0.4	0.4	0.5	0.9	0.8	0.8
P/Tangible equity (DB)	0.4	0.4	0.5	0.9	0.9	0.8
ROE(stated)(%)	-12.2	0.8	5.7	4.2	6.1	7.1
ROTE (tangible equity) (%)	4.2	0.9	3.2	4.3	6.2	7.3
ROIC (invested capital) (%)	3.9	0.8	3.1	4.2	6.1	7.1
Dividend yield(%)	0.0	0.0	3.8	2.6	3.9	4.8
Dividend cover(x)	nm	nm	2.4	1.8	1.8	1.8
Profit & Loss (EURm)						
Net interest revenue	859	837	800	808	859	911
Non interest income	743	902	881	871	895	909
Commissions	496	545	557	594	619	630
Trading Revenue	129	201	189	147	150	152
Other revenue	118	156	136	130	126	127
Total revenue	1,602	1,739	1,682	1,679	1,753	1,820
Total Operating Costs	1,068	1,052	1,037	1,041	1,041	1,044
Employee Costs	613	609	612	617	623	629
Other costs	455	444	425	424	418	415
Pre-Provision profit/(loss)	565	696	648	648	722	786
Bad debt expense	566	590	424	329	255	226
Operating Profit	-33	97	220	309	457	550
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	-33	97	220	309	457	550
Tax	-163	67	92	118	171	204
Other post tax items	-560	0	104	-1	-1	-1
Stated net profit	-430	30	232	191	285	345
Goodwill	367	0	0	0	0	0
Extraordinary & Other items	198	0	-104	0	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	136	30	128	191	285	345
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	43,162	42,612	33,677	34,373	35,369	36,464
Interest-earning assets	48,043	44,111	42,603	43,565	45,509	46,890
Customer Loans	34,791	33,345	32,079	32,742	34,379	35,443
Total Deposits	37,521	36,538	36,685	37,785	38,919	40,086
Stated Shareholder Equity	3,515	3,626	4,537	4,623	4,751	4,906
Equals: Tangible Equity	3,445	3,530	4,428	4,514	4,643	4,798
Tier 1 capital	3,882	3,333	4,113	4,199	4,327	4,483
Tier 1 ratio (%)	9	8	12	12	12	12
o/w core tier 1 capital ratio (%)	8.4	7.2	11.6	11.6	11.6	11.7
Credit Quality						
Gross NPLs/Total Loans(%)	12.15	15.95	18.25	18.54	17.79	17.36
Risk Provisions/NPLs(%)	38	38	33	44	36	47
Bad debt / Avg loans (%)	1.61	1.73	1.30	1.02	0.76	0.65
Bad debt/Pre-Provision Profit(%)	100.2	84.7	65.4	50.8	35.3	28.8
Growth Rates & Key Ratios						
Growth in revenues (%)	14	9	-3	0	4	4
Growth in costs (%)	-9	-2	-1	0	0	0
Growth in bad debts (%)	17	4	-28	-22	-23	-11
Growth in RWA (%)	-6	-1	-21	2	3	3
Net int. margin (%)	1.83	1.82	1.85	1.88	1.93	1.97
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	93	91	87	87	88	88
ROTE Decomposition						
Revenue % ARWAs	3.60	4.05	4.41	4.93	5.03	5.07
Net interest revenue % ARWA	1.93	1.95	2.10	2.37	2.46	2.54
Non interest revenue % ARWA	1.67	2.10	2.31	2.56	2.57	2.53
Costs/income ratio (%)	64.7	60.0	61.5	61.4	58.8	56.8
Bad debts % ARWAs	1.27	1.37	1.11	0.97	0.73	0.63
Tax rate (%)	495.0	69.5	41.7	38.1	37.4	37.1
Adj. Attr. earnings % ARWA	0.30	0.07	0.34	0.56	0.82	0.96
Capital leverage (ARWA/Equity)	13.6	12.3	9.6	7.6	7.6	7.6
ROTE (Adj. earnings/Ave. equity)	4.2	0.9	3.2	4.3	6.2	7.3

Source: Company data, Deutsche Bank estimates

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Banco Popolare (Buy, TP EUR 17.6)

Investment thesis

We see restructuring potential for Banco, especially now that the most urgent issues (the capital increase and the balance sheet clean up) have been addressed, and management can focus on the development of its core business. Banco still has a high stock of problematic loans, but the new bankruptcy / foreclosure rules from the Italian government should support NPL disposal. Moreover, given its valuation, we consider Banco a good way for investors to be exposed to the Popolari banks' M&A.

Credit RWAs drive most of the RWA inflation

Banco sees most inflation in RWA from Basel 4 from credit risk, with some small effects also coming from the operational and market risk. **Credit RWAs** are inflated only with regard to the IRB exposures (both retail and corporate). Banco's current corporate risk weight under IRB is 42%. The new standardised corporate RW we use for Italy is 79% (the highest in Europe due to the generally smaller and more levered firms – Banco is mainly based in the North of Italy so this could actually be penalising); we assume a capital floor of 75% under standardised, and this implies a marginal risk weight of 59% (so well above the above mentioned 42%). Similarly, Banco's current mortgage risk weight under IRB is 13%. The new standardised mortgage RW we use for Italy is 35%; we assume a capital floor of 75% under standardised, and this implies a marginal risk weight of 26% (so well above the abovementioned 13%). Given we apply the floor at the total credit RWAs (including standardised), the IRB RWAs inflation is partially offset by the standardised RWAs, whose treatment is already more severe than Basel 4 envisages. **Operational RWAs** slightly inflated because Banco measures them under IRB (93% of the total), and we recalculate them as new standardised RWAs, with the 75% floor to pass to the new IRB.

We also calculate some **market RWAs** inflation, as we apply a standard 50% increase to market RWAs for all banks. This could be overly penalising for some of the domestic players, and for Intesa.

The highest RWA inflation among the Italian banks, still leaving Banco well capitalised

We calculate that RWA inflation would be about 12% for Banco versus 4% on average for the other Italian banks. Despite this inflation, Basel 4 CET1 ratio remains above 10% (or actually above 11% since 2016), which we think can reassure investors on Banco's capital strength and represents a good starting point for M&A.

Our estimates are double counting model revision and new rules

Readers must consider that our public estimates on Banco already take into account the possible RWAs inflation from the internal model revision and parameters update that the company is currently undertaking (approx. 50bps negative impact). Therefore, adding the incremental RWAs from the Basel 4 rules to the 2014 RWAs, and summing this increase into our 2015-17 forecasts might actually be penalising. In other words: should we update our analysis on 2015 Pillar 3 next year, we will likely highlight lower RWA inflation for Banco as the bank will have concluded its model update at that point.

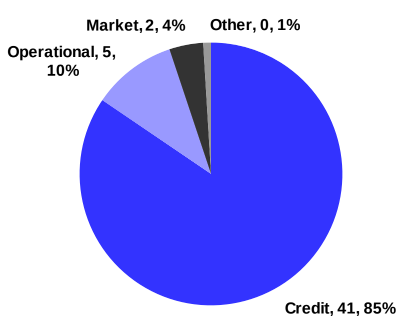
Figure 96: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	48	51	50	51
RWA capital floors	52	55	54	55
RWA standardised	68	72	71	72
Leverage assets	125	128	132	136
RW density B3	38%	40%	38%	37%
RW density B4 capital floors	41%	43%	41%	40%
RW density B4 on fully standardised	54%	56%	54%	53%
CT1 B3	5	6	6	6
AT1	0	0	0	0
CT1 B4	11.3%	11.2%	11.9%	12.3%
CT1 B4 capital floors	**10.5%**	**10.4%**	**11.0%**	**11.4%**
CT1 B4 on standardised	8.0%	7.9%	8.4%	8.7%
Leverage ratio	4.3%	4.4%	4.5%	4.6%

Source: Deutsche Bank, Company data

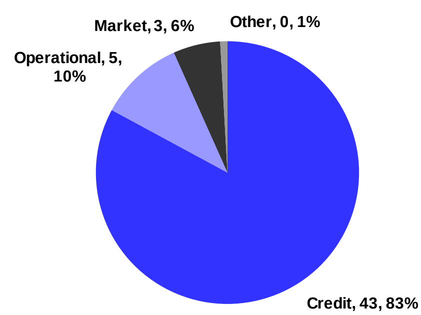
Under our framework, Banco will experience RWA inflation of 8%.

Figure 97: RWA B3 2014



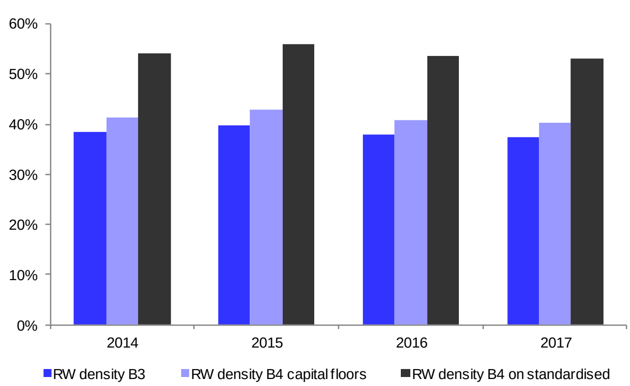
Source: Deutsche Bank, Company data

Figure 98: RWA B4 2014E



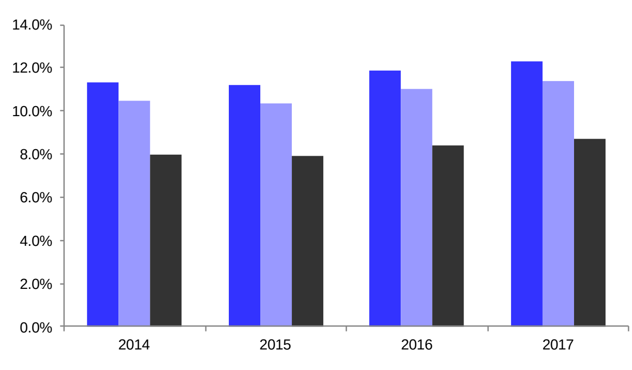
Source: Deutsche Bank, Company data

Figure 99: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 100: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 101: Banco Popolare – modelling pro-forma 2014 RWA inflation by category before management action

BAPO.MI

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign		0%		0%	0	0%	0	0
Institution		0%		30%	0	23%	0	0
Corporate	27,355	42%	11,499	79%	21,674	59%	16,255	4,756
Retail	27,123	20%	5,448	48%	13,032	36%	9,774	4,326
o/w mortgage	18,274	13%	2,435	35%	6,396	26%	4,797	2,362
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	8,849	34%	3,013	75%	6,636	56%	4,977	1,964
Other	45	269%	121	269%	121	269%	121	0
IRB	54,523	31%	17,068	64%	34,827	48%	26,120	9,052
Sovereign	22,279	18%	3,956	18%	3,956	18%	3,956	0
Institution	8,330	33%	2,787	30%	2,499	33%	2,787	0
Corporate	4,907	98%	4,785	79%	3,888	98%	4,785	0
Retail	1,577	41%	649	48%	758	41%	649	0
Other	36,271	31%	11,301	31%	11,301	31%	11,301	0
Standardised	73,365	32%	23,478	31%	22,401	23%	16,801	0
Other		na		na	0	na	0	0
Credit Risk	**127,888**	**32%**	**40,546**	**45%**	**57,229**	**34%**	**42,922**	**2,376**
Operational Risk		**na**	**4,981**	**na**	**7,194**	**na**	**5,395**	**414**
Other risk (settlement, failed trades, equity risk outside trading book)		na	459	na	459	na	459	0
Market Risk		**na**	**2,000**	**na**	**3,000**	**na**	**3,000**	**1,000**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	**127,888**	**38%**	**47,986**	**53%**	**67,882**	**40%**	**51,776**	**3,790**
RWA inflation								8%

Source: Deutsche Bank, Company data

Model updated:12 May 2015

Running the numbers

Europe

Italy

Banks

Banco Popolare

Reuters: BAPO.MI Bloomberg: BP IM

Buy

Price (15 Jun 15)	EUR 14.37
Target Price	EUR 17.60
52 Week range	EUR 8.92 - 15.59
Market Cap (m)	EURm 5,205
	USDm 5,865

Company Profile

Banco Popolare (Banco) is Italy's largest Popolare bank (~2000 branches) It resulted from the merger of BPVN and BPI in July 2007. It operates in retail, private and corporate banking, focusing on SMEs with market leadership in Novara, Verona, Bergamo, and Lodi.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	-0.54	-0.34	-5.37	1.01	1.46	1.88
EPS (DB) (EUR)	-0.06	-0.23	-4.23	1.04	1.48	1.90
Growth Rate - EPS (DB) (%)	-15,307.9	-281.6	-1,713.3	124.5	42.7	28.0
DPS (EUR)	0.00	0.00	0.00	0.40	0.58	0.75
BVPS (stated) (EUR)	4.88	4.63	22.27	22.80	23.44	24.33
Tang. NAV p. sh. (EUR)	3.56	3.33	16.61	17.19	17.88	18.81
Market Capitalisation	22,188	24,586	3,644	5,205	5,205	5,205
Shares in issue	1,764	1,764	362	362	362	362
Valuation Ratios & Profitability Measures						
P/E (stated)	-23.5	-40.5	-1.9	14.2	9.8	7.6
P/E (DB)	-205.6	-59.7	-2.4	13.9	9.7	7.6
P/B (stated)	2.6	3.0	0.5	0.6	0.6	0.6
P/Tangible equity (DB)	3.5	4.2	0.6	0.8	0.8	0.8
ROE(stated)(%)	-11.0	-7.4	-24.1	4.4	6.2	7.7
ROTE (tangible equity) (%)	-1.7	-6.8	-25.8	6.1	8.4	10.3
ROIC (invested capital) (%)	-1.3	-5.0	-19.0	4.5	6.3	7.8
Dividend yield(%)	0.0	0.0	0.0	2.8	4.1	5.2
Dividend cover(x)	nm	nm	nm	2.5	2.5	2.5
Profit & Loss (EURm)						
Net interest revenue	1,790	1,648	1,558	1,568	1,640	1,697
Non interest income	1,778	1,846	1,860	1,935	2,074	2,168
Commissions	1,364	1,387	1,385	1,476	1,553	1,609
Trading Revenue	359	265	216	210	211	213
Other revenue	55	194	259	250	310	346
Total revenue	3,568	3,494	3,418	3,503	3,714	3,864
Total Operating Costs	2,268	2,176	2,167	2,233	2,239	2,241
Employee Costs	1,395	1,367	1,294	1,367	1,381	1,395
Other costs	874	808	873	866	858	846
Pre-Provision profit/(loss)	1,313	1,323	1,291	1,330	1,536	1,683
Bad debt expense	1,327	1,780	3,601	807	657	583
Operating Profit	-28	-462	-2,350	463	819	1,040
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	-28	-462	-2,350	463	819	1,040
Tax	135	-37	-778	82	278	348
Other post tax items	-782	-181	-374	-15	-12	-10
Stated net profit	-944	-607	-1,946	366	529	681
Goodwill	490	25	51	10	7	5
Extraordinary & Other items	346	170	362	0	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	-108	-412	-1,533	376	536	686
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	55,105	49,319	47,987	50,854	49,865	50,848
Interest-earning assets	115,560	110,836	105,993	107,566	109,343	112,219
Customer Loans	91,481	86,149	79,824	81,287	82,952	85,713
Total Deposits	94,506	90,018	86,513	84,624	83,331	82,611
Stated Shareholder Equity	8,612	8,174	8,064	8,258	8,491	8,811
Equals: Tangible Equity	6,287	5,874	6,014	6,227	6,477	6,813
Tier 1 capital	6,161	5,228	5,694	5,985	6,242	6,585
Tier 1 ratio (%)	11	11	12	12	13	13
o/w core tier 1 capital ratio (%)	10.1	9.7	11.9	11.8	12.5	13.0
Credit Quality						
Gross NPLs/Total Loans(%)	17.76	22.34	27.14	26.53	24.59	22.80
Risk Provisions/NPLs(%)	29	29	36	39	40	41
Bad debt / Avg loans (%)	1.44	2.00	4.34	1.00	0.80	0.69
Bad debt/Pre-Provision Profit(%)	101.1	134.6	278.9	60.7	42.8	34.7
Growth Rates & Key Ratios						
Growth in revenues (%)	1	-2	-2	2	6	4
Growth in costs (%)	-8	-4	0	3	0	0
Growth in bad debts (%)	56	34	102	-78	-19	-11
Growth in RWA (%)	-39	-11	-3	6	-2	2
Net int. margin (%)	1.57	1.46	1.44	1.47	1.51	1.53
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	97	96	92	96	100	104
ROTE Decomposition						
Revenue % ARWAs	4.92	6.69	7.03	7.09	7.38	7.67
Net interest revenue % ARWA	2.47	3.16	3.20	3.17	3.26	3.37
Non interest revenue % ARWA	2.45	3.54	3.82	3.92	4.12	4.31
Costs/income ratio (%)	63.2	62.1	62.2	62.0	58.7	56.4
Bad debts % ARWAs	1.83	3.41	7.40	1.63	1.30	1.16
Tax rate (%)	-490.2	8.0	33.1	17.8	33.9	33.5
Adj. Attr. earnings % ARWA	-0.15	-0.79	-3.15	0.76	1.06	1.36
Capital leverage (ARWA/Equity)	11.2	8.6	8.2	8.1	7.9	7.6
ROTE (Adj. earnings/Ave. equity)	-1.7	-6.8	-25.8	6.1	8.4	10.3

Source: Company data, Deutsche Bank estimates

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Credem (Hold, TP EUR 8.3)

Investment thesis

Credem has a defensive profile, best-in-class asset quality and superior profitability, even in the current difficult macro environment. Moreover, we think Credem is overcapitalised as it is mostly working on standard models to measure RWAs. These factors are important to safely face any eventual tightening of the sector regulation, and competitive advantages versus peers to support commercial revamp. Having said that, we think this is fully captured by the current market valuation, thus we have a Hold rating on the stock.

Mainly operational RWAs are driving the RWA inflation

Credem sees most inflation in RWA from Basel 4 from operational risk. **Credit RWAs** are not inflated at all. Credem is using internal models for corporate exposures, and a standard model for retail exposures. Its current corporate risk weight under IRB is 69%; the new standardised corporate RW we use for Italy is 79% (the highest in Europe due to the generally smaller and more levered firms) to which we apply a capital floor of 75%, and this implies a final IRB risk weight of 69% (so no credit RWAs inflation as this new figure is exactly in line with what Credem is currently using). **Operational RWAs** inflated because BPM measures them under a standardised approach, and we recalculate them under a new standardised method. Clearly in the presence of an IRB model, the final RWAs would be c.25% lower (in our example, using a 75% floor).

We also calculate some **market RWAs** inflation, as we apply a standard 50% increase to market RWAs for all banks. This could be overly penalising for some of the domestic players, and for Intesa.

RWA inflation below the average among the Italian banks

We calculate the RWA inflation would be about 3% for the group versus 4% on average for the other Italian banks.

Overcapitalised, especially if we consider the passage to the IRB models – surprises on dividends are likely

In our forecasts, Credem moves to IRB models in 2015; therefore, also in the presence of the additional Basel 4 related RWA inflation, we calculate in this report that Credem maintains a CET1 ratio in the range of 12% (without moving to IRB models, the CET1 ratio would be approx. 11% under Basel 4). This means that Credem will be able to: 1) expand its lending book possibly taking up market share (as per company guidance) and 2) pay out a significant percentage of its earnings going forward. M&A would be also an option, but the company has often suggested that it tends to prefer organic growth.

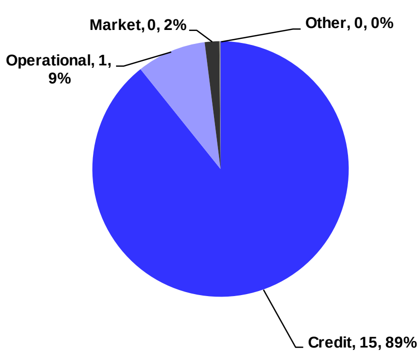
Figure 102: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	17	15	16	17
RWA capital floors	17	15	16	17
RWA standardised	18	16	17	18
Leverage assets	33	33	34	35
RW density B3	51%	45%	46%	46%
RW density B4 capital floors	52%	47%	47%	48%
RW density B4 on fully standardised	56%	50%	50%	51%
CT1 B3	2	2	2	2
AT1	0	0	0	0
CT1 B4	10.4%	12.2%	12.3%	12.4%
CT1 B4 capital floors	**10.1%**	**11.9%**	**12.0%**	**12.0%**
CT1 B4 on standardised	9.5%	11.2%	11.2%	11.3%
Leverage ratio	5.3%	5.5%	5.6%	5.7%

Source: Deutsche Bank, Company data

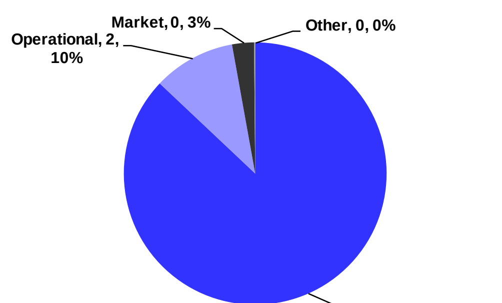
Under our framework, Credem will experience RWA inflation of 3%.

Figure 103: RWA B3 2014



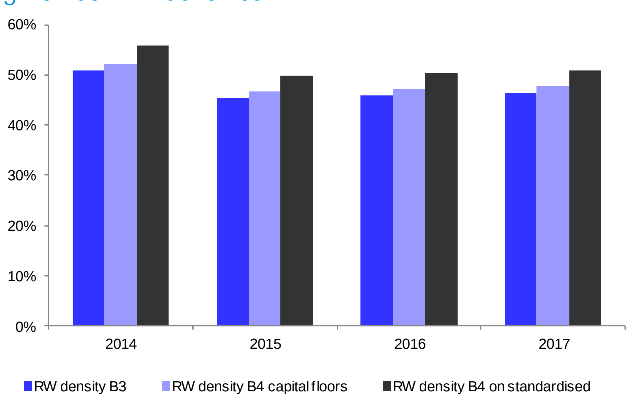
Source: Deutsche Bank, Company data

Figure 104: RWA B4 2014E



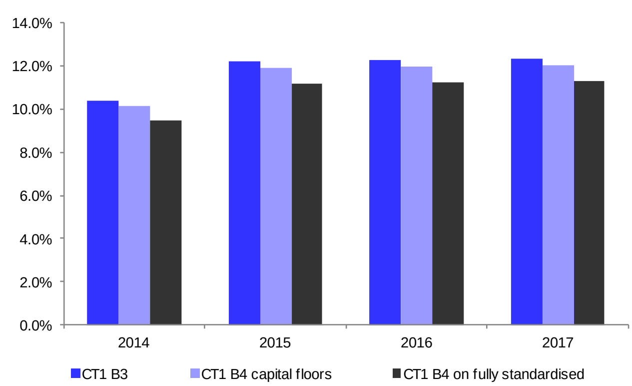
Source: Deutsche Bank, Company data

Figure 105: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 106: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 107: Credem – modelling pro-forma 2014 RWA inflation by category before management action

EMBI.MI

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign		0%		0%	0	0%	0	0
Institution		0%		30%	0	23%	0	0
Corporate	9,151	69%	6,302	79%	7,250	69%	6,302	0
Retail		0%		0%	0	0%	0	0
o/w mortgage		0%		35%	0	26%	0	0
o/w Lombard or collateralised		0%		0%	0	0%	0	0
o/w other		0%		75%	0	56%	0	0
Other		0%		0%	0	0%	0	0
IRB	9,151	69%	6,302	79%	7,250	59%	5,438	0
Sovereign	5,272	3%	172	3%	172	3%	172	0
Institution	1,637	23%	370	30%	491	23%	370	0
Corporate	1,308	74%	969	79%	1,036	74%	969	0
Retail	12,312	42%	5,199	42%	5,199	42%	5,199	0
Other	1,757	103%	1,807	103%	1,807	103%	1,807	0
Standardised	22,286	38%	8,518	39%	8,705	29%	6,529	0
Other	157	na	118	na	118	na	118	0
Credit Risk	**31,594**	**47%**	**14,938**	**51%**	**16,074**	**38%**	**12,055**	**0**
Operational Risk		**na**	**1,464**	**na**	**1,737**	**na**	**1,302**	**273**
Other risk (settlement, failed trades, equity risk outside trading book)		na	24	na	24	na	24	0
Market Risk		**na**	**308**	**na**	**462**	**na**	**462**	**154**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	**31,594**	**53%**	**16,734**	**58%**	**18,296**	**44%**	**13,844**	**427**
RWA inflation								3%

Source: Deutsche Bank, Company data

Model updated:12 May 2015

Running the numbers

Europe

Italy

Banks

Credem

Reuters: EMBI.MI — Bloomberg: CE IM

Hold

Price (15 Jun 15)	EUR 7.18
Target Price	EUR 8.30
52 Week range	EUR 5.64 - 8.36
Market Cap (m)	EURm 2,359
	USDm 2,659

Company Profile

Credem, a medium-sized, multi-regional banking group, is based mainly in Emilia Romagna, a region in the centre of Italy, but it operates through a nationwide retail network (more than 550 branches). Listed on the Italian stock exchange since 1997, Credem is focused mostly on services to families and SMEs. It is characterised by a very defensive profile, in terms of both asset quality (best-in-class in Italy) and capital positioning (zero impact from Basel 3 new rules).

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	0.37	0.35	0.46	0.59	0.58	0.64
EPS (DB) (EUR)	0.29	0.35	0.45	0.59	0.58	0.64
Growth Rate - EPS (DB) (%)	-16.3	22.9	28.8	31.4	-1.7	9.7
DPS (EUR)	0.12	0.12	0.15	0.30	0.29	0.32
BVPS (stated) (EUR)	6.04	6.56	7.23	7.53	7.82	8.14
Tang. NAV p. sh. (EUR)	4.91	5.42	6.06	6.36	6.65	6.97
Market Capitalisation	1,358	1,911	2,047	2,359	2,359	2,359
Shares in issue	329	329	329	329	329	329
Valuation Ratios & Profitability Measures						
P/E (stated)	11.2	16.5	13.5	12.1	12.3	11.2
P/E (DB)	14.5	16.6	13.8	12.1	12.3	11.2
P/B (stated)	0.7	0.9	0.9	1.0	0.9	0.9
P/Tangible equity (DB)	0.8	1.1	1.0	1.1	1.1	1.0
ROE(stated)(%)	6.7	5.6	6.7	8.1	7.6	8.0
ROTE (tangible equity) (%)	6.5	6.8	7.9	9.6	9.0	9.4
ROIC (invested capital) (%)	4.7	5.4	6.3	7.9	7.5	7.9
Dividend yield(%)	3.7	2.7	2.3	4.1	4.1	4.5
Dividend cover(x)	3.1	2.9	3.1	2.0	2.0	2.0
Profit & Loss (EURm)						
Net interest revenue	468	465	489	448	496	525
Non interest income	531	595	663	782	689	695
Commissions	386	373	405	449	471	490
Trading Revenue	91	102	126	200	85	70
Other revenue	54	120	131	132	134	135
Total revenue	1,000	1,059	1,151	1,229	1,185	1,221
Total Operating Costs	688	724	790	818	818	822
Employee Costs	415	423	456	470	472	475
Other costs	273	301	334	348	345	347
Pre-Provision profit/(loss)	314	342	369	423	380	411
Bad debt expense	89	126	115	106	58	59
Operating Profit	222	210	246	305	310	339
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	222	210	246	305	310	339
Tax	128	95	100	110	118	129
Other post tax items	27	1	5	0	0	0
Stated net profit	121	116	152	195	192	210
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	-27	-1	-3	0	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	94	115	149	195	192	210
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	16,690	16,528	16,733	15,060	15,761	16,502
Interest-earning assets	28,926	29,797	32,813	34,272	35,324	36,438
Customer Loans	19,938	19,938	22,441	22,441	23,485	24,590
Total Deposits	18,532	19,247	21,470	22,643	23,898	25,241
Stated Shareholder Equity	1,985	2,155	2,376	2,474	2,570	2,675
Equals: Tangible Equity	1,614	1,781	1,993	2,090	2,186	2,291
Tier 1 capital	1,572	1,643	1,875	1,972	2,068	2,173
Tier 1 ratio (%)	9	10	11	13	13	13
o/w core tier 1 capital ratio (%)	9.4	9.9	11.2	13.1	13.1	13.2
Credit Quality						
Gross NPLs/Total Loans(%)	5.52	6.45	5.99	6.01	5.68	5.31
Risk Provisions/NPLs(%)	40	43	46	49	51	52
Bad debt / Avg loans (%)	0.45	0.63	0.51	0.47	0.25	0.24
Bad debt/Pre-Provision Profit(%)	28.5	36.8	31.1	25.0	15.2	14.4
Growth Rates & Key Ratios						
Growth in revenues (%)	5	6	9	7	-4	3
Growth in costs (%)	-1	5	9	4	0	1
Growth in bad debts (%)	65	41	-9	-8	-45	2
Growth in RWA (%)	-1	-1	1	-10	5	5
Net int. margin (%)	1.62	1.56	1.49	1.31	1.40	1.44
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	108	104	105	99	98	97
ROTE Decomposition						
Revenue % ARWAs	5.99	6.41	6.88	8.16	7.52	7.40
Net interest revenue % ARWA	2.81	2.81	2.92	2.97	3.15	3.18
Non interest revenue % ARWA	3.18	3.60	3.96	5.19	4.37	4.21
Costs/income ratio (%)	68.6	67.7	67.9	65.6	68.0	66.4
Bad debts % ARWAs	0.54	0.76	0.69	0.70	0.37	0.36
Tax rate (%)	57.6	45.3	40.4	36.1	38.1	38.0
Adj. Attr. earnings % ARWA	0.56	0.70	0.89	1.30	1.22	1.28
Capital leverage (ARWA/Equity)	11.5	9.7	8.9	7.4	7.4	7.4
ROTE (Adj. earnings/Ave. equity)	6.5	6.8	7.9	9.6	9.0	9.4

Source: Company data, Deutsche Bank estimates

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Intesa SanPaolo (Hold, TP EUR 3.5)

Investment thesis

We have a Hold rating on ISP, as our target price does not offer material upside potential to the current market price. ISP's balance sheet looks strong: in the event of a continuous / progressive strengthening of economic conditions in Italy, we think that ISP will deliver superior returns, gaining market share, and will keep on delivering a richer dividend policy; conversely, in the event of unexpected worsening of the economic conditions in Italy or further tightening of the regulation, ISP's current capital base and liquidity offer a good buffer. However, this is already largely reflected in the market price.

Mainly operational RWAs are driving the RWA inflation

Intesa sees most inflation in RWA from Basel 4 from operational risk. **Credit RWAs** are not inflated at all in our analysis; indeed, Basel 4 could lead to a higher risk weight of the retail exposures under IRB (i.e. ISP retail IRB exposures are weighted at 19%, which compares with our 32% = 42%*75%), but this would be largely offset by the already more prudent risk weight on the corporate exposures under standardised for example. In practice, applying the floor at the credit risk level, the new risk weight of the various exposures under standardised and IRB offset each other. **Operational RWAs** inflated because Intesa measures them under IRB, and we recalculate them as new standardised RWAs, with the 75% floor to pass to the new IRB.

We also calculate some **market RWAs** inflation, as we apply a standard 50% increase to market RWAs for all banks. This could be overly penalising for some of the domestic players, and for Intesa.

The second highest RWA inflation among the Italian banks, still leaves Intesa well capitalised and well positioned to deliver on dividends

We calculate the RWA inflation would be about 7% for the group versus 4% on average for the other Italian banks. Despite this inflation, the Basel 4 CET1 ratio remains above 12% which leaves ISP’s dividend story untouched, or possibly strengthened.

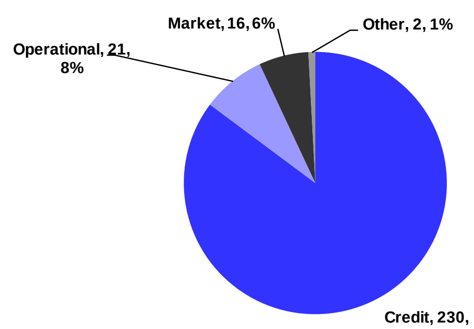
Under our framework, Intesa will experience RWA inflation of 7%.

Figure 108: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	265	278	287	293
RWA capital floors	284	299	308	314
RWA standardised	330	347	358	365
Leverage assets	519	522	561	594
RW density B3	51%	53%	51%	49%
RW density B4 capital floors	55%	57%	55%	53%
RW density B4 on fully standardised	64%	67%	64%	61%
CT1 B3	35	37	39	40
AT1	0	0	0	0
CT1 B4	13.3%	13.4%	13.5%	13.6%
CT1 B4 capital floors	**12.4%**	**12.5%**	**12.6%**	**12.6%**
CT1 B4 on standardised	10.6%	10.8%	10.8%	10.9%
Leverage ratio	6.8%	7.2%	6.9%	6.7%

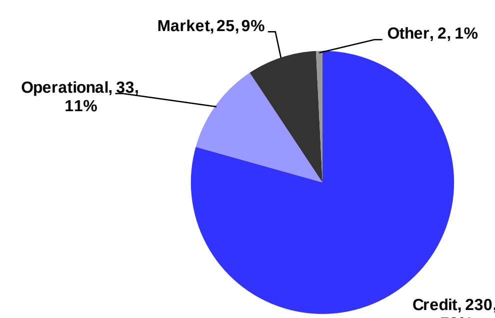
Source: Deutsche Bank, Company data

Figure 109: RWA B3 2014



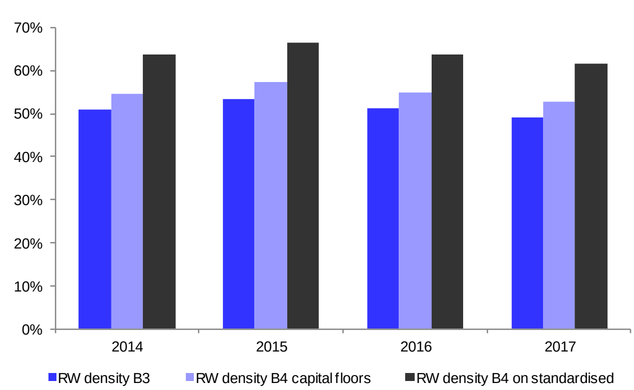
Source: Deutsche Bank, Company data

Figure 110: RWA B4 2014E



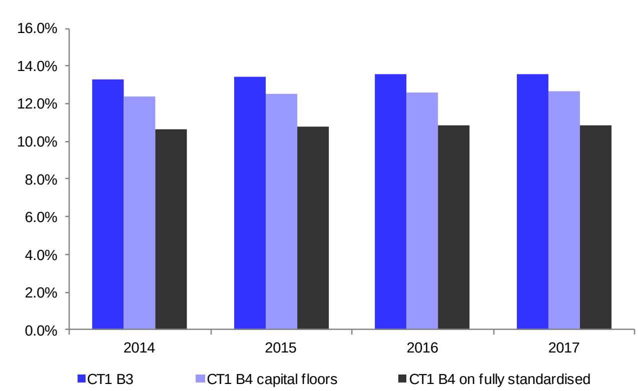
Source: Deutsche Bank, Company data

Figure 111: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 112: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 113: Intesa SanPaolo – modelling pro-forma 2014 RWA inflation by category before management action

ISP.MI

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	0	0%		0%	0	0%	0	0
Institution	0	0%		30%	0	23%	0	0
Corporate	159,129	64%	102,525	74%	117,755	64%	102,525	0
Retail	74,486	19%	13,888	43%	31,973	32%	23,980	10,092
o/w mortgage	59,729	17%	9,925	35%	20,905	26%	15,679	5,754
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	14,757	27%	3,963	75%	11,068	56%	8,301	4,338
Other			5,188	0%	0	0%	5,188	0
IRB	233,615	52%	121,601	64%	149,728	48%	112,296	0
Sovereign	118,139	16%	19,488	16%	19,488	16%	19,488	0
Institution	67,655	20%	13,600	30%	20,297	23%	15,222	1,622
Corporate	33,815	70%	23,800	74%	25,023	70%	23,800	0
Retail	36,712	58%	21,125	58%	21,125	58%	21,125	0
Other	28,552	90%	25,813	90%	25,813	90%	25,813	0
Standardised	284,873	36%	103,825	39%	111,745	29%	83,808	0
Other	2,589	na	4,448	na	4,448	na	4,448	0
Credit Risk	**521,077**	**44%**	**229,874**	**51%**	**265,921**	**38%**	**199,441**	**0**
Operational Risk		**na**	**21,157**	**na**	**43,797**	**na**	**32,848**	**11,691**
Other risk (settlement, failed trades, equity risk outside trading book)		na	2,285	na	2,285	na	2,285	0
Market Risk		**na**	**16,475**	**na**	**24,713**	**na**	**24,713**	**8,238**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	521,077	52%	269,791	65%	336,715	50%	259,286	19,928
RWA inflation								7%

Source: Deutsche Bank, Company data

Model updated:11 May 2015

Running the numbers

Europe

Italy

Banks

Intesa SanPaolo

Reuters: ISP.MI Bloomberg: ISP IM

Hold

Price (15 Jun 15)	EUR 3.15
Target Price	EUR 3.50
52 Week range	EUR 2.10 - 3.37
Market Cap (m)	EURm 52,853
	USDm 59,559

Company Profile

Intesa Sanpaolo (ISP) is the result of the merger of Intesa and SanPaolo IMI in 2007. ISP is Italy's banking leader with 20% market share in loans due to it operating the largest domestic network (4550 branches). ISP has a selected retail banking presence in Central and Eastern Europe and in the Mediterranean Basin.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	0.10	-0.28	0.07	0.21	0.25	0.27
EPS (DB) (EUR)	0.09	-0.05	0.10	0.21	0.25	0.27
Growth Rate - EPS (DB) (%)	-14.9	-158.3	288.2	115.9	19.8	7.2
DPS (EUR)	0.05	0.05	0.07	0.12	0.17	0.24
BVPS (stated) (EUR)	3.02	2.71	2.66	2.75	2.83	2.87
Tang. NAV p. sh. (EUR)	2.12	2.25	2.23	2.32	2.40	2.44
Market Capitalisation	21,364	29,482	40,638	52,853	52,853	52,853
Shares in issue	16,434	16,434	16,779	16,779	16,779	16,779
Valuation Ratios & Profitability Measures						
P/E (stated)	13.3	-6.5	32.5	15.3	12.7	11.7
P/E (DB)	14.5	-34.3	24.6	14.8	12.4	11.5
P/B (stated)	0.4	0.7	0.9	1.1	1.1	1.1
P/Tangible equity (DB)	0.6	0.8	1.1	1.4	1.3	1.3
ROE(stated)(%)	3.2	-10.2	2.8	7.5	8.8	9.4
ROTE (tangible equity) (%)	4.4	-2.4	4.4	9.3	10.8	11.3
ROIC (invested capital) (%)	2.7	-1.7	3.3	6.9	8.1	8.5
Dividend yield(%)	4.1	3.4	3.1	3.9	5.5	7.5
Dividend cover(x)	2.0	-5.5	1.1	1.7	1.4	1.1
Profit & Loss (EURm)						
Net interest revenue	9,430	8,132	8,374	8,285	8,545	8,653
Non interest income	7,980	7,970	8,524	9,666	9,992	10,314
Commissions	5,451	6,149	6,775	7,198	7,434	7,663
Trading Revenue	1,711	968	777	1,377	1,411	1,446
Other revenue	818	853	972	1,091	1,147	1,205
Total revenue	17,410	16,102	16,898	17,951	18,536	18,968
Total Operating Costs	8,917	12,342	9,519	8,779	8,731	8,738
Employee Costs	5,338	4,827	5,092	5,115	5,190	5,281
Other costs	3,579	7,515	4,427	3,664	3,541	3,457
Pre-Provision profit/(loss)	8,497	7,750	8,354	9,454	10,055	10,480
Bad debt expense	4,714	7,131	4,538	3,503	3,037	2,986
Operating Profit	3,779	-3,371	2,841	5,669	6,768	7,244
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	3,779	-3,371	2,841	5,669	6,768	7,244
Tax	1,692	812	1,338	1,983	2,369	2,535
Other post tax items	-348	-287	-252	-236	-223	-204
Stated net profit	1,605	-4,550	1,251	3,450	4,176	4,504
Goodwill	299	294	193	116	93	74
Extraordinary & Other items	-431	3,398	206	-3	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	1,473	-859	1,650	3,563	4,269	4,578
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	298,619	276,291	269,790	283,280	290,472	293,725
Interest-earning assets	548,068	513,723	503,947	519,432	533,302	548,192
Customer Loans	376,586	343,991	349,345	349,345	360,015	371,476
Total Deposits	377,358	366,941	354,506	336,781	340,149	343,550
Stated Shareholder Equity	49,613	44,515	44,683	46,204	47,540	48,145
Equals: Tangible Equity	34,894	37,044	37,440	38,961	40,297	40,902
Tier 1 capital	36,013	33,840	38,247	39,622	40,716	41,174
Tier 1 ratio (%)	12	12	14	14	14	14
o/w core tier 1 capital ratio (%)	11.2	11.3	13.5	13.5	13.5	13.5
Credit Quality						
Gross NPLs/Total Loans(%)	13.19	16.74	18.00	16.92	14.56	12.79
Risk Provisions/NPLs(%)	48	51	51	52	55	57
Bad debt / Avg loans (%)	1.25	2.07	1.30	1.00	0.84	0.80
Bad debt/Pre-Provision Profit(%)	55.5	92.0	54.3	37.0	30.2	28.5
Growth Rates & Key Ratios						
Growth in revenues (%)	6	-8	5	6	3	2
Growth in costs (%)	-52	38	-23	-8	-1	0
Growth in bad debts (%)	14	51	-36	-23	-13	-2
Growth in RWA (%)	-8	-7	-2	5	3	1
Net int. margin (%)	1.72	1.58	1.66	1.59	1.60	1.58
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	100	94	99	104	106	108
ROTE Decomposition						
Revenue % ARWAs	5.83	5.83	6.26	6.34	6.38	6.46
Net interest revenue % ARWA	3.16	2.94	3.10	2.92	2.94	2.95
Non interest revenue % ARWA	2.67	2.88	3.16	3.41	3.44	3.51
Costs/income ratio (%)	51.2	51.9	50.6	47.3	45.8	44.7
Bad debts % ARWAs	1.58	2.58	1.68	1.24	1.05	1.02
Tax rate (%)	44.8	-24.1	47.1	35.0	35.0	35.0
Adj. Attr. earnings % ARWA	0.49	-0.31	0.61	1.26	1.47	1.56
Capital leverage (ARWA/Equity)	8.9	7.7	7.2	7.4	7.3	7.2
ROTE (Adj. earnings/Ave. equity)	4.4	-2.4	4.4	9.3	10.8	11.3

Source: Company data, Deutsche Bank estimates

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MPS (Hold, TP EUR 0.6)

Investment thesis

MPS's risk profile is improving, thanks to a more benign sovereign outlook and to managerial actions such as the capital increase, and the already-implemented balance sheet shrinking. From 2014 onwards, deleveraging has been mainly focused on financial assets, and non-core exposures, being more "selective", and this is helping restore MPS's commercial grip. The cost and stability of the liquidity of the group is worse than peers', but also improving. Clearly further work on de-risking is still necessary: as the ECB asked MPS to reduce its NPL stock and merge with another bank. Given some short-term challenges and uncertainty persist, we keep a Hold rating on the stock.

Only market risk RWAs are driving the RWA inflation

MPS sees inflation in RWA from Basel 4 from market risk. There is no inflation of the **credit RWAs**. In our analysis we apply the floor at the total credit RWAs, and despite the IRB RWAs inflation (especially in the retail area, MPS's current mortgage risk weight under IRB is 9%, while for Basel 4 we would use 26%), other standardised RWAs are actually already calculated more severely than Basel 4 would imply, so one aspect offsets the other. Note than MPS will perform a revision of its IRB model for credit risk in Q2; this should drive some RWAs inflation (not yet included in our public forecasts).

There is also no inflation in the **operational RWAs**.

We only calculate some **market RWAs** inflation, as we apply a standard 50% increase to market RWAs for all banks.

One of the lowest RWA inflation rates of the Italian banks

We calculate RWA inflation would be about 2% for MPS versus 4% on average for the other Italian banks. Even with this inflation, the Basel 4 CET1 ratio remains above 10%.

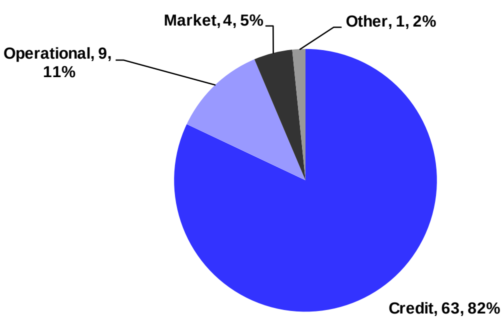
Under our framework, MPS will experience RWA inflation of 2%.

Figure 114: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	76	73	70	70
RWA capital floors	78	75	72	72
RWA standardised	96	92	88	88
Leverage assets	207	209	203	203
RW density B3	37%	35%	34%	35%
RW density B4 capital floors	38%	36%	35%	35%
RW density B4 on fully standardised	46%	44%	43%	44%
CT1 B3	5	5	5	5
AT1	0	0	0	0
CT1 B4	10.9%	10.9%	11.6%	11.6%
CT1 B4 capital floors	**10.7%**	**10.7%**	**11.3%**	**11.3%**
CT1 B4 on standardised	8.7%	8.7%	9.2%	9.2%
Leverage ratio	2.6%	2.4%	2.5%	2.5%

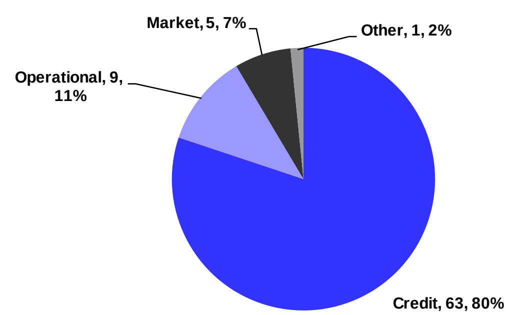
Source: Deutsche Bank, Company data

Figure 115: RWA B3 2014



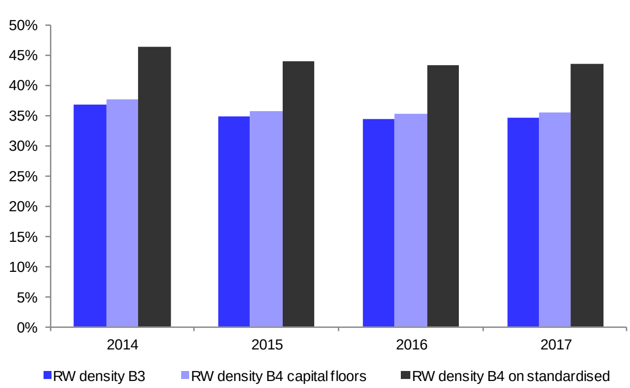
Source: Deutsche Bank, Company data

Figure 116: RWA B4 2014E



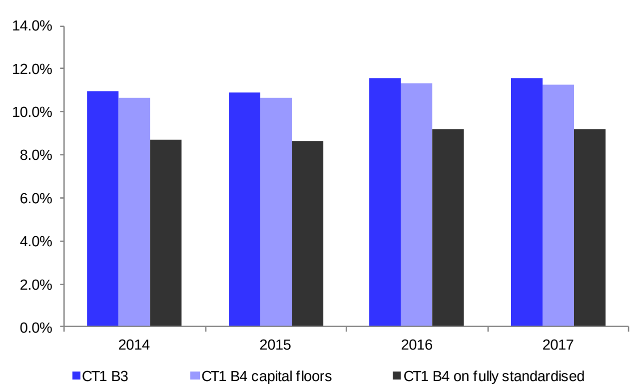
Source: Deutsche Bank, Company data

Figure 117: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 118: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 119: MPS – modelling pro-forma 2014 RWA inflation by category before management action

BMPS.MI

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign		0%		0%	0	0%	0	0
Institution		0%		30%	0	23%	0	0
Corporate	26,712	69%	18,348	79%	21,164	69%	18,348	0
Retail	49,306	22%	10,792	52%	25,673	39%	19,255	8,463
o/w mortgage	28,266	9%	2,671	35%	9,893	26%	7,420	4,749
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	21,040	39%	8,121	75%	15,780	56%	11,835	3,714
Other		0%		0%	0	0%	0	0
IRB	76,018	38%	29,140	62%	46,837	46%	35,128	5,988
Sovereign	37,667	19%	7,064	19%	7,064	19%	7,064	0
Institution	16,977	25%	4,203	30%	5,093	25%	4,203	0
Corporate	8,121	98%	7,921	79%	6,434	98%	7,921	0
Retail	5,070	63%	3,170	63%	3,170	63%	3,170	0
Other	12,205	90%	11,021	90%	11,021	90%	11,021	0
Standardised	80,040	42%	33,380	41%	32,783	31%	24,587	0
Other		na		na	0	na	0	0
Credit Risk	156,058	40%	62,520	51%	79,620	38%	59,715	0
Operational Risk		na	8,853	na	9,607	na	7,205	0
Other risk (settlement, failed trades, equity risk outside trading book)		na	1,232	na	1,232	na	1,232	0
Market Risk		**na**	**3,614**	**na**	**5,421**	**na**	**5,421**	**1,807**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	**156,058**	**49%**	**76,219**	**61%**	**95,880**	**47%**	**73,573**	**1,807**
RWA inflation								2%

Source: Deutsche Bank, Company data

Model updated:11 May 2015

Running the numbers

Europe

Italy

Banks

MPS

Reuters: BMPS.MI Bloomberg: BMPS IM

Hold

Price (15 Jun 15)	EUR 1.72
Target Price	EUR 0.60
52 Week range	EUR 0.40 - 10.50
Market Cap (m)	EURm 8,800
	USDm 9,917

Company Profile

Monte Paschi di Siena is Italy's third largest bank. MPS is active in retail, corporate and private banking and bancassurance . MPS has a market share of 5% via some 2330 branches covering Tuscany where the bank is market leader, the Adriatic coast thanks to the acquisition of Antonveneta, the province on Mantua through BAM, and many other regions located in Central and Southern Italy.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	-0.27	-0.12	-1.04	-0.02	0.06	0.09
EPS (DB) (EUR)	-0.13	-0.11	-0.83	-0.01	0.07	0.10
Growth Rate - EPS (DB) (%)	-864.6	19.2	-687.4	98.7	704.8	44.0
DPS (EUR)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (stated) (EUR)	0.55	0.53	1.17	1.25	1.31	1.40
Tang. NAV p. sh. (EUR)	0.45	0.43	1.08	1.16	1.23	1.32
Market Capitalisation	16,475	12,803	2,405	8,800	8,800	8,800
Shares in issue	11,682	11,682	5,117	5,117	5,117	5,117
Valuation Ratios & Profitability Measures						
P/E (stated)	-5.2	-8.9	-0.5	-91.6	28.2	18.9
P/E (DB)	-10.8	-10.4	-0.6	-154.8	25.6	17.8
P/B (stated)	2.6	2.1	0.4	1.4	1.3	1.2
P/Tangible equity (DB)	3.1	2.6	0.4	1.5	1.4	1.3
ROE(stated)(%)	-49.1	-23.4	-89.6	-1.5	4.6	6.5
ROTE (tangible equity) (%)	-27.4	-24.0	-80.8	-1.0	5.6	7.6
ROIC (invested capital) (%)	-23.6	-20.0	-71.3	-0.9	5.1	6.9
Dividend yield(%)	0.0	0.0	0.0	0.0	0.0	0.0
Dividend cover(x)	nm	nm	nm	nm	nm	nm
Profit & Loss (EURm)						
Net interest revenue	2,830	2,153	2,331	2,444	2,478	2,514
Non interest income	1,830	1,904	2,065	2,038	2,101	2,135
Commissions	1,633	1,658	1,698	1,710	1,803	1,872
Trading Revenue	122	116	246	234	198	160
Other revenue	75	130	121	95	100	104
Total revenue	4,660	4,057	4,395	4,482	4,579	4,649
Total Operating Costs	3,768	3,128	3,132	2,819	2,725	2,674
Employee Costs	1,918	1,719	1,710	1,680	1,631	1,580
Other costs	1,850	1,410	1,422	1,139	1,094	1,094
Pre-Provision profit/(loss)	1,441	1,245	1,640	1,808	1,954	2,075
Bad debt expense	2,672	2,750	7,821	1,752	1,345	1,241
Operating Profit	-1,780	-1,821	-6,558	-89	509	735
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	-1,780	-1,821	-6,558	-89	509	735
Tax	-363	-589	-2,305	-29	168	242
Other post tax items	-1,752	-207	-1,090	-36	-29	-26
Stated net profit	-3,168	-1,439	-5,343	-96	312	467
Goodwill	1,705	40	726	40	32	29
Extraordinary & Other items	-62	167	368	0	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	-1,525	-1,232	-4,249	-57	344	495
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	92,828	84,499	76,220	73,028	70,071	70,142
Interest-earning assets	172,094	158,675	146,757	137,766	129,880	127,313
Customer Loans	142,015	131,218	119,676	114,663	110,021	110,133
Total Deposits	121,242	121,975	123,600	119,892	117,495	116,320
Stated Shareholder Equity	6,449	6,152	5,962	6,401	6,714	7,180
Equals: Tangible Equity	5,257	4,990	5,520	5,960	6,272	6,739
Tier 1 capital	7,017	4,902	5,537	5,766	5,609	5,605
Tier 1 ratio (%)	8	6	7	8	8	8
o/w core tier 1 capital ratio (%)	6.9	5.3	7.3	7.9	8.0	8.0
Credit Quality						
Gross NPLs/Total Loans(%)	20.78	27.48	37.88	39.52	40.33	39.36
Risk Provisions/NPLs(%)	43	44	51	53	54	56
Bad debt / Avg loans (%)	1.88	2.10	6.54	1.53	1.22	1.13
Bad debt/Pre-Provision Profit(%)	185.4	220.8	476.9	96.9	68.8	59.8
Growth Rates & Key Ratios						
Growth in revenues (%)	-14	-13	8	2	2	2
Growth in costs (%)	-7	-17	0	-10	-3	-2
Growth in bad debts (%)	104	3	184	-78	-23	-8
Growth in RWA (%)	-12	-9	-10	-4	-4	0
Net int. margin (%)	1.64	1.36	1.59	1.77	1.91	1.97
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	117	108	97	96	94	95
ROTE Decomposition						
Revenue % ARWAs	5.02	4.80	5.77	6.14	6.54	6.63
Net interest revenue % ARWA	3.05	2.55	3.06	3.35	3.54	3.58
Non interest revenue % ARWA	1.97	2.25	2.71	2.79	3.00	3.04
Costs/income ratio (%)	69.1	69.3	62.7	59.7	57.3	55.4
Bad debts % ARWAs	2.88	3.25	10.26	2.40	1.92	1.77
Tax rate (%)	20.4	32.4	35.1	32.9	33.0	33.0
Adj. Attr. earnings % ARWA	-1.64	-1.46	-5.57	-0.08	0.49	0.71
Capital leverage (ARWA/Equity)	16.7	16.5	14.5	12.7	11.5	10.8
ROTE (Adj. earnings/Ave. equity)	-27.4	-24.0	-80.8	-1.0	5.6	7.6

Source: Company data, Deutsche Bank estimates

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UBI Banca (Hold, TP EUR 7.2)

Investment thesis

UBI Banca is a purely commercial player and one of the highest-quality banks in Italy, from an asset quality point of view. We do not see major catalysts for any over-performance relative to other Italian banks or European banks, especially in a context of low interest rates. The stock is trading in line with our target price, therefore we have a Hold rating.

Operational and market RWAs are driving the RWA inflation

UBI Banca sees only some RWA inflation in the operational and market risk. **Credit RWAs** are not inflated at all: single categories such as the retail exposures under IRB (UBI Banca uses a 15% RW, versus the 26% we calculate, as 35%*75%) or the corporate exposures under standardised models would see a higher RW under the Basel 4 rules; however, given we look at the overall credit RWAs, and apply a floor at this level, we conclude that UBI Banca would not be penalised by the new rules. **Operational RWAs** inflated because UBI measures them under IRB, and we recalculate them as new standardised RWAs, with the 75% floor to pass to the new IRB.

We also identify some **market RWAs** inflation, as we apply a standard 50% increase to market RWAs for all banks. This could be overly penalising for some of the domestic players, and for Intesa.

RWA inflation slightly below the average among the Italian banks

We calculate the RWA inflation would be about 4% for UBI Banca versus 4% on average for the other Italian banks. Despite this inflation, its Basel 4 CET1 ratio remains above 11%, rising to 12% in 2016-17. Given UBI Banca will take part in the Italian domestic M&A, we think that this excess capital will be used for this growth option, and not devoted to higher dividend payouts, which would in theory be possible.

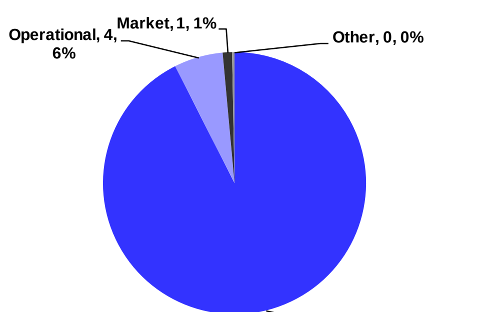
Under our framework, UBI will experience RWA inflation of 4%.

Figure 120: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	62	63	64	66
RWA capital floors	64	65	67	68
RWA standardised	72	73	75	76
Leverage assets	133	132	132	132
RW density B3	46%	48%	49%	50%
RW density B4 capital floors	48%	49%	50%	52%
RW density B4 on fully standardised	54%	55%	57%	58%
CT1 B3	7	8	8	8
AT1	0	0	0	0
CT1 B4	11.5%	12.2%	12.4%	12.5%
CT1 B4 capital floors	**11.1%**	**11.7%**	**11.9%**	**12.1%**
CT1 B4 on standardised	9.9%	10.5%	10.6%	10.8%
Leverage ratio	5.3%	5.8%	6.0%	6.2%

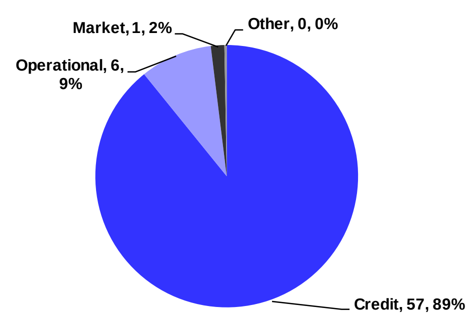
Source: Deutsche Bank, Company data

Figure 121: RWA B3 2014



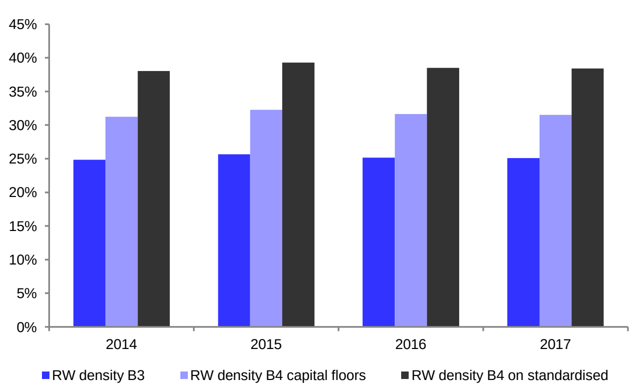
Source: Deutsche Bank, Company data

Figure 122: RWA B4 2014E



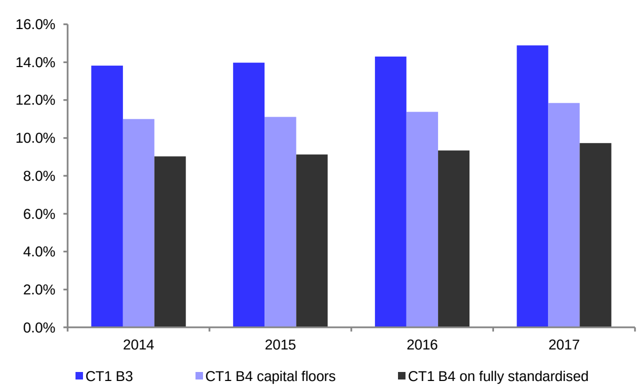
Source: Deutsche Bank, Company data

Figure 123: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 124: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 125: UBI Banca – modelling pro-forma 2014 RWA inflation by category before management action

UBI.MI

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign		0%		0%	0	0%	0	0
Institution		0%		30%	0	23%	0	0
Corporate	22,445	114%	25,548	79%	17,783	114%	25,548	0
Retail	23,294	21%	4,943	48%	11,163	36%	8,372	3,429
o/w mortgage	15,770	15%	2,422	35%	5,520	26%	4,140	1,718
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	7,524	34%	2,521	75%	5,643	56%	4,232	1,711
Other	1,705	93%	1,594	93%	1,594	93%	1,594	0
IRB	47,444	68%	32,085	64%	30,540	48%	22,905	0
Sovereign	27,951	10%	2,896	10%	2,896	10%	2,896	0
Institution	6,542	19%	1,219	30%	1,963	23%	1,472	253
Corporate	17,661	42%	7,470	79%	13,993	59%	10,495	3,024
Retail	14,138	47%	6,618	48%	6,775	47%	6,618	0
Other	6,985	98%	6,871	98%	6,871	98%	6,871	0
Standardised	73,277	34%	25,074	44%	32,498	33%	24,373	0
Other		na		na	0	na	0	0
Credit Risk	**120,721**	**47%**	**57,159**	**52%**	**63,038**	**39%**	**47,278**	**0**
Operational Risk		**na**	**3,713**	**na**	**7,590**	**na**	**5,692**	**1,979**
Other risk (settlement, failed trades, equity risk outside trading book)		na	184	na	184	na	184	0
Market Risk		**na**	**707**	**na**	**1,061**	**na**	**1,061**	**354**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	**120,721**	**51%**	**61,763**	**60%**	**71,872**	**45%**	**54,215**	**2,333**
RWA inflation								4%

Source: Deutsche Bank, Company data

Model updated:13 May 2015

Running the numbers

Europe

Italy

Banks

UBI Banca

Reuters: UBI.MI | Bloomberg: UBI IM

Hold

Price (15 Jun 15)	EUR 7.00
Target Price	EUR 7.20
52 Week range	EUR 5.32 - 7.70
Market Cap (m)	EURm 6,308
	USDm 7,108

Company Profile

UBI Banca is the second-largest Italian Popolare Bank, having arisen from the merger of BPU Banca and Banca Lombarda (April 2007). It has some 1,700 branches, mainly based in north-western Italy (Lombardy, Piedmont). As of Q3-14, it had Euro 85bn in customer loans.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	0.09	0.28	-0.80	0.28	0.52	0.62
EPS (DB) (EUR)	0.16	0.18	0.20	0.31	0.55	0.65
Growth Rate - EPS (DB) (%)	-24.8	8.7	14.1	52.7	77.6	17.3
DPS (EUR)	0.05	0.06	0.08	0.14	0.26	0.31
BVPS (stated) (EUR)	10.80	11.47	10.87	11.01	11.27	11.59
Tang. NAV p. sh. (EUR)	7.55	8.26	8.94	9.15	9.47	9.83
Market Capitalisation	3,162	4,451	5,374	6,308	6,308	6,308
Shares in issue	902	902	902	902	902	902
Valuation Ratios & Profitability Measures						
P/E (stated)	38.2	17.7	-7.4	25.0	13.3	11.2
P/E (DB)	21.4	27.7	29.3	22.5	12.7	10.8
P/B (stated)	0.3	0.4	0.5	0.6	0.6	0.6
P/Tangible equity (DB)	0.5	0.6	0.7	0.8	0.7	0.7
ROE(stated)(%)	0.8	2.4	-7.4	2.5	4.7	5.4
ROTE (tangible equity) (%)	2.3	2.3	2.4	3.4	5.9	6.7
ROIC (invested capital) (%)	1.5	1.6	1.9	2.8	4.9	5.6
Dividend yield(%)	1.7	1.6	1.3	2.0	3.8	4.5
Dividend cover(x)	1.8	4.6	-10.1	2.0	2.0	2.0
Profit & Loss (EURm)						
Net interest revenue	1,990	1,785	1,852	1,774	1,846	1,901
Non interest income	1,714	1,819	1,752	1,752	1,825	1,867
Commissions	1,182	1,187	1,227	1,294	1,379	1,423
Trading Revenue	281	342	237	154	140	134
Other revenue	251	289	289	303	306	310
Total revenue	3,704	3,603	3,604	3,526	3,671	3,767
Total Operating Costs	2,474	2,295	2,257	2,258	2,227	2,199
Employee Costs	1,391	1,302	1,302	1,314	1,306	1,298
Other costs	1,083	993	955	944	921	901
Pre-Provision profit/(loss)	1,279	1,321	1,356	1,283	1,458	1,583
Bad debt expense	847	943	929	785	635	624
Operating Profit	383	366	419	483	809	944
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	383	366	419	483	809	944
Tax	214	175	203	171	278	327
Other post tax items	-86	61	-941	-60	-57	-55
Stated net profit	83	251	-726	253	473	562
Goodwill	35	97	913	25	25	22
Extraordinary & Other items	31	-187	-4	2	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	148	161	184	280	498	584
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	76,589	61,046	61,763	62,603	64,148	65,717
Interest-earning assets	114,913	110,446	107,669	108,834	110,977	113,152
Customer Loans	92,888	88,421	85,644	86,809	88,952	91,127
Total Deposits	53,758	50,702	51,617	51,101	50,590	50,084
Stated Shareholder Equity	9,738	10,339	9,804	9,930	10,167	10,448
Equals: Tangible Equity	6,805	7,452	8,059	8,252	8,543	8,867
Tier 1 capital	8,264	8,075	7,615	7,742	7,978	8,259
Tier 1 ratio (%)	11	13	12	12	12	13
o/w core tier 1 capital ratio (%)	10.3	12.6	12.3	12.4	12.4	12.6
Credit Quality						
Gross NPLs/Total Loans(%)	11.80	14.33	16.15	15.07	14.31	13.70
Risk Provisions/NPLs(%)	30	30	29	34	36	37
Bad debt / Avg loans (%)	0.91	1.07	1.08	0.90	0.71	0.68
Bad debt/Pre-Provision Profit(%)	66.2	71.4	68.5	61.2	43.5	39.4
Growth Rates & Key Ratios						
Growth in revenues (%)	1	-3	0	-2	4	3
Growth in costs (%)	-3	-7	-2	0	-1	-1
Growth in bad debts (%)	40	11	-2	-16	-19	-2
Growth in RWA (%)	-16	-20	1	1	2	2
Net int. margin (%)	1.73	1.62	1.72	1.63	1.66	1.68
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	173	174	166	170	176	182
ROTE Decomposition						
Revenue % ARWAs	4.84	5.90	5.84	5.63	5.72	5.73
Net interest revenue % ARWA	2.60	2.92	3.00	2.83	2.88	2.89
Non interest revenue % ARWA	2.24	2.98	2.84	2.80	2.85	2.84
Costs/income ratio (%)	65.5	63.3	62.4	63.6	60.3	58.0
Bad debts % ARWAs	1.11	1.54	1.50	1.25	0.99	0.95
Tax rate (%)	55.9	48.0	48.6	35.3	34.4	34.7
Adj. Attr. earnings % ARWA	0.19	0.26	0.30	0.45	0.78	0.89
Capital leverage (ARWA/Equity)	12.0	8.6	8.0	7.7	7.6	7.5
ROTE (Adj. earnings/Ave. equity)	2.3	2.3	2.4	3.4	5.9	6.7

Source: Company data, Deutsche Bank estimates

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Unicredit (Buy, TP EUR 7.7)

Investment thesis

UCG is a play on public QE, macro recovery in Italy and Europe, and strong capital market performance. On top of this, we see important company-specific upside potential from: 1) further de-risking and improvements in Italy, 2) German and Austrian restructuring. 3) asset management focus, and 4) further cost cutting. We expect good news and delivery on those fronts as soon as in 2015E. Thus we have a Buy rating on the stock.

Operational and market RWAs are driving the RWA inflation

UCG sees inflation in RWA from Basel 4 from operational risk and market risk. **Credit RWAs** are not inflated at all: single categories under IRB such as the retail exposures (Unicredit uses a 20% RW, versus the 26% we calculate, as 35%*75%) or the corporate exposures (Unicredit uses a 49% RW, versus the 56% we calculate, as 74%*75%) would see a higher RW under the Basel 4 rules; however, given we look at the overall credit RWAs, and apply the 75% floor at this level, we conclude that Unicredit would not be penalised by the new rules.

Operational RWAs inflated because UCG measures them under IRB, and we recalculate them as new standardised RWAs, with the 75% floor to pass to the new IRB. We also identify some **market RWAs** inflation, as we apply a standard 50% increase to market RWAs for all banks.

One of the lowest RWA inflation rates among the Italian banks

We calculate the RWA inflation would be about 2% for Unicredit versus 4% for the other Italian banks' average. With this limited inflation, its Basel 4 CET1 ratio remains close to 10% or over 10% from 2016, which we think can reassure investors on UCG's capital level.

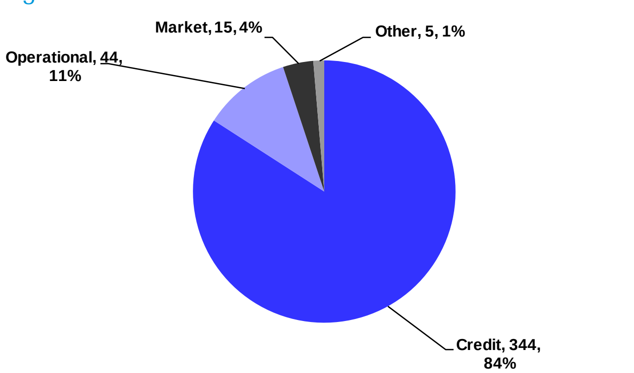
Under our framework, UCG will experience RWA inflation of 2%.

Figure 126: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	409	422	425	432
RWA capital floors	419	433	436	443
RWA standardised	494	510	513	522
Leverage assets	877	976	920	957
RW density B3	47%	43%	46%	45%
RW density B4 capital floors	48%	44%	47%	46%
RW density B4 on fully standardised	56%	52%	56%	55%
CT1 B3	41	42	45	48
AT1	4	4	5	6
CT1 B4	10.0%	10.0%	10.6%	11.1%
CT1 B4 capital floors	**9.8%**	**9.8%**	**10.3%**	**10.8%**
CT1 B4 on standardised	8.3%	8.3%	8.7%	9.2%
Leverage ratio	5.1%	4.7%	5.4%	5.6%

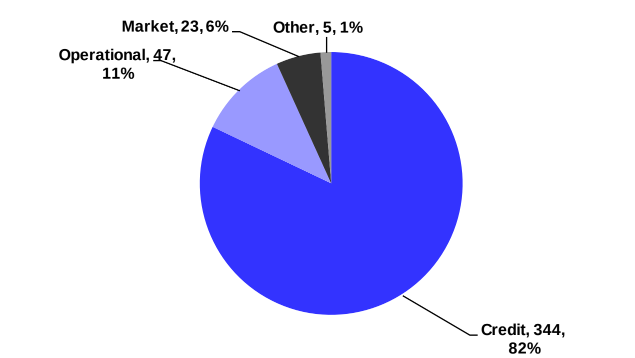
Source: Deutsche Bank, Company data

Figure 127: RWA B3 2014



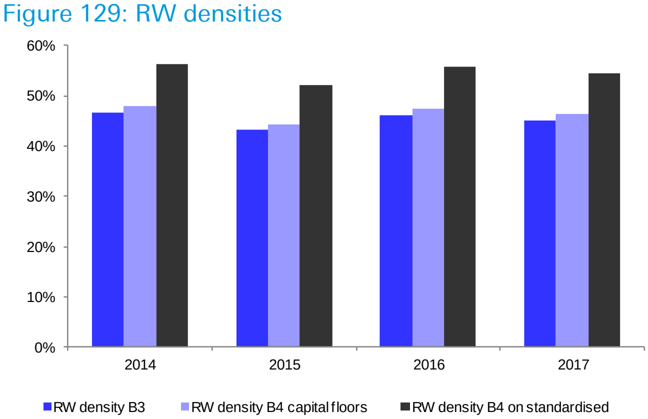
Source: Deutsche Bank, Company data

Figure 128: RWA B4 2014E



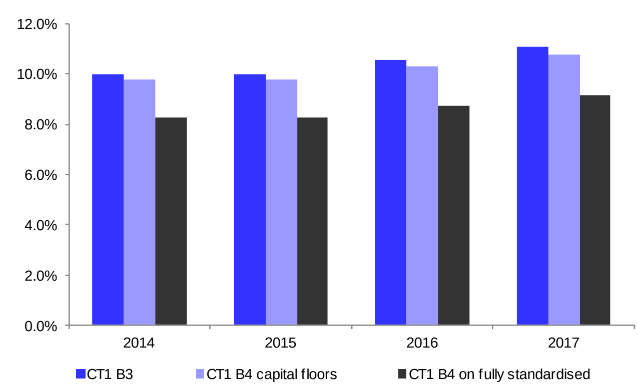
Source: Deutsche Bank, Company data

Figure 129: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 130: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 131: Unicredit – modelling pro-forma 2014 RWA inflation by category before management action

CRDI.MI

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	10,739	5%	515	5%	515	5%	515	0
Institution	55,519	20%	10,834	30%	16,656	23%	12,492	1,658
Corporate	204,042	49%	100,973	74%	150,991	56%	113,243	12,270
Retail	118,719	25%	29,198	46%	55,174	35%	41,381	12,183
o/w mortgage	84,663	20%	17,347	35%	29,632	26%	22,224	4,877
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	34,056	35%	11,851	75%	25,542	56%	19,157	7,306
Other	480	291%	1,395	291%	1,395	291%	1,395	0
IRB	389,499	37%	142,915	58%	224,731	43%	168,548	25,633
Sovereign	205,486	14%	29,454	14%	29,454	14%	29,454	0
Institution	15,380	72%	11,137	30%	4,614	72%	11,137	0
Corporate	72,710	96%	69,627	74%	53,805	96%	69,627	0
Retail	63,222	64%	40,384	64%	40,384	64%	40,384	0
Other	44,980	82%	37,060	82%	37,060	82%	37,060	0
Standardised	401,778	47%	187,662	41%	165,317	31%	123,988	0
Other	73,061	na	13,635	na	13,635	na	13,635	0
Credit Risk	**864,338**	**40%**	**344,212**	**47%**	**403,683**	**35%**	**302,762**	**0**
Operational Risk		**na**	**44,228**	**na**	**62,283**	**na**	**46,713**	**2,485**
Other risk (settlement, failed trades, equity risk outside trading book)		na	5,481	na	5,481	na	5,481	0
Market Risk		**na**	**15,303**	**na**	**22,955**	**na**	**22,955**	**7,652**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	**864,338**	**47%**	**409,224**	**57%**	**494,402**	**44%**	**377,910**	**10,136**
RWA inflation								2%

Source: Deutsche Bank, Company data

Model updated:12 May 2015

Running the numbers

Europe

Italy

Banks

Unicredit

Reuters: CRDI.MI Bloomberg: UCG IM

Buy

Price (15 Jun 15)	EUR 6.04
Target Price	EUR 7.70
52 Week range	EUR 4.91 - 6.78
Market Cap (m)	EURm 35,498
	USDm 40,003

Company Profile

UniCredit (UCG) is one of the largest banking groups in Europe with a network of 7800 branches, across more than 20 countries. UCG is the market leader in some wealthy regions in Europe (Bavaria, Austria and Northern Italy), while also maintaining a presence in Eastern European countries (mainly Poland, Russia and Turkey). UCG is also characterized by the diversification of its revenues by business (retail, corporate, investment banking, asset management).

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	0.15	-1.07	0.34	0.40	0.59	0.74
EPS (DB) (EUR)	-0.11	-0.70	0.44	0.46	0.62	0.76
Growth Rate - EPS (DB) (%)	-145.1	-565.3	162.4	4.6	34.7	23.6
DPS (EUR)	0.09	0.10	0.12	0.16	0.24	0.29
BVPS (stated) (EUR)	10.84	8.07	8.42	8.76	9.28	9.93
Tang. NAV p. sh. (EUR)	8.14	7.15	7.47	7.51	7.77	8.20
Market Capitalisation	21,456	31,147	31,294	35,498	35,498	35,498
Shares in issue	5,789	5,789	5,866	5,882	5,882	5,882
Valuation Ratios & Profitability Measures						
P/E (stated)	24.8	-5.0	15.6	15.0	10.3	8.2
P/E (DB)	-35.2	-7.7	12.2	13.2	9.8	7.9
P/B (stated)	0.3	0.7	0.6	0.7	0.7	0.6
P/Tangible equity (DB)	0.5	0.8	0.7	0.8	0.8	0.7
ROE(stated)(%)	1.5	-11.3	4.2	4.7	6.5	7.7
ROTE (tangible equity) (%)	-1.5	-9.2	6.0	6.1	8.1	9.5
ROIC (invested capital) (%)	-0.9	-8.4	5.0	5.1	6.4	7.4
Dividend yield(%)	2.7	2.3	2.0	2.7	3.9	4.9
Dividend cover(x)	1.7	-10.7	2.9	2.5	2.5	2.5
Profit & Loss (EURm)						
Net interest revenue	14,285	12,303	12,442	12,173	12,700	13,229
Non interest income	10,463	11,014	10,071	10,874	11,281	11,504
Commissions	7,793	7,361	7,572	8,004	8,285	8,480
Trading Revenue	2,013	2,505	1,557	1,871	1,971	1,971
Other revenue	658	1,148	942	999	1,026	1,053
Total revenue	24,748	23,316	22,513	23,048	23,982	24,733
Total Operating Costs	15,146	15,221	14,197	14,306	14,258	14,177
Employee Costs	8,916	8,375	8,201	8,121	8,083	8,048
Other costs	6,230	6,846	5,996	6,184	6,175	6,129
Pre-Provision profit/(loss)	9,769	9,063	8,675	9,419	10,444	11,284
Bad debt expense	9,613	13,481	4,292	4,089	3,658	3,194
Operating Profit	-10	-5,386	4,024	4,653	6,066	7,362
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	-10	-5,386	4,024	4,653	6,066	7,362
Tax	241	-1,716	1,082	1,606	2,103	2,564
Other post tax items	1,116	-2,528	-934	-687	-500	-463
Stated net profit	865	-6,197	2,008	2,361	3,463	4,336
Goodwill	465	1,673	281	200	100	100
Extraordinary & Other items	-1,938	473	273	126	57	37
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	-609	-4,051	2,562	2,686	3,620	4,472
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	427,127	384,750	409,223	422,160	425,020	432,477
Interest-earning assets	734,017	676,872	679,374	745,793	659,360	668,220
Customer Loans	547,144	483,684	470,569	485,445	488,734	497,309
Total Deposits	579,965	557,379	560,688	577,470	591,329	605,642
Stated Shareholder Equity	62,784	46,722	49,390	51,546	54,595	58,429
Equals: Tangible Equity	47,126	41,395	43,828	44,154	45,679	48,245
Tier 1 capital	48,868	42,737	46,097	47,458	50,178	53,761
Tier 1 ratio (%)	11	11	11	11	12	12
o/w core tier 1 capital ratio (%)	10.8	10.6	10.4	10.3	10.7	11.2
Credit Quality						
Gross NPLs/Total Loans(%)	14.58	17.68	17.93	17.48	16.69	16.23
Risk Provisions/NPLs(%)	48	56	54	58	61	62
Bad debt / Avg loans (%)	1.76	2.79	0.91	0.84	0.75	0.64
Bad debt/Pre-Provision Profit(%)	98.4	148.7	49.5	43.4	35.0	28.3
Growth Rates & Key Ratios						
Growth in revenues (%)	-1	-6	-3	2	4	3
Growth in costs (%)	-6	0	-7	1	0	-1
Growth in bad debts (%)	68	40	-68	-5	-11	-13
Growth in RWA (%)	-7	-10	6	3	1	2
Net int. margin (%)	1.95	1.82	1.83	1.63	1.93	1.98
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	94	87	84	84	83	82
ROTE Decomposition						
Revenue % ARWAs	5.79	6.06	5.50	5.46	5.64	5.72
Net interest revenue % ARWA	3.34	3.20	3.04	2.88	2.99	3.06
Non interest revenue % ARWA	2.45	2.86	2.46	2.58	2.65	2.66
Costs/income ratio (%)	60.5	61.1	61.5	59.1	56.5	54.4
Bad debts % ARWAs	2.25	3.50	1.05	0.97	0.86	0.74
Tax rate (%)	-2,293.3	31.9	26.9	34.5	34.7	34.8
Adj. Attr. earnings % ARWA	-0.14	-1.05	0.63	0.64	0.85	1.03
Capital leverage (ARWA/Equity)	10.3	8.7	9.6	9.6	9.5	9.2
ROTE (Adj. earnings/Ave. equity)	-1.5	-9.2	6.0	6.1	8.1	9.5

Source: Company data, Deutsche Bank estimates

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Germany

Commerzbank (Buy, TP EUR 14)

Investment thesis

After the ABB in April 2015, Commerzbank finally reported a fully loaded B3 CET1 ratio above 10%; for the first time in line with peers. Additionally, we think capital is of a high quality and the risk of meaningful risk weight inflation is low, as we only expect some market RWA inflation. Therefore, the investment case has further de-risked significantly, in our view (aside from NCA being much smaller and starting to improve, there are no major lawsuits any more). This allows the bank to focus on benefitting from tailwinds for fee income, loan growth, loan losses provisions as well as being a pro-cyclical Investment Bank. Additionally, CBK trades at a significant discount to the sector.

Market RWA inflation expected, credit and operational RWA stable

For Commerzbank, we do not expect credit RWA inflation after netting of different exposures and the application of capital floors. Similarly, we do not expect inflation of operational RWA. However, we factor in a 50% increase in market risk RWA, resulting in a total E10bn or 5% RWA inflation. This would reduce our 2017 fully loaded Basel 3 ratio by 50bps to 10.7%.

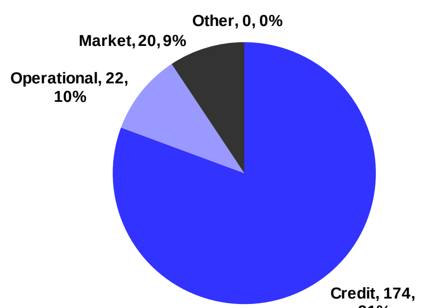
Under our framework, Commerzbank will experience RWA inflation of 5%.

Figure 132: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	214	221	221	221
RWA capital floors	224	231	231	231
RWA standardised	271	280	279	280
Leverage assets	582	530	522	515
RW density B3	37%	42%	42%	43%
RW density B4 capital floors	38%	44%	44%	45%
RW density B4 on fully standardised	47%	53%	53%	54%
CT1 B3	20	23	24	25
AT1	0	0	0	0
CT1 B4	9.3%	10.4%	10.8%	11.2%
CT1 B4 capital floors	**8.9%**	**10.0%**	**10.4%**	**10.7%**
CT1 B4 on standardised	7.3%	8.2%	8.6%	8.8%
Leverage ratio	3.4%	4.3%	4.6%	4.8%

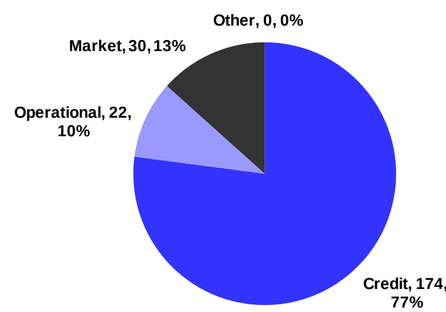
Source: Deutsche Bank, Company data

Figure 133: RWA B3 2014



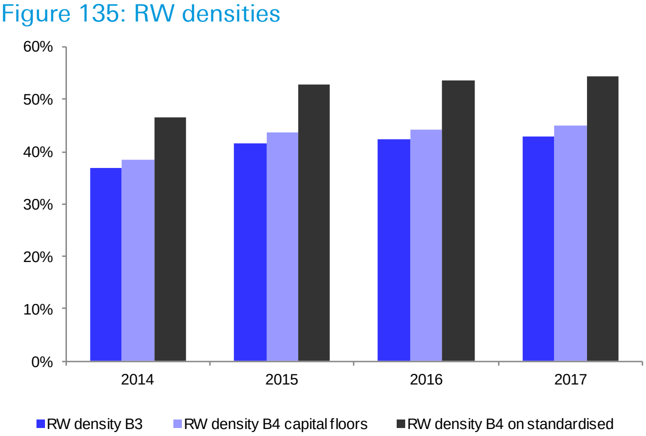
Source: Deutsche Bank, Company data

Figure 134: RWA B4 2014E



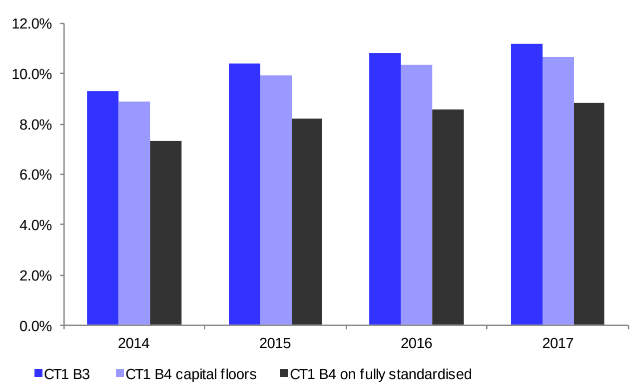
Source: Deutsche Bank, Company data

Figure 135: RW densities



Source: Deutsche Bank, Company data *Future data are forecasts*

Figure 136: CT1 capital ratios



Source: Deutsche Bank, Company data *Future data are forecasts*

Figure 137: Commerzbank – modelling pro-forma 2014 RWA inflation by category before management action

CBKG.DE

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	46,665	11%	4,949	11%	4,949	11%	4,949	0
Institution	67,260	43%	28,722	30%	20,178	43%	28,722	0
Corporate	149,687	55%	82,303	70%	104,781	55%	82,303	0
Retail	92,349	18%	16,797	49%	45,053	37%	33,790	16,993
o/w mortgage	53,797	18%	9,718	30%	16,139	23%	12,104	2,386
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	38,552	18%	7,079	75%	28,914	56%	21,686	14,607
Other		0%		0%	0	0%	0	0
IRB	355,961	37%	132,771	49%	174,961	37%	131,221	0
Sovereign	96,914	1%	1,378	1%	1,378	1%	1,378	0
Institution	8,608	19%	1,607	30%	2,582	23%	1,937	330
Corporate	11,374	72%	8,165	70%	7,962	72%	8,165	0
Retail	3,153	58%	1,830	58%	1,830	58%	1,830	0
Other	13,349	78%	10,456	78%	10,456	78%	10,456	0
Standardised	133,398	18%	23,436	18%	24,209	14%	18,156	0
Other		na	17,356	na	17,356	na	17,356	0
Credit Risk	**489,359**	**35%**	**173,563**	**44%**	**216,525**	**33%**	**162,394**	**0**
Operational Risk		**na**	**21,560**	**na**	**25,759**	**na**	**19,319**	**0**
Other risk (settlement, failed trades, equity risk outside trading book)		na		na	0	na	0	0
Market Risk		**na**	**20,055**	**na**	**30,083**	**na**	**30,083**	**10,028**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	**489,359**	**44%**	**215,178**	**56%**	**272,367**	**43%**	**211,796**	**10,028**
RWA inflation								5%

Source: Deutsche Bank, Company data

Model updated:07 May 2015

Running the numbers

Europe

Germany

Banks

Commerzbank

Reuters: CBKG.DE Bloomberg: CBK GY

Buy

Price (15 Jun 15)	EUR 11.44
Target Price	EUR 14.00
52 Week range	EUR 10.29 - 13.29
Market Cap (m)	EURm 14,321
	USDm 16,138

Company Profile

Commerzbank is among Germany's largest banks. It counts E636bn in assets, of which EUR279bn (or 44%) are customer loans and E247bn (or 39%) trading & financial assets. Customer loans are 61% domestic (31% corp, 22% retail, 8% public sector) and 39% foreign (36% corp/retail, 3% public sector). The bank funds via deposits (42%), issued securities (12%), and interbank (17%); 4% is capital. It serves c15m customers (11m dom.) via 1,200 branches and 54k employees. [FY2012 data]

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	-0.38	0.08	0.23	0.85	1.01	1.12
EPS (DB) (EUR)	1.37	0.80	0.88	0.92	1.01	1.12
Growth Rate - EPS (DB) (%)	-68.3	-41.2	9.5	4.7	9.4	10.9
DPS (EUR)	0.00	0.00	0.00	0.15	0.30	0.50
BVPS (stated) (EUR)	40.78	22.82	22.88	23.45	24.31	25.13
Tang. NAV p. sh. (EUR)	35.55	20.00	19.96	20.85	21.71	22.52
Market Capitalisation	6,251	13,332	12,501	14,321	14,321	14,321
Shares in issue	561	930	1,139	1,214	1,252	1,252
Valuation Ratios & Profitability Measures						
P/E (stated)	-28.0	143.2	47.4	13.4	11.3	10.2
P/E (DB)	7.9	14.6	12.5	12.4	11.3	10.2
P/B (stated)	0.3	0.5	0.5	0.5	0.5	0.5
P/Tangible equity (DB)	0.3	0.6	0.6	0.5	0.5	0.5
ROE(stated)(%)	-1.0	0.3	1.0	3.7	4.2	4.5
ROTE (tangible equity) (%)	3.9	3.4	4.4	4.6	4.7	5.1
ROIC (invested capital) (%)	3.2	2.8	3.6	3.8	4.0	4.3
Dividend yield(%)	0.0	0.0	0.0	1.3	2.6	4.4
Dividend cover(x)	nm	nm	nm	5.7	3.4	2.2
Profit & Loss (EURm)						
Net interest revenue	5,539	6,148	5,607	5,852	5,919	6,094
Non interest income	4,362	3,135	3,147	3,948	3,858	3,883
Commissions	3,191	3,215	3,205	3,421	3,518	3,593
Trading Revenue	1,121	-68	393	592	200	160
Other revenue	50	-12	-451	-65	140	130
Total revenue	9,901	9,283	8,754	9,800	9,778	9,977
Total Operating Costs	7,025	6,797	6,926	7,015	6,971	6,961
Employee Costs	4,012	3,889	3,963	4,014	3,989	3,983
Other costs	3,013	2,908	2,963	3,001	2,982	2,978
Pre-Provision profit/(loss)	2,876	2,486	1,828	2,785	2,807	3,016
Bad debt expense	1,660	1,747	1,144	1,091	927	936
Operating Profit	1,216	739	684	1,694	1,879	2,081
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	1,216	739	684	1,694	1,879	2,081
Tax	796	79	253	483	496	550
Other post tax items	-635	-584	-167	-176	-122	-131
Stated net profit	-215	76	264	1,035	1,262	1,400
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	981	671	738	84	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	766	747	1,002	1,119	1,262	1,400
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	208,143	190,589	215,178	222,252	221,829	222,105
Interest-earning assets	596,863	512,890	528,060	529,200	521,340	514,111
Customer Loans	278,546	245,963	232,867	238,803	240,746	243,214
Total Deposits	265,842	276,486	248,977	265,282	266,608	267,941
Stated Shareholder Equity	23,770	25,980	26,054	29,370	30,445	31,469
Equals: Tangible Equity	20,719	22,773	22,724	26,110	27,185	28,209
Tier 1 capital	27,245	26,471	25,123	25,970	26,857	27,630
Tier 1 ratio (%)	13	14	12	12	12	12
o/w core tier 1 capital ratio (%)	11.2	13.3	11.7	11.7	12.1	12.4
Credit Quality						
Gross NPLs/Total Loans(%)	0.00	0.00	0.00	0.00	0.00	0.00
Risk Provisions/NPLs(%)	nm	nm	nm	nm	nm	nm
Bad debt / Avg loans (%)	0.58	0.67	0.48	0.46	0.39	0.39
Bad debt/Pre-Provision Profit(%)	57.7	70.3	62.6	39.2	33.0	31.0
Growth Rates & Key Ratios						
Growth in revenues (%)	0	-6	-6	12	0	2
Growth in costs (%)	-12	-3	2	1	-1	0
Growth in bad debts (%)	19	5	-35	-5	-15	1
Growth in RWA (%)	-12	-8	13	3	0	0
Net int. margin (%)	0.90	1.11	1.08	1.11	1.13	1.18
Cap.-market rev. / Total revs (%)	12	13	14	13	13	12
Total loans / Total deposits (%)	105	89	94	90	90	91
ROTE Decomposition						
Revenue % ARWAs	4.45	4.66	4.31	4.48	4.40	4.49
Net interest revenue % ARWA	2.49	3.08	2.76	2.68	2.67	2.75
Non interest revenue % ARWA	1.96	1.57	1.55	1.81	1.74	1.75
Costs/income ratio (%)	71.0	73.2	79.1	71.6	71.3	69.8
Bad debts % ARWAs	0.75	0.88	0.56	0.50	0.42	0.42
Tax rate (%)	65.5	10.7	37.0	28.5	26.4	26.4
Adj. Attr. earnings % ARWA	0.34	0.37	0.49	0.51	0.57	0.63
Capital leverage (ARWA/Equity)	11.4	9.2	8.9	9.0	8.3	8.0
ROTE (Adj. earnings/Ave. equity)	3.9	3.4	4.4	4.6	4.7	5.1

Source: Company data, Deutsche Bank estimates

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Austria

Erste Bank (Hold, TP EUR 25)

Investment thesis

After years of significant risk costs, in particular in Romania, Erste Group's underlying business is finally improving, in our view. We expect Erste's fully loaded Basel 3 CET1 ratio to recover in 2Q15 to 10.9%, therefore we do not see the planned introduction of an Austrian systemic risk buffer (which brings the required transitional Basel 3 CET1 ratio to 11% by mid 2017) as a major challenge for Erste Group. The introduction of standardised risk weights in combination with floors would not change this assessment materially, in our view. While the capital position would allow for business growth, the loan growth and loan mix outlook in CEE is still subdued – holding EPS growth back below potential. As Erste is trading above book value while its returns are expected to be close to its cost of equity, we rate the stock a Hold.

Risk weight inflation from operational risk

As shown below, in our view, netting between different credit exposures results in zero credit risk weight inflation for Erste Group. However, under the standardised method for operational risk, there would be meaningful RWA inflation. Applying a Beta of 19% on revenues to calculate operational RWA, we calculate EUR 7.5bn RWA inflation. Generally, higher-revenue banks are penalised under the new proposals.

As a result, we expect 100bps negative impact from Basel 4 introduction (standardised risk weights + capital floors) before mitigation measures on our 2017 Basel 3 CET1 ratio.

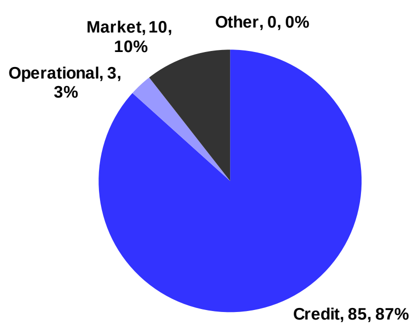
Under our framework, Erste will experience RWA inflation of 9%.

Figure 138: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	102	104	107	109
RWA capital floors	111	114	117	119
RWA standardised	117	119	122	125
Leverage assets	205	215	214	219
RW density B3	50%	49%	50%	50%
RW density B4 capital floors	54%	53%	54%	54%
RW density B4 on fully standardised	57%	56%	57%	57%
CT1 B3	11	11	12	13
AT1	0	0	0	0
CT1 B4	10.6%	10.9%	11.3%	11.7%
CT1 B4 capital floors	**9.7%**	**10.0%**	**10.4%**	**10.7%**
CT1 B4 on standardised	9.3%	9.5%	9.9%	10.2%
Leverage ratio	5.3%	5.3%	5.6%	5.9%

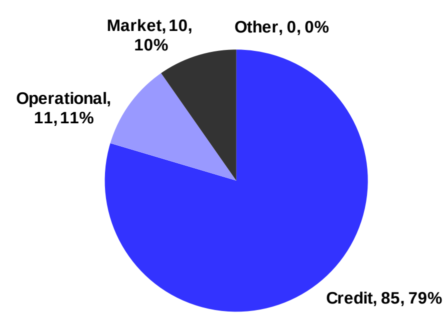
Source: Deutsche Bank, Company data

Figure 139: RWA B3 2014



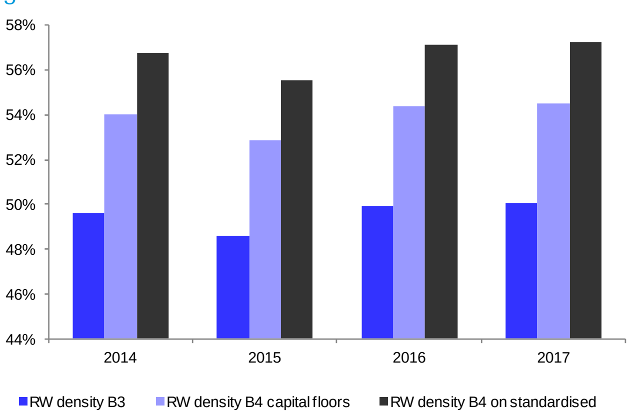
Source: Deutsche Bank, Company data

Figure 140: RWA B4 2014E



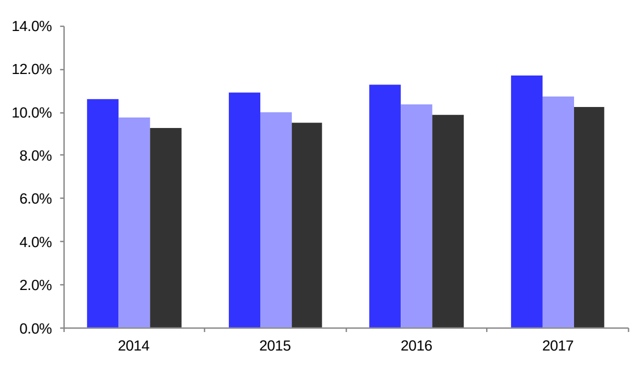
Source: Deutsche Bank, Company data

Figure 141: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 142: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 143: Erste Bank – modelling pro-forma 2014 RWA inflation by category before management action

ERST.VI

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	2,764	13%	362	10%	276	13%	362	0
Institution	14,428	21%	3,030	30%	4,328	23%	3,246	216
Corporate	44,290	70%	31,180	73%	32,502	70%	31,180	0
Retail	59,630	27%	16,100	49%	28,961	36%	21,720	5,620
o/w mortgage	37,750	24%	9,135	35%	13,212	26%	9,909	774
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	20,998	32%	6,698	75%	15,748	56%	11,811	5,113
Other	13,225		13,820	0%	0	0%	0	0
IRB	134,336	48%	64,492	49%	66,067	37%	49,550	0
Sovereign		0%		10%	0	8%	0	0
Institution		0%		30%	0	23%	0	0
Corporate		0%		73%	0	55%	0	0
Retail		0%		0%	0	0%	0	0
Other		0%		0%	0	0%	0	0
Standardised	77,470	26%	20,365	26%	20,365	20%	15,274	0
Other		na		na	0	na	0	0
Credit Risk	**211,806**	**40%**	**84,857**	**41%**	**86,432**	**31%**	**64,824**	**0**
Operational Risk		**na**	**2,708**	**na**	**15,206**	**na**	**11,405**	**8,697**
Other risk (settlement, failed trades, equity risk outside trading book)		na		na	0	na	0	0
Market Risk		**na**	**10,336**	**na**	**10,336**	**na**	**10,336**	**0**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	211,806	46%	97,901	53%	111,974	41%	86,565	8,697
RWA inflation								9%

Source: Deutsche Bank, Company data

Model updated:10 May 2015

Running the numbers

Europe

Austria

Banks

Erste Group

Reuters: ERST.VI Bloomberg: EBS AV

Hold

Price (15 Jun 15)	EUR 24.80
Target Price	EUR 25.00
52 Week range	EUR 17.02 - 26.98
Market Cap (m)	EURm 10,165
	USDm 11,455

Company Profile

Erste Group is among Austria's largest banks. It counts E214bn assets, o/w E131bn (or 61%) are customer loans. Customer loans are split into 56% corporate, 38% retail, 5% public sector; 46% domestic. The bank funds via deposits (63%), issued securities (15%), interbank (11%); 8% is capital. Erste Group has three operating units: Retail & SME (37% of equity), Corporate & Investment Banking (16%) and Group Markets (3%). Erste serves 16.9m customers (5.3m CZ, 3.5m Romania, 3.3m Austria, 2.4m Slovakia) via 3,100 branches and 50k employees. [FY12 data]

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	1.63	-0.06	-3.51	2.05	2.35	2.55
EPS (DB) (EUR)	2.10	0.86	0.13	2.02	2.35	2.55
Growth Rate - EPS (DB) (%)	-8.2	-58.9	-84.7	1,428.2	16.4	8.4
DPS (EUR)	0.40	0.20	0.00	0.50	0.70	0.75
BVPS (stated) (EUR)	29.54	27.52	24.00	25.97	27.62	29.42
Tang. NAV p. sh. (EUR)	21.84	21.59	20.48	22.52	24.17	25.97
Market Capitalisation	9,027	10,422	7,885	10,165	10,165	10,165
Shares in issue	394	396	411	410	410	410
Valuation Ratios & Profitability Measures						
P/E (stated)	14.8	-424.0	-5.5	12.1	10.5	9.7
P/E (DB)	11.4	29.4	145.5	12.3	10.5	9.7
P/B (stated)	0.8	0.9	0.8	1.0	0.9	0.8
P/Tangible equity (DB)	1.1	1.2	0.9	1.1	1.0	1.0
ROE(stated)(%)	6.0	-0.2	-13.6	8.2	8.8	8.9
ROTE (tangible equity) (%)	11.1	4.0	0.6	9.4	10.1	10.2
ROIC (invested capital) (%)	6.5	2.6	0.4	6.8	7.4	7.7
Dividend yield(%)	2.3	0.8	0.0	2.0	2.8	3.0
Dividend cover(x)	4.1	-0.3	nm	4.1	3.4	3.4
Profit & Loss (EURm)						
Net interest revenue	5,235	4,858	4,496	4,367	4,441	4,532
Non interest income	1,303	933	648	1,956	2,008	2,062
Commissions	1,721	1,810	1,870	1,866	1,910	1,958
Trading Revenue	273	293	243	240	232	240
Other revenue	-692	-1,170	-1,464	-150	-133	-135
Total revenue	6,538	5,791	5,144	6,324	6,450	6,595
Total Operating Costs	3,757	3,653	3,787	3,763	3,782	3,826
Employee Costs	2,284	2,048	2,170	2,156	2,167	2,192
Other costs	1,473	1,605	1,617	1,607	1,615	1,634
Pre-Provision profit/(loss)	2,781	2,138	1,357	2,561	2,667	2,768
Bad debt expense	1,980	1,764	2,159	1,149	1,056	1,038
Operating Profit	801	374	-803	1,412	1,612	1,730
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	801	374	-803	1,412	1,612	1,730
Tax	170	178	509	381	417	445
Other post tax items	6	-219	-130	-190	-231	-241
Stated net profit	637	-24	-1,441	842	964	1,045
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	189	364	1,496	-13	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	827	341	54	828	964	1,045
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	105,323	97,901	100,591	102,911	105,553	107,926
Interest-earning assets	187,485	181,872	177,848	182,832	187,527	191,742
Customer Loans	124,283	119,888	128,325	131,921	135,309	138,350
Total Deposits	123,053	122,442	122,263	125,431	127,312	129,222
Stated Shareholder Equity	11,098	11,325	9,838	10,648	11,324	12,062
Equals: Tangible Equity	8,204	8,884	8,397	9,232	9,909	10,647
Tier 1 capital	12,223	11,199	10,623	11,494	12,170	12,908
Tier 1 ratio (%)	12	11	11	11	12	12
o/w core tier 1 capital ratio (%)	9.6	11.1	10.6	11.2	11.5	12.0
Credit Quality						
Gross NPLs/Total Loans(%)	9.73	10.26	8.48	7.66	7.29	6.95
Risk Provisions/NPLs(%)	57	58	64	65	65	65
Bad debt / Avg loans (%)	1.57	1.44	1.74	0.88	0.79	0.76
Bad debt/Pre-Provision Profit(%)	71.2	82.5	159.1	44.9	39.6	37.5
Growth Rates & Key Ratios						
Growth in revenues (%)	13	-11	-11	23	2	2
Growth in costs (%)	-2	-3	4	-1	1	1
Growth in bad debts (%)	-13	-11	22	-47	-8	-2
Growth in RWA (%)	-8	-7	3	2	3	2
Net int. margin (%)	2.80	2.63	2.50	2.42	2.40	2.39
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	101	98	105	105	106	107
ROTE Decomposition						
Revenue % ARWAs	5.96	5.70	5.18	6.21	6.19	6.18
Net interest revenue % ARWA	4.77	4.78	4.53	4.29	4.26	4.25
Non interest revenue % ARWA	1.19	0.92	0.65	1.92	1.93	1.93
Costs/income ratio (%)	57.5	63.1	73.6	59.5	58.6	58.0
Bad debts % ARWAs	1.81	1.74	2.18	1.13	1.01	0.97
Tax rate (%)	21.2	47.7	-63.5	27.0	25.8	25.7
Adj. Attr. earnings % ARWA	0.75	0.34	0.05	0.81	0.92	0.98
Capital leverage (ARWA/Equity)	14.7	11.9	11.5	11.5	10.9	10.4
ROTE (Adj. earnings/Ave. equity)	11.1	4.0	0.6	9.4	10.1	10.2

Source: Company data, Deutsche Bank estimates

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Raiffeisen Bank Intl. (Hold, TP EUR 13)

Investment thesis

RBI intends to achieve a fully-loaded Basel 3 CET1 ratio of 12% by 2017. To achieve its target, the bank plans to exit business, deleverage and retain earnings while allowing for some business growth. Key to the improvement in our view is the sale of the Polish unit at around book value (110bps positive impact if sold at book). RBI allows for E4.3bn of regulatory and other effects (this also includes a deterioration of credit quality which negatively affects IRB risk weights) in its business plan, this would be below the E7.6bn RWA inflation we calculate under Basel 4. Potentially, this could be explained by a different time horizon (2017 vs. 2019) or planned mitigation measures, in our view. Uncertainty around capital ratios and its exposures to Russia and Ukraine as well as Asia, keep us on the sidelines, despite a valuation at the low end of Western European banks.

11% RWA inflation expected, resulting from credit, market and operational risk

We expect risk weight inflation for credit, market, and operational RWAs. We expect E1.4bn of credit RWA inflation after netting of different exposures resulting from corporate exposures under the IRB approach and exposures to institutions under the standardised approach. Additionally, we expect operational risk weight inflation as we apply a beta of 19% on revenues to calculate operational RWA under Basel 4. Generally, higher revenue banks are penalised under the new proposals. Lastly, we expect market risk weight of 50%, in line with the sector. In total, we expect E7.6bn or 11% RWA inflation for RBI. This would lower our 2017 forecasts from 11.1% (excluding a Polish sale) to 10.0% under Basel 4 and capital floors.

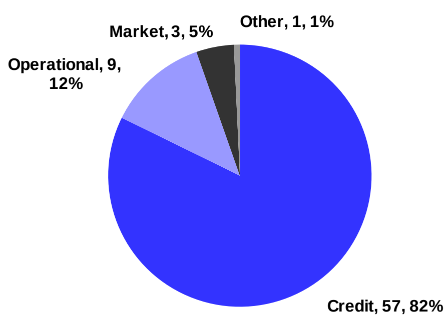
Under our framework, RBI will experience RWA inflation of 11%.

Figure 144: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	69	69	70	73
RWA capital floors	76	76	77	81
RWA standardised	96	95	97	102
Leverage assets	122	120	122	127
RW density B3	57%	57%	57%	57%
RW density B4 capital floors	63%	64%	64%	64%
RW density B4 on fully standardised	79%	80%	80%	80%
CT1 B3	7	7	7	8
AT1	0	0	0	0
CT1 B4	10.0%	10.2%	10.7%	11.1%
CT1 B4 capital floors	**9.0%**	**9.2%**	**9.6%**	**10.0%**
CT1 B4 on standardised	7.2%	7.3%	7.7%	8.0%
Leverage ratio	5.7%	5.8%	6.1%	6.4%

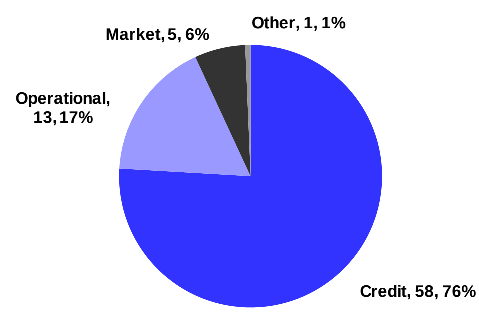
Source: Deutsche Bank, Company data

Figure 145: RWA B3 2014



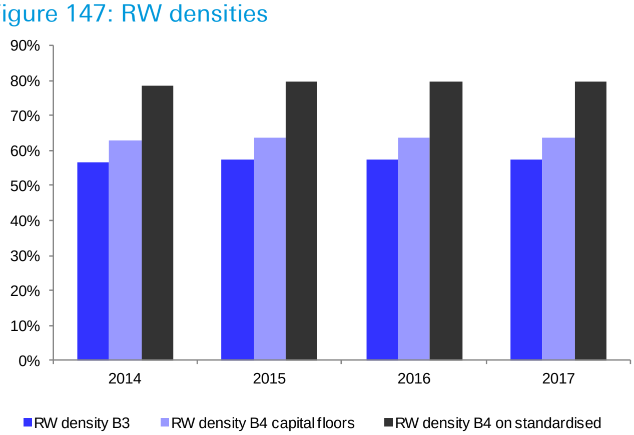
Source: Deutsche Bank, Company data

Figure 146: RWA B4 2014E



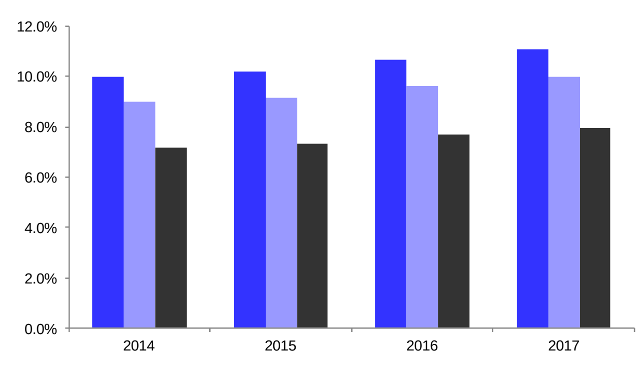
Source: Deutsche Bank, Company data

Figure 147: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 148: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 149: Raiffeisen Bank Intl. – modelling pro-forma 2014 RWA inflation by category before management action

RBIV.VI

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	1,730	15%	266	15%	266	15%	266	0
Institution	9,379	27%	2,496	30%	2,814	27%	2,496	0
Corporate	64,803	39%	25,412	70%	45,362	53%	34,022	8,610
Retail	12,754	37%	4,686	23%	2,951	37%	2,636	0
o/w mortgage	8,432	31%	2,636	35%	2,951	31%	2,636	0
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other				75%	0	56%	0	0
Other	2,609	14%	360	0%	0	14%	360	0
IRB	91,275	36%	33,220	56%	51,393	42%	38,545	5,325
Sovereign	19,055	8%	1,582	8%	1,582	8%	1,582	0
Institution	6,406	4%	288	30%	1,922	23%	1,441	1,154
Corporate	12,465	63%	7,835	70%	8,726	63%	7,835	0
Retail	16,611	53%	8,880	53%	8,880	53%	8,880	0
Other	23,226	20%	4,737	20%	4,737	20%	4,737	0
Standardised	77,763	30%	23,322	33%	25,846	25%	19,385	0
Other		na		na	0	na	0	0
Credit Risk	**169,039**	**33%**	**56,542**	**46%**	**77,239**	**34%**	**57,929**	**1,387**
Operational Risk		**na**	**8,501**	**na**	**13,105**	**na**	**9,828**	**4,603**
Other risk (settlement, failed trades, equity risk outside trading book)		na	506	na	506	na	506	0
Market Risk		**na**	**3,172**	**na**	**4,758**	**na**	**4,758**	**1,586**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	**169,039**	**41%**	**68,721**	**57%**	**95,608**	**43%**	**73,022**	**7,577**
RWA inflation								11%

Source: Deutsche Bank, Company data

Model updated:17 April 2015

Running the numbers

Europe

Austria

Banks

Raiffeisen Bank Intl.

Reuters: RBIV.VI Bloomberg: RBI AV

Hold

Price (15 Jun 15)	EUR 12.41
Target Price	EUR 13.00
52 Week range	EUR 9.01 - 25.79
Market Cap (m)	EURm 3,627
	USDm 4,088

Company Profile

Raiffeisen Bank International (RBI) is a corporate and retail bank, primarily operating across Central and Eastern Europe. Most important countries are Russia, Austria (only corporate business), Slovakia, Romania, Czech Republic and Poland. Additionally, RBI is one of the largest banks in the Ukraine. Raiffeisen Zentralbank holds a 61% stake, the rest is in free float.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	2.69	1.83	-1.73	-0.16	1.83	3.00
EPS (DB) (EUR)	3.08	3.24	0.00	0.27	2.25	3.43
Growth Rate - EPS (DB) (%)	-40.2	5.2	-99.9	5,956.8	728.4	52.7
DPS (EUR)	1.17	1.02	0.00	0.00	0.37	0.75
BVPS (stated) (EUR)	39.26	37.85	26.70	28.07	31.90	35.69
Tang. NAV p. sh. (EUR)	32.48	31.45	24.10	25.48	29.30	33.09
Market Capitalisation	6,132	4,995	3,666	3,627	3,627	3,627
Shares in issue	195	195	284	292	292	292
Valuation Ratios & Profitability Measures						
P/E (stated)	11.7	14.0	-7.2	-79.6	6.8	4.1
P/E (DB)	10.2	7.9	2,798.3	45.7	5.5	3.6
P/B (stated)	0.8	0.7	0.5	0.4	0.4	0.3
P/Tangible equity (DB)	1.0	0.8	0.5	0.5	0.4	0.4
ROE(stated)(%)	7.3	4.8	-6.5	-0.6	6.1	8.9
ROTE (tangible equity) (%)	10.0	10.1	0.0	1.1	8.2	11.0
ROIC (invested capital) (%)	8.0	8.1	0.0	1.0	7.3	9.9
Dividend yield(%)	4.4	3.8	0.0	0.0	3.0	6.0
Dividend cover(x)	2.3	1.8	nm	nm	5.0	4.0
Profit & Loss (EURm)						
Net interest revenue	3,472	3,729	3,789	3,432	3,381	3,378
Non interest income	1,832	1,593	974	1,374	1,612	1,679
Commissions	1,516	1,625	1,586	1,578	1,597	1,639
Trading Revenue	215	321	-30	61	185	210
Other revenue	101	-353	-582	-265	-170	-170
Total revenue	5,304	5,322	4,763	4,806	4,993	5,058
Total Operating Costs	3,264	3,338	3,024	2,940	2,879	2,814
Employee Costs	1,606	1,664	1,474	1,415	1,370	1,330
Other costs	1,658	1,674	1,550	1,525	1,509	1,483
Pre-Provision profit/(loss)	2,040	1,984	1,739	1,866	2,114	2,244
Bad debt expense	1,009	1,149	1,716	1,646	1,241	905
Operating Profit	1,031	835	23	220	873	1,339
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	1,031	835	23	220	873	1,339
Tax	284	232	486	232	281	384
Other post tax items	-222	-246	-30	-34	-56	-78
Stated net profit	525	357	-493	-46	536	877
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	76	274	494	125	121	127
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	600	632	1	79	657	1,004
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	82,822	79,896	68,721	68,544	69,746	73,045
Interest-earning assets	83,343	80,635	77,925	79,910	80,622	81,716
Customer Loans	77,701	75,029	71,856	73,512	73,913	74,781
Total Deposits	66,297	66,437	66,094	68,077	70,119	72,573
Stated Shareholder Equity	7,654	7,379	7,808	8,209	9,327	10,437
Equals: Tangible Equity	6,333	6,130	7,048	7,450	8,568	9,678
Tier 1 capital	9,279	8,968	7,477	7,581	7,910	8,568
Tier 1 ratio (%)	11	11	11	11	11	12
o/w core tier 1 capital ratio (%)	7.7	7.5	10.9	11.1	11.3	11.7
Credit Quality						
Gross NPLs/Total Loans(%)	10.14	11.70	12.30	12.75	12.80	11.84
Risk Provisions/NPLs(%)	72	64	69	68	71	78
Bad debt / Avg loans (%)	1.31	1.50	2.34	2.26	1.68	1.22
Bad debt/Pre-Provision Profit(%)	49.5	57.9	98.7	88.2	58.7	40.3
Growth Rates & Key Ratios						
Growth in revenues (%)	-5	0	-11	1	4	1
Growth in costs (%)	5	2	-9	-3	-2	-2
Growth in bad debts (%)	-5	14	49	-4	-25	-27
Growth in RWA (%)	-13	-4	-14	0	2	5
Net int. margin (%)	2.74	2.96	3.35	2.96	2.89	2.85
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	117	113	109	108	105	103
ROTE Decomposition						
Revenue % ARWAs	5.96	6.54	6.41	7.00	7.22	7.08
Net interest revenue % ARWA	3.90	4.58	5.10	5.00	4.89	4.73
Non interest revenue % ARWA	2.06	1.96	1.31	2.00	2.33	2.35
Costs/income ratio (%)	61.5	62.7	63.5	61.2	57.7	55.6
Bad debts % ARWAs	1.13	1.41	2.31	2.40	1.79	1.27
Tax rate (%)	27.5	27.8	2,110.6	105.3	32.1	28.7
Adj. Attr. earnings % ARWA	0.67	0.78	0.00	0.12	0.95	1.41
Capital leverage (ARWA/Equity)	14.9	13.1	11.3	9.5	8.6	7.8
ROTE (Adj. earnings/Ave. equity)	10.0	10.1	0.0	1.1	8.2	11.0

Source: Company data, Deutsche Bank estimates

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Nordics

Danske Bank (Buy TP DKK 215)

Investment thesis summary – journey to a dividend stock

The key pillar of our investment thesis is the payout potential in Danske Bank. Danske capital levels are adequate, while ROE is improving and restructuring should help with ROE-dilutive business lines in core and non-core. Including the announced buyback programme, the current total payout for the year should be in excess of 80%, of which 50% is ordinary dividend. Once we remove Basel 4 uncertainties, we expect management will ultimately move to hike the ordinary payout policy to the Swedbank 75% level, which we expect to be positive for valuation.

Most Basel 4 RWA inflation from credit risk

Like other Nordic banks, Danske sees most inflation in RWA from Basel 4 as coming from credit risk. This is due to the majority of exposures being calculated using internal models, with risk weights meaningfully below standardised levels. The bulk of this is due to corporate exposures and mortgages. Corporate risk weights are at 39%. We assume a capital floor of 75% under standardised implies a marginal risk weight of 55%.

Less RWA inflation than the Swedish banks from Basel 4

Optically, we expect Danske to experience less RWA inflation than the Swedish banks. We calculate the RWA inflation would be about 24% for the group versus c50-90% for the other Swedish banks. As such, we expect differences in core tier 1 ratios to narrow significantly.

Headroom for RWA to increase within core tier 1 target

Danske Bank targets a core tier 1 ratio of 14%. However we believe roughly 2.3% is a discretionary management buffer to satisfy other requirements such as a target leverage ratio and other ratings agency considerations. As such, even though Basel 4 would reduce 2017 CT1 from 14.9% to 12.0%, we believe there will be limited if no absolute increase in DKK equity needed. Management may revise its core tier 1 target to account for new regulation. We also believe management's plans imply that 4% leverage ratio level is reached.

Macroprudential policy tools may lead to RWA inflation sooner

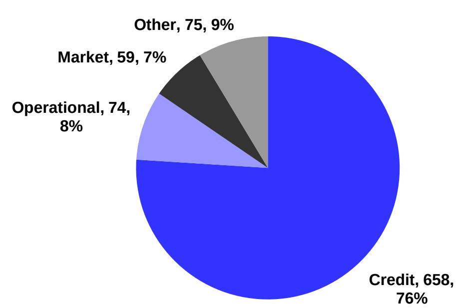
While Basel 4 implemented in 2019 will mean 24% of RWA inflation, some of that could come sooner than that date. Policymakers in Denmark have started to make noises about implementing macroprudential policy measures if house prices start to rise too quickly. Going to 25% risk weights in Denmark could add DKK 60bn to RWA or impact capital ratios by 0.8%. So DKK 137bn of additional RWA could come in 2019, with DKK 60bn of that sooner for macroprudential policy reasons.

Figure 150: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	866	876	876	891
RWA capital floors	1,072	1,085	1,085	1,103
RWA standardised	1,337	1,353	1,353	1,376
Leverage assets	3,483	3,413	3,481	3,551
RW density B3	25%	26%	25%	25%
RW density B4 capital floors	31%	32%	31%	31%
RW density B4 on standardised	38%	40%	39%	39%
CT1 B3	120	122	125	133
AT1	6	11	11	11
CT1 B3	13.8%	14.0%	14.3%	14.9%
CT1 B4 capital floors	**11.2%**	**11.3%**	**11.6%**	**12.0%**
CT1 B4 on fully standardised	8.9%	9.0%	9.3%	9.6%
Leverage ratio	3.6%	3.9%	3.9%	4.1%

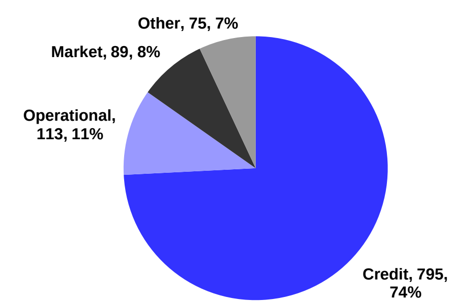
Source: Deutsche Bank, Company data

Figure 151: RWA B3 2014



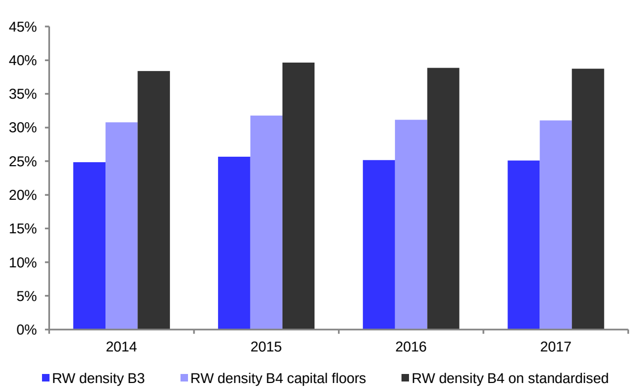
Source: Deutsche Bank, Company data

Figure 152: RWA B4 2014E



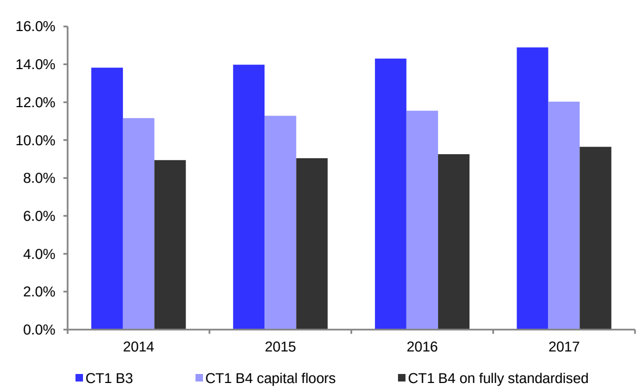
Source: Deutsche Bank, Company data

Figure 153: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 154: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 155: Danske Bank – modelling pro-forma 2014 B4 RWA inflation by category before management action

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign		0%		0%	0	0%	0	0
Institution	35,688	24%	8,409	30%	10,706	24%	8,409	0
Corporate	784,299	39%	308,250	73%	570,125	55%	427,594	119,344
Retail	762,160	16%	124,439	37%	284,614	28%	213,460	89,021
o/w mortgage	630,062	15%	93,765	29%	185,540	22%	139,155	45,390
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	132,098	23%	30,674	75%	99,074	56%	74,305	43,631
Other	27,622	74%	20,468	74%	20,468	74%	20,468	0
IRB	1,609,769	29%	461,566	55%	885,913	41%	664,435	202,869
Sovereign	168,545	1%	981	1%	981	1%	981	0
Institution	6,636	29%	1,926	30%	1,991	29%	1,926	0
Corporate	107,893	93%	100,274	73%	78,430	93%	100,274	0
Retail	147,119	42%	61,319	42%	61,319	42%	61,319	0
Other	153,630	21%	31,998	21%	31,998	21%	31,998	0
Standardised	583,823	34%	196,498	30%	174,719	22%	131,039	0
Other		na		na	0	na	0	0
Credit Risk	**2,193,592**	**30%**	**658,064**	**48%**	**1,060,632**	**36%**	**795,474**	**137,410**
Operational Risk		**na**	**74,001**	**na**	**113,316**	**na**	**84,987**	**39,315**
Other risk (settlement, failed trades, equity risk outside trading book)		na	74,668	na	74,668	na	74,668	0
Market Risk		**na**	**59,089**	**na**	**88,634**	**na**	**88,634**	**29,545**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	2,193,592	39%	865,822	61%	1,337,249	48%	1,043,762	206,269
RWA inflation								24%

Source: Deutsche Bank, Company data

Model updated:26 May 2015

Running the numbers

Europe

Denmark

Banks

Danske Bank

Reuters: DANSKE.CO Bloomberg: DANSKE DC

Buy

Price (15 Jun 15)	DKK 195.60
Target Price	DKK 215.00
52 Week range	DKK 142.60 - 200.70
Market Cap (m)	DKKm 191,698
	USDm 28,957

Company Profile

Danske Bank A/S provides financial services including banking, insurance, mortgage and lease financing, and asset management services. The Bank operates branches throughout Denmark, as well as international subsidiary banks. Danske Bank offers asset management services for institutional customers and life insurance companies domestically and internationally.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(DKK)	4.88	7.06	3.81	16.36	17.95	19.19
EPS (DB) (DKK)	7.14	9.69	11.78	15.24	17.28	18.52
Growth Rate - EPS (DB) (%)	182.1	35.8	21.6	29.3	13.4	7.2
DPS (DKK)	0.00	2.00	5.50	8.30	10.80	11.50
BVPS (stated) (DKK)	148.11	144.41	146.19	161.11	169.91	178.30
Tang. NAV p. sh. (DKK)	125.38	123.95	135.03	149.69	158.24	166.63
Market Capitalisation	89,121	125,472	168,843	191,698	191,698	191,698
Shares in issue	967	1,009	1,009	980	959	959
Valuation Ratios & Profitability Measures						
P/E (stated)	19.6	17.6	43.9	12.0	10.9	10.2
P/E (DB)	13.4	12.8	14.2	12.8	11.3	10.6
P/B (stated)	0.6	0.9	1.1	1.2	1.2	1.1
P/Tangible equity (DB)	0.8	1.0	1.2	1.3	1.2	1.2
ROE(stated)(%)	3.6	5.0	2.6	10.5	10.7	11.0
ROTE (tangible equity) (%)	6.2	8.1	9.1	10.6	11.1	11.4
ROIC (invested capital) (%)	4.8	6.4	7.6	9.1	9.7	10.0
Dividend yield(%)	0.0	1.8	3.6	4.2	5.5	5.9
Dividend cover(x)	nm	3.5	0.7	2.0	1.7	1.7
Profit & Loss (DKKm)						
Net interest revenue	23,083	22,347	23,295	21,780	22,728	23,465
Non interest income	22,898	17,779	20,778	23,009	23,206	23,839
Commissions	8,892	9,539	10,510	12,483	12,914	13,342
Trading Revenue	10,553	5,820	6,565	7,259	6,955	7,093
Other revenue	3,453	2,420	3,703	3,267	3,337	3,404
Total revenue	45,981	40,126	44,073	44,790	45,934	47,303
Total Operating Costs	24,917	24,647	32,519	22,129	21,349	21,124
Employee Costs	13,372	13,098	13,098	12,574	12,826	13,082
Other costs	11,545	11,549	19,421	9,555	8,523	8,042
Pre-Provision profit/(loss)	21,064	15,479	11,554	22,661	24,585	26,179
Bad debt expense	12,529	5,420	3,719	1,739	2,069	2,110
Operating Profit	8,535	10,059	7,835	20,922	22,516	24,069
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	8,535	10,059	7,835	20,922	22,516	24,069
Tax	3,813	2,944	3,989	4,888	5,293	5,658
Other post tax items	-4	1	1	1	0	0
Stated net profit	4,718	7,116	3,847	16,035	17,224	18,411
Goodwill	0	0	0	0	1	1
Extraordinary & Other items	2,182	2,662	8,039	-1,103	-644	-644
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	6,900	9,778	11,886	14,932	16,581	17,768
Key Balance Sheet Items (DKKm) & Capital Ratios						
Risk-weighted assets	819,436	852,250	865,822	885,896	885,896	900,722
Interest-earning assets	3,143,702	2,946,140	2,963,731	3,004,839	3,065,148	3,126,662
Customer Loans	1,670,962	1,601,571	1,595,864	1,678,148	1,705,799	1,735,008
Total Deposits	783,759	788,269	763,441	834,606	851,298	868,324
Stated Shareholder Equity	138,004	145,657	147,447	157,898	162,987	171,038
Equals: Tangible Equity	116,823	125,016	136,194	146,703	151,792	159,843
Tier 1 capital	155,034	161,514	144,865	150,499	153,363	160,744
Tier 1 ratio (%)	19	19	17	17	17	18
o/w core tier 1 capital ratio (%)	14.5	14.7	15.1	14.8	15.2	15.7
Credit Quality						
Gross NPLs/Total Loans(%)	4.28	3.68	3.66	3.48	3.42	3.37
Risk Provisions/NPLs(%)	46	56	48	48	48	48
Bad debt / Avg loans (%)	0.74	0.33	0.23	0.11	0.12	0.12
Bad debt/Pre-Provision Profit(%)	59.5	35.0	32.2	7.7	8.4	8.1
Growth Rates & Key Ratios						
Growth in revenues (%)	6	-13	10	2	3	3
Growth in costs (%)	-4	-1	32	-32	-4	-1
Growth in bad debts (%)	-5	-57	-31	-53	19	2
Growth in RWA (%)	-10	4	2	2	0	2
Net int. margin (%)	0.62	0.73	0.79	0.73	0.75	0.76
Cap.-market rev. / Total revs (%)	4	5	5	6	6	6
Total loans / Total deposits (%)	213	203	209	201	200	200
ROTE Decomposition						
Revenue % ARWAs	5.33	4.80	5.13	5.11	5.19	5.30
Net interest revenue % ARWA	2.68	2.67	2.71	2.49	2.57	2.63
Non interest revenue % ARWA	2.65	2.13	2.42	2.63	2.62	2.67
Costs/income ratio (%)	54.2	61.4	73.8	49.4	46.5	44.7
Bad debts % ARWAs	1.45	0.65	0.43	0.20	0.23	0.24
Tax rate (%)	44.7	29.3	50.9	23.4	23.5	23.5
Adj. Attr. earnings % ARWA	0.80	1.17	1.38	1.70	1.87	1.99
Capital leverage (ARWA/Equity)	7.7	6.9	6.6	6.2	5.9	5.7
ROTE (Adj. earnings/Ave. equity)	6.2	8.1	9.1	10.6	11.1	11.4

Source: Company data, Deutsche Bank estimates

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DNB (Hold TP NOK 135)

Investment thesis

DNB has been through a few years of capital building to meet higher capital requirements imposed by the regulator. This has kept payouts depressed below the long-term policy until new regulations are met. Interestingly, the regulator in Norway pretty much uses a floor to the Basel 1 rules for the core tier 1 ratio. Given that DNB already has to manage tougher RWA rules, then for the bank Basel 4 is likely to have one of the most limited impacts in the sector (despite RWA inflation versus the actual Basel 3 number). We believe DNB ultimately has an aspiration to join the "75%" Nordic payout club once the capital-build process is complete.

Compared to Basel 3, Basel 4 will add NOK c150bn to RWA

The addition of NOK c150bn to RWA would be the equivalent of 15% RWA inflation. This would be due to a NOK 104bn in credit risk, primarily due to mortgages and corporate exposures. A further NOK 36bn would be the result of the proposed revisions for operational risk. We assume a standard 50% inflation in market risk for most banks, which could add a further NOK 13bn to RWA.

The regulator wants to keep RWA at the level of the transitional rules

At the end of 2015, we expect the RWA under transitional rules with floors to Basel 1 will be NOK 150bn higher than the Basel 3 level. Given the regulator wants to keep RWA at the level of the transitional rules, then Basel 4 may well achieve these goals for them between credit, operational and market risk.

We expect DNB will meet the 14% target but hurdle rate could increase

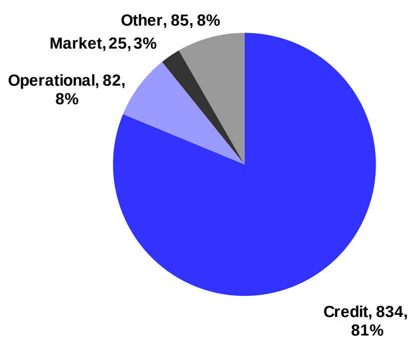
DNB targets to reach a CT1 14% in 2016, which we forecast them doing both on transitional rules and on a Basel 4 basis. In case of any headwinds, management has detailed a number of action plans which they can use to make sure that they steer themselves towards that target. They key risk in our view is that the hurdle rate might be increased by the regulator if he wants capital build to continue. The two mechanisms by which this could happen are either the countercyclical buffer is increased, or a pillar 2 framework similar to the UK and Sweden is introduced.

Figure 156: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	938	1,014	1,013	1,052
RWA capital floors	1,078	1,165	1,164	1,209
RWA standardised	1,364	1,474	1,473	1,529
Leverage assets	2,553	2,650	2,749	2,852
RW density B3	37%	38%	37%	37%
RW density B4 capital floors	42%	44%	42%	42%
RW density B4 on standardised	53%	56%	54%	54%
CT1 B3	142	152	165	174
AT1	0	6	6	6
CT1 B3	15.1%	15.0%	16.3%	16.5%
CT1 B4 capital floors	**13.2%**	**13.1%**	**14.2%**	**14.4%**
CT1 B4 on fully standardised	10.4%	10.3%	11.2%	11.4%
Leverage ratio	5.6%	6.0%	6.2%	6.3%

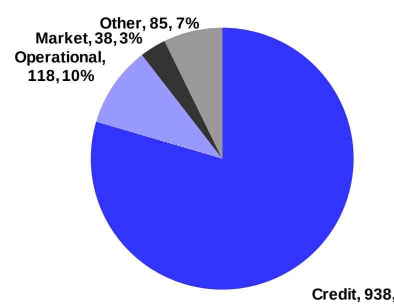
Source: Deutsche Bank, Company data

Figure 157: RWA B3 2014



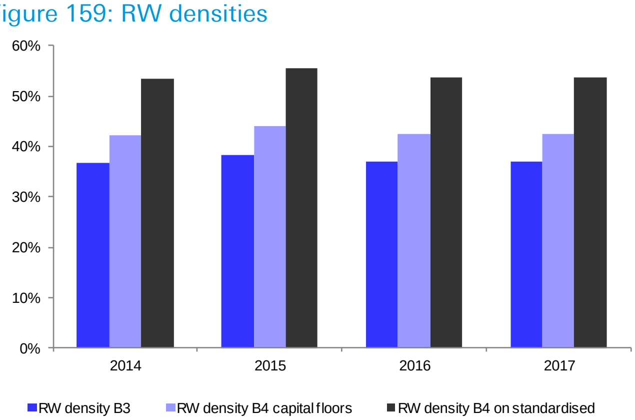
Source: Deutsche Bank, Company data

Figure 158: RWA B4 2014E



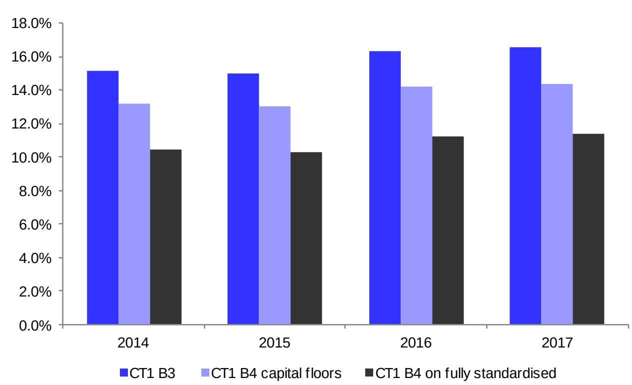
Source: Deutsche Bank, Company data

Figure 159: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 160: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 161: DNB – modelling pro-forma 2014 B4 RWA inflation by category before management action

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign		0%		0%	0	0%	0	0
Institution		0%		30%	0	23%	0	0
Corporate	836,515	45%	373,479	77%	644,117	58%	483,087	109,608
Retail	744,865	18%	134,008	42%	315,503	32%	236,627	102,619
o/w mortgage	654,688	17%	108,813	38%	247,870	28%	185,902	77,089
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	90,177	28%	25,195	75%	67,633	56%	50,725	25,530
Other	31,927	71%	22,747	71%	22,747	71%	22,747	0
IRB	1,613,307	33%	530,234	61%	982,366	46%	736,775	206,541
Sovereign	104,283	0%	229	0%	229	0%	229	0
Institution	114,301	30%	34,125	30%	34,290	30%	34,125	0
Corporate	216,393	93%	201,915	77%	166,623	93%	201,915	0
Retail	85,685	64%	55,181	64%	55,181	64%	55,181	0
Other	13,008	94%	12,257	94%	12,257	94%	12,257	0
Standardised	533,670	57%	303,707	50%	268,580	38%	201,435	0
Other		na		na	0	na	0	0
Credit Risk	**2,146,977**	**39%**	**833,941**	**58%**	**1,250,946**	**44%**	**938,210**	**104,269**
Operational Risk		**na**	**81,830**	**na**	**117,823**	**na**	**88,367**	**35,993**
Other risk (settlement, failed trades, equity risk outside trading book)		na		na	0	na	0	0
Market Risk		**na**	**25,367**	**na**	**38,051**	**na**	**38,051**	**12,684**
Net insurance		na	85,351	na	85,351	na	85,351	na
Deductions		na		na	0	na	0	na
RWA Basel III	**2,146,977**	**48%**	**1,026,489**	**70%**	**1,492,171**	**54%**	**1,149,978**	**152,945**

Source: Deutsche Bank, Company data

Model updated:11 May 2015

Running the numbers

Europe

Norway

Banks

DNB

Reuters: DNB.OL Bloomberg: DNB NO

Hold

Price (15 Jun 15)	NOK 132.60
Target Price	NOK 135.00
52 Week range	NOK 102.90 - 142.20
Market Cap (m)	NOKm 215,979
	USDm 27,928

Company Profile

DnB Holding ASA is a commercial bank. The Bank's services include retail, commercial, corporate, and investment banking, and life, pension, and non-life insurance. The services are provided to private customers, small businesses, and large companies. DnB offers special services to the shipping industry. The Bank operates through several subsidiaries in Norway and abroad.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(NOK)	8.39	10.64	12.62	13.14	12.73	13.21
EPS (DB) (NOK)	10.17	11.99	12.22	13.37	12.96	13.32
Growth Rate - EPS (DB) (%)	25.1	17.9	1.9	9.4	-3.0	2.8
DPS (NOK)	2.10	2.70	3.80	5.30	6.40	7.90
BVPS (stated) (NOK)	78.61	87.32	97.45	106.93	114.35	121.19
Tang. NAV p. sh. (NOK)	74.48	83.32	93.59	103.07	110.49	117.33
Market Capitalisation	114,667	176,725	180,308	215,979	215,979	215,979
Shares in issue	1,629	1,629	1,629	1,629	1,629	1,629
Valuation Ratios & Profitability Measures						
P/E (stated)	8.4	10.2	8.8	10.1	10.4	10.0
P/E (DB)	6.9	9.1	9.1	9.9	10.2	10.0
P/B (stated)	0.9	1.2	1.1	1.2	1.2	1.1
P/Tangible equity (DB)	0.9	1.3	1.2	1.3	1.2	1.1
ROE(stated)(%)	11.1	12.8	13.7	12.9	11.5	11.2
ROTE (tangible equity) (%)	14.3	15.2	13.8	13.6	12.1	11.7
ROIC (invested capital) (%)	13.3	14.3	13.1	12.9	11.6	11.2
Dividend yield(%)	3.2	2.9	3.4	4.0	4.8	6.0
Dividend cover(x)	4.0	3.9	3.3	2.5	2.0	1.7
Profit & Loss (NOKm)						
Net interest revenue	27,216	30,192	32,485	34,901	35,994	37,248
Non interest income	14,500	16,428	16,876	18,357	16,340	16,599
Commissions	8,012	8,541	8,971	9,202	9,478	9,762
Trading Revenue	3,910	5,032	5,317	6,950	4,725	4,725
Other revenue	2,578	2,855	2,588	2,205	2,138	2,112
Total revenue	41,716	46,620	49,361	53,258	52,334	53,847
Total Operating Costs	20,947	21,921	20,832	21,171	20,870	21,236
Employee Costs	11,052	10,393	10,871	2,859	2,859	2,859
Other costs	9,895	11,528	9,961	18,312	18,011	18,377
Pre-Provision profit/(loss)	20,769	24,699	28,529	32,087	31,464	32,610
Bad debt expense	3,181	2,185	1,652	3,312	3,623	3,738
Operating Profit	17,588	22,514	26,877	28,775	27,841	28,873
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	17,588	22,514	26,877	28,775	27,841	28,873
Tax	4,027	5,188	6,321	7,307	7,099	7,363
Other post tax items	97	5	0	-65	0	0
Stated net profit	13,658	17,331	20,556	21,403	20,742	21,510
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	2,908	2,192	-659	373	373	186
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	16,566	19,523	19,897	21,776	21,114	21,697
Key Balance Sheet Items (NOKm) & Capital Ratios						
Risk-weighted assets	1,075,672	1,089,114	1,120,659	1,163,774	1,207,122	1,252,310
Interest-earning assets	1,839,538	2,102,105	2,255,758	2,342,226	2,429,469	2,520,415
Customer Loans	1,297,892	1,340,831	1,438,839	1,493,993	1,549,641	1,607,651
Total Deposits	810,959	867,904	941,534	977,625	1,014,039	1,051,999
Stated Shareholder Equity	128,035	142,227	158,723	174,161	186,252	197,391
Equals: Tangible Equity	121,317	135,716	152,437	167,875	179,966	191,105
Tier 1 capital	118,789	131,587	146,136	165,351	175,722	184,326
Tier 1 ratio (%)	11	12	13	14	15	15
o/w core tier 1 capital ratio (%)	10.7	11.8	12.7	13.3	13.7	13.9
Credit Quality						
Gross NPLs/Total Loans(%)	2.25	2.30	2.14	2.06	1.94	1.84
Risk Provisions/NPLs(%)	40	40	40	40	50	59
Bad debt / Avg loans (%)	0.25	0.17	0.12	0.23	0.24	0.24
Bad debt/Pre-Provision Profit(%)	15.3	8.8	5.8	10.3	11.5	11.5
Growth Rates & Key Ratios						
Growth in revenues (%)	-1	12	6	8	-2	3
Growth in costs (%)	4	5	-5	2	-1	2
Growth in bad debts (%)	-8	-31	-24	101	9	3
Growth in RWA (%)	-3	1	3	4	4	4
Net int. margin (%)	1.52	1.53	1.49	1.52	1.51	1.51
Cap.-market rev. / Total revs (%)	18	18	18	18	18	18
Total loans / Total deposits (%)	160	154	153	153	153	153
ROTE Decomposition						
Revenue % ARWAs	3.81	4.31	4.47	4.66	4.41	4.38
Net interest revenue % ARWA	2.49	2.79	2.94	3.06	3.04	3.03
Non interest revenue % ARWA	1.33	1.52	1.53	1.61	1.38	1.35
Costs/income ratio (%)	50.2	47.0	42.2	39.8	39.9	39.4
Bad debts % ARWAs	0.29	0.20	0.15	0.29	0.31	0.30
Tax rate (%)	22.9	23.0	23.5	25.4	25.5	25.5
Adj. Attr. earnings % ARWA	1.51	1.80	1.80	1.91	1.78	1.76
Capital leverage (ARWA/Equity)	9.4	8.4	7.7	7.1	6.8	6.6
ROTE (Adj. earnings/Ave. equity)	14.3	15.2	13.8	13.6	12.1	11.7

Source: Company data, Deutsche Bank estimates

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Nordea (Hold TP EUR 12)

Investment thesis

The key pillar for the Nordea investment thesis is around payouts, with key advantages for the stock being low volatility on earnings and capital. At the recent investor day, management's message on payouts was a double constraint of a) minimum 75%, and b) 10% CAGR in the dividend, subject to current regulation. We are happy that the 75% payout ratio can be met even with Basel 4, if we assume a new 12% hurdle rate. However, we think the higher payout ratios implied by 10% CAGR would be at risk if Basel 4 has a harsher impact or revenues disappoint.

Our Basel 4 framework indicates RWA inflation of 47%

We expect the main source of RWA inflation will be credit risk, with EUR 53bn higher RWAs. We also expect inflation in operational risk under the new proposals and a EUR 3.8bn increase in market RWA. Nordea sees a very high impact in a sector context, but it is the lowest RWA inflation among the Swedish banks (with the highest being around 90%).

Meaningful increase in credit RWA

Nordea's corporate risk weights are 42%, while the pillar 1 mortgage risk weights are 8%. These risk weights are meaningfully below what we think the new standardised levels would be, of 73% and 35% respectively, or 55% and 26% with the capital floor. The total credit risk weight for Nordea is 24% compared to a new standardised level of 47% and a floored level of 35%.

Increases in operational and market risk RWAs

Nordea runs the standardised approach for calculating operational RWA. The current Beta as a proportion of revenues is 13%. We expect this to increase to 22%, given higher revenues of Nordea. In terms of the new business indicator, we expect the Beta to increase to around 20%. As for market risk, we expect RWA inflation of 53%. While there is a decent chunk of market RWA on standardised rules, we believe the main sources of RWA inflation will come from less diversification, implementation of non-model able risk factors, and extended liquidity horizons for credit.

Likely to see lower regulatory hurdle rates on Basel 4

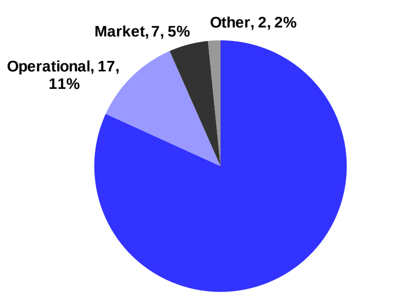
While RWA inflation from Basel 4 will likely be significant, reducing CT1 2016 from 16.6% to 11.3%, we also expect the regulator to reduce some of the high buffers imposed on the banks. We think the pillar 2A and countercyclical buffers could be reduced, or even the SIFI buffer. Our working assumption is a Basel 4 hurdle rate of 12%, we find it difficult to see how it can be much lower than this level.

Figure 162: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	145	152	152	155
RWA capital floors	213	222	222	228
RWA standardised	271	282	282	289
Leverage assets	591	613	626	641
RW density B3	25%	25%	24%	24%
RW density B4 capital floors	36%	36%	36%	36%
RW density B4 on standardised	46%	46%	45%	45%
CT1 B3	23	24	25	26
AT1	1	2	2	2
CT1 B3	15.7%	16.0%	16.6%	16.9%
CT1 B4 capital floors	**10.7%**	**10.9%**	**11.3%**	**11.5%**
CT1 B4 on fully standardised	8.4%	8.6%	8.9%	9.1%
Leverage ratio	4.1%	4.3%	4.4%	4.4%

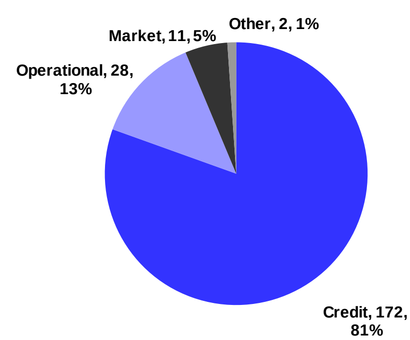
Source: Deutsche Bank, Company data

Figure 163: RWA B3 2014



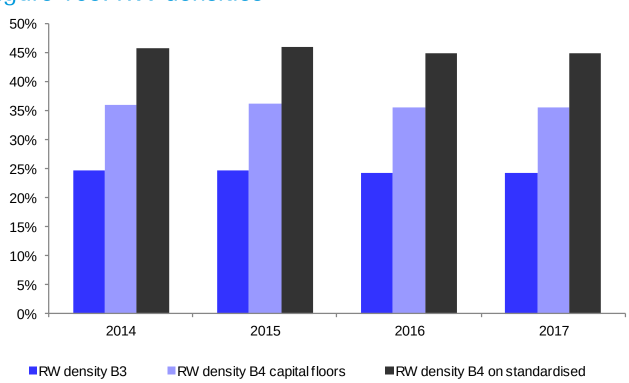
Source: Deutsche Bank, Company data

Figure 164: RWA B4 2014E



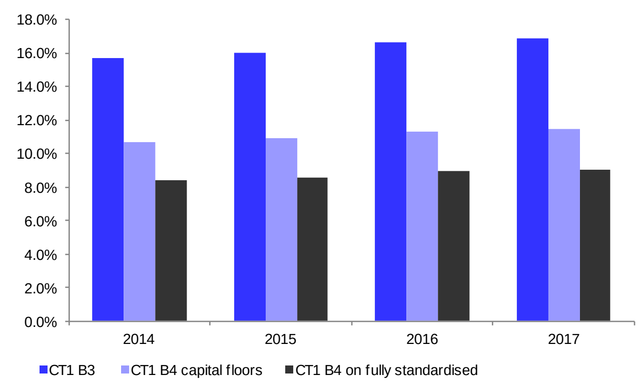
Source: Deutsche Bank, Company data

Figure 165: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 166: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 167: Nordea – modelling pro-forma 2014 B4 RWA inflation by category before management action

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	0		0	0%	0	0%	0	0
Institution	47,494	20%	9,572	30%	14,248	23%	10,686	1,114
Corporate	171,841	42%	71,792	73%	125,510	55%	94,133	22,341
Retail	167,440	13%	21,940	44%	73,066	33%	54,800	32,860
o/w mortgage	131,285	8%	10,981	35%	45,950	26%	34,462	23,481
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	36,155	30%	10,959	75%	27,116	56%	20,337	9,378
Other	2,343	100%	2,333	100%	2,333	100%	2,333	0
IRB	389,118	27%	105,637	55%	215,157	41%	161,368	55,731
Sovereign	75,552	1%	948	1%	948	1%	948	0
Institution	4,159	8%	338	30%	1,248	23%	936	598
Corporate	1,922	100%	1,921	73%	1,404	100%	1,921	0
Retail	4,296	74%	3,181	74%	3,181	74%	3,181	0
Other	12,521	56%	7,004	56%	7,004	56%	7,004	0
Standardised	98,450	14%	13,392	14%	13,784	11%	10,338	0
Other		na		na	0	na	0	0
Credit Risk	**487,568**	**24%**	**119,029**	**47%**	**228,942**	**35%**	**171,706**	**52,677**
Operational Risk		**na**	**16,842**	**na**	**28,192**	**na**	**21,144**	**11,350**
Other risk (settlement, failed trades, equity risk outside trading book)		na	2,308	na	2,308	na	2,308	0
Market Risk		**na**	**7,296**	**na**	**11,140**	**na**	**11,140**	**3,844**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	**487,568**	**30%**	**145,475**	**55%**	**270,582**	**42%**	**206,298**	**67,871**
RWA inflation								47%

Source: Deutsche Bank, Company data

Model updated:27 May 2015

Running the numbers

Europe

Sweden

Banks

Nordea

Reuters: NDA1V.HE Bloomberg: NDA1V FH

Hold

Price (15 Jun 15)	EUR 11.38
Target Price	EUR 12.00
52 Week range	EUR 9.11 - 12.42
Market Cap (m)	EURm 45,736
	USDm 51,540

Company Profile

Nordea AB is a bank formed by the consolidation of banks in Sweden, Finland, Norway and Denmark. The Group develops and markets a broad range of financial products and services for private individuals, companies, institutions, and the public sector.Nordea services the Scandinavian countries as well as the Baltic Sea region.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	0.78	0.77	0.84	0.92	0.96	1.01
EPS (DB) (EUR)	0.78	0.77	0.87	0.92	0.96	1.01
Growth Rate - EPS (DB) (%)	13.5	-0.6	12.6	6.0	3.8	5.5
DPS (EUR)	0.34	0.43	0.62	0.69	0.71	0.75
BVPS (stated) (EUR)	6.96	7.27	7.31	7.74	8.00	8.29
Tang. NAV p. sh. (EUR)	6.19	6.45	6.59	6.98	7.25	7.54
Market Capitalisation	29,134	39,024	38,723	45,736	45,736	45,736
Shares in issue	4,028	4,022	4,019	4,019	4,019	4,019
Valuation Ratios & Profitability Measures						
P/E (stated)	9.3	12.6	11.5	12.4	11.9	11.3
P/E (DB)	9.3	12.6	11.1	12.4	11.9	11.3
P/B (stated)	1.0	1.3	1.3	1.5	1.4	1.4
P/Tangible equity (DB)	1.2	1.5	1.5	1.6	1.6	1.5
ROE(stated)(%)	11.6	10.9	11.5	12.2	12.1	12.4
ROTE (tangible equity) (%)	13.1	12.2	13.3	13.6	13.4	13.6
ROIC (invested capital) (%)	11.3	10.6	11.6	12.0	11.9	12.1
Dividend yield(%)	4.9	4.8	6.1	6.0	6.3	6.6
Dividend cover(x)	2.3	1.8	1.4	1.3	1.3	1.3
Profit & Loss (EURm)						
Net interest revenue	5,752	5,525	5,482	5,232	5,367	5,496
Non interest income	4,484	4,366	4,743	4,893	5,011	5,202
Commissions	2,504	2,642	2,842	3,056	3,216	3,385
Trading Revenue	1,784	1,539	1,425	1,714	1,669	1,688
Other revenue	196	185	476	123	126	129
Total revenue	10,236	9,891	10,225	10,125	10,378	10,698
Total Operating Costs	5,175	5,040	5,366	4,702	4,740	4,780
Employee Costs	3,048	2,979	3,131	2,960	2,984	3,009
Other costs	2,127	2,061	2,235	1,742	1,756	1,771
Pre-Provision profit/(loss)	5,061	4,851	4,859	5,423	5,638	5,918
Bad debt expense	933	735	534	567	584	586
Operating Profit	4,128	4,116	4,325	4,856	5,054	5,332
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	4,128	4,116	4,325	4,856	5,054	5,332
Tax	991	1,009	953	1,153	1,213	1,280
Other post tax items	-7	-3	-1	-1	-1	-1
Stated net profit	3,130	3,104	3,371	3,701	3,840	4,052
Goodwill	0	1	1	1	1	1
Extraordinary & Other items	0	0	122	0	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	3,130	3,106	3,495	3,703	3,842	4,054
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	167,892	155,254	145,475	151,510	151,510	155,189
Interest-earning assets	486,294	476,871	484,716	505,583	516,448	528,988
Customer Loans	346,251	342,451	348,085	363,070	370,872	379,877
Total Deposits	200,678	200,743	197,254	211,837	216,390	221,644
Stated Shareholder Equity	28,005	29,207	29,387	31,090	32,155	33,327
Equals: Tangible Equity	24,916	25,940	26,479	28,067	29,132	30,304
Tier 1 capital	23,953	24,444	25,588	27,198	28,158	29,172
Tier 1 ratio (%)	14	16	18	18	19	19
o/w core tier 1 capital ratio (%)	13.1	14.9	15.7	16.0	16.6	16.9
Credit Quality						
Gross NPLs/Total Loans(%)	1.99	2.12	1.92	1.69	1.53	1.39
Risk Provisions/NPLs(%)	41	28	28	28	27	27
Bad debt / Avg loans (%)	0.27	0.21	0.15	0.16	0.16	0.16
Bad debt/Pre-Provision Profit(%)	18.4	15.2	11.0	10.5	10.3	9.9
Growth Rates & Key Ratios						
Growth in revenues (%)	8	-3	3	-1	3	3
Growth in costs (%)	-1	-3	6	-12	1	1
Growth in bad debts (%)	27	-21	-27	6	3	0
Growth in RWA (%)	-9	-8	-6	4	0	2
Net int. margin (%)	1.18	1.15	1.14	1.06	1.05	1.05
Cap.-market rev. / Total revs (%)	67	67	67	67	67	67
Total loans / Total deposits (%)	173	171	176	171	171	171
ROTE Decomposition						
Revenue % ARWAs	5.80	6.12	6.80	6.82	6.85	6.98
Net interest revenue % ARWA	3.26	3.42	3.65	3.52	3.54	3.58
Non interest revenue % ARWA	2.54	2.70	3.15	3.30	3.31	3.39
Costs/income ratio (%)	50.6	51.0	52.5	46.4	45.7	44.7
Bad debts % ARWAs	0.53	0.45	0.36	0.38	0.39	0.38
Tax rate (%)	24.0	24.5	22.0	23.8	24.0	24.0
Adj. Attr. earnings % ARWA	1.77	1.92	2.32	2.49	2.54	2.64
Capital leverage (ARWA/Equity)	7.4	6.4	5.7	5.4	5.3	5.2
ROTE (Adj. earnings/Ave. equity)	13.1	12.2	13.3	13.6	13.4	13.6

Source: Company data, Deutsche Bank estimates

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SEB (Buy SEK 118)

Investment thesis

The key pillar of the investment thesis for SEB is that planned better revenue momentum will lead the bank to a 15% long term ROE ambition. This should allow increased payouts, though market expectations here are lower than for peers, even where SEB earns superior ROE. We expect SEB will soon reach the 17% under Basel 3 rules which is the current hurdle rates. We expect SEB may communicate on payouts when that target is reached. Although Basel 4 is the key risk, we believe SEB is relatively well placed in the group relative to current expectations.

Our Basel 4 framework indicates RWA inflation of 50%

We expect meaningful RWA inflation from Basel 4 of SEK 309bn under our framework. We expect the majority of RWA inflation will come from higher credit RWA, while both operational and market risk will increase by 65% as well. We forecast a Basel 3 ratio of 17.0% at the end of the year, which would be 11.4% pro forma for Basel 4. SEB would reach 11.7% by 2017 on our current estimates for earnings and dividends.

Higher credit RWA due to low model risk weights as for other Swedish names

SEB currently has a credit risk weight of 24%, compared to a level of 49% under the standardised rules and 37% with a 75% capital floor. The main sources of inflation would come from corporate lending followed by mortgages. Corporate risk weights are currently 36%. If we assume the new standardised risk weights are 70%, then they would be 52% with a capital floor, implying SEK 157bn additional RWA.

Meaningful inflation in operational and market risk

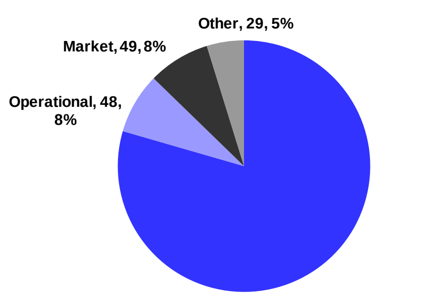
SEB is the only bank that uses the advanced approach for operational risk. Currently, SEB has a Beta of 9% compared to revenues. If SEB ran the standardised approach, under the new rules the Beta would be 18% on the business indicator or SEK 105bn. But given SEB uses models, the capital floor kicks in, so by default, SEB’s operational risk weight would be 75% of the new standardised measure or SEK 79bn. We assume market risk increases by about 65% or SEK 31bn. There is a decent share of market risk calculated under standardised. However we see meaningful increases in market RWA from the implementation of non-model-able risk factors, loss of some diversification benefit and extended liquidity horizons.

Figure 168: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	617	629	653	679
RWA capital floors	925	945	980	1,019
RWA standardised	1,197	1,222	1,268	1,318
Leverage assets	2,505	2,954	3,064	3,185
RW density B3	25%	21%	21%	21%
RW density B4 capital floors	37%	32%	32%	32%
RW density B4 on standardised	48%	41%	41%	41%
CT1 B3	101	107	114	119
AT1	9	9	9	9
CT1 B3	16.3%	17.0%	17.5%	17.6%
CT1 B4 capital floors	**10.9%**	**11.4%**	**11.6%**	**11.7%**
CT1 B4 on fully standardised	8.4%	8.8%	9.0%	9.0%
Leverage ratio	4.4%	3.9%	4.0%	4.0%

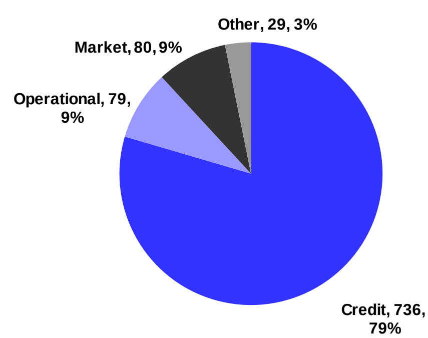
Source: Deutsche Bank, Company data

Figure 169: RWA B3 2014



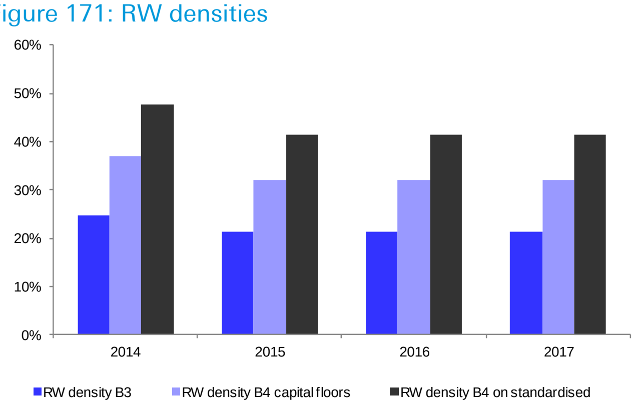
Source: Deutsche Bank, Company data

Figure 170: RWA B4 2014E



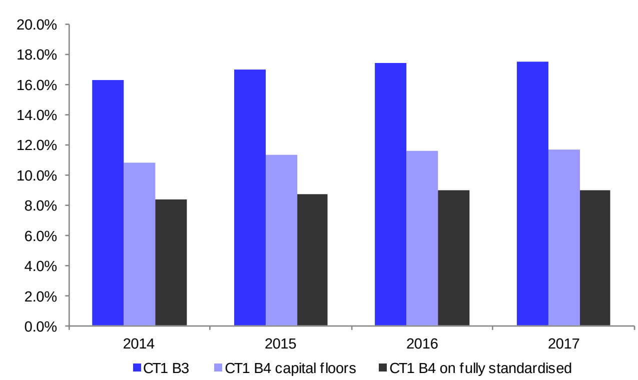
Source: Deutsche Bank, Company data

Figure 171: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 172: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 173: SEB – modelling pro-forma 2014 B4 RWA inflation by category before management action

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	0	0%	0	0%	0	0%	0	0
Institution	153,729	22%	34,013	30%	46,119	23%	34,589	576
Corporate	957,462	36%	344,576	70%	668,750	52%	501,563	156,987
Retail	516,232	10%	51,826	39%	202,130	29%	151,598	99,772
o/w mortgage	462,610	7%	31,905	35%	161,914	26%	121,435	89,530
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	53,622	37%	19,921	75%	40,217	56%	30,162	10,241
Other	11,576	43%	5,035	43%	5,035	43%	5,035	0
IRB	1,638,999	27%	435,450	56%	922,034	42%	691,526	256,076
Sovereign	282,740	0%	790	0%	790	0%	790	0
Institution	8,872	14%	1,222	30%	2,662	23%	1,996	774
Corporate	28,932	58%	16,743	70%	20,208	58%	16,743	0
Retail	36,970	56%	20,754	56%	20,754	56%	20,754	0
Other	16,983	89%	15,100	89%	15,100	89%	15,100	0
Standardised	374,497	15%	54,609	16%	59,513	12%	44,635	0
Other		na		na	0	na	0	0
Credit Risk	**2,013,496**	**24%**	**490,059**	**49%**	**981,548**	**37%**	**736,161**	**246,102**
Operational Risk		**na**	**48,126**	**na**	**105,937**	**na**	**79,453**	**31,327**
Other risk (settlement, failed trades, equity risk outside trading book)		na	13,854	na	13,854	na	13,854	0
Market Risk		**na**	**48,967**	**na**	**80,401**	**na**	**80,401**	**31,434**
Net insurance		na	15,525	na	15,525	na	15,525	na
Deductions		na		na	0	na	0	na
RWA Basel III	**2,013,496**	**31%**	**616,531**	**59%**	**1,197,265**	**46%**	**925,394**	**308,863**
RWA inflation								50%

Source: Deutsche Bank, Company data

Model updated:11 May 2015

Running the numbers

Europe

Sweden

Banks

SEB

Reuters: SEBa.ST Bloomberg: SEBA SS

Buy

Price (15 Jun 15)	SEK 104.10
Target Price	SEK 118.00
52 Week range	SEK 83.35 - 111.10
Market Cap (m)	SEKm 228,172
	USDm 27,912

Company Profile

Skandinaviska Enskilda Banken AB (SEB) attracts deposits and offers retail, private, and merchant banking services. The Bank offers home, automobile, and commercial loans, insurance, foreign exchange and securities brokerage services, and manages mutual funds. SEB operates in Sweden, Germany, and the Baltic region, and is represented in many countries around the world.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(SEK)	5.51	6.74	8.82	8.02	8.73	9.42
EPS (DB) (SEK)	6.19	6.62	7.47	8.02	8.73	9.42
Growth Rate - EPS (DB) (%)	10.4	7.1	12.8	7.3	8.8	7.9
DPS (SEK)	2.75	4.00	4.75	5.20	5.70	6.10
BVPS (stated) (SEK)	49.96	56.03	61.40	59.83	63.35	66.16
Tang. NAV p. sh. (SEK)	42.08	48.20	53.54	51.95	55.48	58.29
Market Capitalisation	121,100	185,869	218,199	228,172	228,172	228,172
Shares in issue	2,192	2,192	2,192	2,192	2,192	2,192
Valuation Ratios & Profitability Measures						
P/E (stated)	10.0	12.6	11.3	13.0	11.9	11.1
P/E (DB)	8.9	12.8	13.3	13.0	11.9	11.1
P/B (stated)	1.1	1.5	1.6	1.7	1.6	1.6
P/Tangible equity (DB)	1.3	1.8	1.9	2.0	1.9	1.8
ROE(stated)(%)	11.0	12.7	15.0	13.2	14.2	14.5
ROTE (tangible equity) (%)	14.7	14.7	14.7	15.2	16.2	16.6
ROIC (invested capital) (%)	11.5	11.6	11.9	12.4	13.3	13.7
Dividend yield(%)	5.7	5.7	5.2	5.0	5.5	5.9
Dividend cover(x)	2.0	1.7	1.9	1.5	1.5	1.5
Profit & Loss (SEKm)						
Net interest revenue	17,635	18,827	19,943	20,257	21,426	22,341
Non interest income	21,188	22,726	26,993	25,345	26,606	27,726
Commissions	13,620	14,664	16,306	17,660	18,622	19,492
Trading Revenue	4,579	4,052	2,921	3,579	3,791	3,951
Other revenue	2,989	4,010	7,766	4,106	4,194	4,283
Total revenue	38,823	41,553	46,936	45,602	48,032	50,066
Total Operating Costs	23,652	22,287	22,135	22,475	22,588	22,674
Employee Costs	14,455	14,029	13,760	14,447	14,498	14,535
Other costs	9,197	8,258	8,375	8,028	8,091	8,139
Pre-Provision profit/(loss)	15,171	19,266	24,801	23,127	25,444	27,392
Bad debt expense	936	1,156	1,329	1,188	1,530	1,586
Operating Profit	14,235	18,110	23,472	21,939	23,914	25,806
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	14,235	18,110	23,472	21,939	23,914	25,806
Tax	2,140	3,338	4,129	4,354	4,783	5,161
Other post tax items	-25	-5	-3	-4	-4	-4
Stated net profit	12,070	14,767	19,340	17,581	19,127	20,641
Goodwill	3	4	4	4	4	4
Extraordinary & Other items	1,491	-250	-2,961	0	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	13,564	14,521	16,383	17,585	19,131	20,645
Key Balance Sheet Items (SEKm) & Capital Ratios						
Risk-weighted assets	585,839	563,559	616,531	629,454	652,849	678,622
Interest-earning assets	2,305,718	2,414,329	2,512,773	2,707,324	2,743,295	2,787,754
Customer Loans	1,236,088	1,302,568	1,355,680	1,460,643	1,514,930	1,574,738
Total Deposits	862,260	849,475	943,114	1,051,344	1,090,419	1,133,468
Stated Shareholder Equity	109,513	122,814	134,576	131,131	138,864	145,015
Equals: Tangible Equity	92,225	105,643	117,342	113,871	121,604	127,755
Tier 1 capital	102,393	108,159	120,317	121,448	128,086	133,360
Tier 1 ratio (%)	17	19	20	19	20	20
o/w core tier 1 capital ratio (%)	14.7	15.9	16.3	17.0	17.5	17.6
Credit Quality						
Gross NPLs/Total Loans(%)	1.12	1.11	0.99	0.86	0.79	0.74
Risk Provisions/NPLs(%)	66	63	68	73	78	83
Bad debt / Avg loans (%)	0.08	0.09	0.10	0.08	0.10	0.10
Bad debt/Pre-Provision Profit(%)	6.2	6.0	5.4	5.1	6.0	5.8
Growth Rates & Key Ratios						
Growth in revenues (%)	3	7	13	-3	5	4
Growth in costs (%)	2	-6	-1	2	1	0
Growth in bad debts (%)	-220	24	15	-11	29	4
Growth in RWA (%)	-14	-4	9	2	4	4
Net int. margin (%)	0.78	0.80	0.81	0.78	0.79	0.81
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	143	153	144	139	139	139
ROTE Decomposition						
Revenue % ARWAs	6.14	7.23	7.95	7.32	7.49	7.52
Net interest revenue % ARWA	2.79	3.28	3.38	3.25	3.34	3.36
Non interest revenue % ARWA	3.35	3.95	4.57	4.07	4.15	4.16
Costs/income ratio (%)	60.9	53.6	47.2	49.3	47.0	45.3
Bad debts % ARWAs	0.15	0.20	0.23	0.19	0.24	0.24
Tax rate (%)	15.0	18.4	17.6	19.8	20.0	20.0
Adj. Attr. earnings % ARWA	2.15	2.53	2.78	2.82	2.98	3.10
Capital leverage (ARWA/Equity)	6.9	5.8	5.3	5.4	5.4	5.3
ROTE (Adj. earnings/Ave. equity)	14.7	14.7	14.7	15.2	16.2	16.6

Source: Company data, Deutsche Bank estimates

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SHB (Hold TP SEK 128)

Investment thesis

SHB is a proven generator of shareholder returns with a unique business model. We think the stock is deserving of its premium rating, and investors like the organic growth opportunity in markets such as the UK. We believe the key risk for the stock is regulation. SHB will potentially be the most impacted by Basel 4. This could lead to inconsistent combinations of ROE, growth, capital build and dividends currently embedded in market expectations.

Our Basel 4 framework indicates RWA inflation of 94%

Our framework for Basel 4 indicates an increase in RWA of SEK 452bn or 92%, and as such it would be the bank that experiences most RWA inflation in the sector. We expect this will mostly be due to higher credit RWA with some increase due to higher operational risk. This would reduce our B3 core tier 1 ratio estimate for 2015 from 21.0% to 10.8%.

Significantly higher credit RWA

SHB has a credit risk weight of 15%, compared to 14% under the standardised rules. As such, the capital floor would imply a credit risk weight of 30% which is roughly double. This is primarily due to corporates and then mortgages. Corporate risk weights are currently 24%. If we assume that new standardised corporate risk weights are 64%, that would set a corporate risk weight floor of 48%. For mortgages, the current risk weight is 6% and the floored risk weight would be c26% though banks already hold a pillar 2A buffer for this.

Higher operational risk weights as well

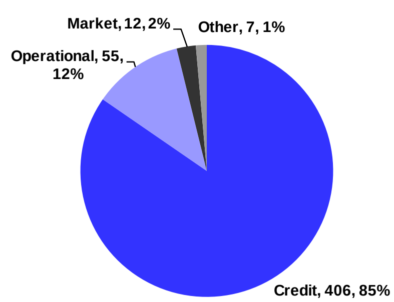
We expect operational RWA will increase from SEK 55bn to SEK 88bn. This is because SHB uses the simple method for this. We expect Beta to increase to 18% and as such lead to RWA inflation. We use a standardised 50% inflation figure in market risk.

Figure 174: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	480	506	527	548
RWA capital floors	932	983	1,022	1,064
RWA standardised	1,205	1,271	1,322	1,375
Leverage assets	2,817	3,004	3,126	3,252
RW density B3	17%	17%	17%	17%
RW density B4 capital floors	33%	33%	33%	33%
RW density B4 on standardised	43%	42%	42%	42%
CT1 B3	98	106	111	116
AT1	0	10	10	10
CT1 B3	20.4%	21.0%	21.1%	21.2%
CT1 B4 capital floors	**10.5%**	**10.8%**	**10.9%**	**10.9%**
CT1 B4 on fully standardised	8.1%	8.4%	8.4%	8.4%
Leverage ratio	3.5%	3.9%	3.9%	3.9%

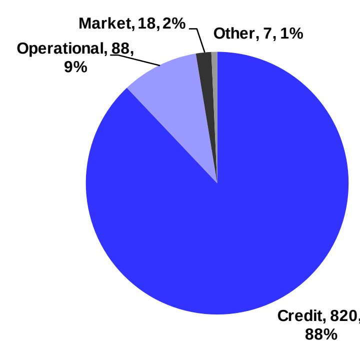
Source: Deutsche Bank, Company data

Figure 175: RWA B3 2014



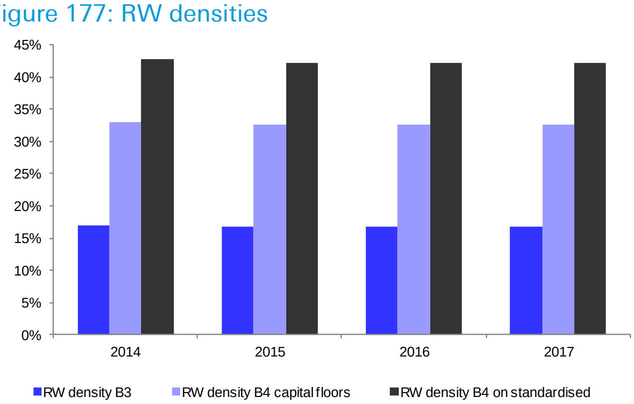
Source: Deutsche Bank, Company data

Figure 176: RWA B4 2014E



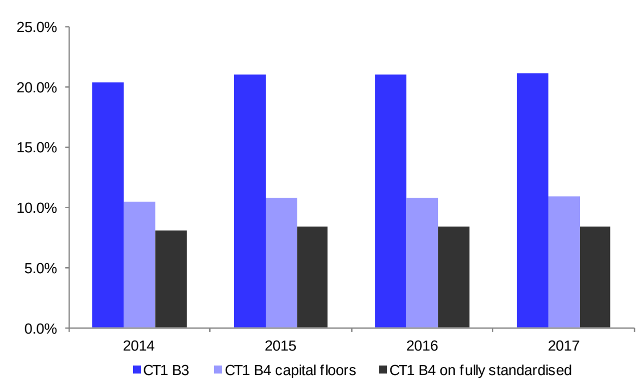
Source: Deutsche Bank, Company data

Figure 177: RW densities



Source: Deutsche Bank, Company data *Future data are forecasts*

Figure 178: CT1 capital ratios



Source: Deutsche Bank, Company data *Future data are forecasts*

Figure 179: SHB – modelling pro-forma 2014 B4 RWA inflation by category before management action

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign				0%	0	0%	0	0
Institution	134,409	12%	16,671	30%	40,323	23%	30,242	13,571
Corporate	958,861	24%	230,739	64%	616,400	48%	462,300	231,561
Retail	867,447	8%	69,013	40%	348,095	30%	261,071	192,058
o/w mortgage	756,225	6%	42,051	35%	264,679	26%	198,509	156,458
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	111,222	24%	26,962	75%	83,417	56%	62,562	35,600
Other	8,610	237%	20,372	237%	20,372	237%	20,372	0
IRB	1,969,327	17%	336,795	52%	1,025,190	39%	768,892	432,097
Sovereign	623,472	0%	66	0%	66	0%	66	0
Institution	2,277	25%	574	30%	683	25%	574	0
Corporate	12,771	81%	10,389	64%	8,210	81%	10,389	0
Retail	76,977	46%	35,344	46%	35,344	46%	35,344	0
Other	14,663	159%	23,313	159%	23,313	159%	23,313	0
Standardised	730,160	10%	69,686	9%	67,616	7%	50,712	0
Other		na		na	0	na	0	0
Credit Risk	**2,699,487**	**15%**	**406,481**	**40%**	**1,092,806**	**30%**	**819,604**	**413,123**
Operational Risk		**na**	**55,488**	**na**	**88,182**	**na**	**66,136**	**32,694**
Other risk (settlement, failed trades, equity risk outside trading book)		na	6,675	na	6,675	na	6,675	0
Market Risk		**na**	**11,738**	**na**	**17,606**	**na**	**17,606**	**5,869**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	**2,699,487**	**18%**	**480,381**	**45%**	**1,205,269**	**34%**	**910,022**	**451,687**
RWA inflation								94%

Source: Deutsche Bank, Company data

Model updated:19 May 2015

Running the numbers

Europe

Sweden

Banks

Sv. Handelsbanken

Reuters: SHBa.ST Bloomberg: SHBA SS

Hold

Price (15 Jun 15)	SEK 120.50
Target Price	SEK 128.00
52 Week range	SEK 103.53 - 141.63
Market Cap (m)	SEKm 229,798
	USDm 28,111

Company Profile

Svenska Handelsbanken AB provides banking services for corporate and private customers. The Bank attracts deposits and offers credit, payment processing, investment banking, factoring, and life insurance. Handelsbanken is active elsewhere in Scandinavia, other European countries, Asia, Australia, and the United States.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(SEK)	7.12	7.19	7.83	8.15	8.77	9.30
EPS (DB) (SEK)	7.22	7.20	7.65	8.15	8.77	9.31
Growth Rate - EPS (DB) (%)	15.5	-0.3	6.3	6.6	7.6	6.1
DPS (SEK)	3.58	5.50	5.83	5.97	6.37	6.67
BVPS (stated) (SEK)	54.19	56.45	64.30	71.42	74.12	77.05
Tang. NAV p. sh. (SEK)	50.54	52.47	60.17	67.15	69.85	72.79
Market Capitalisation	152,803	207,770	241,040	229,798	229,798	229,798
Shares in issue	1,973	1,973	1,973	1,907	1,907	1,907
Valuation Ratios & Profitability Measures						
P/E (stated)	10.9	14.6	15.6	14.8	13.7	13.0
P/E (DB)	10.7	14.6	16.0	14.8	13.7	12.9
P/B (stated)	1.4	1.9	1.9	1.7	1.6	1.6
P/Tangible equity (DB)	1.5	2.0	2.0	1.8	1.7	1.7
ROE(stated)(%)	13.9	13.0	13.0	11.8	12.1	12.3
ROTE (tangible equity) (%)	15.2	14.0	13.6	12.6	12.8	13.0
ROIC (invested capital) (%)	13.8	12.7	12.4	11.6	11.8	12.1
Dividend yield(%)	4.8	5.8	5.3	5.0	5.3	5.5
Dividend cover(x)	2.0	1.3	1.3	1.4	1.4	1.4
Profit & Loss (SEKm)						
Net interest revenue	26,081	26,669	27,245	27,904	29,853	31,280
Non interest income	8,981	9,658	11,070	11,374	11,850	12,348
Commissions	7,369	7,804	8,556	9,065	9,465	9,883
Trading Revenue	1,120	1,357	1,777	1,724	1,784	1,846
Other revenue	492	497	737	586	602	619
Total revenue	35,062	36,327	38,315	39,278	41,703	43,628
Total Operating Costs	16,532	17,031	17,322	17,817	18,332	18,863
Employee Costs	11,167	11,404	11,766	12,001	12,371	12,571
Other costs	5,365	5,627	5,556	5,816	5,961	6,292
Pre-Provision profit/(loss)	18,530	19,296	20,993	21,461	23,371	24,765
Bad debt expense	1,254	1,193	1,781	1,540	1,930	2,018
Operating Profit	17,276	18,103	19,212	19,921	21,441	22,747
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	17,276	18,103	19,212	19,921	21,441	22,747
Tax	3,092	3,915	4,069	4,383	4,717	5,004
Other post tax items	-146	0	300	0	0	0
Stated net profit	14,038	14,188	15,443	15,538	16,724	17,742
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	202	5	-359	5	5	5
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	14,240	14,193	15,084	15,543	16,729	17,747
Key Balance Sheet Items (SEKm) & Capital Ratios						
Risk-weighted assets	486,588	465,701	480,388	506,469	526,867	548,190
Interest-earning assets	1,680,479	1,823,362	1,934,859	2,005,172	2,084,588	2,167,542
Customer Loans	1,680,479	1,696,339	1,807,836	1,874,338	1,949,829	2,028,740
Total Deposits	682,223	825,205	1,022,267	1,084,037	1,127,698	1,173,336
Stated Shareholder Equity	106,897	111,339	126,827	136,192	141,342	146,943
Equals: Tangible Equity	99,691	103,504	118,695	128,060	133,210	138,811
Tier 1 capital	99,433	100,137	106,127	124,717	129,299	134,328
Tier 1 ratio (%)	20	22	22	25	25	25
o/w core tier 1 capital ratio (%)	17.9	19.2	20.4	21.0	21.1	21.2
Credit Quality						
Gross NPLs/Total Loans(%)	0.44	0.44	0.42	0.41	0.40	0.40
Risk Provisions/NPLs(%)	56	58	59	61	62	63
Bad debt / Avg loans (%)	0.08	0.07	0.10	0.08	0.10	0.10
Bad debt/Pre-Provision Profit(%)	6.8	6.2	8.5	7.2	8.3	8.1
Growth Rates & Key Ratios						
Growth in revenues (%)	7	4	5	3	6	5
Growth in costs (%)	7	3	2	3	3	3
Growth in bad debts (%)	55	-5	49	-14	25	5
Growth in RWA (%)	-4	-4	3	5	4	4
Net int. margin (%)	1.41	1.52	1.45	1.42	1.46	1.47
Cap.-market rev. / Total revs (%)	0	0	0	0	0	0
Total loans / Total deposits (%)	246	206	177	173	173	173
ROTE Decomposition						
Revenue % ARWAs	7.05	7.63	8.10	7.96	8.07	8.12
Net interest revenue % ARWA	5.24	5.60	5.76	5.66	5.78	5.82
Non interest revenue % ARWA	1.81	2.03	2.34	2.31	2.29	2.30
Costs/income ratio (%)	47.2	46.9	45.2	45.4	44.0	43.2
Bad debts % ARWAs	0.25	0.25	0.38	0.31	0.37	0.38
Tax rate (%)	17.9	21.6	21.2	22.0	22.0	22.0
Adj. Attr. earnings % ARWA	2.86	2.98	3.19	3.15	3.24	3.30
Capital leverage (ARWA/Equity)	5.3	4.7	4.3	4.0	4.0	4.0
ROTE (Adj. earnings/Ave. equity)	15.2	14.0	13.6	12.6	12.8	13.0

Source: Company data, Deutsche Bank estimates

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Swedbank (Hold TP SEK 182)

Investment thesis

Swedbank is a high ROE, high payout stock in a defensive geography. Over a long time horizon, we believe the shareholder return outlook is good. In the near term, we expect more headwinds to revenues from the low interest rate environment. This drives our below-consensus earnings view on the stock, though we recently upgraded the stock from Sell to Hold to account for the year's underperformance versus the sector. Tactically the stock looks oversold, and sentiment on revenues could pick up if the market becomes convinced we are at the end of the easing cycle in Sweden. In the meantime, we judge dividend capacity remains good even under Basel 4.

Our Basel 4 framework indicates RWA inflation of 73%

Our framework for Basel 4 indicates an increase in RWA of SEK 301bn or 73%, and as such it would be one of the banks that experience most RWA inflation in the sector. This will be mostly due to credit risk, with some inflation in operational RWA and market RWA as well. We forecast a core tier 1 B3 of 20.7% in 2015, which would be reduced to 12.0% under our Basel 4 framework.

Meaningful inflation in credit RWA

Swedbank has a credit risk weight in total of 17%, this compares with a standardised risk weight of 41% and a floored risk weight of 31% using a 75% capital floor. The main driver of the higher risk weights is mortgages, though it is worthwhile remembering that Swedbank already holds a pillar 2 buffer for this. Swedbank's corporate risk weight is 37%. Assuming the new standardised corporate risk weights is 70%, then this would increase to 52% under the floor.

Though dividend capacity remains good

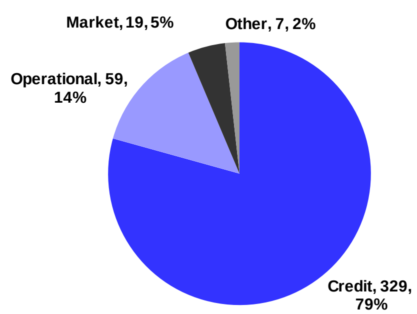
The Basel 4 framework we use would reduce our core tier 1 ratio forecast in 2015 to 12.0%. What is unclear is what buffers the Swedish regulator will remove. Our working assumption is that the effective hurdle rate for Swedish banks becomes 12% under Basel 4. In this scenario, Swedbank would already be compliant with Basel 4, supporting our view that dividend capacity is good.

Figure 180: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	414	432	442	458
RWA capital floors	715	746	763	790
RWA standardised	911	951	972	1,007
Leverage assets	2,073	2,279	2,372	2,457
RW density B3	20%	19%	19%	19%
RW density B4 capital floors	34%	33%	32%	32%
RW density B4 on standardised	44%	42%	41%	41%
CT1 B3	88	89	93	98
AT1	0	7	7	7
CT1 B3	21.2%	20.7%	21.1%	21.3%
CT1 B4 capital floors	**12.3%**	**12.0%**	**12.2%**	**12.4%**
CT1 B4 on fully standardised	9.7%	9.4%	9.6%	9.7%
Leverage ratio	4.2%	4.2%	4.2%	4.2%

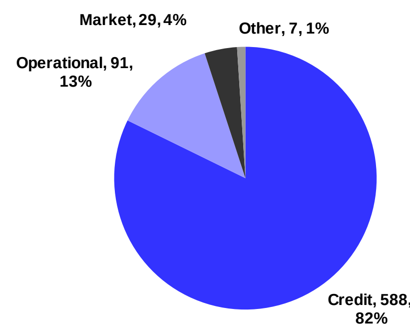
Source: Deutsche Bank, Company data

Figure 181: RWA B3 2014



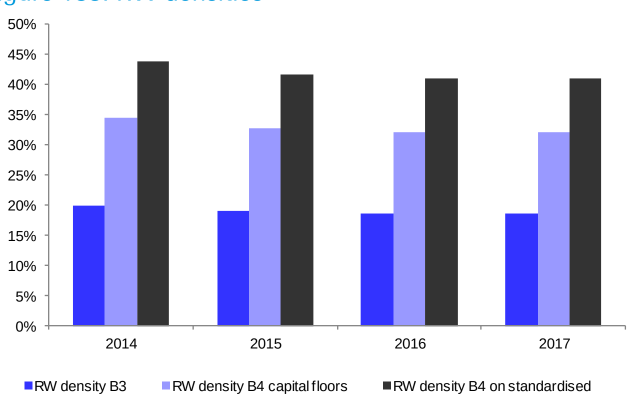
Source: Deutsche Bank, Company data

Figure 182: RWA B4 2014E



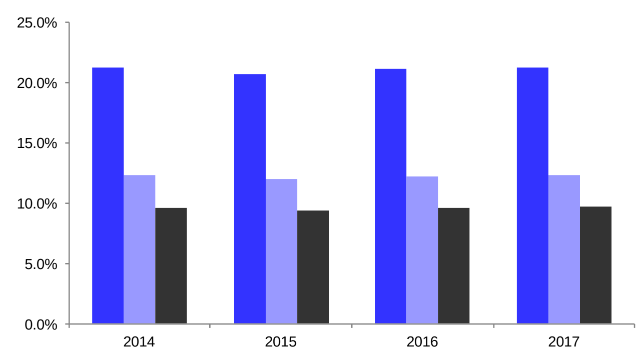
Source: Deutsche Bank, Company data

Figure 183: RW densities



Source: Deutsche Bank, Company data *Future data are forecasts*

Figure 184: CT1 capital ratios



Source: Deutsche Bank, Company data *Future data are forecasts*

Figure 185: Swedbank – modelling pro-forma 2014 B4 RWA inflation by category before management action

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign				0%	0	0%	0	0
Institution	136,263	15%	20,823	30%	40,879	23%	30,659	9,836
Corporate	461,567	37%	170,197	70%	322,387	52%	241,790	71,593
Retail	931,884	8%	76,375	39%	363,145	29%	272,359	195,984
o/w mortgage	839,420	6%	50,009	35%	293,797	26%	220,348	170,339
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	92,464	29%	26,366	75%	69,348	56%	52,011	25,645
Other	75,841	10%	7,454	10%	7,454	10%	7,454	0
IRB	1,605,555	17%	274,849	46%	733,865	34%	550,399	275,550
Sovereign	208,799	1%	1,112	1%	1,112	1%	1,112	0
Institution	5,000	19%	927	30%	1,500	23%	1,125	198
Corporate	14,416	100%	14,416	70%	10,069	100%	14,416	0
Retail	22,506	75%	16,843	75%	16,843	75%	16,843	0
Other	35,506	57%	20,385	57%	20,385	57%	20,385	0
Standardised	286,227	19%	53,683	17%	49,909	13%	37,432	0
Other		na		na	0	na	0	0
Credit Risk	1,891,782	17%	328,532	41%	783,774	31%	587,830	259,298
Operational Risk		na	59,310	na	91,011	na	68,259	31,701
Other risk (settlement, failed trades, equity risk outside trading book)		na	7,313	na	7,313	na	7,313	0
Market Risk		na	19,059	na	28,589	na	28,589	9,530
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	1,891,782	22%	414,214	48%	910,687	37%	691,990	300,529
RWA inflation								73%

Source: Deutsche Bank, Company data

Model updated:11 May 2015

Running the numbers

Europe

Sweden

Banks

Swedbank AB

Reuters: SWEDa.ST Bloomberg: SWEDA SS

Hold

Price (15 Jun 15)	SEK 192.00
Target Price	SEK 182.00
52 Week range	SEK 169.00 - 221.90
Market Cap (m)	SEKm 212,013
	USDm 25,935

Company Profile

Swedbank provides financial services including banking, insurance, mortgages and asset management. The banks' home markets are Sweden and the three Baltic countries (Estonia, Latvia and Lithuania). Swedbank is Sweden's largest banks in terms of number of customers, often described as the mass market bank.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(SEK)	13.52	11.68	15.13	14.57	14.91	15.14
EPS (DB) (SEK)	13.25	13.80	15.02	14.37	14.91	15.14
Growth Rate - EPS (DB) (%)	6.7	4.2	8.8	-4.3	3.7	1.5
DPS (SEK)	9.90	10.10	11.35	11.35	11.35	11.36
BVPS (stated) (SEK)	91.02	99.20	106.14	107.50	111.06	114.85
Tang. NAV p. sh. (SEK)	79.14	86.83	93.17	94.78	98.34	102.13
Market Capitalisation	143,765	199,866	215,877	212,013	212,013	212,013
Shares in issue	1,132	1,104	1,104	1,104	1,104	1,104
Valuation Ratios & Profitability Measures						
P/E (stated)	9.4	15.5	12.9	13.2	12.9	12.7
P/E (DB)	9.6	13.1	13.0	13.4	12.9	12.7
P/B (stated)	1.4	1.8	1.8	1.8	1.7	1.7
P/Tangible equity (DB)	1.6	2.1	2.1	2.0	2.0	1.9
ROE(stated)(%)	15.2	12.1	14.7	13.6	13.6	13.4
ROTE (tangible equity) (%)	17.3	16.4	16.7	15.3	15.4	15.1
ROIC (invested capital) (%)	14.2	13.7	14.0	12.9	13.1	12.9
Dividend yield(%)	8.8	6.5	6.3	5.9	5.9	5.9
Dividend cover(x)	1.4	1.2	1.3	1.3	1.3	1.3
Profit & Loss (SEKm)						
Net interest revenue	20,361	22,029	22,642	22,542	22,200	22,644
Non interest income	15,907	14,909	16,662	15,453	16,274	16,801
Commissions	9,614	10,132	11,217	11,440	11,906	12,318
Trading Revenue	2,822	1,484	1,983	1,207	1,567	1,617
Other revenue	3,471	3,293	3,462	2,806	2,801	2,867
Total revenue	36,268	36,938	39,304	37,995	38,474	39,446
Total Operating Costs	16,560	16,648	17,602	16,867	16,279	16,353
Employee Costs	9,238	9,651	10,608	9,293	8,923	9,461
Other costs	7,322	6,997	6,994	7,574	7,356	6,892
Pre-Provision profit/(loss)	19,708	20,290	21,702	21,128	22,195	23,093
Bad debt expense	242	935	676	723	1,259	1,836
Operating Profit	19,466	19,355	21,026	20,405	20,936	21,257
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	19,466	19,355	21,026	20,405	20,936	21,257
Tax	4,157	4,099	4,301	4,296	4,464	4,531
Other post tax items	-8	-2,355	-15	-16	-10	-10
Stated net profit	15,301	12,901	16,710	16,093	16,462	16,716
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	-305	2,340	-123	-222	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	14,996	15,241	16,587	15,871	16,462	16,716
Key Balance Sheet Items (SEKm) & Capital Ratios						
Risk-weighted assets	464,339	451,931	414,214	432,387	441,953	457,805
Interest-earning assets	1,621,527	1,588,969	1,833,030	1,889,483	1,966,247	2,036,773
Customer Loans	1,238,864	1,264,910	1,404,507	1,447,762	1,506,581	1,560,619
Total Deposits	579,663	620,853	676,679	786,788	818,753	848,120
Stated Shareholder Equity	103,032	109,540	117,203	118,705	122,634	126,817
Equals: Tangible Equity	89,592	95,882	102,884	104,659	108,588	112,771
Tier 1 capital	86,967	88,615	91,925	100,307	104,236	108,408
Tier 1 ratio (%)	19	20	22	23	24	24
o/w core tier 1 capital ratio (%)	16.7	18.7	21.2	20.7	21.1	21.3
Credit Quality						
Gross NPLs/Total Loans(%)	1.13	0.59	0.42	0.41	0.39	0.38
Risk Provisions/NPLs(%)	62	54	67	69	72	74
Bad debt / Avg loans (%)	0.02	0.07	0.05	0.05	0.09	0.12
Bad debt/Pre-Provision Profit(%)	1.2	4.6	3.1	3.4	5.7	8.0
Growth Rates & Key Ratios						
Growth in revenues (%)	7	2	6	-3	1	3
Growth in costs (%)	-19	1	6	-4	-3	0
Growth in bad debts (%)	-113	286	-28	7	74	46
Growth in RWA (%)	-6	-3	-8	4	2	4
Net int. margin (%)	1.27	1.37	1.32	1.21	1.15	1.13
Cap.-market rev. / Total revs (%)	100	100	100	100	100	100
Total loans / Total deposits (%)	214	204	208	184	184	184
ROTE Decomposition						
Revenue % ARWAs	7.58	8.06	9.08	8.98	8.80	8.77
Net interest revenue % ARWA	4.26	4.81	5.23	5.33	5.08	5.03
Non interest revenue % ARWA	3.33	3.25	3.85	3.65	3.72	3.73
Costs/income ratio (%)	45.7	45.1	44.8	44.4	42.3	41.5
Bad debts % ARWAs	0.05	0.20	0.16	0.17	0.29	0.41
Tax rate (%)	21.4	21.2	20.5	21.1	21.3	21.3
Adj. Attr. earnings % ARWA	3.14	3.33	3.83	3.75	3.77	3.72
Capital leverage (ARWA/Equity)	5.5	4.9	4.4	4.1	4.1	4.1
ROTE (Adj. earnings/Ave. equity)	17.3	16.4	16.7	15.3	15.4	15.1

Source: Company data, Deutsche Bank estimates

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Spain

Bankia (Hold TP EUR 1.25)

Investment thesis summary

The outlook for Bankia's NII appears to be tricky, as the benefit from falling time deposits is potentially completely offset by SAREB bond re-pricing, falling ALCO NII contribution, loan shrinkage risks, lower EURIBOR (on residential mortgages) and potential asset spread competition. With management more cautious on NII for FY15, we expect NII evolution to be the key area of focus for investors.

Limited impacted from Basel 4 in total

Our framework assesses that Bankia would experience RWA inflation of 2% on the group level from the proposals under Basel 4. This impact looks to be fairly limited when compared to the rest of the sector. This is likely owing to the fact that mortgage and corporate risk weights, and operational risk weights are high enough to avoid any meaningful RWA inflation.

No credit risk inflation under a risk-category based floor

The existing risk weight for total credit risk is 35%. This is compared with a risk weight under standardised method of 37%. As such, compared to a 75% floor there would be no inflation in risk weighted assets for credit risk. However, if a portfolio-based floor were to be applied, then it is possible we would see a EUR 1bn increase in retail RWA. The increase is fairly limited since mortgage risk weights under the models are already at 33%, and corporate risk weights are already at 58%.

Likely to see some inflation in operational risk weights

Bankia is likely to see a moderate amount of inflation in operational risk weights, we believe. We assume an additional roughly EUR 1bn. Under the new proposals, revenues or the business indicator will be linked to the amount of capital that needs to be held, rather than by business line.

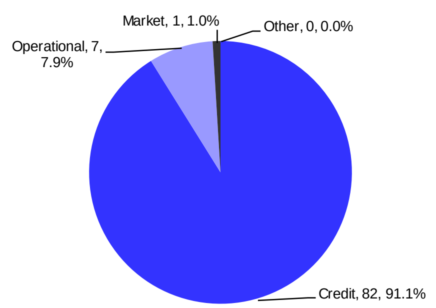
Figure 186: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	89	88	87	89
RWA capital floors	90	90	88	90
RWA standardised	95	94	93	95
Leverage assets	234	232	229	234
RW density B3	38%	38%	38%	38%
RW density B4 capital floors	39%	39%	39%	39%
RW density B4 on fully standardised	40%	40%	40%	40%
CT1 B3	9	10	11	11
AT1	0	0	0	0
CT1 B4	10.6%	11.7%	12.6%	12.9%
CT1 B4 capital floors	**10.4%**	**11.5%**	**12.4%**	**12.7%**
CT1 B4 on standardised	9.9%	10.9%	11.8%	12.1%
Leverage ratio	4.0%	4.4%	4.8%	4.9%

Source: Deutsche Bank, Company data

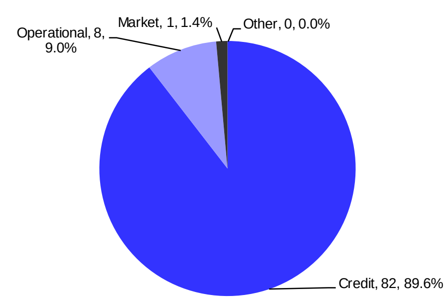
Under our framework, Bankia will experience RWA inflation of 2%.

Figure 187: RWA B3 2014



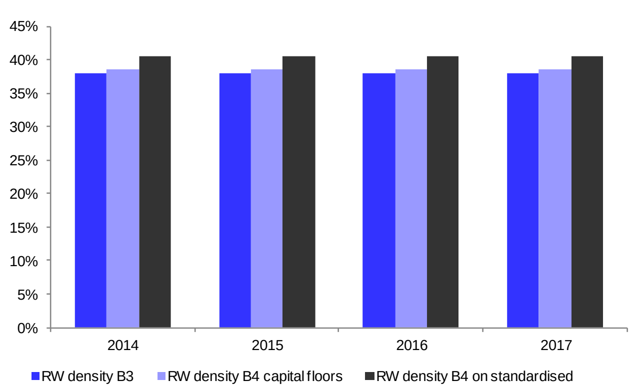
Source: Deutsche Bank, Company data

Figure 188: RWA B4 2014E



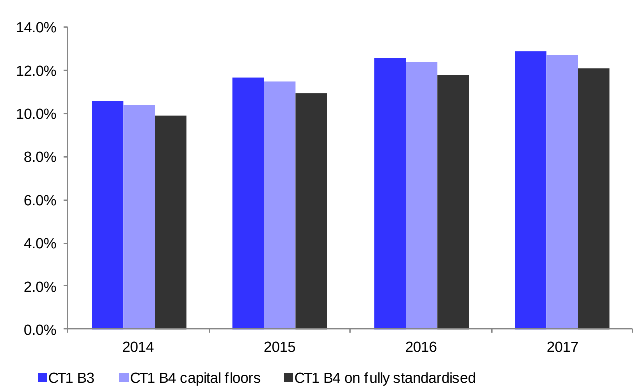
Source: Deutsche Bank, Company data

Figure 189: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 190: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 191: Bankia – modelling pro-forma 2014 RWA inflation by category before management action

BKIA.MC

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	0	0%	0	10%	0	8%	0	0
Institution	8,399	54%	4,510	30%	2,520	54%	4,510	0
Corporate	44,022	58%	25,357	70%	30,815	58%	25,357	0
Retail	58,010	34%	19,535	35%	20,568	34%	20,677	1,142
o/w mortgage	50,976	33%	16,720	30%	15,293	33%	16,720	0
o/w Lombard or collateralised	0	0%	0	0%	0	0%	0	0
o/w other	7,034	40%	2,815	75%	5,276	56%	3,957	1,142
Other	2,891	53%	1,520	53%	1,520	53%	1,520	0
IRB	113,322	45%	50,922	49%	55,423	37%	41,568	0
Sovereign	83,475	11%	9,085	11%	9,085	11%	9,085	0
Institution	1,493	24%	352	30%	448	24%	352	0
Corporate	1,427	76%	1,077	70%	999	76%	1,077	0
Retail	2,151	70%	1,497	70%	1,497	70%	1,497	0
Other	32,573	59%	19,095	59%	19,095	59%	19,095	0
Standardised	121,119	26%	31,107	26%	31,124	19%	23,343	0
Other		na		na	0	na	0	0
Credit Risk	**234,440**	**35%**	**82,029**	**37%**	**86,547**	**28%**	**64,911**	**0**
Operational Risk		**na**	**7,128**	**na**	**8,266**	**na**	**6,199**	**1,138**
Other risk (settlement, failed trades, equity risk outside trading book)		na		na	0	na	0	0
Market Risk		**na**	**864**	**na**	**1,296**	**na**	**1,296**	**432**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	234,440	38%	90,020	41%	96,109	31%	72,405	1,570
RWA inflation								2%

Source: Deutsche Bank, Company data

Model updated:27 April 2015

Running the numbers

Europe

Spain

Banks

Bankia

Reuters: BKIA.MC Bloomberg: BKIA SQ

Hold

Price (15 Jun 15)	EUR 1.15
Target Price	EUR 1.25
52 Week range	EUR 1.15 - 1.53
Market Cap (m)	EURm 13,199
	USDm 14,874

Company Profile

Bankia is a domestic focused commercial bank based in Spain, with top 5 market shares in customer deposits and loans. The bank's product range includes deposits, retail mortgages, retail credit, Corporate and SME lending and transactional services, insurance and investment advice. Bankia was formed in 2011 following the merger of 7 cajas in 2010, namely: Caja Madrid, Bancaja, Caja Insular de Ahorros de Canarias, Caja de Avila, Caixa Laietana, Caja Segovia and Caja Rioja.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	-10.23	0.11	0.06	0.09	0.10	0.11
EPS (DB) (EUR)	-10.23	0.11	0.06	0.09	0.10	0.11
Growth Rate - EPS (DB) (%)	-25,596.0	101.1	-40.7	37.5	11.6	10.7
DPS (EUR)	0.00	0.00	0.01	0.03	0.06	0.06
BVPS (stated) (EUR)	-3.04	0.99	1.09	1.14	1.17	1.17
Tang. NAV p. sh. (EUR)	-3.17	0.98	1.08	1.14	1.16	1.17
Market Capitalisation	9,505	14,212	14,258	13,199	13,199	13,199
Shares in issue	1,863	6,756	11,517	11,517	11,517	11,517
Valuation Ratios & Profitability Measures						
P/E (stated)	-0.5	11.3	19.1	12.8	11.5	10.4
P/E (DB)	-0.5	11.3	19.1	12.8	11.5	10.4
P/B (stated)	-1.6	1.3	1.1	1.0	1.0	1.0
P/Tangible equity (DB)	-1.5	1.3	1.1	1.0	1.0	1.0
ROE(stated)(%)	-392.6	27.8	6.3	8.0	8.6	9.4
ROTE (tangible equity) (%)	-414.4	29.7	6.3	8.0	8.7	9.5
ROIC (invested capital) (%)	-392.6	27.8	6.3	8.0	8.6	9.4
Dividend yield(%)	0.0	0.0	0.5	2.6	5.0	5.0
Dividend cover(x)	nm	nm	8.3	3.0	1.7	1.9
Profit & Loss (EURm)						
Net interest revenue	3,089	2,425	2,927	2,853	2,850	2,862
Non interest income	921	1,206	1,081	1,077	1,095	1,162
Commissions	992	935	948	995	1,035	1,086
Trading Revenue	348	415	218	174	157	172
Other revenue	-419	-145	-84	-92	-96	-97
Total revenue	4,010	3,630	4,009	3,930	3,945	4,025
Total Operating Costs	2,293	1,905	1,742	1,685	1,684	1,681
Employee Costs	1,353	1,117	987	953	953	953
Other costs	939	788	755	732	731	728
Pre-Provision profit/(loss)	1,717	1,725	2,267	2,245	2,261	2,344
Bad debt expense	21,546	1,220	1,165	798	646	556
Operating Profit	-19,829	505	1,102	1,447	1,615	1,788
Pre-tax associates	-2,361	26	-190	0	0	0
Pre-tax profit	-22,189	531	912	1,447	1,615	1,788
Tax	-2,997	-105	226	420	468	518
Other post tax items	136	103	61	0	0	0
Stated net profit	-19,056	738	747	1,027	1,147	1,269
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	0	0	0	0	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	-19,056	738	747	1,027	1,147	1,269
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	104,317	88,892	88,565	87,975	86,945	88,766
Interest-earning assets	260,962	228,707	215,059	215,258	214,379	219,182
Customer Loans	134,137	119,116	112,691	113,818	116,095	120,158
Total Deposits	110,904	108,543	106,807	106,807	106,807	110,011
Stated Shareholder Equity	-6,056	11,360	12,533	13,150	13,419	13,496
Equals: Tangible Equity	-6,311	11,291	12,464	13,081	13,350	13,427
Tier 1 capital	10,157	10,414	10,874	11,878	12,452	12,832
Tier 1 ratio (%)	10	12	12	14	14	14
o/w core tier 1 capital ratio (%)	9.9	11.9	12.3	13.5	14.3	14.5
Credit Quality						
Gross NPLs/Total Loans(%)	14.78	16.81	14.68	12.43	10.55	9.86
Risk Provisions/NPLs(%)	62	56	70	83	98	101
Bad debt / Avg loans (%)	13.46	0.96	1.00	0.70	0.56	0.47
Bad debt/Pre-Provision Profit(%)	1,254.9	70.7	51.4	35.6	28.6	23.7
Growth Rates & Key Ratios						
Growth in revenues (%)	-3	-9	10	-2	0	2
Growth in costs (%)	-7	-17	-9	-3	0	0
Growth in bad debts (%)	1,669	-94	-5	-31	-19	-14
Growth in RWA (%)	-33	-15	0	-1	-1	2
Net int. margin (%)	1.12	0.99	1.32	1.33	1.33	1.32
Cap.-market rev. / Total revs (%)	0	0	0	0	0	0
Total loans / Total deposits (%)	121	110	106	107	109	109
ROTE Decomposition						
Revenue % ARWAs	3.09	3.76	4.52	4.45	4.51	4.58
Net interest revenue % ARWA	2.38	2.51	3.30	3.23	3.26	3.26
Non interest revenue % ARWA	0.71	1.25	1.22	1.22	1.25	1.32
Costs/income ratio (%)	57.2	52.5	43.5	42.9	42.7	41.8
Bad debts % ARWAs	16.59	1.26	1.31	0.90	0.74	0.63
Tax rate (%)	15.1	-20.7	20.5	29.0	29.0	29.0
Adj. Attr. earnings % ARWA	-12.86	0.74	1.06	1.16	1.31	1.44
Capital leverage (ARWA/Equity)	28.2	38.8	7.5	6.9	6.6	6.6
ROTE (Adj. earnings/Ave. equity)	-363.0	28.6	7.9	8.0	8.7	9.5

Source: Company data, Deutsche Bank estimates

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Bankinter (Buy TP EUR 7.6)

Investment thesis summary

Bankinter has a focused business model on Spain and a best-in-class CET1 ratio in terms of both quantity at 14.1% (including 2.5% of AFS unrealised gains) and quality (with minimal noise from deferred tax credits or the Danish compromise). Assuming management runs to a minimum threshold FL CET1 ratio of 11.5%, we see think the bank can fund its organic growth, maintain a 50% dividend cash payout ratio and look to accelerate capital returns to shareholders view share buybacks. Our estimated RWA inflation of 3% from Basel 4 supports this hypothesis. Any additional capital return will also keep help boost long-term RoE, whilst loan growth in Spain remains muted. We also see good value in its general insurance subsidiary, Linea Directa, which looks very conservatively capitalised and delivered solid 20% RoEs in recent years (now rising to c.30% as excess capital has been stripped out). We rate the stock Buy.

Limited impact from Basel 4 in total

Our framework assesses that Bankinter would experience RWA inflation of 3% on the group level from the proposals under Basel 4. This impact looks to be fairly limited when compared to the rest of the sector, especially so. This is likely due to the fact that mortgage and corporate risk weights, and operational risk weights, are high enough to avoid any meaningful RWA inflation.

No credit risk inflation under a risk-category based floor

The existing risk weight for total credit risk is 52%. This compares with a risk weight under the standardised method of 58%. As such, compared to a 75% floor there would be no inflation in risk weighted assets for credit risk. However, if a portfolio based floor were to be applied, then it is possible we would see a EUR c2bn increase in retail RWA. The increase would be mostly related to mortgages, which are currently risk weighted at 16%. Corporate risk weights are already high enough at 84% not to be caught by the floors.

Likely to see some inflation in operational risk weights

Bankinter is likely to see a moderate amount of inflation in operational risk weights. We assumed an additional c. EUR 0.6bn. Under the new proposals, revenues or the business indicator will be linked to the amount of capital that needs to be held rather than by business line.

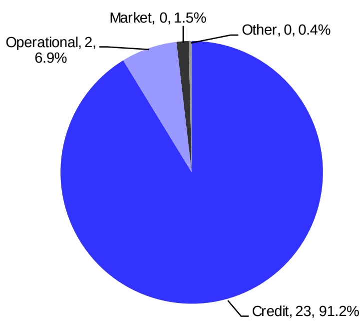
Under our framework, Bankinter will experience RWA inflation of 3%.

Figure 192: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	26	26	27	28
RWA capital floors	27	27	28	29
RWA standardised	29	29	30	31
Leverage assets	53	53	53	53
RW density B3	48%	50%	52%	53%
RW density B4 capital floors	50%	51%	54%	55%
RW density B4 on fully standardised	53%	55%	57%	59%
CT1 B3	3	3	3	4
AT1	0	0	0	0
CT1 B4	11.5%	12.1%	12.4%	12.7%
CT1 B4 capital floors	**11.2%**	**11.8%**	**12.0%**	**12.3%**
CT1 B4 on standardised	10.4%	11.0%	11.2%	11.5%
Leverage ratio	5.6%	6.0%	6.4%	6.8%

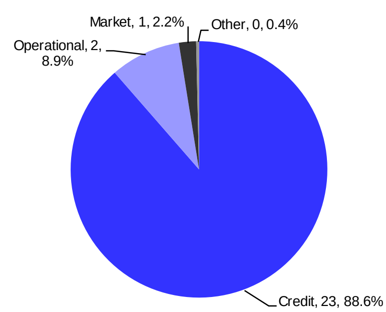
Source: Deutsche Bank, Company data

Figure 193: RWA B3 2014



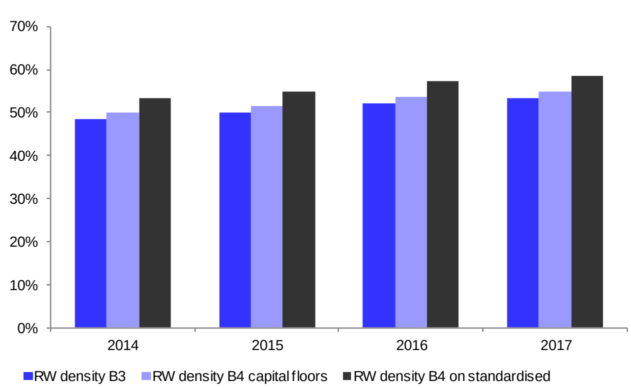
Source: Deutsche Bank, Company data

Figure 194: RWA B4 2014E



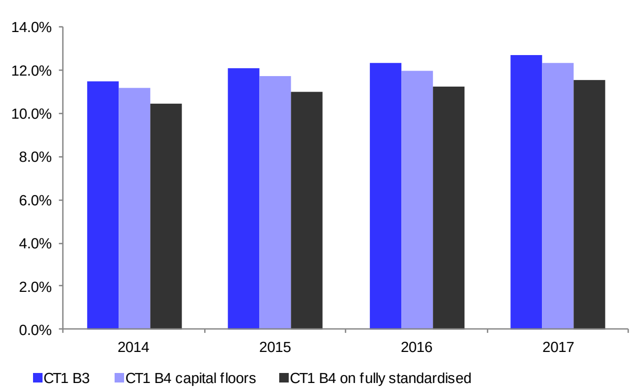
Source: Deutsche Bank, Company data

Figure 195: RW densities



Source: Deutsche Bank, Company data Future data based on forecasts

Figure 196: CT1 capital ratios



Source: Deutsche Bank, Company data Future data based on forecasts

Figure 197: Bankinter – modelling pro-forma 2014 RWA inflation by category before management action

BKT.MC

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign				0%	0	0%		
Institution				30%	0			
Corporate	574	84%	482	77%	445	84%	482	0
Retail	18,946	20%	3,856	41%	7,725	31%	5,794	1,938
o/w mortgage	16,231	16%	2,670	35%	5,681	26%	4,261	1,590
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	2,725	44%	1,186	75%	2,044	56%	1,533	347
Other	464	218%	1,012	218%	1,012	218%	1,012	0
IRB	19,984	27%	5,350	46%	9,182	34%	6,886	1,536
Sovereign	6,482	9%	558	9%	558	9%	558	0
Institution	2,060	45%	937	30%	618	45%	937	0
Corporate	11,980	92%	10,978	77%	9,280	92%	10,978	0
Retail	4,827	50%	2,410	50%	2,410	50%	2,410	0
Other	3,704	87%	3,221	87%	3,221	87%	3,221	0
Standardised	29,054	62%	18,104	55%	16,087	42%	12,065	0
Other		na		na	0	na	0	0
Credit Risk	**49,038**	**48%**	**23,454**	**52%**	**25,269**	**39%**	**18,952**	**0**
Operational Risk		**na**	**1,773**	**na**	**2,351**	**na**	**1,763**	**578**
Other risk (settlement, failed trades, equity risk outside trading book)		**na**	**95**	**na**	**95**	**na**	**95**	**0**
Market Risk		**na**	**382**	**na**	**572**	**na**	**572**	**191**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	49,038	52%	25,704	58%	28,288	44%	21,383	769
RWA inflation								3%

Source: Deutsche Bank, Company data

Model updated:23 April 2015

Running the numbers

Europe

Spain

Banks

Bankinter

Reuters: BKT.MC Bloomberg: BKT SQ

Buy

Price (15 Jun 15)	EUR 6.65
Target Price	EUR 7.60
52 Week range	EUR 5.57 - 7.40
Market Cap (m)	EURm 5,977
	USDm 6,736

Company Profile

Bankinter is a commercial bank in Spain, with c.2% market share of domestic total assets. It owns 100% of the general insurance business, Linea Directa.

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Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	0.24	0.30	0.31	0.44	0.49	0.55
EPS (DB) (EUR)	0.24	0.27	0.31	0.44	0.49	0.55
Growth Rate - EPS (DB) (%)	-32.2	14.0	13.3	44.8	10.1	13.0
DPS (EUR)	0.12	0.09	0.15	0.22	0.29	0.33
BVPS (stated) (EUR)	na	na	na	na	na	na
Tang. NAV p. sh. (EUR)	5.17	3.46	3.79	3.96	4.14	4.31
Market Capitalisation	1,101	4,446	6,023	5,977	5,977	5,977
Shares in issue	528	800	904	899	899	899
Valuation Ratios & Profitability Measures						
P/E (stated)	8.2	16.8	21.8	15.1	13.7	12.1
P/E (DB)	8.3	18.4	22.0	15.1	13.7	12.1
P/B (stated)	na	na	na	na	na	na
P/Tangible equity (DB)	0.4	1.4	1.8	1.7	1.6	1.5
ROE(stated)(%)	3.9	6.5	7.9	10.9	11.5	12.3
ROTE (tangible equity) (%)	4.8	7.2	8.5	11.4	12.0	13.0
ROIC (invested capital) (%)	nm	nm	nm	nm	nm	nm
Dividend yield(%)	5.7	2.7	2.5	3.3	4.4	5.0
Dividend cover(x)	2.0	3.3	2.0	2.0	1.7	1.7
Profit & Loss (EURm)						
Net interest revenue	660	636	755	861	876	900
Non interest income	594	740	693	664	682	716
Commissions	204	249	291	306	321	337
Trading Revenue	145	229	133	95	90	100
Other revenue	245	262	269	263	271	279
Total revenue	1,254	1,375	1,449	1,525	1,559	1,616
Total Operating Costs	648	680	719	737	745	745
Employee Costs	326	357	369	380	387	387
Other costs	322	323	351	358	358	358
Pre-Provision profit/(loss)	606	696	730	788	814	871
Bad debt expense	452	398	337	220	189	170
Operating Profit	154	298	393	567	625	701
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	154	298	393	567	625	701
Tax	30	82	117	170	187	207
Other post tax items	0	0	0	0	0	0
Stated net profit	125	215	276	397	437	494
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	0	0	0	0	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	125	215	276	397	437	494
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	25,509	24,099	25,704	26,122	27,167	27,825
Interest-earning assets	55,887	53,818	56,447	56,786	58,506	59,924
Customer Loans	44,752	42,607	43,758	44,560	46,270	47,604
Total Deposits	23,719	29,022	29,892	30,490	31,100	31,722
Stated Shareholder Equity	3,231	3,404	3,710	3,858	4,022	4,171
Equals: Tangible Equity	2,914	3,103	3,409	3,558	3,721	3,870
Tier 1 capital	2,740	2,864	3,050	3,212	3,411	3,585
Tier 1 ratio (%)	11	12	12	12	13	13
o/w core tier 1 capital ratio (%)	10.2	11.7	12.8	13.4	13.6	13.9
Credit Quality						
Gross NPLs/Total Loans(%)	4.43	5.34	5.46	5.47	5.27	4.61
Risk Provisions/NPLs(%)	48	42	42	42	42	46
Bad debt / Avg loans (%)	0.98	0.91	0.78	0.50	0.42	0.36
Bad debt/Pre-Provision Profit(%)	74.6	57.2	46.2	28.0	23.2	19.5
Growth Rates & Key Ratios						
Growth in revenues (%)	14	10	5	5	2	4
Growth in costs (%)	0	5	6	3	1	0
Growth in bad debts (%)	106	-12	-15	-35	-14	-10
Growth in RWA (%)	-10	-6	7	2	4	2
Net int. margin (%)	1.18	1.17	1.37	1.52	1.52	1.52
Cap.-market rev. / Total revs (%)	0	0	0	0	0	0
Total loans / Total deposits (%)	189	147	146	146	149	150
ROTE Decomposition						
Revenue % ARWAs	4.65	5.55	5.82	5.88	5.85	5.88
Net interest revenue % ARWA	2.45	2.56	3.03	3.32	3.29	3.27
Non interest revenue % ARWA	2.20	2.98	2.78	2.56	2.56	2.60
Costs/income ratio (%)	51.7	49.4	49.6	48.4	47.8	46.1
Bad debts % ARWAs	1.68	1.60	1.35	0.85	0.71	0.62
Tax rate (%)	19.2	27.6	29.8	30.0	30.0	29.5
Adj. Attr. earnings % ARWA	0.46	0.87	1.11	1.53	1.64	1.80
Capital leverage (ARWA/Equity)	10.4	8.2	7.6	7.4	7.3	7.2
ROTE (Adj. earnings/Ave. equity)	4.8	7.2	8.5	11.4	12.0	13.0

Source: Company data, Deutsche Bank estimates

Banco Popular (Sell TP EUR 3.5)

Investment thesis summary

We forecast earnings out to 2017E when we expect normalisation of provisioning costs for Spanish banks. Popular's recent sale of 51% of its credit card business appears to have changed the shape of the P&L, based on the restatement data provided by the company. We therefore see lower PPP going forward, as the fall in NII is not compensated enough by the fall in costs. In addition, a second alternative tier 1 bond issue in February 2015 has resulted in total AT1 post tax annual costs of c.E90m per annum, which are excluded from P&L and taken directly against equity. Meanwhile, we view the company's earnings outlook as volatile, as its works through net NPL and net foreclosed assets totalling c.E20bn, representing 2x TNAV. We rate the stock at Sell.

Limited impacted from Basel 4 in total

Our framework assesses that Banco Popular would experience RWA inflation of 3% on the group level from the proposals under Basel 4. This impact looks to be fairly limited when compared to the rest of the sector, especially. This is likely due to the fact that mortgage and corporate risk weights, and operational risk weights are high enough to avoid any meaningful RWA inflation.

No credit risk inflation under a risk-category based floor

The existing risk weight for total credit risk is 39%. This compares with a risk weight under standardised method of 52%. As such, compared to a 75% floor there just about would be no inflation in risk weighted assets for credit risk. However if a portfolio based floor were to be applied, then it is possible we would see a EUR 7bn increase in corporate RWA and a EUR c2bn increase in retail RWA or EUR 10bn in total. The majority is due to corporates and would be due to the corporate risk weight of 42%.

Likely to see some inflation in operational risk weights

Banco Popular is likely to see a moderate amount of inflation in operational risk weights, we believe. We assumed an additional roughly EUR 2bn. Under the new proposals, revenues or the business indicator will be linked to the amount of capital that needs to be held rather than by business line.

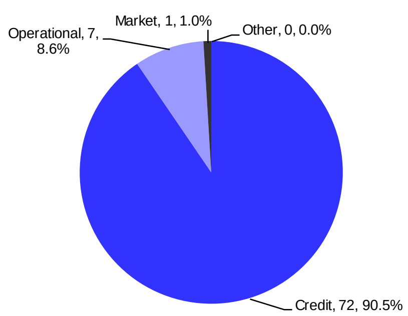
Under our framework, Banco Popular will experience RWA inflation of 3%.

Figure 198: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	82	82	83	87
RWA capital floors	83	83	85	89
RWA standardised	108	108	110	115
Leverage assets	151	146	149	155
RW density B3	54%	56%	56%	56%
RW density B4 capital floors	56%	58%	58%	58%
RW density B4 on fully standardised	72%	74%	74%	74%
CT1 B3	8	9	10	10
AT1	1	1	1	1
CT1 B4	10.4%	10.6%	11.4%	11.3%
CT1 B4 capital floors	**10.1%**	**10.3%**	**11.1%**	**11.0%**
CT1 B4 on standardised	7.8%	8.0%	8.6%	8.5%
Leverage ratio	6.0%	6.8%	7.2%	7.1%

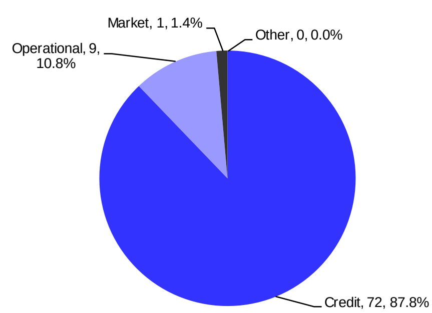
Source: Deutsche Bank, Company data

Figure 199: RWA B3 2014



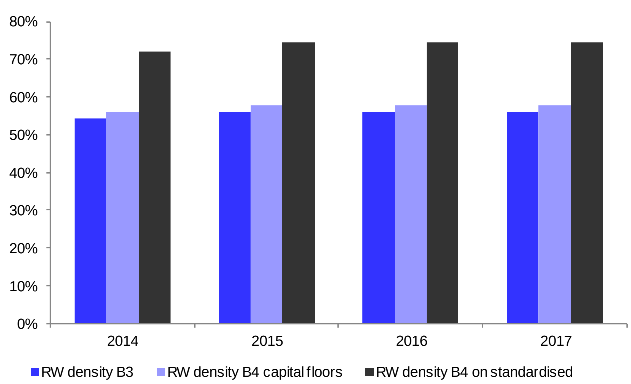
Source: Deutsche Bank, Company data

Figure 200: RWA B4 2014E



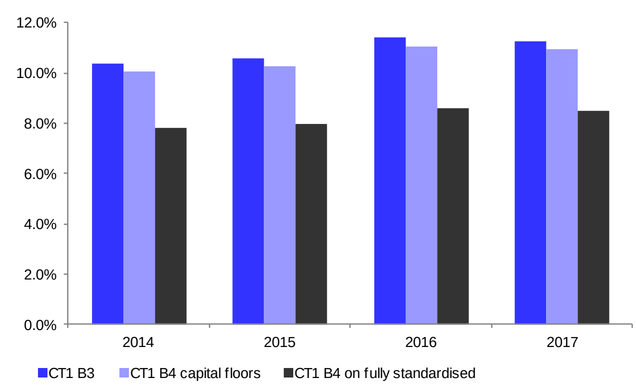
Source: Deutsche Bank, Company data

Figure 201: RW densities



Source: Deutsche Bank, Company data Future data based on forecasts

Figure 202: CT1 capital ratios



Source: Deutsche Bank, Company data Future data based on forecasts

Figure 203: Banco Popular – modelling pro-forma 2014 RWA inflation by category before management action

POP.MC

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign			0	0%	0	0%	0	0
Institution	3,210	45%	1,456	30%	963	45%	1,456	0
Corporate	44,275	42%	18,446	77%	34,296	58%	25,722	7,276
Retail	32,207	26%	8,320	44%	14,317	33%	10,616	2,296
o/w mortgage	25,000	25%	6,353	35%	8,750	26%	6,563	209
o/w Lombard or collateralised			0	0%	0	0%	0	0
o/w other	7,207	27%	1,967	75%	5,405	56%	4,054	2,087
Other	11,457	100%	11,472	100%	11,472	100%	11,472	0
IRB	91,148	44%	39,694	67%	61,049	50%	45,786	6,092
Sovereign	27,470	11%	3,133	11%	3,133	11%	3,133	0
Institution	3,373	48%	1,615	30%	1,012	48%	1,615	0
Corporate	13,786	55%	7,605	77%	10,679	58%	8,009	405
Retail	12,125	46%	5,565	46%	5,565	46%	5,565	0
Other	36,427	41%	14,868	41%	14,868	41%	14,868	0
Standardised	93,180	35%	32,785	38%	35,256	28%	26,442	0
Other		na	0	na	0	na	0	0
Credit Risk	184,329	39%	72,479	52%	96,304	39%	72,228	0
Operational Risk		na	6,869	na	8,886	na	6,664	2,017
Other risk (settlement, failed trades, equity risk outside trading book)		na	0	na	0	na	0	0
Market Risk		na	765	na	1,147	na	1,147	382
Net insurance		na	0	na	0	na	0	na
Deductions		na	0	na	0	na	0	na
RWA Basel III	184,329	43%	80,113	58%	106,337	43%	80,040	2,400
RWA inflation								3%

Source: Deutsche Bank, Company data

Model updated:01 May 2015

Running the numbers

Europe

Spain

Banks

Banco Popular

Reuters: POP.MC Bloomberg: POP SQ

Sell

Price (15 Jun 15)	EUR 4.45
Target Price	EUR 3.50
52 Week range	EUR 3.66 - 5.38
Market Cap (m)	EURm 9,580
	USDm 10,796

Company Profile

Banco Popular is a commercial bank incorporated in Spain. It is the 6th largest Spanish bank by assets, with c.2,000 branches in Spain. Banco Popular has two 100% owned foreign subsidiaries, Banco Popular Portugal and Totalbank Florida.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	-3.72	0.23	0.16	0.16	0.20	0.40
EPS (DB) (EUR)	-0.63	0.12	0.13	0.12	0.16	0.35
Growth Rate - EPS (DB) (%)	-130.3	119.8	5.3	-8.5	31.5	121.0
DPS (EUR)	0.12	0.04	0.07	0.08	0.10	0.20
BVPS (stated) (EUR)	29.60	6.13	5.88	5.97	6.30	6.46
Tang. NAV p. sh. (EUR)	21.70	4.84	4.74	4.83	5.17	5.32
Market Capitalisation	978	8,253	8,971	9,580	9,580	9,580
Shares in issue	1,825	1,928	2,131	2,152	2,173	2,184
Valuation Ratios & Profitability Measures						
P/E (stated)	-0.8	19.3	25.5	27.5	21.9	11.2
P/E (DB)	-4.6	34.9	31.7	37.1	28.2	12.8
P/B (stated)	0.1	0.7	0.7	0.7	0.7	0.7
P/Tangible equity (DB)	0.1	0.9	0.9	0.9	0.9	0.8
ROE(stated)(%)	-12.5	2.3	2.6	2.7	3.3	6.2
ROTE (tangible equity) (%)	-15.3	2.9	2.9	2.5	3.2	6.7
ROIC (invested capital) (%)	-12.5	2.2	2.2	2.0	2.6	5.5
Dividend yield(%)	2.2	1.2	1.3	1.8	2.3	4.5
Dividend cover(x)	-31.0	5.6	2.5	2.0	2.0	2.0
Profit & Loss (EURm)						
Net interest revenue	2,719	2,411	2,331	2,222	2,167	2,230
Non interest income	1,059	1,140	1,545	1,141	1,062	1,098
Commissions	794	759	655	599	623	654
Trading Revenue	305	461	821	400	280	266
Other revenue	-39	-81	69	142	159	178
Total revenue	3,778	3,551	3,876	3,363	3,229	3,328
Total Operating Costs	1,761	1,723	1,871	1,767	1,737	1,704
Employee Costs	950	929	946	927	913	895
Other costs	812	794	925	839	824	809
Pre-Provision profit/(loss)	2,016	1,828	2,005	1,597	1,492	1,624
Bad debt expense	4,348	2,436	2,078	1,173	908	461
Operating Profit	-2,331	-608	-73	424	584	1,163
Pre-tax associates	150	962	446	60	25	25
Pre-tax profit	-2,181	354	373	484	609	1,188
Tax	-1,031	100	43	136	171	333
Other post tax items	0	-3	1	1	1	1
Stated net profit	-1,151	252	330	348	438	857
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	0	-11	-51	-90	-95	-95
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	-1,150	240	280	258	343	762
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	88,757	84,588	79,939	79,140	80,723	84,759
Interest-earning assets	151,259	141,274	147,661	148,613	152,420	159,532
Customer Loans	108,809	102,047	98,986	97,996	99,956	104,954
Total Deposits	79,830	89,988	96,036	96,997	96,997	96,997
Stated Shareholder Equity	9,955	11,627	12,670	12,837	13,641	13,866
Equals: Tangible Equity	7,300	9,172	10,215	10,383	11,186	11,411
Tier 1 capital	9,099	9,657	9,823	9,965	10,768	10,993
Tier 1 ratio (%)	10	12	12	13	13	13
o/w core tier 1 capital ratio (%)	10.1	10.7	11.5	11.8	12.6	12.2
Credit Quality						
Gross NPLs/Total Loans(%)	14.83	20.80	21.22	19.41	16.82	13.53
Risk Provisions/NPLs(%)	57	40	46	54	62	71
Bad debt / Avg loans (%)	4.23	2.31	2.07	1.19	0.92	0.45
Bad debt/Pre-Provision Profit(%)	215.6	133.3	103.6	73.4	60.9	28.4
Growth Rates & Key Ratios						
Growth in revenues (%)	26	-6	9	-13	-4	3
Growth in costs (%)	29	-2	9	-6	-2	-2
Growth in bad debts (%)	157	-44	-15	-44	-23	-49
Growth in RWA (%)	1	-5	-5	-1	2	5
Net int. margin (%)	1.80	1.55	1.61	1.50	1.44	1.43
Cap.-market rev. / Total revs (%)	0	0	0	0	0	0
Total loans / Total deposits (%)	136	113	103	101	103	108
ROTE Decomposition						
Revenue % ARWAs	4.27	4.10	4.71	4.23	4.04	4.02
Net interest revenue % ARWA	3.07	2.78	2.83	2.79	2.71	2.70
Non interest revenue % ARWA	1.20	1.32	1.88	1.43	1.33	1.33
Costs/income ratio (%)	46.6	48.5	48.3	52.5	53.8	51.2
Bad debts % ARWAs	4.91	2.81	2.53	1.47	1.14	0.56
Tax rate (%)	44.2	-16.4	-59.0	32.1	29.3	28.6
Adj. Attr. earnings % ARWA	-1.47	-0.83	-0.20	0.25	0.40	0.89
Capital leverage (ARWA/Equity)	11.8	10.5	8.5	7.7	7.4	7.3
ROTE (Adj. earnings/Ave. equity)	-17.3	-8.8	-1.7	1.9	2.9	6.5

Source: Company data, Deutsche Bank estimates

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Banco Santander (Hold TP EUR 6.7)

Investment thesis summary

Santander's current profitability is recovering after high levels of provisions in Europe and more difficult operating conditions in Brazil. The extraordinarily low interest-rate environment in a number of markets and tough banking regulation remain headwinds. Santander has the footprint to deliver medium-term growth through its EM holdings, but this potential is fully priced in, in our opinion. We believe the strong support for Spanish sovereign bonds will keep the shares stable. Hold

Impact from Basel 4 – 15% RWA inflation

Our framework assesses that Santander would experience RWA inflation of 15% on the group level from the proposals under Basel 4. While the impact from credit risk under our framework looks to be fairly limited, most of the RWA inflation will likely come from the new proposed framework for operational risk which will penalise banks on revenues, regardless of business mix.

No credit risk inflation under a risk-category based floor

The existing risk weight for total credit risk is 42%. This compares with a risk weight under standardised method of 51%. As such, compared to a 75% floor there would be no inflation in risk weighted assets for credit risk. However if a portfolio based floor were to be applied, then it is possible we would see EUR 41bn increase in retail RWA, due to the 16% mortgage risk weights effectively being raised due to the capital floor.

Likely to see a meaningful increase in operational RWA

Under the proposed revisions to the simple approach for calculation operational RWA, Santander could see a more than doubling of capital needs for risk from this source. The current Beta for operational risk capital compared to revenues is about 13%. This would increase to 27% compared to revenues, or to 25% compared to the business indicator (the business indicator related to revenues does such things as to gross up fee income by adding back fee expenses). There is no relationship between business lines and Beta under the new proposals.

Lower market RWA inflation than the sector

We assume inflation in market RWA of c33% which is below the European average. Looking through the pillar 3, we find that Santander already has a significant proportion of market RWA calculated under the standardised methodology, which should lead to some tailwinds. Like other European banks, the model RWA for market risk would increase due to less diversification, extended liquidity horizons, and implementation of the non-model able risk factors framework.

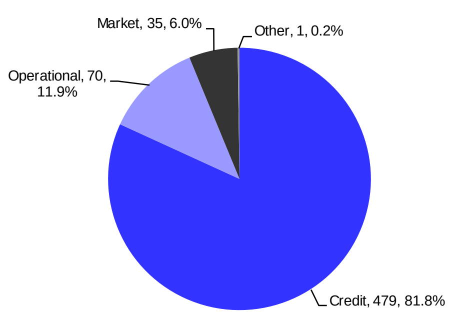
Under our framework, Santander will experience RWA inflation of 15%.

Figure 204: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	585	631	669	696
RWA capital floors	673	726	770	801
RWA standardised	780	841	892	928
Leverage assets	1,392	1,532	1,571	1,612
RW density B3	42%	41%	43%	43%
RW density B4 capital floors	48%	47%	49%	50%
RW density B4 on fully standardised	56%	55%	57%	58%
CT1 B3	49	63	69	76
AT1	5	6	8	10
CT1 B4	8.3%	10.1%	10.4%	10.9%
CT1 B4 capital floors	**7.2%**	**8.7%**	**9.0%**	**9.5%**
CT1 B4 on standardised	6.2%	7.5%	7.8%	8.2%
Leverage ratio	3.8%	4.6%	4.9%	5.4%

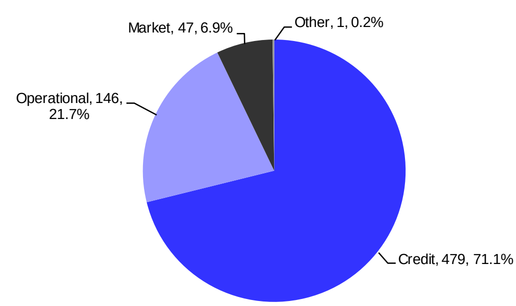
Source: Deutsche Bank, Company data

Figure 205: RWA B3 2014



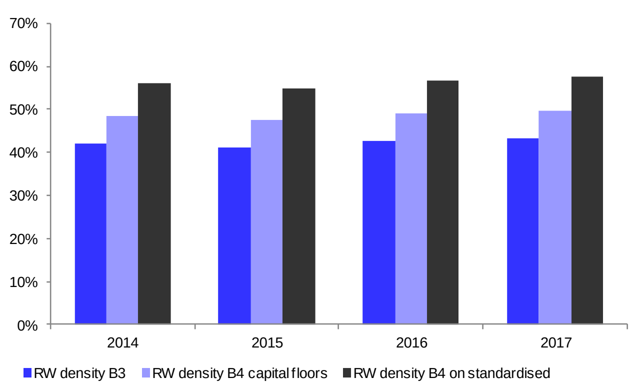
Source: Deutsche Bank, Company data

Figure 206: RWA B4 2014E



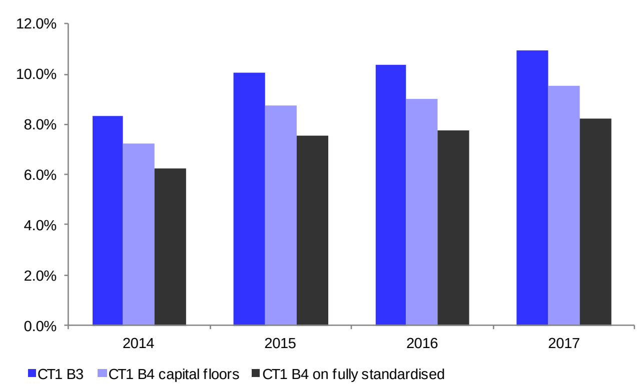
Source: Deutsche Bank, Company data

Figure 207: RW densities



Source: Deutsche Bank, Company data Future data based on forecasts

Figure 208: CT1 capital ratios



Source: Deutsche Bank, Company data Future data based on forecasts

Figure 209: Banco Santander – modelling pro-forma 2014 RWA inflation by category before management action

SAN.MC

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	151,567	0%	524	0%	524	0%	524	0
Institution	54,912	25%	13,627	30%	16,474	25%	13,627	0
Corporate	194,912	57%	111,821	77%	150,982	58%	113,236	1,415
Retail	333,921	21%	69,063	44%	146,292	33%	109,719	40,656
o/w mortgage	280,299	16%	44,682	38%	106,076	28%	79,557	34,875
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	53,622	45%	24,381	75%	40,217	56%	30,162	5,781
Other	6,692	173%	11,562	173%	11,562	173%	11,562	0
IRB	588,247	35%	206,597	55%	325,834	42%	244,375	37,778
Sovereign	12,384	42%	5,237	42%	5,237	42%	5,237	0
Institution	36,183	24%	8,793	30%	10,855	24%	8,793	0
Corporate	67,904	98%	66,859	77%	52,599	98%	66,859	0
Retail	197,183	62%	121,338	62%	121,338	62%	121,338	0
Other	240,213	29%	70,595	29%	70,595	29%	70,595	0
Standardised	553,867	49%	272,822	47%	260,624	35%	195,468	0
Other		na		na	0	na	0	0
Credit Risk	**1,142,114**	**42%**	**479,419**	**51%**	**586,458**	**39%**	**439,843**	**0**
Operational Risk		**na**	**69,952**	**na**	**146,483**	**na**	**109,862**	**76,530**
Other risk (settlement, failed trades, equity risk outside trading book)		na		na	0	na	0	0
Market Risk		**na**	**35,103**	**na**	**46,687**	**na**	**46,687**	**11,584**
Net insurance		na		na	0	na	0	na
Deductions		na	1,354	na	1,354	na	1,354	na
RWA Basel III	**1,142,114**	**51%**	**585,829**	**68%**	**780,982**	**52%**	**597,747**	**88,114**
RWA inflation								15%

Source: Deutsche Bank, Company data

Model updated:28 April 2015

Running the numbers

Europe

Spain

Banks

Banco Santander

Reuters: SAN.MC Bloomberg: SAN SQ

Hold

Price (15 Jun 15)	EUR 6.34
Target Price	EUR 6.70
52 Week range	EUR 5.89 - 7.90
Market Cap (m)	EURm 90,603
	USDm 102,100

Company Profile

Banco Santander attracts deposits and offers retail, wholesale and private banking as well as asset management services. The Bank offers consumer credit, mortgage loans, lease financing, factoring, mutual funds, pension funds, insurance, commercial credit, investment banking services, structured finance, and advice on mergers and acquisitions. Its geographical presence includes Spain, Latam and the UK.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	0.23	0.39	0.46	0.51	0.57	0.64
EPS (DB) (EUR)	0.24	0.40	0.48	0.51	0.56	0.63
Growth Rate - EPS (DB) (%)	-70.9	69.4	19.8	7.3	9.5	11.6
DPS (EUR)	0.60	0.60	0.60	0.20	0.20	0.20
BVPS (stated) (EUR)	7.23	6.23	6.42	6.75	7.09	7.49
Tang. NAV p. sh. (EUR)	4.51	3.78	3.99	4.61	4.95	5.33
Market Capitalisation	62,959	73,735	88,038	90,603	90,603	90,603
Shares in issue	9,974	10,937	12,153	14,239	14,557	14,644
Valuation Ratios & Profitability Measures						
P/E (stated)	26.8	16.9	15.1	12.4	11.1	10.0
P/E (DB)	25.9	16.3	14.6	12.4	11.3	10.1
P/B (stated)	0.8	1.0	1.1	0.9	0.9	0.8
P/Tangible equity (DB)	1.4	1.7	1.8	1.4	1.3	1.2
ROE(stated)(%)	3.2	6.0	7.7	8.2	8.2	8.7
ROTE (tangible equity) (%)	5.0	9.8	12.5	12.6	12.0	12.4
ROIC (invested capital) (%)	3.2	6.0	7.7	8.2	8.2	8.7
Dividend yield(%)	10.8	10.3	8.4	3.2	3.2	3.2
Dividend cover(x)	0.4	0.6	0.8	2.6	2.8	3.2
Profit & Loss (EURm)						
Net interest revenue	32,216	28,419	29,548	32,633	33,856	34,790
Non interest income	13,346	13,512	13,065	12,954	13,001	13,591
Commissions	10,459	9,622	9,696	10,387	10,769	11,431
Trading Revenue	2,698	3,496	2,850	1,985	1,648	1,575
Other revenue	189	394	519	582	584	585
Total revenue	45,562	41,931	42,612	45,587	46,857	48,381
Total Operating Costs	20,547	20,158	20,038	21,052	21,545	22,026
Employee Costs	10,622	10,276	10,213	10,754	11,014	11,267
Other costs	9,925	9,883	9,825	10,298	10,530	10,759
Pre-Provision profit/(loss)	25,015	21,773	22,574	24,535	25,312	26,355
Bad debt expense	13,601	12,718	10,562	10,373	10,512	10,390
Operating Profit	11,413	9,055	12,012	14,161	14,800	15,965
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	11,413	9,055	12,012	14,161	14,800	15,965
Tax	2,684	2,075	2,696	3,651	3,900	4,313
Other post tax items	-6,377	-2,610	-3,500	-3,201	-2,718	-2,464
Stated net profit	2,352	4,370	5,816	7,309	8,183	9,188
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	0	0	0	0	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	2,352	4,370	5,816	7,309	8,183	9,188
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	557,030	489,119	585,153	643,668	669,415	696,192
Interest-earning assets	1,168,030	997,303	1,164,992	1,386,382	1,412,525	1,447,600
Customer Loans	730,805	683,460	734,711	808,182	840,509	874,129
Total Deposits	626,639	607,836	647,628	699,438	712,183	724,098
Stated Shareholder Equity	74,653	70,587	80,806	96,474	101,991	108,331
Equals: Tangible Equity	46,591	42,824	50,258	65,850	71,090	77,149
Tier 1 capital	62,220	61,763	68,784	76,886	84,404	92,821
Tier 1 ratio (%)	11	13	12	12	13	13
o/w core tier 1 capital ratio (%)	10.3	11.7	11.0	11.9	12.6	13.3
Credit Quality						
Gross NPLs/Total Loans(%)	4.94	6.16	6.34	6.14	6.26	6.36
Risk Provisions/NPLs(%)	73	65	76	80	83	86
Bad debt / Avg loans (%)	1.84	1.80	1.49	1.34	1.28	1.21
Bad debt/Pre-Provision Profit(%)	54.4	58.4	46.8	42.3	41.5	39.4
Growth Rates & Key Ratios						
Growth in revenues (%)	7	-8	2	7	3	3
Growth in costs (%)	6	-2	-1	5	2	2
Growth in bad debts (%)	38	-6	-17	-2	1	-1
Growth in RWA (%)	-2	-12	20	10	4	4
Net int. margin (%)	2.78	2.62	2.73	2.56	2.42	2.43
Cap.-market rev. / Total revs (%)	0	0	0	0	0	0
Total loans / Total deposits (%)	117	112	113	116	118	121
ROTE Decomposition						
Revenue % ARWAs	8.11	8.02	7.93	7.42	7.14	7.09
Net interest revenue % ARWA	5.74	5.43	5.50	5.31	5.16	5.10
Non interest revenue % ARWA	2.38	2.58	2.43	2.11	1.98	1.99
Costs/income ratio (%)	45.1	48.1	47.0	46.2	46.0	45.5
Bad debts % ARWAs	2.42	2.43	1.97	1.69	1.60	1.52
Tax rate (%)	23.5	22.9	22.4	25.8	26.4	27.0
Adj. Attr. earnings % ARWA	0.42	0.84	1.08	1.19	1.25	1.35
Capital leverage (ARWA/Equity)	12.0	11.7	11.5	10.6	9.6	9.2
ROTE (Adj. earnings/Ave. equity)	5.0	9.8	12.5	12.6	12.0	12.4

Source: Company data, Deutsche Bank estimates

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BBVA (Buy TP EUR 10.2)

Investment thesis summary

Firstly, we see BBVA benefitting from Euro weakness. Over 90% of BBVA's 1H14 net attributable income (excluding corporate centre) was denominated in non Euro currencies. This trends down to 74% by FY17e, as Spanish earnings recover. Secondly, the company is targeting 10% reduction of head office costs and positive revenue vs. cost jaws group-wide. We expect this to be supported by the Catalunya Banc transaction, with a 40% reduction in the target' cost base. Thirdly, we see BBVA as a beneficiary versus European peers as RWA harmonisation becomes the next area of regulatory focus, as it has amongst the highest level of RWA density. Our estimates of a 7% increase in RWAs owing to Basel 4 impact supports this. We rate the stock at Buy.

Impact from Basel 4 – 7% RWA inflation

Our framework assesses that BBVA would experience RWA inflation of 7% on the group level from the proposals under Basel 4. While the impact from credit risk under our framework looks to be fairly limited, most of the RWA inflation will likely come from the new proposed framework for operational risk which will penalise banks on revenues, regardless of business mix.

No credit risk inflation under a risk-category based floor

The existing risk weight for total credit risk is 45%. This compares with a risk weight under standardised method of 57%. As such compared to a 75% floor there would be no inflation in risk weighted assets for credit risk. However if a portfolio based floor were to be applied, then it is possible we would see EUR 29bn increase in retail RWA, due to the 15% mortgage risk weights effectively being raised due to the capital floor.

Likely to see a meaningful increase in operational RWA

Under the proposed revisions to the simple approach for calculation operational RWA, Santander could see a c60% increase of capital needs for risk from this source. The current Beta for operational risk capital compared to revenues is about 11%. This would increase to 17% compared to revenues. The increase to the standardised approach would be more (21% Beta), but given we estimate that c55% is on the AMA approach then BBVA can still have some benefit in reducing its capital requirement up to the 75% capital floor.

Lower market RWA inflation than the sector

We assume inflation in market RWA of c33% which is below the European average. Looking through the pillar 3, we find that BBVA already has a significant proportion of market RWA calculated under the standardised methodology, which should lead to some tailwinds. Like other European banks, the model RWA for market risk will increase due to less diversification, extended liquidity horizons, and implementation of the non-model able risk factors framework.

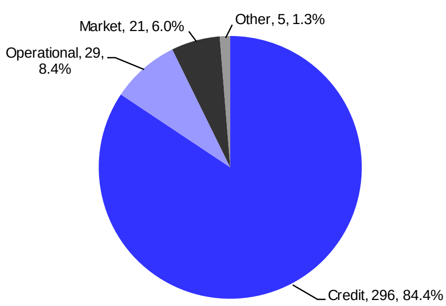
Under our framework, BBVA will experience RWA inflation of 7%.

Figure 210: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	351	436	456	478
RWA capital floors	375	467	488	512
RWA standardised	466	579	605	635
Leverage assets	648	809	840	875
RW density B3	54%	54%	54%	55%
RW density B4 capital floors	58%	58%	58%	59%
RW density B4 on fully standardised	72%	72%	72%	73%
CT1 B3	36	44	47	51
AT1	3	4	4	4
CT1 B4	10.4%	10.0%	10.4%	10.7%
CT1 B4 capital floors	**9.7%**	**9.3%**	**9.7%**	**10.0%**
CT1 B4 on standardised	7.8%	7.5%	7.8%	8.1%
Leverage ratio	6.1%	5.9%	6.1%	6.4%

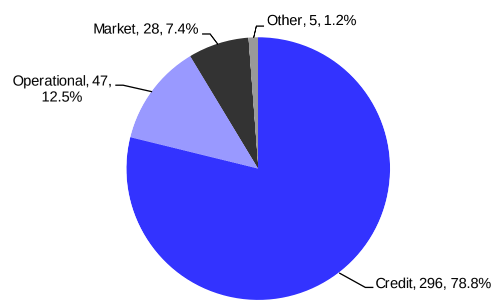
Source: Deutsche Bank, Company data

Figure 211: RWA B3 2014



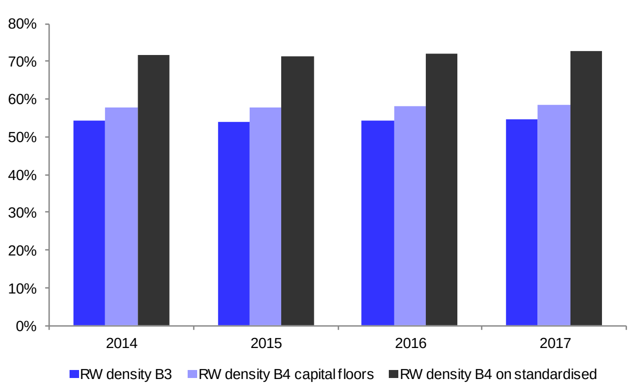
Source: Deutsche Bank, Company data

Figure 212: RWA B4 2014E



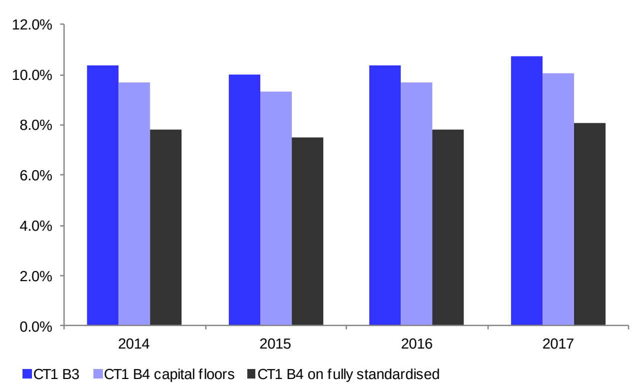
Source: Deutsche Bank, Company data

Figure 213: RW densities



Source: Deutsche Bank, Company data *Catalunya Banc*

Figure 214: CT1 capital ratios



Source: Deutsche Bank, Company data *Catalunya Banc*

Figure 215: BBVA – modelling pro-forma 2014 RWA inflation by category before management action

BBVA.MC

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	4,529	8%	375	8%	375	8%	375	0
Institution	109,494	11%	12,425	30%	32,848	23%	24,636	12,211
Corporate	102,682	59%	61,000	77%	79,539	59%	61,000	0
Retail	123,514	17%	21,063	54%	67,125	41%	50,344	29,281
o/w mortgage	69,892	15%	10,425	38%	26,908	29%	20,181	9,756
o/w Lombard or collateralised			0	0%	0	0%	0	0
o/w other	53,622	20%	10,638	75%	40,217	56%	30,162	19,525
Other	1,042	2167%	22,575	2167%	22,575	2167%	22,575	0
IRB	341,261	34%	117,438	59%	202,462	44%	151,846	34,409
Sovereign	117,535	29%	34,488	29%	34,488	29%	34,488	0
Institution	11,569	23%	2,663	30%	3,471	23%	2,663	0
Corporate	71,340	93%	66,425	77%	55,261	93%	66,425	0
Retail	43,338	71%	30,725	71%	30,725	71%	30,725	0
Other	94,032	47%	44,213	47%	44,213	47%	44,213	0
Standardised	337,815	53%	178,513	50%	168,157	37%	126,118	0
Other	-25,952	na	0	na	0	na	0	0
Credit Risk	**653,124**	**45%**	**295,950**	**57%**	**370,619**	**43%**	**277,964**	**0**
Operational Risk		**na**	**29,400**	**na**	**62,677**	**na**	**47,008**	**17,608**
Other risk (settlement, failed trades, equity risk outside trading book)		na	4,500	na	4,500	na	4,500	0
Market Risk		**na**	**20,975**	**na**	**27,897**	**na**	**27,897**	**6,922**
Net insurance		na	0	na	0	na	0	na
Deductions		na	0	na	0	na	0	na
RWA Basel III	**653,124**	**54%**	**350,825**	**71%**	**465,692**	**55%**	**357,368**	**24,529**
RWA inflation								7%

Source: Deutsche Bank, Company data

Model updated:29 April 2015

Running the numbers

Europe

Spain

Banks

BBVA

Reuters: BBVA.MC Bloomberg: BBVA SQ

Buy

Price (15 Jun 15)	EUR 8.85
Target Price	EUR 10.20
52 Week range	EUR 7.32 - 9.77
Market Cap (m)	EURm 55,933
	USDm 63,031

Company Profile

BBVA attracts deposits and offers retail, wholesale, and investment banking services. The Bank offers consumer and mortgage loans, private banking, asset management, and securities brokerage services. It operates in Europe, the US and Latin America, with a strong bias towards Mexico.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	0.36	0.58	0.56	0.48	0.77	0.92
EPS (DB) (EUR)	0.34	0.48	0.53	0.45	0.73	0.89
Growth Rate - EPS (DB) (%)	-61.7	42.0	10.9	-16.4	63.9	21.3
DPS (EUR)	0.42	0.37	0.37	0.37	0.37	0.37
BVPS (stated) (EUR)	8.00	8.00	8.01	8.21	8.60	9.05
Tang. NAV p. sh. (EUR)	6.37	6.59	6.58	6.74	7.13	7.60
Market Capitalisation	37,925	51,774	48,470	55,933	55,933	55,933
Shares in issue	5,538	5,714	5,979	6,244	6,338	6,379
Valuation Ratios & Profitability Measures						
P/E (stated)	19.2	15.4	14.1	18.5	11.6	9.6
P/E (DB)	20.6	18.6	14.7	19.9	12.1	10.0
P/B (stated)	0.9	1.1	1.0	1.1	1.0	1.0
P/Tangible equity (DB)	1.1	1.4	1.2	1.3	1.2	1.2
ROE(stated)(%)	4.4	7.3	6.9	5.9	9.1	10.4
ROTE (tangible equity) (%)	5.6	7.5	8.1	6.7	10.5	12.0
ROIC (invested capital) (%)	4.4	6.1	6.7	5.5	8.7	10.0
Dividend yield(%)	7.0	4.9	4.1	4.2	4.2	4.2
Dividend cover(x)	0.9	1.6	1.5	1.3	2.1	2.5
Profit & Loss (EURm)						
Net interest revenue	15,321	14,613	15,116	17,070	19,229	20,400
Non interest income	6,477	6,783	6,240	7,548	7,584	7,585
Commissions	4,386	4,431	4,365	4,852	5,352	5,604
Trading Revenue	1,656	2,527	2,135	2,234	1,627	1,388
Other revenue	435	-175	-260	463	606	593
Total revenue	21,798	21,397	21,357	24,618	26,813	27,985
Total Operating Costs	10,297	11,201	10,951	12,217	13,052	13,394
Employee Costs	5,422	5,788	5,609	6,375	6,786	6,951
Other costs	4,875	5,413	5,342	5,842	6,267	6,443
Pre-Provision profit/(loss)	11,501	10,196	10,406	12,401	13,761	14,591
Bad debt expense	7,971	5,776	4,486	4,360	4,411	4,349
Operating Profit	3,530	4,420	5,920	8,041	9,349	10,242
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	3,530	4,420	5,920	8,041	9,349	10,242
Tax	-54	593	981	1,857	2,303	2,688
Other post tax items	-1,711	-560	-1,619	-3,196	-2,190	-1,677
Stated net profit	1,873	3,268	3,319	2,988	4,856	5,877
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	0	-523	-134	-207	-230	-230
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	1,873	2,744	3,185	2,781	4,626	5,646
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	329,033	323,605	350,803	436,254	455,680	478,485
Interest-earning assets	582,366	547,327	594,829	743,437	771,145	803,196
Customer Loans	355,271	334,744	351,755	470,416	491,363	515,954
Total Deposits	292,582	310,176	330,686	408,078	425,281	446,135
Stated Shareholder Equity	43,614	46,310	49,446	51,881	54,655	57,933
Equals: Tangible Equity	34,702	38,145	40,606	42,591	45,365	48,643
Tier 1 capital	35,451	39,611	44,672	52,848	56,469	60,744
Tier 1 ratio (%)	11	12	13	12	12	13
o/w core tier 1 capital ratio (%)	10.8	11.6	12.0	11.5	11.8	12.1
Credit Quality						
Gross NPLs/Total Loans(%)	5.80	7.84	6.73	4.58	4.10	3.63
Risk Provisions/NPLs(%)	72	60	65	70	73	79
Bad debt / Avg loans (%)	2.25	1.67	1.31	1.06	0.92	0.86
Bad debt/Pre-Provision Profit(%)	69.3	56.6	43.1	35.2	32.1	29.8
Growth Rates & Key Ratios						
Growth in revenues (%)	9	-2	0	15	9	4
Growth in costs (%)	6	9	-2	12	7	3
Growth in bad debts (%)	89	-28	-22	-3	1	-1
Growth in RWA (%)	-1	-2	8	24	4	5
Net int. margin (%)	2.72	2.59	2.65	2.55	2.54	2.59
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	121	108	106	115	116	116
ROTE Decomposition						
Revenue % ARWAs	6.61	6.56	6.33	6.26	6.01	5.99
Net interest revenue % ARWA	4.64	4.48	4.48	4.34	4.31	4.37
Non interest revenue % ARWA	1.96	2.08	1.85	1.92	1.70	1.62
Costs/income ratio (%)	47.2	52.3	51.3	49.6	48.7	47.9
Bad debts % ARWAs	2.42	1.77	1.33	1.11	0.99	0.93
Tax rate (%)	-1.5	13.4	16.6	23.1	24.6	26.2
Adj. Attr. earnings % ARWA	0.57	0.84	0.94	0.71	1.04	1.21
Capital leverage (ARWA/Equity)	9.9	9.0	8.6	9.5	10.1	9.9
ROTE (Adj. earnings/Ave. equity)	5.6	7.5	8.1	6.7	10.5	12.0

Source: Company data, Deutsche Bank estimates

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Liberbank (Hold TP EUR 0.76)

Investment thesis summary

We expect a "cleaner" P&L in 2015 as asset quality clean-up reduces and high one-off trading income starts to normalise. We forecast improving net interest income in 1Q15 to reduce slightly on a quarterly basis owing to roll off of SAREB bonds, but falling time deposit costs should result in overall FY15e NII growth of 6% year on year. We estimate the bank will deliver a c.8% ROTE in FY17. However, the risk of removal of residential mortgage floors appears to have increased in this year of regional and general elections. We rate the stock Hold on valuation.

Impact from Basel 4 – 0% RWA inflation

Our framework assesses that Liberbank would experience no inflation from Basel 4. The reason for this is that Liberbank uses the standardised method anyway, and operational RWA is high enough such that there will be a meaningless impact from these changes.

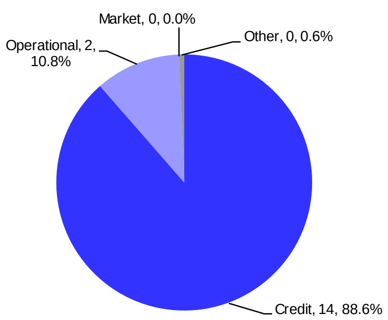
Under our framework, Liberbank will experience RWA inflation of 0%.

Figure 216: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	16	16	16	19
RWA capital floors	16	16	16	19
RWA standardised	17	16	17	20
Leverage assets	45	46	47	48
RW density B3	36%	35%	35%	40%
RW density B4 capital floors	36%	35%	35%	40%
RW density B4 on fully standardised	37%	36%	36%	41%
CT1 B3	2	2	2	2
AT1	0	0	0	0
CT1 B4	11.1%	12.6%	13.1%	11.7%
CT1 B4 capital floors	11.1%	12.6%	13.1%	11.7%
CT1 B4 on standardised	10.9%	12.3%	12.8%	11.4%
Leverage ratio	4.0%	4.4%	4.6%	4.7%

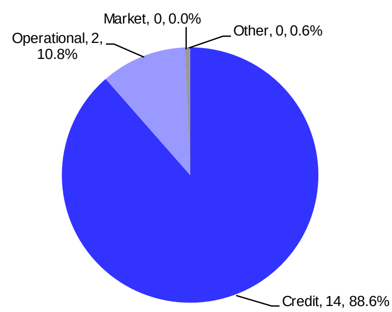
Source: Deutsche Bank, Company data

Figure 217: RWA B3 2014



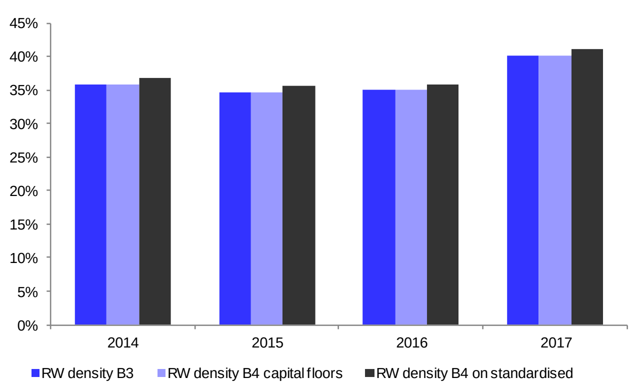
Source: Deutsche Bank, Company data

Figure 218: RWA B4 2014E



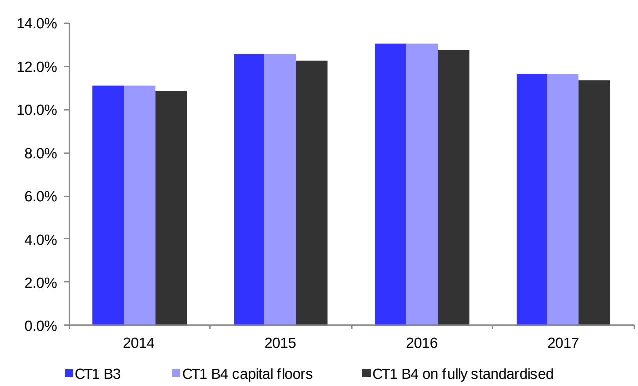
Source: Deutsche Bank, Company data

Figure 219: RW densities



Source: Deutsche Bank, Company data Future data based on forecasts

Figure 220: CT1 capital ratios



Source: Deutsche Bank, Company data Future data based on forecasts

Figure 221: Liberbank – modelling pro-forma 2014 RWA inflation by category before management action

LBK.MC

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign			0	0%	0	0%	0	0
Institution			0	30%	0	23%	0	0
Corporate			0	77%	0	58%	0	0
Retail			0		0	0%	0	0
o/w mortgage			0	35%	0	26%	0	0
o/w Lombard or collateralised			0	0%	0	0%	0	0
o/w other			0	75%	0	56%	0	0
Other			0	0%	0	0%	0	0
IRB	0	-	0	-	0	-	0	0
Sovereign	15,020		0	0%	0	0%	0	0
Institution	2,735	5%	132	30%	820	23%	615	483
Corporate	2,914	76%	2,211	77%	2,257	76%	2,211	0
Retail	17,856	38%	6,752	38%	6,752	38%	6,752	0
Other	6,506	82%	5,341	82%	5,341	82%	5,341	0
Standardised	45,030	-	14,436	-	15,170	25%	11,378	0
Other		na	0	na	0	na	0	0
Credit Risk	**45,030**	**32%**	**14,436**	**34%**	**15,170**	**25%**	**11,378**	**0**
Operational Risk		**na**	**1,758**	**na**	**1,417**	**na**	**1,063**	**0**
Other risk (settlement, failed trades, equity risk outside trading book)		na	104	na	104	na	104	0
Market Risk		**na**	**2**	**na**	**3**	**na**	**3**	**1**
Net insurance		na	0	na	0	na	0	na
Deductions		na	0	na	0	na	0	na
RWA Basel III	**45,030**	**36%**	**16,299**	**37%**	**16,694**	**28%**	**12,547**	**1**
RWA inflation								0%

Source: Deutsche Bank, Company data

Model updated:05 May 2015

Running the numbers

Europe

Spain

Banks

Liberbank

Reuters: LBK.MC Bloomberg: LBK SQ

Hold

Price (15 Jun 15)	EUR 0.70
Target Price	EUR 0.76
52 Week range	EUR 0.59 - 0.80
Market Cap (m)	EURm 1,839
	USDm 2,072

Company Profile

Liberbank is a domestic commercial bank in Spain, with c.2% market share of total system loans and deposits. The bank was created in 2011 through the merger of Cajastur (including the 2010 acquisition of Banco de Castilla-La Mancha), Caja de Extremadura and Caja Cantabria. It has leading retail banking market share positions in the regions of Asturias, Cantabria, Castilla La Mancha and Extremadura.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	-1.84	0.04	0.06	0.06	0.08	0.08
EPS (DB) (EUR)	-1.84	0.04	0.05	0.06	0.07	0.08
Growth Rate - EPS (DB) (%)	-336.2	102.0	40.1	11.6	27.6	6.7
DPS (EUR)	0.00	0.00	0.00	0.02	0.03	0.04
BVPS (stated) (EUR)	1.10	1.06	1.00	1.06	1.08	1.08
Tang. NAV p. sh. (EUR)	1.00	1.01	0.95	1.01	1.03	1.03
Market Capitalisation	0	1,034	1,766	1,839	1,839	1,839
Shares in issue	1,000	1,360	2,307	2,879	2,863	2,863
Valuation Ratios & Profitability Measures						
P/E (stated)	na	17.9	11.7	11.3	8.9	8.8
P/E (DB)	na	20.0	13.4	12.5	9.8	9.2
P/B (stated)	na	0.7	0.7	0.7	0.7	0.7
P/Tangible equity (DB)	na	0.7	0.7	0.7	0.7	0.7
ROE(stated)(%)	-91.3	3.7	5.6	6.0	7.4	7.4
ROTE (tangible equity) (%)	-95.6	3.3	5.3	5.8	7.1	7.5
ROIC (invested capital) (%)	-91.3	3.1	5.0	5.5	6.8	7.1
Dividend yield(%)	na	0.0	0.0	2.8	4.1	5.4
Dividend cover(x)	nm	nm	nm	3.1	2.7	2.1
Profit & Loss (EURm)						
Net interest revenue	534	415	471	500	516	519
Non interest income	330	466	468	307	294	293
Commissions	235	215	187	183	189	195
Trading Revenue	33	247	300	130	110	102
Other revenue	62	4	-19	-6	-5	-4
Total revenue	864	881	939	806	810	812
Total Operating Costs	558	463	439	421	394	402
Employee Costs	558	463	439	421	394	402
Other costs	0	0	0	0	0	0
Pre-Provision profit/(loss)	306	418	500	385	416	410
Bad debt expense	2,271	441	340	129	99	87
Operating Profit	-1,965	-23	160	256	317	323
Pre-tax associates	-836	15	-27	-17	-14	0
Pre-tax profit	-2,801	-8	133	239	303	323
Tax	-865	-46	10	72	91	97
Other post tax items	99	11	-7	-5	-6	-7
Stated net profit	-1,837	49	117	162	206	220
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	0	0	0	0	0	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	-1,837	49	117	162	206	220
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	20,717	17,098	16,258	16,095	16,498	19,439
Interest-earning assets	45,469	43,826	42,365	43,341	44,111	45,305
Customer Loans	29,052	26,380	24,164	23,922	24,520	25,501
Total Deposits	26,156	26,082	26,835	27,890	28,883	29,821
Stated Shareholder Equity	1,099	1,523	2,615	2,766	2,817	3,096
Equals: Tangible Equity	1,004	1,448	2,481	2,632	2,683	2,962
Tier 1 capital	17,653	16,689	17,415	18,119	19,129	2,820
Tier 1 ratio (%)	11	13	14	15	15	15
o/w core tier 1 capital ratio (%)	85.2	97.6	107.1	112.6	116.0	14.5
Credit Quality						
Gross NPLs/Total Loans(%)	6.20	9.63	11.34	11.46	9.96	7.22
Risk Provisions/NPLs(%)	43	43	53	57	69	96
Bad debt / Avg loans (%)	6.90	1.59	1.35	0.53	0.41	0.35
Bad debt/Pre-Provision Profit(%)	742.2	105.5	68.0	33.4	23.9	21.1
Growth Rates & Key Ratios						
Growth in revenues (%)	-29	2	7	-14	1	0
Growth in costs (%)	-25	-17	-5	-4	-7	2
Growth in bad debts (%)	835	-81	-23	-62	-23	-13
Growth in RWA (%)	nm	-17	-5	-1	2	18
Net int. margin (%)	1.12	0.93	1.09	1.17	1.18	1.16
Cap.-market rev. / Total revs (%)	0	0	0	0	0	0
Total loans / Total deposits (%)	111	101	90	86	85	86
ROTE Decomposition						
Revenue % ARWAs	8.34	4.66	5.63	4.98	4.97	4.52
Net interest revenue % ARWA	5.16	2.19	2.82	3.09	3.17	2.89
Non interest revenue % ARWA	3.19	2.46	2.81	1.89	1.80	1.63
Costs/income ratio (%)	64.6	52.6	46.7	52.3	48.6	49.5
Bad debts % ARWAs	21.92	2.33	2.04	0.79	0.61	0.48
Tax rate (%)	44.0	200.0	6.1	28.0	28.7	30.0
Adj. Attr. earnings % ARWA	-9.66	0.18	0.86	1.11	1.35	1.22
Capital leverage (ARWA/Equity)	5.4	15.4	8.5	6.3	6.1	6.4
ROTE (Adj. earnings/Ave. equity)	-52.1	2.8	7.3	7.0	8.3	7.8

Source: Company data, Deutsche Bank estimates

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Switzerland

Credit Suisse (Buy TP CHF 30)

Investment thesis

Our sum-of-the-parts based target price is CHF 30 for Credit Suisse. We think that the incoming CEO will be a positive catalyst for the share price, leading to a reduction in the FICC IB and an improvement in capital ratios and business mix. We have a BUY recommendation.

Key risks to our BUY recommendation include CHF strength (reducing revenues but not costs), conduct penalties, and declines in capital markets asset prices and activity levels, given CS is one of the most exposed stocks in our coverage universe via both investment banking and asset gathering.

Basel 4 RWA inflation of 9% under this framework

Using a risk-category based floor, we expect RWA inflation under Basel 4 of 9%. This is due to CHF 4bn higher credit RWA and CHF 22bn from market risk.

Credit Suisse experiences only modestly higher credit risk inflation given it has a somewhat higher risk business mix than UBS (CS is a smaller domestic mortgage bank and is active in consumer credit, for example). Credit Suisse does, however, have one of the highest levels of RWA inflation from the FRTB. We think this increases the incentives for Credit Suisse to exit FICC.

NB we also looked in detail at Credit Suisse's compliance with Basel 4 in our report dated 9 April 2015, *Driving Change: the FRTB and RWA inflation*. Our estimates today are slightly lower than in our previous report, due to moving to a category based floor rather than an exposure type floor.

Valuation

Our SOTP based target price is set out below.

Figure 222: Credit Suisse sum-of-the-parts valuation

CHF m except where stated	Net profit	Equity	RoE (%)	P/E (x)	P/BV (x)	P/AuM (%)	Value (bn)	Val PS (CHF)
Wealth Management Clients	2,225	na	na	15.0	na	3.2%	33,381	20.1
Corp & Inst Clients	626	na	na	11.0	na	na	6,882	4.1
Asset Management	580	na	na	13.0	na	1.6%	7,543	4.5
Total: Private Banking	3,431	9,364	36.6%	13.9	5.1	na	47,807	28.8
Investment Banking	2,638	24,000	11.0%	8.0	0.9	na	21,101	12.7
Non-strategic PB&WM	0	na	na	na	na	na	0	0.0
Non-strategic IB	-121	na	na	na	na	na	0	0.0
Non-strategic CC	-74	na	na	na	na	na	-221	-0.1
Total unallocated	-466	4,180	na	4.6	-0.5	na	-2,145	-1.3
Total fair value at end-2016	5,409	37,543	14.4%	12.3	1.8	na	66,542.5	40.0
Less conglomerate 10%	-1.2	-0.18					-6,654	-4.0
Discounted to 12 month target								30.0

Source: Deutsche Bank

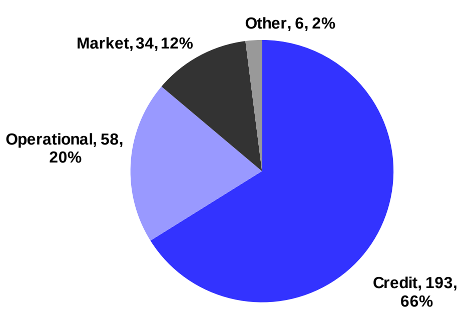
Under our framework, CS will experience RWA inflation of 9%.

Figure 223: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	284	280	271	271
RWA capital floors	309	305	296	296
RWA standardised	389	383	371	371
Leverage assets	1,228	971	971	979
RW density B3	23%	29%	28%	28%
RW density B4 capital floors	25%	31%	30%	30%
RW density B4 on fully standardised	32%	39%	38%	38%
CT1 B3	29	30	34	38
AT1	11	11	11	11
CT1 B4	10.1%	10.7%	12.4%	13.8%
CT1 B4 capital floors	**9.2%**	**9.9%**	**11.4%**	**12.7%**
CT1 B4 on standardised	7.4%	7.8%	9.1%	10.1%
Leverage ratio	3.2%	4.3%	4.6%	5.0%

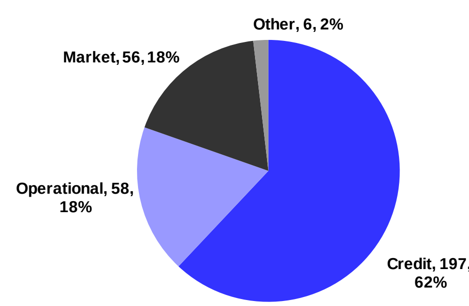
Source: Deutsche Bank, Company data

Figure 224: RWA B3 2014



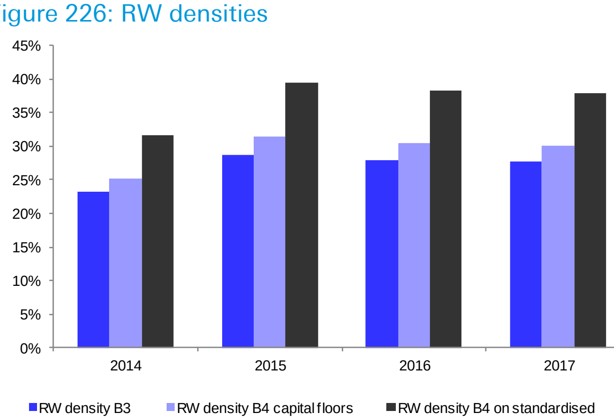
Source: Deutsche Bank, Company data

Figure 225: RWA B4 2014E



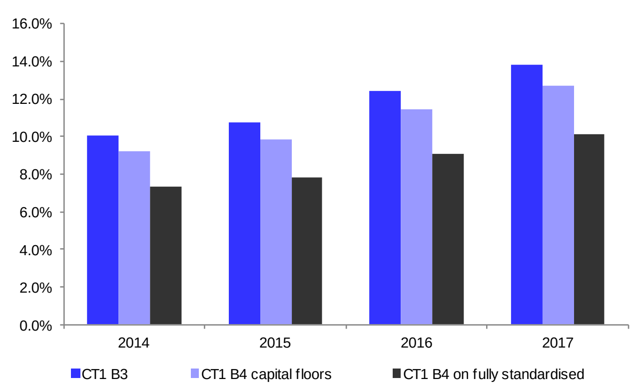
Source: Deutsche Bank, Company data

Figure 226: RW densities



Source: Deutsche Bank, Company data Future data are forecasts.

Figure 227: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 228: Credit Suisse – modelling pro-forma 2014 RWA inflation by category before management action

CSGN.VX

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	77,037	5%	3,714	5%	3,714	5%	3,714	0
Institution	40,469	28%	11,145	30%	12,141	28%	11,145	0
Corporate	207,793	41%	86,131	65%	135,065	49%	101,299	15,168
Retail	180,471	13%	22,864	24%	42,676	18%	32,007	9,143
o/w mortgage	101,350	11%	11,117	30%	30,405	23%	22,804	11,687
o/w Lombard or collateralised	78,449		11,509	15%	11,767	11%	8,826	0
o/w other	672	35%	238	75%	504	56%	378	140
Other	0	0%	0	0%	0	0%	0	0
IRB	505,770	24%	123,854	38%	193,597	29%	145,197	21,343
Sovereign	7,306	6%	453	6%	453	6%	453	0
Institution	494	22%	109	30%	148	23%	111	2
Corporate	115	80%	92	65%	75	80%	92	0
Retail	184	81%	149	81%	149	81%	149	0
Other	7,704	39%	2,986	39%	2,986	39%	2,986	0
Standardised	15,803	24%	3,789	24%	3,811	18%	2,858	0
Other		na	65,020	na	65,020	na	65,020	0
Credit Risk	**521,573**	**37%**	**192,663**	**50%**	**262,427**	**38%**	**196,821**	**4,158**
Operational Risk		**na**	**58,413**	**na**	**74,129**	**na**	**55,597**	**0**
Other risk (settlement, failed trades, equity risk outside trading book)		na	5,866	na	5,866	na	5,866	0
Market Risk		**na**	**34,468**	**na**	**56,375**	**na**	**56,375**	**21,907**
Net insurance		na	0	na	0	na	0	na
Deductions		na	0	na	0	na	0	na
RWA Basel III	**521,573**	**56%**	**291,410**	**76%**	**398,798**	**60%**	**314,658**	**26,065**
RWA inflation								9%

Source: Deutsche Bank, Company data

Model updated:21 April 2015

Running the numbers

Europe

Switzerland

Banks

Credit Suisse Group

Reuters: CSGN.VX Bloomberg: CSGN VX

Buy

Price (15 Jun 15)	CHF 25.67
Target Price	CHF 30.00
52 Week range	CHF 18.75 - 27.26
Market Cap (m)	CHFm 41,344
	USDm 44,619

Company Profile

Credit Suisse Group provides universal banking services including investment, trust and management services, and insurance in Switzerland and internationally. The Company has a network of offices in Switzerland and around the world.

Fiscal year end 31-Dec	2011	2012	2013	2014E	2015E	2016E
Data Per Share						
EPS (stated)(CHF)	1.62	1.13	1.51	1.10	1.88	2.98
EPS (DB) (CHF)	1.62	3.04	2.65	2.20	2.73	3.02
Growth Rate - EPS (DB) (%)	-61.2	87.9	-12.9	-17.0	24.1	10.8
DPS (CHF)	0.75	0.75	0.70	0.70	0.70	1.25
BVPS (stated) (CHF)	27.47	27.76	26.50	27.44	26.55	28.12
Tang. NAV p. sh. (CHF)	20.22	21.04	21.48	21.91	21.27	22.86
Market Capitalisation	27,058	28,568	43,384	41,344	41,344	41,344
Shares in issue	1,206	1,255	1,514	1,605	1,631	1,655
Valuation Ratios & Profitability Measures						
P/E (stated)	13.6	19.6	18.1	23.4	13.7	8.6
P/E (DB)	13.7	7.3	10.3	11.7	9.4	8.5
P/B (stated)	0.8	0.8	1.0	0.9	1.0	0.9
P/Tangible equity (DB)	1.1	1.1	1.3	1.2	1.2	1.1
ROE(stated)(%)	5.8	4.1	5.9	4.1	7.0	10.9
ROTE (tangible equity) (%)	7.9	14.7	13.1	10.2	12.6	13.7
ROIC (invested capital) (%)	5.8	11.0	10.3	8.2	10.1	11.1
Dividend yield(%)	2.4	3.5	2.6	2.7	2.7	4.9
Dividend cover(x)	2.2	1.5	2.2	1.6	2.7	2.4
Profit & Loss (CHFm)						
Net interest revenue	6,606	7,150	8,252	9,031	8,723	8,810
Non interest income	19,364	16,594	17,673	17,209	16,987	16,766
Commissions	14,782	13,728	13,513	13,238	13,900	14,595
Trading Revenue	3,081	2,806	846	2,643	2,000	1,030
Other revenue	1,500	60	3,314	1,328	1,087	1,141
Total revenue	25,970	23,744	25,925	26,240	25,710	25,576
Total Operating Costs	22,349	21,372	20,772	22,430	20,508	18,044
Employee Costs	12,163	10,983	10,175	11,621	9,482	6,798
Other costs	10,186	10,389	10,597	10,809	11,025	11,246
Pre-Provision profit/(loss)	3,621	2,372	5,153	3,810	5,202	7,533
Bad debt expense	187	170	153	186	311	310
Operating Profit	3,434	2,202	5,000	3,624	4,891	7,223
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	3,434	2,202	5,000	3,624	4,891	7,223
Tax	645	464	1,486	1,405	1,647	2,038
Other post tax items	-836	-315	-1,227	-455	-180	-256
Stated net profit	1,953	1,423	2,287	1,764	3,064	4,929
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	1,341	364	1,163	188	285	71
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	-1,345	2,024	557	1,574	1,100	0
DB adj. core earnings	1,949	3,811	4,007	3,526	4,448	5,000
Key Balance Sheet Items (CHFm) & Capital Ratios						
Risk-weighted assets	241,753	224,296	273,846	291,410	282,773	274,289
Interest-earning assets	954,797	837,118	794,868	837,370	747,028	746,653
Customer Loans	233,413	242,223	247,065	272,551	270,774	276,189
Total Deposits	313,401	308,312	333,089	369,058	365,007	383,257
Stated Shareholder Equity	33,674	35,632	42,164	44,189	43,860	46,599
Equals: Tangible Equity	24,795	27,000	34,165	35,296	35,136	37,882
Tier 1 capital	38,455	43,681	46,804	51,016	49,828	51,567
Tier 1 ratio (%)	16	19	17	18	18	19
o/w core tier 1 capital ratio (%)	11.3	15.6	9.7	9.8	10.6	12.3
Credit Quality						
Gross NPLs/Total Loans(%)	0.74	0.71	0.70	0.54	0.56	0.55
Risk Provisions/NPLs(%)	53	53	53	56	70	82
Bad debt / Avg loans (%)	0.08	0.07	0.06	0.07	0.11	0.11
Bad debt/Pre-Provision Profit(%)	5.2	7.2	3.0	4.9	6.0	4.1
Growth Rates & Key Ratios						
Growth in revenues (%)	-17	-9	9	1	-2	-1
Growth in costs (%)	-7	-4	-3	8	-9	-12
Growth in bad debts (%)	-337	-9	-10	22	67	0
Growth in RWA (%)	11	-7	22	6	-3	-3
Net int. margin (%)	0.70	0.80	1.01	1.11	1.10	1.18
Cap.-market rev. / Total revs (%)	83	100	91	89	92	92
Total loans / Total deposits (%)	74	79	74	74	74	72
ROTE Decomposition						
Revenue % ARWAs	11.28	10.19	10.41	9.28	8.96	9.18
Net interest revenue % ARWA	2.87	3.07	3.31	3.20	3.04	3.16
Non interest revenue % ARWA	8.41	7.12	7.10	6.09	5.92	6.02
Costs/income ratio (%)	86.1	90.0	80.1	85.5	79.8	70.5
Bad debts % ARWAs	0.08	0.07	0.06	0.07	0.11	0.11
Tax rate (%)	18.8	21.1	29.7	38.8	33.7	28.2
Adj. Attr. earnings % ARWA	0.85	1.64	1.61	1.25	1.55	1.80
Capital leverage (ARWA/Equity)	9.4	9.0	8.1	8.1	8.2	7.6
ROTE (Adj. earnings/Ave. equity)	7.9	14.7	13.1	10.2	12.6	13.7

Source: Company data, Deutsche Bank estimates

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UBS (Buy TP CHF 23)

Investment thesis

Our sum-of-the-parts based target price is CHF 23 for UBS. We see a 2016E dividend yield of 4% rising to 5% in 2017E, even after absorbing additional RWAs from floors to Standardised RWAs. We have a BUY recommendation.

Key risks include CHF strength (reducing revenues but not costs), conduct penalties, and declines in capital markets asset prices and activity levels, given UBS is one of the most exposed stocks in our coverage universe via both investment banking and asset gathering.

Basel 4 RWA inflation of 19% under this framework

Using a risk-category based floor, we expect RWA inflation under Basel 4 of 19%. This is due to CHF 33bn higher credit RWA and CHF 8bn from market risk. UBS experiences higher credit risk inflation given high model use and lower risk weights than the floors in corporate and retail lending. UBS has a particularly low risk domestic portfolio, we believe, hence the high credit risk inflation from the imposition of standardised floors. But UBS' compliance with a leverage ratio (we think 5% likely, 4% CET1 and 1% AT1) means the bank will be able to meet the additional capital requirements from Basel 4.

NB we also looked in detail at UBS' compliance with Basel 4 in our report dated 9 April 2015, *Driving Change: the FRTB and RWA inflation*. Our estimates today are slightly lower than in our previous report, due to moving to a category based floor rather than an exposure type floor.

Valuation

Our sum-of-the-parts valuation is summarised below.

Figure 229: UBS sum of the parts valuation

(2016E, CHFm)	Net profit	Equity Alloc	FuM (bn)	P/E (x)	P/BV (x)	P/AuM (x)	Value (bn)	Val PS (CHF)
Private banking	2,720	4,143	1,090.0	15.0x	9.8x	3.7x	40.8	10.8
Business Banking	1,253	4,810	na	11.0x	2.9x	na	13.8	3.6
Investment Banking & Securities	1,580	8,500	0.0	8.0x	1.5x	na	12.6	3.3
UBS Asset Management	633	1,968	709.1	13.0x	4.2x	1.2x	8.2	2.2
WM USA	978	2,864	1,121.7	15.0x	5.1x	1.3x	14.7	3.9
Corporate Centre / Legacy	-429	19,129	na	-28.7x	0.6x	na	12.3	3.2
Memo: legacy at 13%		7,502						
Subtotal	6,736	41,414	2,920.9	15.2x	2.5x	3.5x	102.4	27.0
Less minorities and hybrids	-80	-3,764	na	47.1x	1.0x	na	-3.8	-1.0
DTA at 25% of UDTA on NOL	na	5,750	na	na	na	na	5.8	1.5
Total fair value at end-2016	6,656	37,650	2,920.9	15.7x	2.8x	3.6x	104.4	27.6
Less conglomerate discount				1.6x	0.3x		10.4	2.8
Fair value net							94.0	24.8
Discounted to 12-month target				13.1x	2.3x	3.0x	87.1	23.0

Source: Deutsche Bank

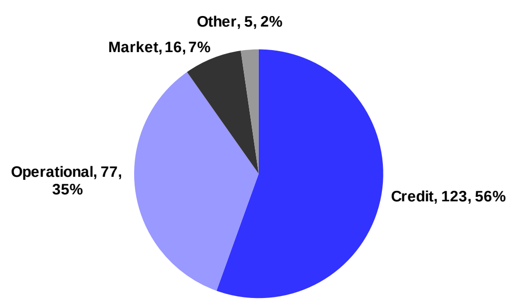
Under our framework, Danske will experience RWA inflation of 22%.

Figure 230: Capital sensitivities

Reporting FXbn	2014	2015	2016	2017
RWA B3	217	211	215	214
RWA capital floors	258	251	255	255
RWA standardised	312	303	308	308
Leverage assets	1,026	978	945	946
RW density B3	21%	22%	23%	23%
RW density B4 capital floors	25%	26%	27%	27%
RW density B4 on fully standardised	30%	31%	33%	33%
CT1 B3	30	30	34	38
AT1	1	2	2	3
CT1 B4	13.6%	14.0%	15.7%	18.0%
CT1 B4 capital floors	11.5%	11.8%	13.2%	15.1%
CT1 B4 on standardised	9.5%	9.8%	10.9%	12.5%
Leverage ratio	3.0%	3.2%	3.8%	4.3%

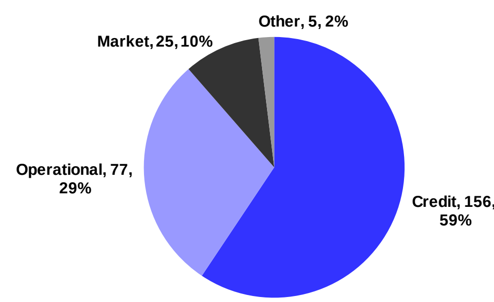
Source: Deutsche Bank, Company data

Figure 231: RWA B3 2014



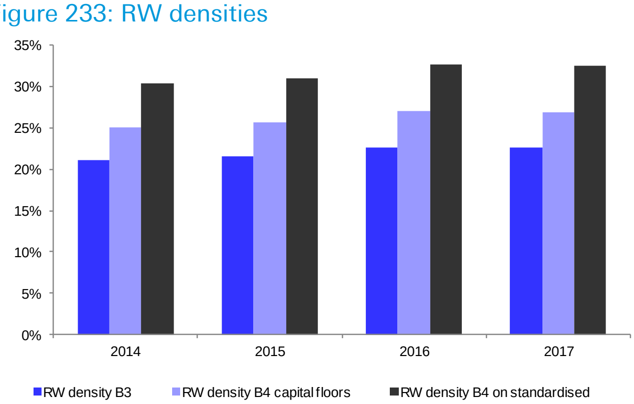
Source: Deutsche Bank, Company data

Figure 232: RWA B4 2014E



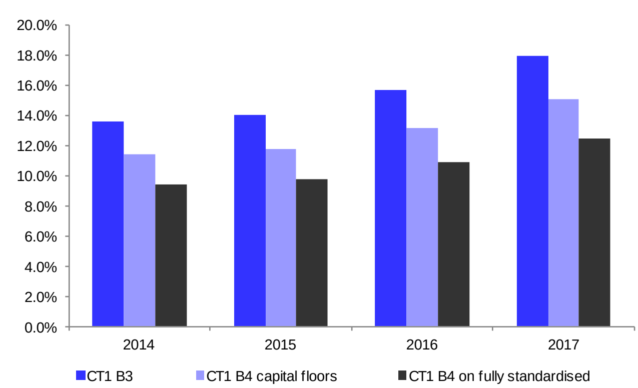
Source: Deutsche Bank, Company data

Figure 233: RW densities



Source: Deutsche Bank, Company data   Future data are forecasts

Figure 234: CT1 capital ratios



Source: Deutsche Bank, Company data   Future data are forecasts

Figure 235: UBS – modelling pro-forma 2014 RWA inflation by category before management action

UBSG.VX

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	108,243	1%	1,257	1%	1,257	1%	1,257	0
Institution	40,115	16%	6,519	30%	12,035	23%	9,026	2,507
Corporate	134,144	28%	37,888	65%	87,194	49%	65,395	27,507
Retail	240,263	9%	21,891	22%	52,626	16%	43,411	21,520
o/w mortgage	131,121	4%	5,359	27%	35,280	20%	26,460	21,101
o/w Lombard or collateralised	107,036	15%	15,767	15%	15,767	15%	15,767	0
o/w other	2,106	36%	765	75%	1,580	56%	1,185	420
Other		0%		0%	0	0%	0	0
IRB	522,765	13%	67,555	29%	153,111	22%	114,833	47,278
Sovereign	57,321	0%	189	0%	189	0%	189	0
Institution	7,916	30%	2,360	30%	2,375	30%	2,360	0
Corporate	15,899	67%	10,650	65%	10,334	67%	10,650	0
Retail	8,414	48%	4,017	48%	4,017	48%	4,017	0
Other	49,238	3%	1,379	3%	1,379	3%	1,379	0
Standardised	138,788	13%	18,595	13%	18,294	10%	13,721	0
Other		na	36,433	na	36,433	na	36,433	0
Credit Risk	**661,553**	**19%**	**122,583**	**31%**	**207,838**	**24%**	**155,879**	**33,296**
Operational Risk		**na**	**76,734**	**na**	**79,711**	**na**	**59,783**	**0**
Other risk (settlement, failed trades, equity risk outside trading book)		na	5,075	na	5,075	na	5,075	0
Market Risk		**na**	**16,483**	**na**	**24,895**	**na**	**24,895**	**8,412**
Net insurance		na	0	na	0	na	0	na
Deductions		na	0	na	0	na	0	na
RWA Basel III	661,553	33%	220,875	48%	317,520	37%	245,632	41,708
RWA inflation								19%

Source: Deutsche Bank, Company data

Model updated:05 May 2015

Running the numbers

Europe

Switzerland

Banks

UBS

Reuters: UBSG.VX Bloomberg: UBSG VX

Buy

Price (15 Jun 15)	CHF 20.04
Target Price	CHF 23.00
52 Week range	CHF 13.82 - 20.71
Market Cap (m)	CHFm 77,516
	USDm 83,656

Company Profile

UBS AG is a financial conglomerate comprising commercial, retail, private and investment banking businesses. The bank offers consumer, business, and construction loans; mortgages, export and structured finance; and securities brokerage services. It also advises on mergers and acquisitions, invests pension funds, and provides private banking services globally.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(CHF)	-0.68	0.83	0.92	1.02	1.58	1.94
EPS (DB) (CHF)	1.15	1.06	0.97	1.38	1.72	1.80
Growth Rate - EPS (DB) (%)	1.0	-7.6	-8.4	42.3	24.4	4.4
DPS (CHF)	0.15	0.25	0.50	0.60	0.80	1.00
BVPS (stated) (CHF)	11.85	12.52	13.10	13.60	14.39	15.33
Tang. NAV p. sh. (CHF)	10.13	10.89	11.35	11.99	12.77	13.70
Market Capitalisation	53,471	65,069	66,150	77,516	77,516	77,516
Shares in issue	3,789	3,796	3,858	3,869	3,866	3,863
Valuation Ratios & Profitability Measures						
P/E (stated)	-20.8	20.3	18.5	19.6	12.7	10.3
P/E (DB)	12.4	15.9	17.6	14.5	11.6	11.1
P/B (stated)	1.2	1.4	1.3	1.5	1.4	1.3
P/Tangible equity (DB)	1.4	1.6	1.5	1.7	1.6	1.5
ROE(stated)(%)	-5.3	6.8	7.2	7.7	11.3	13.1
ROTE (tangible equity) (%)	10.6	10.1	8.7	11.9	13.9	13.6
ROIC (invested capital) (%)	8.0	8.7	7.6	10.4	12.3	12.1
Dividend yield(%)	1.2	1.5	2.9	3.0	4.0	5.0
Dividend cover(x)	-4.6	3.3	1.8	1.7	2.0	1.9
Profit & Loss (CHFm)						
Net interest revenue	6,340	5,786	6,554	6,400	6,464	6,529
Non interest income	19,220	21,994	21,551	23,626	24,837	26,530
Commissions	20,015	16,286	17,077	18,226	19,684	21,259
Trading Revenue	-996	5,129	3,842	4,800	4,952	5,069
Other revenue	201	579	632	600	201	201
Total revenue	25,560	27,780	28,105	30,026	31,301	33,058
Total Operating Costs	27,307	24,464	25,435	25,620	24,411	24,564
Employee Costs	14,946	15,184	15,280	15,422	16,013	16,906
Other costs	12,361	9,280	10,155	10,198	8,397	7,658
Pre-Provision profit/(loss)	-1,747	3,316	2,670	4,406	6,891	8,494
Bad debt expense	122	51	80	113	200	250
Operating Profit	-1,869	3,265	2,590	4,293	6,691	8,244
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	-1,869	3,265	2,590	4,293	6,691	8,244
Tax	450	-109	-1,157	192	512	671
Other post tax items	-276	-208	-179	-141	-80	-80
Stated net profit	-2,595	3,166	3,568	3,960	6,099	7,493
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	7,115	1,119	227	1,785	557	-548
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	-165	-254	-44	-389	0	0
DB adj. core earnings	4,356	4,031	3,751	5,355	6,656	6,945
Key Balance Sheet Items (CHFm) & Capital Ratios						
Risk-weighted assets	192,505	228,557	219,900	213,396	217,051	216,735
Interest-earning assets	1,220,619	967,646	1,013,884	999,249	958,540	968,126
Customer Loans	279,901	286,959	315,757	313,964	313,964	317,104
Total Deposits	371,892	390,825	410,207	399,113	419,069	440,022
Stated Shareholder Equity	44,405	48,155	50,716	52,617	55,598	59,189
Equals: Tangible Equity	37,944	41,862	43,931	46,388	49,369	52,898
Tier 1 capital	40,982	42,179	42,975	43,133	46,613	50,705
Tier 1 ratio (%)	21	18	20	20	21	23
o/w core tier 1 capital ratio (%)	21.3	18.5	19.5	20.2	21.5	23.4
Credit Quality						
Gross NPLs/Total Loans(%)	0.63	0.42	0.36	0.35	0.39	0.45
Risk Provisions/NPLs(%)	39	59	77	84	72	60
Bad debt / Avg loans (%)	0.04	0.02	0.03	0.04	0.06	0.08
Bad debt/Pre-Provision Profit(%)	-7.0	1.5	3.0	2.6	2.9	2.9
Growth Rates & Key Ratios						
Growth in revenues (%)	-9	9	1	7	4	6
Growth in costs (%)	22	-10	4	1	-5	1
Growth in bad debts (%)	47	-58	57	41	77	25
Growth in RWA (%)	-20	19	-4	-3	2	0
Net int. margin (%)	0.49	0.53	0.66	0.64	0.66	0.68
Cap.-market rev. / Total revs (%)	92	89	89	87	88	88
Total loans / Total deposits (%)	75	73	77	79	75	72
ROTE Decomposition						
Revenue % ARWAs	11.79	13.20	12.53	13.86	14.54	15.24
Net interest revenue % ARWA	2.93	2.75	2.92	2.95	3.00	3.01
Non interest revenue % ARWA	8.87	10.45	9.61	10.91	11.54	12.23
Costs/income ratio (%)	106.8	88.1	90.5	85.3	78.0	74.3
Bad debts % ARWAs	0.06	0.02	0.04	0.05	0.09	0.12
Tax rate (%)	-24.1	-3.3	-44.7	4.5	7.6	8.1
Adj. Attr. earnings % ARWA	2.01	1.91	1.67	2.47	3.09	3.20
Capital leverage (ARWA/Equity)	5.3	5.3	5.2	4.8	4.5	4.2
ROTE (Adj. earnings/Ave. equity)	10.6	10.1	8.7	11.9	13.9	13.6

Source: Company data, Deutsche Bank estimates

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UK and Ireland

Barclays (Buy TP GBp 305)

Investment thesis

Barclays offers access to high return and reasonable growth UK retail and commercial banking, UK and international credit card lending, and sub-Saharan African banking. We see additional upside from even modest success in improving returns in the investment bank and releasing capital from the non-core division. We think the stock looks extremely cheap relative to current and ongoing earnings power: Buy.

7% risk weight increases, largely driven by operational and market risk

For **Credit Risk RWAs** under the IRB methodology, we estimate £8bn increase in RWAs driven principally by higher mortgage risk weights. However, on standardised risk weights, Barclays is around risk weighted at an average of 36% vs. our estimate of 32% for new standardised risk weights. The overall net change in credit RWAs is therefore expected to be zero.

For **Operational Risk RWAs**, we estimate ~£12bn of additional risk weighted assets, driven by the new operational risk weighted calculation based on business indicator (rather than revenues). Management have previously guided at 1Q15 results that they expect operational risk inflation due to PRA model changes, most likely due to land in Q2 / Q3 of this year. CFO Tushar Morzaria has said that he would try to absorb it as best as he can through the course of the year.

For **Market risk RWAs**, we estimate incremental RWAs of £14.7bn driven by the fundamental review of the trading book. However, given that the investment bank will be a smaller part of the bank going forward (and our figures are based on 2014 data), it is possible the impact will slightly lower / there are management actions to help offset this.

Ring-fencing raises additional questions

As with other UK domestic banks, one of the key unknown issues at present is how the new risk weight rules will be applied to ring-fenced bank subsidiaries. If the ring fence contains a particularly high density of IRB mortgages, then the risk weighted asset impact could be higher for the ring-fenced subsidiary than if they the assets had been included within the overall group (and offset by other portfolios). Equally, the operational risk weight impact may be lower given that lower revenue banks attract a lower operating risk weight under the new rules.

Valuation & Risks

We believe that a sum-of-the-parts is most appropriate for Barclays given significant differences in earnings growth and volatility for the businesses within the group. The valuation multiples we apply on 2016 earnings are benchmarked against competitors and adjusted for differences in expected earnings growth, volatility and how far from normalised profits we believe forecast earnings are. Key downside risks relate to the cost of regulatory change, litigation, disappointing capital markets and an unexpected spike in credit costs.

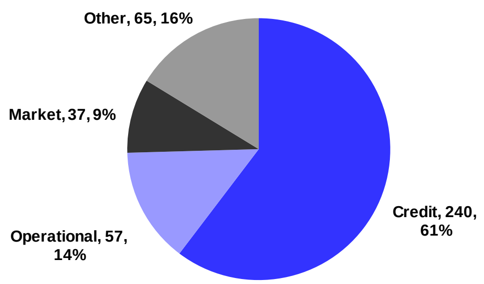
Under our framework, we estimate Barclays will experience RWA inflation of 7%.

Figure 236: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	402	397	393	399
RWA capital floors	429	423	419	425
RWA standardised	510	503	499	506
Leverage assets	1,233	1,152	1,078	1,058
RW density B3	33%	34%	36%	38%
RW density B4 capital floors	35%	37%	39%	40%
RW density B4 on fully standardised	41%	44%	46%	48%
CT1 B3	41	42	45	49
AT1	5	6	8	10
CT1 B4	10.3%	10.7%	11.5%	12.4%
CT1 B4 capital floors	**9.7%**	**10.0%**	**10.8%**	**11.6%**
CT1 B4 on standardised	8.1%	8.4%	9.1%	9.8%
Leverage ratio	3.7%	4.2%	4.9%	5.6%

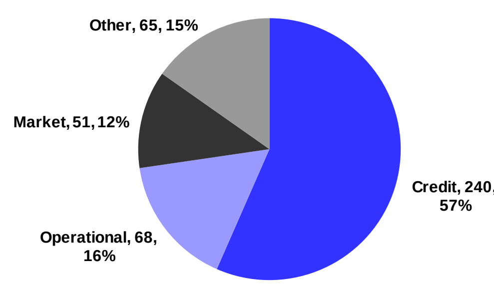
Source: Deutsche Bank, Company data

Figure 237: RWA B3 2014



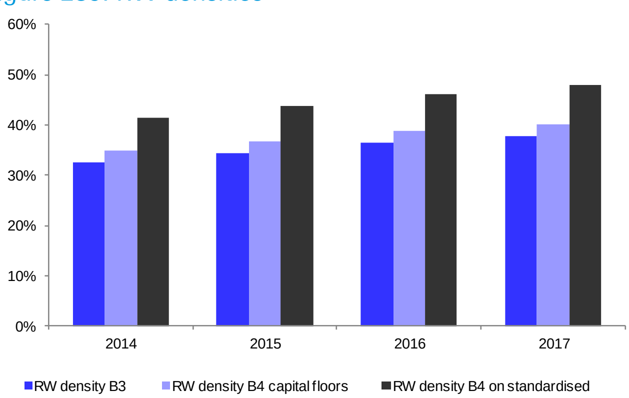
Source: Deutsche Bank, Company data

Figure 238: RWA B4 2014E



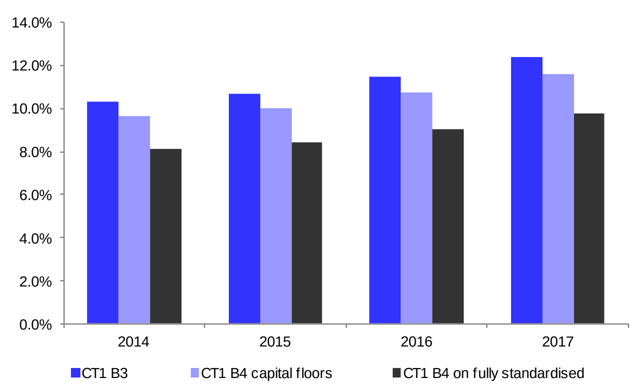
Source: Deutsche Bank, Company data

Figure 239: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 240: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 241: Barclays – modelling pro-forma 2014 RWA inflation by category before management action

BARC.L

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	6,880	12%	839	12%	839	12%	839	0
Institution	31,502	24%	7,580	30%	9,451	24%	7,580	0
Corporate	144,308	53%	75,922	69%	98,906	53%	75,922	0
Retail	225,506	26%	59,185	44%	100,130	33%	75,097	15,912
o/w mortgage	172,500	18%	30,895	35%	60,375	26%	45,281	14,386
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	53,006	53%	28,290	75%	39,755	56%	29,816	1,526
Other	32,577	67%	21,794	67%	21,794	67%	21,794	0
IRB	440,773	38%	165,320	52%	231,120	39%	173,340	8,020
Sovereign	111,409	3%	3,081	3%	3,081	3%	3,081	0
Institution	6,765	42%	2,844	30%	2,030	42%	2,844	0
Corporate	37,344	88%	32,798	69%	25,595	88%	32,798	0
Retail	42,827	63%	26,930	63%	26,930	63%	26,930	0
Other	8,983	99%	8,887	99%	8,887	99%	8,887	0
Standardised	207,328	36%	74,540	32%	66,523	24%	49,892	0
Other		na		na	0	na	0	0
Credit Risk	648,101	37%	239,860	46%	297,642	34%	223,232	0
Operational Risk		na	56,660	na	91,123	na	68,342	11,682
Other risk (settlement, failed trades, equity risk outside trading book)		na	64,611	na	64,611	na	64,611	0
Market Risk		na	36,566	na	51,227	na	51,227	14,661
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	648,101	61%	397,697	78%	504,603	63%	407,412	26,343
RWA inflation								7%

Source: Deutsche Bank, Company data

Model updated:29 April 2015

Running the numbers

Europe

United Kingdom

Banks

Barclays

Reuters: BARC.L Bloomberg: BARC LN

Buy

Price (15 Jun 15)	GBP 264.95
Target Price	GBP 305.00
52 Week range	GBP 207.90 - 271.55
Market Cap (m)	GBPm 44,149
	USDm 68,742

Company Profile

Barclays is a global universal bank with major retail, corporate and investment banking operations in Europe, the United States and South Africa. Barclays is run in seven divisions: UK retail and business banking, Barclaycard, European retail and business banking, Corporate, Wealth, Investment Bank and Africa. The group is restructuring under the three year "Transform" plan to reduce costs and improve shareholder returns with management targetting an RoE above the CoE in 2016.

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Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(GBp)	-5.11	3.74	-0.74	8.80	18.37	30.97
EPS (DB) (GBp)	41.14	29.10	18.99	22.94	28.78	32.28
Growth Rate - EPS (DB) (%)	66.6	-29.3	-34.8	20.8	25.5	12.2
DPS (GBp)	6.50	6.50	6.50	6.50	8.00	12.91
BVPS (stated) (GBp)	413.42	330.93	334.86	333.84	341.64	358.10
Tang. NAV p. sh. (GBp)	350.14	284.88	285.28	286.93	299.04	315.93
Market Capitalisation	32,126	43,819	40,173	44,149	44,149	44,149
Shares in issue	12,614	14,668	16,625	16,878	17,047	17,217
Valuation Ratios & Profitability Measures						
P/E (stated)	-51.4	72.6	-330.5	30.1	14.4	8.6
P/E (DB)	6.4	9.3	12.8	11.6	9.2	8.2
P/B (stated)	0.6	0.8	0.7	0.8	0.8	0.7
P/Tangible equity (DB)	0.7	1.0	0.9	0.9	0.9	0.8
ROE(stated)(%)	-1.2	1.0	-0.2	2.6	5.4	8.8
ROTE (tangible equity) (%)	11.6	9.6	6.8	8.2	10.0	10.7
ROIC (invested capital) (%)	9.7	8.0	5.7	6.8	8.5	9.2
Dividend yield(%)	3.0	2.2	2.7	2.5	3.0	4.9
Dividend cover(x)	-0.8	0.6	-0.1	1.4	2.3	2.4
Profit & Loss (GBPm)						
Net interest revenue	11,653	11,599	12,296	12,694	13,358	14,034
Non interest income	17,707	16,556	13,432	12,548	13,110	13,654
Commissions	8,536	8,731	8,368	8,999	10,237	11,285
Trading Revenue	7,583	6,521	3,855	2,819	2,117	1,586
Other revenue	1,588	1,303	1,209	729	756	782
Total revenue	29,360	28,155	25,728	25,242	26,467	27,687
Total Operating Costs	18,560	19,898	18,070	16,736	16,061	15,597
Employee Costs	10,447	12,155	11,005	10,455	10,246	9,836
Other costs	8,113	7,743	7,065	6,281	5,815	5,761
Pre-Provision profit/(loss)	10,801	8,257	7,659	8,506	10,407	12,090
Bad debt expense	3,342	3,071	2,168	2,192	2,495	2,744
Operating Profit	7,459	5,186	5,491	6,314	7,911	9,346
Pre-tax associates	140	-24	11	46	44	44
Pre-tax profit	7,599	5,163	5,502	6,359	7,955	9,390
Tax	616	1,571	1,411	2,101	2,708	3,098
Other post tax items	-7,607	-3,056	-4,211	-2,800	-2,172	-1,054
Stated net profit	-624	536	-120	1,459	3,076	5,238
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	5,813	3,733	3,277	2,412	1,831	321
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	5,189	4,269	3,157	3,871	4,906	5,558
Key Balance Sheet Items (GBPm) & Capital Ratios						
Risk-weighted assets	468,000	435,553	401,956	396,684	392,933	398,875
Interest-earning assets	673,143	703,778	741,989	776,066	817,892	855,764
Customer Loans	486,736	482,869	477,708	480,542	483,787	491,811
Total Deposits	382,280	425,373	427,704	427,059	435,305	443,837
Stated Shareholder Equity	50,615	53,322	55,245	55,627	57,496	60,870
Equals: Tangible Equity	42,868	45,903	47,065	47,811	50,327	53,701
Tier 1 capital	51,235	55,820	52,062	53,074	55,756	60,059
Tier 1 ratio (%)	10	13	13	13	14	15
o/w core tier 1 capital ratio (%)	8.9	10.7	10.2	10.6	11.3	12.3
Credit Quality						
Gross NPLs/Total Loans(%)	3.11	2.75	1.95	2.00	1.70	1.60
Risk Provisions/NPLs(%)	52	55	58	60	50	50
Bad debt / Avg loans (%)	0.70	0.63	0.45	0.46	0.52	0.56
Bad debt/Pre-Provision Profit(%)	30.9	37.2	28.3	25.8	24.0	22.7
Growth Rates & Key Ratios						
Growth in revenues (%)	3	-4	-9	-2	5	5
Growth in costs (%)	-4	7	-9	-7	-4	-3
Growth in bad debts (%)	-12	-8	-29	1	14	10
Growth in RWA (%)	20	-7	-8	-1	-1	2
Net int. margin (%)	1.78	1.68	1.70	1.67	1.68	1.68
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	127	114	112	113	111	111
ROTE Decomposition						
Revenue % ARWAs	6.84	6.23	6.14	6.32	6.70	6.99
Net interest revenue % ARWA	2.71	2.57	2.94	3.18	3.38	3.54
Non interest revenue % ARWA	4.12	3.66	3.21	3.14	3.32	3.45
Costs/income ratio (%)	63.2	70.7	70.2	66.3	60.7	56.3
Bad debts % ARWAs	0.78	0.68	0.52	0.55	0.63	0.69
Tax rate (%)	8.3	30.3	25.7	33.3	34.2	33.2
Adj. Attr. earnings % ARWA	1.18	0.95	0.75	0.96	1.23	1.39
Capital leverage (ARWA/Equity)	9.6	10.2	9.0	8.4	8.0	7.6
ROTE (Adj. earnings/Ave. equity)	11.3	9.7	6.8	8.1	9.9	10.6

Source: Company data, Deutsche Bank estimates

HSBC (Hold TP GBp 580)

Investment thesis

Historically, HSBC served as a comparative 'safe haven' stock given strong relative liquidity and capital ratios, and diverse operations. But as peer capital ratios have begun to overtake HSBC's and the regulatory risk and cost pressures of those diverse operations have become more evident the stock has lagged. Despite a decent running yield, with SOTP-derived target price broadly in line with the share price, we have a Hold recommendation.

We estimate risk weight inflation is mainly from operational risk

For **credit RWAs**, we estimate the key areas of higher risk weight requirements under IRB will come from corporate, mortgages and 'other retail'. Risk weights here are currently 53% for corporate 25% for mortgages, 27% for other retail. Moving these to an estimated 84% for corporate (taking into account the mix of EM and non-EM), 35% for mortgages, and 75% for other retail, and then flooring at 75% leads to an additional $72bn of RWAs (an increase of around 12% on IRB RWAs). However, for standardised risk weights, HSBC is already using risk weights that are higher than our expectation of new standardised rules. This means that whilst there is in increase in the IRB risk weights, our framework would suggest that standardised RWAs fall. Credit risk inflation is therefore zero. For **Operational risk** we estimate a near doubling of risk weights driven by the new business indicator calculation, leading to $114bn of additional RWAs. For Market risk (incorporating FRTB) we estimate $13bn of additional RWAs. In total this represents $127bn of additional RWAs, an increase of 10%, and an impact of around 100bps on CET1.

At their investor update on 9/6/14, HSBC said that though the FRTB was one of the bigger uncertainties, but that the QIS had suggested it wasn't a big impact for them. Management think the operational risk increase will be manageable. The biggest area of uncertainty is around potential changes in standardised credit risk weightings.

Implications for capital

HSBC is targeting a progressive dividend policy and a CET1 ratio of 12-13%, so 100bps reduction in capital due to 10% increase in RWAs is not helpful. <u>However, on our framework this is largely driven by operational risk, whereas the company has said this is manageable</u>. We would expect the management to react to new rules / risk weight inflation beyond expectations by adjusting the mix of business or absorbing the increase within each business, where possible.

Ring-fencing raises additional questions

As with other UK domestic banks, one of the key unknown issues at present is how the new risk weight rules will be applied to ring-fenced bank subsidiaries. HSBC's IRB risk weighting on UK mortgages specifically is just 7% (2013 data). At its investor day HSBC revealed that it expected the Ring fenced bank in the UK to be ~US$230bn, and of that we estimate around half would be mortgages. Moving risk weights to floored standardised of say 25% (LTV distribution is low vs. UK peers) could see these attract materially higher risk weights than within the overall group at present. On the other hand, the operational risk weight impact may be lower given that lower revenue banks attract a lower operating risk weight under the new rules.

Valuation & Risks

Given the disparate earnings drivers, and varied growth and volatility of earnings of HSBC's divisions, we value the group using a sum-of-the-parts approach. In this valuation we apply fair P/E, or where the division is loss-making, P/B, multiples to our 2016 divisional forecasts. These multiples are set with reference to the current market valuations for pure-play peers, taking into account the expected differences in earnings growth and volatility - higher multiples for higher growth or lower volatility divisions (Private Banking, for example), lower multiples for lower growth and higher volatility divisions (Global Banking & Markets, for example). Key upside risks are an unexpected improvement in organic growth within the bank and lower than expected loan losses. Key downside risks relate to regulatory change and legacy liabilities.

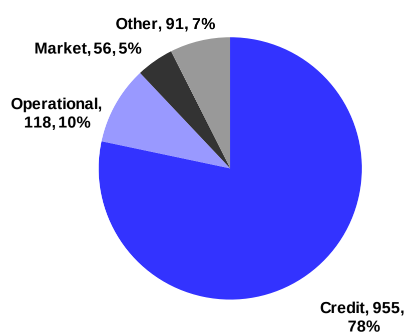
Under our framework, HSBC will experience RWA inflation of 10%.

Figure 242: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	1,220	1,244	1,282	1,320
RWA capital floors	1,347	1,374	1,415	1,458
RWA standardised	1,618	1,651	1,700	1,751
Leverage assets	2,953	2,923	2,865	2,951
RW density B3	41%	43%	45%	45%
RW density B4 capital floors	46%	47%	49%	49%
RW density B4 on fully standardised	55%	56%	59%	59%
CT1 B3	136	143	152	166
AT1	6	8	10	10
CT1 B4	11.1%	11.5%	11.9%	12.6%
CT1 B4 capital floors	**10.1%**	**10.4%**	**10.8%**	**11.4%**
CT1 B4 on standardised	8.4%	8.7%	9.0%	9.5%
Leverage ratio	4.8%	5.2%	5.7%	6.0%

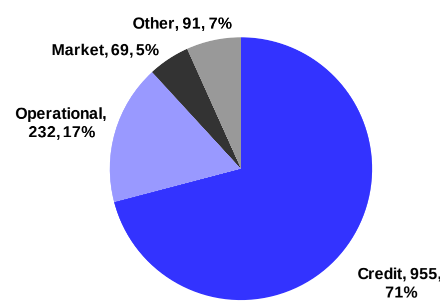
Source: Deutsche Bank, Company data

Figure 243: RWA B3 2014



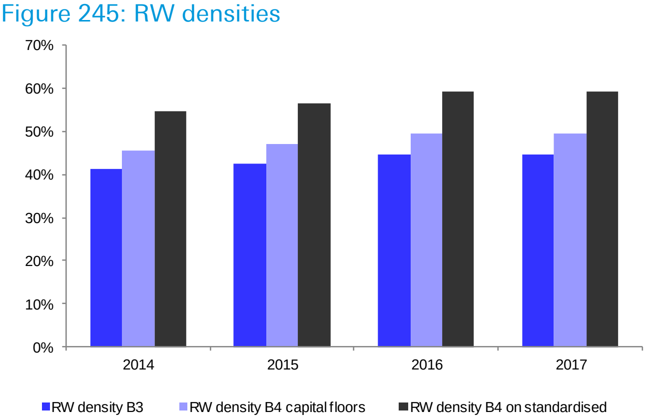
Source: Deutsche Bank, Company data

Figure 244: RWA B4 2014E



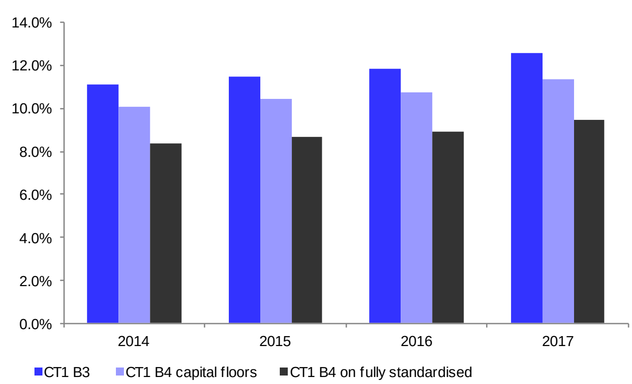
Source: Deutsche Bank, Company data

Figure 245: RW densities



Source: Deutsche Bank, Company data *Future data are forecasts*

Figure 246: CT1 capital ratios



Source: Deutsche Bank, Company data *Future data are forecasts*

Figure 247: HSBC – modelling pro-forma 2014 RWA inflation by category before management action

HSBA.L

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	327,500	17%	54,100	17%	54,100	17%	54,100	0
Institution	130,500	30%	38,700	30%	39,150	30%	38,700	0
Corporate	651,400	53%	345,300	84%	548,930	63%	411,697	66,397
Retail	419,400	25%	106,100	47%	197,750	35%	148,313	42,213
o/w mortgage	292,000	25%	72,200	35%	102,200	26%	76,650	4,450
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	127,400	27%	33,900	75%	95,550	56%	71,663	37,763
Other	90,800	60%	54,200	60%	54,200	60%	54,200	0
IRB	1,619,600	37%	598,400	55%	894,130	41%	670,597	72,197
Sovereign	193,900	10%	19,700	10%	19,700	10%	19,700	0
Institution	30,100	37%	11,200	30%	9,030	37%	11,200	0
Corporate	240,100	94%	224,700	84%	202,330	94%	224,700	0
Retail	86,500	57%	49,000	57%	49,000	57%	49,000	0
Other	39,900	131%	52,300	131%	52,300	131%	52,300	0
Standardised	590,500	60%	356,900	56%	332,360	42%	249,270	0
Other	0	na	0	na	0	na	0	0
Credit Risk	**2,210,100**	**43%**	**955,300**	**55%**	**1,226,490**	**42%**	**919,868**	**0**
Operational Risk		**na**	**117,800**	**na**	**232,374**	**na**	**174,280**	**114,574**
Other risk (settlement, failed trades, equity risk outside trading book)		na	90,700	na	90,700	na	90,700	0
Market Risk		**na**	**56,000**	**na**	**68,797**	**na**	**68,797**	**12,797**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	2,210,100	55%	1,219,800	73%	1,618,361	57%	1,253,645	127,371
RWA inflation								10%

Source: Deutsche Bank, Company data

Model updated:05 May 2015

Running the numbers

Europe

United Kingdom

Banks

HSBC Holdings

Reuters: HSBA.L Bloomberg: HSBA LN

Hold

Price (15 Jun 15)	GBP 600.00
Target Price	GBP 580.00
52 Week range	GBP 559.90 - 663.60
Market Cap (m)	GBPm 117,614
	USDm 183,131

Company Profile

HSBC is one of the world's leading international banks. With a global network of offices and businesses, HSBC aims to deliver a through-the-cycle ROE of 12-15% with B3 core tier 1 capital above 10%. It's strategy is set to maximise bank gearing to the expected structural growth in world trade and wealth, with emphasis on emerging markets in particular. HSBC has 4 main business divisions: Retail Banking & Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(USD)	0.75	0.84	0.69	0.69	0.75	0.98
EPS (DB) (USD)	0.93	0.78	0.86	0.82	0.87	0.97
Growth Rate - EPS (DB) (%)	17.8	-15.3	9.7	-4.9	6.3	11.7
DPS (USD)	0.45	0.49	0.50	0.51	0.51	0.52
BVPS (stated) (USD)	9.06	9.27	9.24	9.07	9.30	9.75
Tang. NAV p. sh. (USD)	7.44	7.68	7.80	7.72	8.02	8.54
Market Capitalisation	189,435	195,199	192,696	183,131	183,131	183,131
Shares in issue	18,271	18,654	19,056	19,511	19,904	20,305
Valuation Ratios & Profitability Measures						
P/E (stated)	13.7	12.3	14.5	13.5	12.5	9.6
P/E (DB)	11.1	13.2	11.6	11.4	10.7	9.6
P/B (stated)	1.1	1.1	1.1	1.0	1.0	1.0
P/Tangible equity (DB)	1.4	1.3	1.3	1.2	1.2	1.1
ROE(stated)(%)	8.5	9.1	7.4	7.5	8.1	10.3
ROTE (tangible equity) (%)	12.9	10.4	11.1	10.6	11.1	11.8
ROIC (invested capital) (%)	10.3	8.4	9.1	8.8	9.3	10.1
Dividend yield(%)	5.0	4.5	4.8	5.4	5.5	5.6
Dividend cover(x)	1.7	1.7	1.4	1.4	1.5	1.9
Profit & Loss (USDm)						
Net interest revenue	37,672	35,538	34,705	34,749	36,818	39,281
Non interest income	30,658	29,106	26,543	26,377	27,406	29,044
Commissions	16,430	16,434	15,957	14,660	15,441	16,825
Trading Revenue	7,091	8,690	6,760	9,464	9,843	10,236
Other revenue	7,137	3,982	3,826	2,253	2,122	1,983
Total revenue	68,330	64,644	61,248	61,126	64,224	68,326
Total Operating Costs	42,927	38,556	41,249	40,129	40,486	38,158
Employee Costs	20,491	19,196	20,366	19,681	19,805	18,448
Other costs	22,436	19,360	20,883	20,448	20,681	19,710
Pre-Provision profit/(loss)	25,403	26,088	19,999	20,997	23,737	30,168
Bad debt expense	8,311	5,849	3,851	3,276	3,463	3,557
Operating Profit	17,092	20,239	16,148	17,721	20,274	26,611
Pre-tax associates	3,557	2,325	2,532	1,784	1,094	1,151
Pre-tax profit	20,649	22,564	18,680	19,506	21,368	27,763
Tax	5,315	4,765	3,975	4,291	4,701	6,108
Other post tax items	-1,741	-2,169	-1,590	-1,808	-1,889	-1,927
Stated net profit	13,593	15,630	13,115	13,406	14,778	19,728
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	3,336	-989	3,290	2,566	2,541	0
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	16,929	14,641	16,405	15,973	17,319	19,728
Key Balance Sheet Items (USDm) & Capital Ratios						
Risk-weighted assets	1,123,943	1,214,939	1,219,800	1,244,196	1,281,522	1,319,968
Interest-earning assets	1,657,569	1,702,755	1,822,267	1,805,735	1,905,293	2,006,248
Customer Loans	1,001,522	992,089	974,660	975,411	1,019,068	1,073,065
Total Deposits	1,340,014	1,361,297	1,350,642	1,351,682	1,412,180	1,487,007
Stated Shareholder Equity	167,360	174,615	177,510	177,877	186,034	198,867
Equals: Tangible Equity	137,507	144,697	149,933	151,236	160,329	174,098
Tier 1 capital	151,048	158,155	152,739	162,417	173,325	188,964
Tier 1 ratio (%)	13	13	13	13	14	14
o/w core tier 1 capital ratio (%)	12.3	12.3	10.9	11.3	11.7	12.4
Credit Quality						
Gross NPLs/Total Loans(%)	4.30	3.99	3.33	3.04	3.03	2.83
Risk Provisions/NPLs(%)	37	39	38	41	36	36
Bad debt / Avg loans (%)	0.84	0.59	0.39	0.34	0.35	0.34
Bad debt/Pre-Provision Profit(%)	32.7	22.4	19.3	15.6	14.6	11.8
Growth Rates & Key Ratios						
Growth in revenues (%)	-5	-5	-5	0	5	6
Growth in costs (%)	3	-10	7	-3	1	-6
Growth in bad debts (%)	-31	-30	-34	-15	6	3
Growth in RWA (%)	-7	8	0	2	3	3
Net int. margin (%)	2.32	2.13	1.94	1.96	1.97	2.00
Cap.-market rev. / Total revs (%)	32	32	32	33	33	33
Total loans / Total deposits (%)	75	73	72	72	72	72
ROTE Decomposition						
Revenue % ARWAs	5.86	5.53	5.03	4.96	5.09	5.25
Net interest revenue % ARWA	3.23	3.04	2.85	2.82	2.92	3.02
Non interest revenue % ARWA	2.63	2.49	2.18	2.14	2.17	2.23
Costs/income ratio (%)	62.8	59.6	67.3	65.6	63.0	55.8
Bad debts % ARWAs	0.71	0.50	0.32	0.27	0.27	0.27
Tax rate (%)	31.1	23.5	24.6	24.2	23.2	23.0
Adj. Attr. earnings % ARWA	1.15	1.05	1.14	1.15	1.28	1.43
Capital leverage (ARWA/Equity)	8.9	8.3	8.3	8.2	8.1	7.8
ROTE (Adj. earnings/Ave. equity)	10.2	8.7	9.4	9.4	10.4	11.1

Source: Company data, Deutsche Bank estimates

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Lloyds Banking Group (Buy TP GBp 97)

Investment thesis

Given its market-leading position in mortgages, current accounts and deposits, we think that LBG should benefit from the positive aspects of the retail banking industry and its increasingly efficient operating platform. We view the bank as attractively valued, given capital generation well in excess of organic needs which will lead in time to a valuable flow of dividends. With substantial capital upside and an attractive yield, we have a Buy recommendation.

Geared to how mortgage risk weights change

As the largest retail and mortgage bank in the UK with a risk weight of 12% for mortgages, the potential for RWA inflation for Lloyds is **heavily geared to mortgage risk weight rules**. Assuming a 75% capital floor on 35% standardised risk weights gives a floored risk weight of 26% - more than double the current 12% for mortgages. This equates to ~£51bn of additional RWAs at the portfolio level, though this falls to £27bn at the group level due to Lloyds use of higher risk weights on the standardised book which partly offset these effects. Note that our estimates for 2016 and 2017 already include an additional ~£20bn of RWAs for higher mortgage risk weights.

For **operational risk,** we estimate an increase in risk weighted assets by around £28bn, driven by the new operational risk methodology, which sees Lloyds attract a capital charge of c.21% of 'business indicator', equivalent to £55bn of RWAs.

Overall, this represents an increase in risk weights of £58bn / 24% of 2014 RWAs. Our estimates in 2016 already incorporate an increase in mortgage risk weights by 50% from 12% to 18% (~£20bn of RWAs). In total this increase in risk weighting represents around 250bps of CET1 at 2014. Our base case is that an increase of this magnitude is unlikely to be introduced as it would have significant implications for other non-bank mortgage providers in the UK (Nationwide for example has a risk weight of 7% vs. Lloyds 11%, but a higher proportion of mortgages). Part of the operational risk weight inflation could also be offset by a reduction in the Pillar 2A requirement (which we understand contains an element of operational risk).

However, even if it was introduced for Lloyds, we estimate the CET1 ratio would still remain above 12% in 2017 without any reduction in payout ratios in our forecasts (63%-74% over 2015-17), and after already including the impact of an increase of ~£20bn RWAs in our forecasts.

Ring-fencing raises additional questions

As with other UK domestic banks, one of the key unknown issues at present is how the new risk weight rules will be applied to ring-fenced bank subsidiaries. If the ring fence contains a particularly high density of IRB mortgages, then the risk weighted asset impact could be higher for the ring-fenced subsidiary than if they the assets had been included within the overall group (and offset by other portfolios). Equally, the operational risk weight impact may be lower given that lower revenue banks attract a lower operating risk weight under the new rules.

Valuation & risks

We believe that a SOTP approach to valuing LBG is most appropriate given the substantial differences in risk, return and growth prospects of its key divisions. The multiples used are benchmarked against pure-play peers, adjusted for our view on risk and return differentials, and applied to our 2016 earnings estimates. Key risks are regulatory change around mortgage lending and industry structure, conduct risk liabilities, industry margin and loan loss performance.

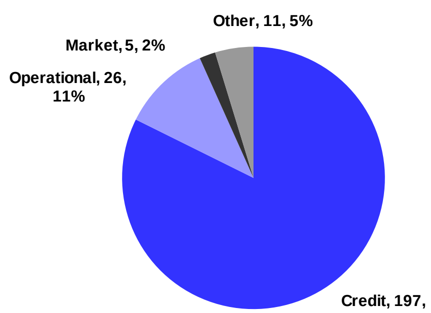
Under our framework, Lloyds will experience RWA inflation of 24%.

Figure 248: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	240	227	239	242
RWA capital floors	298	282	297	300
RWA standardised	373	353	372	376
Leverage assets	740	731	718	736
RW density B3	32%	31%	33%	33%
RW density B4 capital floors	40%	39%	41%	41%
RW density B4 on fully standardised	50%	48%	52%	51%
CT1 B3	31	33	35	38
AT1	5	5	5	5
CT1 B4	12.8%	14.4%	14.7%	15.6%
CT1 B4 capital floors	**10.3%**	**11.6%**	**11.8%**	**12.6%**
CT1 B4 on standardised	8.2%	9.3%	9.4%	10.1%
Leverage ratio	4.9%	5.2%	5.6%	5.9%

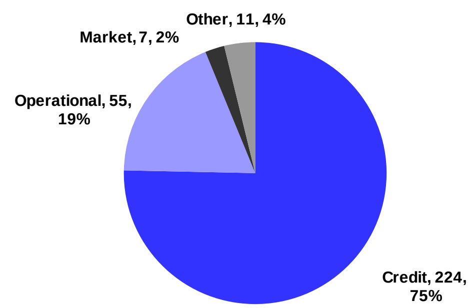
Source: Deutsche Bank, Company data

Figure 249: RWA B3 2014



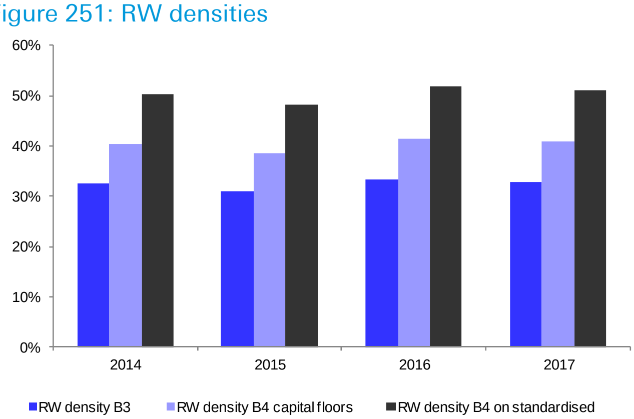
Source: Deutsche Bank, Company data

Figure 250: RWA B4 2014E



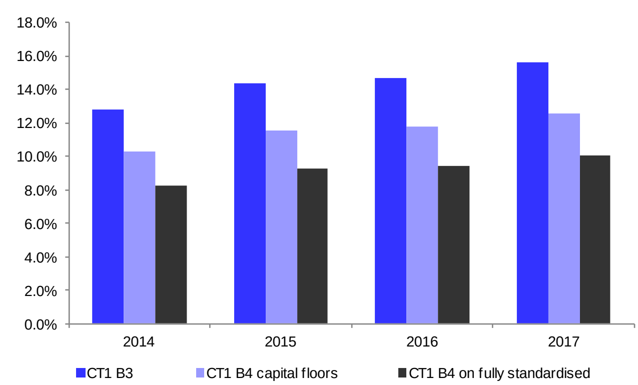
Source: Deutsche Bank, Company data

Figure 251: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 252: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 253: Lloyds Banking Group – modelling pro-forma 2014 RWA inflation by category before management action

LLOY.L

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	15,714	10%	1,618	10%	1,618	10%	1,618	0
Institution	7,970	20%	1,577	30%	2,391	23%	1,793	216
Corporate	116,906	59%	69,198	69%	80,126	59%	69,198	0
Retail	412,948	18%	72,886	40%	165,981	30%	124,485	51,599
o/w mortgage	359,326	12%	43,123	35%	125,764	26%	94,323	51,200
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	53,622	56%	29,763	75%	40,217	56%	30,162	399
Other	26,542	58%	15,324	58%	15,324	58%	15,324	0
IRB	580,080	28%	160,603	46%	265,439	34%	199,079	38,476
Sovereign	83,617	0%	11	0%	11	0%	11	0
Institution	205	26%	53	30%	62	26%	53	0
Corporate	15,490	88%	13,646	69%	10,617	88%	13,646	0
Retail	13,891	46%	6,354	46%	6,354	46%	6,354	0
Other	6,753	80%	5,380	80%	5,380	80%	5,380	0
Standardised	119,956	21%	25,444	19%	22,423	14%	16,817	0
Other	143	na	11,339	na	11,339	na	11,339	0
Credit Risk	**700,179**	**28%**	**197,386**	**43%**	**299,201**	**32%**	**224,401**	**27,015**
Operational Risk		**na**	**26,279**	**na**	**55,037**	**na**	**41,278**	**28,758**
Other risk (settlement, failed trades, equity risk outside trading book)		**na**	**11,323**	**na**	**11,323**	**na**	**11,323**	**0**
Market Risk		**na**	**4,746**	**na**	**7,119**	**na**	**7,119**	**2,373**
Net insurance		**na**		**na**	**0**	**na**	**0**	**na**
Deductions		**na**		**na**	**0**	**na**	**0**	**na**
RWA Basel III	**700,179**	**34%**	**239,734**	**53%**	**372,680**	**41%**	**284,121**	**58,146**
RWA inflation								24%

Source: Deutsche Bank, Company data

Model updated:01 May 2015

Running the numbers

Europe

United Kingdom

Banks

Lloyds Banking Group

Reuters: LLOY.L | Bloomberg: LLOY LN

Buy

Price (15 Jun 15)	GBP 86.38
Target Price	GBP 97.00
52 Week range	GBP 71.92 - 89.00
Market Cap (m)	GBPm 62,228
	USDm 96,892

Company Profile

Lloyds Banking Group was formed through the merger of Lloyds TSB and HBOS in January 2009. LBG provides a range of banking and financial products, mainly to the UK, split across 4 divisions: Retail, Commercial, Wealth and International, and Insurance. LBG holds leading market shares in UK residential mortgages, current accounts, deposits and branches. Lloyds operates in the UK primarily through the Lloyds TSB, Halifax, Bank of Scotland and Scottish Widows brands.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(GBp)	-2.04	-1.18	1.58	5.17	7.19	8.62
EPS (DB) (GBp)	3.06	5.45	8.01	8.39	8.24	8.92
Growth Rate - EPS (DB) (%)	91.6	78.1	46.8	4.8	-1.8	8.3
DPS (GBp)	0.00	0.00	0.75	3.00	5.00	6.00
BVPS (stated) (GBp)	62.55	54.63	60.76	63.73	66.46	69.42
Tang. NAV p. sh. (GBp)	54.90	48.47	55.03	58.53	61.77	65.23
Market Capitalisation	33,705	56,295	54,080	62,228	62,228	62,228
Shares in issue	69,841	71,009	72,447	73,888	74,627	75,373
Valuation Ratios & Profitability Measures						
P/E (stated)	-23.5	-66.8	48.1	16.7	12.0	10.0
P/E (DB)	15.6	14.5	9.5	10.3	10.5	9.7
P/B (stated)	0.8	1.4	1.2	1.4	1.3	1.2
P/Tangible equity (DB)	0.9	1.6	1.4	1.5	1.4	1.3
ROE(stated)(%)	-3.2	-2.0	2.7	8.3	11.1	12.7
ROTE (tangible equity) (%)	5.4	10.6	15.7	15.2	14.1	14.5
ROIC (invested capital) (%)	4.8	9.3	14.1	13.9	13.0	13.5
Dividend yield(%)	0.0	0.0	1.0	3.5	5.8	6.9
Dividend cover(x)	nm	nm	2.1	1.7	1.4	1.4
Profit & Loss (GBPm)						
Net interest revenue	10,335	10,885	11,761	12,298	11,784	12,483
Non interest income	8,357	8,588	6,379	6,821	6,661	6,934
Commissions	0	0	0	0	0	0
Trading Revenue	0	0	0	0	0	0
Other revenue	8,357	8,588	6,379	6,821	6,661	6,934
Total revenue	18,692	19,473	18,140	19,118	18,444	19,417
Total Operating Costs	13,566	16,054	15,178	12,275	10,084	9,505
Employee Costs	5,449	4,982	4,397	4,265	4,137	4,013
Other costs	8,117	11,072	10,781	8,010	5,947	5,492
Pre-Provision profit/(loss)	4,476	3,647	3,491	7,168	8,611	10,012
Bad debt expense	5,696	3,004	1,200	1,139	1,532	1,713
Operating Profit	-570	415	1,762	5,704	6,829	8,200
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	-570	415	1,762	5,704	6,829	8,200
Tax	773	1,217	263	1,528	1,414	1,688
Other post tax items	-84	-36	-374	-469	-207	-207
Stated net profit	-1,427	-838	1,125	3,707	5,209	6,305
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	3,566	4,711	4,675	2,495	941	421
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	2,139	3,873	5,800	6,203	6,149	6,726
Key Balance Sheet Items (GBPm) & Capital Ratios						
Risk-weighted assets	310,299	272,641	239,734	226,885	239,020	241,695
Interest-earning assets	561,436	520,552	497,322	473,887	459,413	461,450
Customer Loans	540,071	509,175	490,759	488,181	474,320	492,459
Total Deposits	422,400	438,300	447,100	456,689	445,613	463,492
Stated Shareholder Equity	43,999	38,989	43,335	45,914	48,357	51,013
Equals: Tangible Equity	38,621	34,594	39,249	42,164	44,943	47,935
Tier 1 capital	42,754	32,207	39,558	41,531	43,974	46,631
Tier 1 ratio (%)	14	12	17	18	18	19
o/w core tier 1 capital ratio (%)	12.0	10.3	12.8	14.4	14.7	15.6
Credit Quality						
Gross NPLs/Total Loans(%)	8.57	6.34	2.92	1.84	1.69	1.62
Risk Provisions/NPLs(%)	47	49	53	39	31	31
Bad debt / Avg loans (%)	1.01	0.57	0.24	0.23	0.32	0.35
Bad debt/Pre-Provision Profit(%)	127.3	82.4	34.4	15.9	17.8	17.1
Growth Rates & Key Ratios						
Growth in revenues (%)	-8	4	-7	5	-4	5
Growth in costs (%)	-9	18	-5	-19	-18	-6
Growth in bad debts (%)	-42	-47	-60	-5	34	12
Growth in RWA (%)	-12	-12	-12	-5	5	1
Net int. margin (%)	1.95	2.13	2.43	2.65	2.59	2.67
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	128	116	110	107	106	106
ROTE Decomposition						
Revenue % ARWAs	6.02	7.14	7.57	8.43	7.72	8.03
Net interest revenue % ARWA	3.33	3.99	4.91	5.42	4.93	5.16
Non interest revenue % ARWA	2.69	3.15	2.66	3.01	2.79	2.87
Costs/income ratio (%)	76.1	81.3	80.8	62.5	53.3	48.4
Bad debts % ARWAs	1.84	1.10	0.50	0.50	0.64	0.71
Tax rate (%)	-135.6	293.3	14.9	26.8	20.7	20.6
Adj. Attr. earnings % ARWA	0.69	1.42	2.42	2.73	2.57	2.78
Capital leverage (ARWA/Equity)	7.8	7.4	6.5	5.6	5.5	5.2
ROTE (Adj. earnings/Ave. equity)	5.4	10.6	15.7	15.2	14.1	14.5

Source: Company data, Deutsche Bank estimates

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RBS (Hold TP GBp 395)

Investment thesis

RBS is in the process of reducing costs and building capital as part of its plan to improve returns to shareholders and provide the financial capacity to deal with legacy liabilities. At end 2014 roughly half of the bank's capital deployed was either for sale or in run-off. Though this will support capital build we believe that the share price adequately reflects the longer term earnings power of the business and so have a Hold recommendation.

Main sources of inflation are from operational and market risk

We do not see RBS having issues on the standardisation of **Credit Risk RWAs**: overall we find only modest impact from the IRB standardisation floors, which do not impact total credit RWAs. This is principally driven by risk weightings that are generally in line with the new standardised level at the group level already (IRB risk weighting is 35% vs. 35% under a 75% capital floor).

For **Operational risk** (which is currently on standardised) we see some risk of inflation (£25bn) due to the new operational risk methodology incorporating business indicator. As RBS deconsolidates Citizens and W&G retail branches over time, this revenue base may rend lower, which may reduce the operational risk slightly.

Market risk we estimate £9bn increase from the implementation of the Fundamental Review of the Trading Book.

Overall, this represents £33.5bn of additional RWAs or around 9% of total RWAs, which would impact CET1 ratios by around 100bps for 2015.

Ring-fencing raises additional questions

As with other UK domestic banks, one of the key unknown issues at present is how the new risk weight rules will be applied to ring-fenced bank subsidiaries. If the ring fence contains a particularly high density of IRB mortgages, then the risk weighted asset impact could be higher for the ring-fenced subsidiary than if they the assets had been included within the overall group (and offset by other portfolios). Equally, the operational risk weight impact may be lower given that lower revenue banks attract a lower operating risk weight under the new rules.

Valuation & Risks

We value RBS by sum-of-the-parts, an approach which we think justified by the variety of rates of growth, ROE and risk of group businesses. We apply fair P/E or P/TNAV multiples to our 2016 forecast earnings or tangible equity bases, with valuations benchmarked against peers taking perceived differences in risk, return and growth into account. We use market value for RBS' stake in Citizens Financial Group. With a premium valuation relative to peers and target price broadly in line with the current share price we have a Hold recommendation. Key upside risks are a stronger-than-expected performance in non-core run-off and CIB. Downside risks relate to legacy settlements and regulatory change.

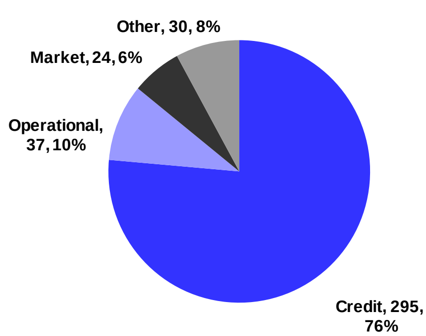
Under our framework, RBS will experience RWA inflation of 9%.

Figure 254: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	356	282	237	221
RWA capital floors	387	306	258	240
RWA standardised	428	339	285	265
Leverage assets	940	864	821	780
RW density B3	38%	33%	29%	28%
RW density B4 capital floors	41%	35%	31%	31%
RW density B4 on fully standardised	46%	39%	35%	34%
CT1 B3	40	35	33	36
AT1	0	2	5	5
CT1 B4	11.2%	12.5%	14.1%	16.2%
CT1 B4 capital floors	**10.3%**	**11.5%**	**12.9%**	**14.9%**
CT1 B4 on standardised	9.3%	10.4%	11.7%	13.5%
Leverage ratio	4.2%	4.3%	4.7%	5.2%

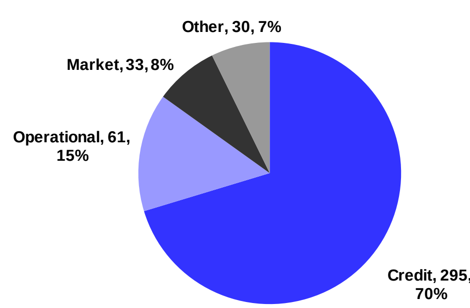
Source: Deutsche Bank, Company data

Figure 255: RWA B3 2014



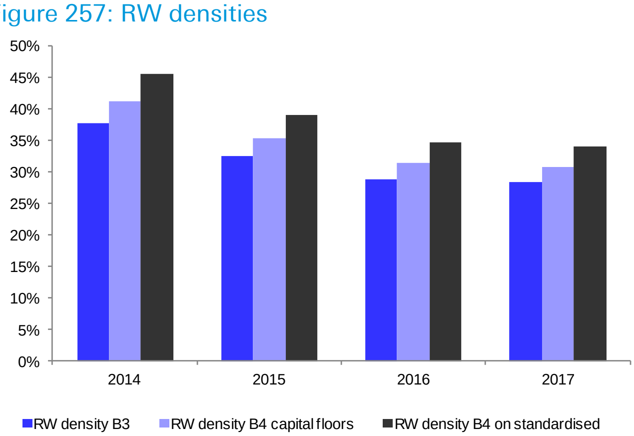
Source: Deutsche Bank, Company data

Figure 256: RWA B4 2014E



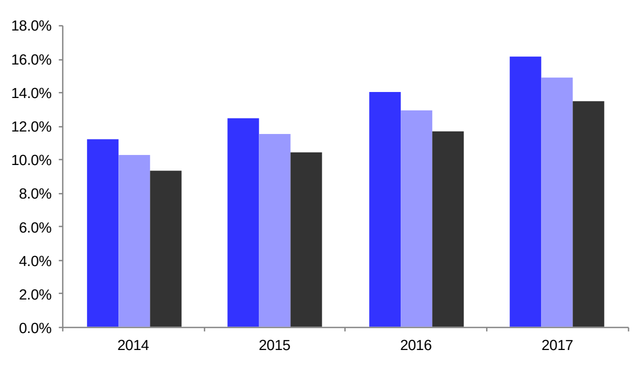
Source: Deutsche Bank, Company data

Figure 257: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 258: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 259: RBS – modelling pro-forma 2014 RWA inflation by category before management action

RBS.L

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	65,316	7%	4,657	7%	4,657	7%	4,657	0
Institution	91,701	40%	36,890	30%	27,510	40%	36,890	0
Corporate	219,908	49%	108,176	69%	150,722	51%	113,041	4,865
Retail	161,787	23%	37,086	43%	69,277	32%	51,957	14,871
o/w mortgage	130,159	18%	23,858	35%	45,556	26%	34,167	10,309
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	31,628	42%	13,228	75%	23,721	56%	17,791	4,563
Other	4,465	67%	3,012	67%	3,012	67%	3,012	0
IRB	543,177	35%	189,821	47%	255,178	35%	191,383	1,562
Sovereign	67,031	1%	525	1%	525	1%	525	0
Institution	27,250	55%	14,858	30%	8,175	55%	14,858	0
Corporate	49,047	97%	47,734	69%	33,616	97%	47,734	0
Retail	45,790	56%	25,652	56%	25,652	56%	25,652	0
Other	18,363	90%	16,580	90%	16,580	90%	16,580	0
Standardised	207,481	51%	105,349	41%	84,548	31%	63,411	0
Other		na		na	0	na	0	0
Credit Risk	**750,658**	**39%**	**295,170**	**45%**	**339,726**	**34%**	**254,794**	**0**
Operational Risk		**na**	**36,788**	**na**	**61,308**	**na**	**45,981**	**24,521**
Other risk (settlement, failed trades, equity risk outside trading book)		na	30,375	na	30,375	na	30,375	0
Market Risk		**na**	**23,963**	**na**	**32,955**	**na**	**32,955**	**8,992**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	750,658	51%	386,295	62%	464,363	49%	364,105	33,513
RWA inflation								9%

Source: Deutsche Bank, Company data

Model updated:04 June 2015

Running the numbers

Europe

United Kingdom

Banks

RBS

Reuters: RBS.L Bloomberg: RBS LN

Hold

Price (15 Jun 15)	GBP 350.50
Target Price	GBP 395.00
52 Week range	GBP 314.10 - 403.90
Market Cap (m)	GBPm 40,827
	USDm 63,569

Company Profile

Under current CEO Ross McEwan RBS is concentrating on building capital, completing planned business sales (US retail and commercial and part of UK retail), cutting costs, and refreshing bank infrastructure. The bank targets an ROE above 12% in 2018-2020 but expects to be broadly breakeven at a statutory profit level in 2014 and 2015 combined.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(GBp)	-49.16	-81.41	-30.47	-46.58	-12.61	28.85
EPS (DB) (GBp)	10.37	-40.86	30.46	30.20	22.69	28.41
Growth Rate - EPS (DB) (%)	184.0	-494.0	174.5	-0.9	-24.9	25.2
DPS (GBp)	0.00	0.00	0.00	0.00	5.00	13.00
BVPS (stated) (GBp)	567.42	472.88	454.42	401.46	378.02	388.07
Tang. NAV p. sh. (GBp)	446.16	363.46	386.62	391.40	368.10	378.30
Market Capitalisation	36,250	38,215	45,261	40,827	40,827	40,827
Shares in issue	11,171	11,184	11,363	11,615	11,790	11,967
Valuation Ratios & Profitability Measures						
P/E (stated)	-6.6	-4.2	-12.9	-7.5	-27.8	12.1
P/E (DB)	31.3	-8.3	12.9	11.6	15.5	12.3
P/B (stated)	0.6	0.7	0.9	0.9	0.9	0.9
P/Tangible equity (DB)	0.7	0.9	1.0	0.9	1.0	0.9
ROE(stated)(%)	-8.1	-15.7	-6.6	-10.9	-3.2	7.5
ROTE (tangible equity) (%)	2.2	-10.1	8.1	7.8	6.0	7.6
ROIC (invested capital) (%)	1.3	-5.5	4.5	4.7	3.8	4.8
Dividend yield(%)	0.0	0.0	0.0	0.0	1.4	3.7
Dividend cover(x)	nm	nm	nm	nm	-2.5	2.2
Profit & Loss (GBPm)						
Net interest revenue	11,704	10,994	11,288	10,815	8,606	9,137
Non interest income	12,217	8,448	6,909	5,857	4,479	4,661
Commissions	0	0	0	0	0	0
Trading Revenue	0	0	0	0	0	0
Other revenue	12,217	8,448	6,909	5,857	4,479	4,661
Total revenue	23,921	19,442	18,197	16,672	13,086	13,798
Total Operating Costs	23,198	19,253	16,709	19,655	12,884	7,813
Employee Costs	7,638	6,882	6,406	5,806	4,215	3,993
Other costs	15,560	12,371	10,303	13,849	8,669	3,820
Pre-Provision profit/(loss)	9,303	6,129	5,799	5,436	4,929	6,070
Bad debt expense	5,279	8,432	-1,155	-82	436	590
Operating Profit	-4,556	-8,243	2,643	-2,901	-234	5,395
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	-4,556	-8,243	2,643	-2,901	-234	5,395
Tax	469	382	1,909	350	371	1,028
Other post tax items	-384	-523	-4,204	-2,135	-875	-930
Stated net profit	-5,409	-9,148	-3,470	-5,386	-1,480	3,437
Goodwill	178	153	0	0	0	0
Extraordinary & Other items	6,391	4,425	6,931	8,894	4,154	-38
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	1,159	-4,570	3,461	3,508	2,675	3,399
Key Balance Sheet Items (GBPm) & Capital Ratios						
Risk-weighted assets	459,600	385,500	355,900	281,657	237,254	220,862
Interest-earning assets	608,950	560,803	0	0	0	0
Customer Loans	448,600	411,200	394,801	385,234	316,468	318,708
Total Deposits	403,800	395,100	413,400	419,403	364,069	374,808
Stated Shareholder Equity	63,386	53,450	52,149	46,763	44,692	46,569
Equals: Tangible Equity	49,841	41,082	44,368	45,591	43,520	45,397
Tier 1 capital	57,135	50,626	39,900	37,263	38,378	40,769
Tier 1 ratio (%)	12	13	11	13	16	18
o/w core tier 1 capital ratio (%)	10.3	10.9	11.2	12.5	14.1	16.2
Credit Quality						
Gross NPLs/Total Loans(%)	9.17	9.58	7.14	5.66	5.89	5.67
Risk Provisions/NPLs(%)	52	64	64	70	67	58
Bad debt / Avg loans (%)	1.12	1.96	-0.29	-0.02	0.12	0.19
Bad debt/Pre-Provision Profit(%)	56.7	137.6	-19.9	-1.5	8.8	9.7
Growth Rates & Key Ratios						
Growth in revenues (%)	-2	-19	-6	-8	-22	5
Growth in costs (%)	31	-17	-13	18	-34	-39
Growth in bad debts (%)	-29	60	-114	-93	-630	35
Growth in RWA (%)	5	-16	-8	-21	-16	-7
Net int. margin (%)	1.78	1.96	nm	nm	nm	nm
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	111	104	96	92	87	85
ROTE Decomposition						
Revenue % ARWAs	5.32	4.60	4.91	5.23	5.04	6.02
Net interest revenue % ARWA	2.60	2.60	3.05	3.39	3.32	3.99
Non interest revenue % ARWA	2.72	2.00	1.86	1.84	1.73	2.03
Costs/income ratio (%)	61.1	68.5	68.1	67.4	62.3	56.0
Bad debts % ARWAs	1.17	2.00	-0.31	-0.03	0.17	0.26
Tax rate (%)	-10.3	-4.6	72.2	-12.1	-158.8	19.1
Adj. Attr. earnings % ARWA	0.26	-1.08	0.93	1.10	1.03	1.48
Capital leverage (ARWA/Equity)	8.6	9.3	8.7	7.1	5.8	5.2
ROTE (Adj. earnings/Ave. equity)	2.2	-10.1	8.1	7.8	6.0	7.6

Source: Company data, Deutsche Bank estimates

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Standard Chartered (Sell TP GBp 850)

Investment thesis

Standard Chartered provides investors with medium term gearing to growth in emerging market banking and world trade. We believe that StanChart needs to raise capital to bolster its balance sheet and provide the capacity for accelerated loan write-offs, business restructuring, and faster future balance sheet growth. We think the dividend needs to be rebased to a lower, more sustainable payout ratio, roughly halving the consensus yield. We believe that the cost of these required measures is not yet in the price and so have a Sell recommendation.

Risk weight inflation across Credit, Operational and Market buckets

For Standard Chartered, we estimate $18.1bn of additional **credit RWAs**, driven primarily by a 75% risk weight floor on institution and mortgage lending. Institution risk weights are currently 9%, vs. 30% under the expected revised standardised approach; whilst risk weights are 10% for mortgages compared with current standardised levels of 35%.

For **operational risk** we estimate $54bn of RWAs under the standardised approach, an increase of $18.5bn over the previous levels.

For **market risk** we estimate $10.1bn of additional risk weights from the FRTB implementation.

Overall this equates to risk weight inflation of 14%, an impact of around 130bps on CET1 levels.

Valuation & risks

Our StanChart target price is derived using a sum-of-the-parts calculation which values the operating divisions by applying fair P/E multiples to our 2016 earnings forecasts. Multiples applied are calibrated against peers, making allowances for our assessment of differences in growth and risk. Our terminal valuation is further adjusted for our assessment of SC's capital need and our expectations for excess loan write-offs and restructuring charges. Key upside risks are much stronger-than-forecast capital formation, a bid for SC, or significant improvement in EM growth and commodity price prospects.

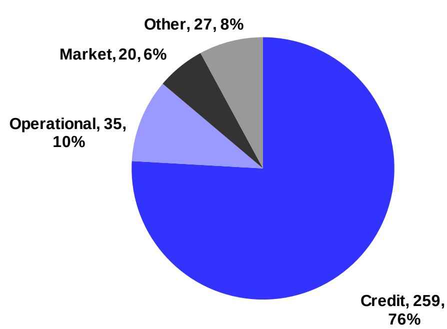
Under our framework, Stan will experience RWA inflation of 14%.

Figure 260: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	342	352	369	388
RWA capital floors	388	400	420	441
RWA standardised	481	495	520	546
Leverage assets	803	795	819	844
RW density B3	43%	44%	45%	46%
RW density B4 capital floors	48%	50%	51%	52%
RW density B4 on fully standardised	60%	62%	63%	65%
CT1 B3	37	43	46	49
AT1	0	2	2	2
CT1 B4	10.7%	12.3%	12.3%	12.5%
CT1 B4 capital floors	**9.4%**	**10.9%**	**10.9%**	**11.0%**
CT1 B4 on standardised	7.6%	8.8%	8.8%	8.9%
Leverage ratio	4.6%	5.7%	5.8%	6.0%

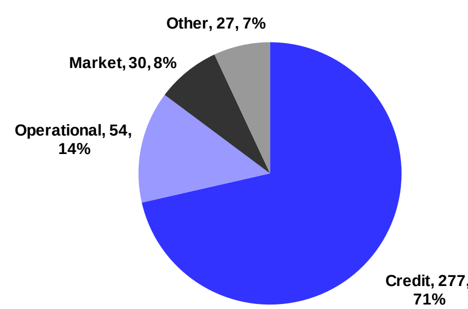
Source: Deutsche Bank, Company data

Figure 261: RWA B3 2014



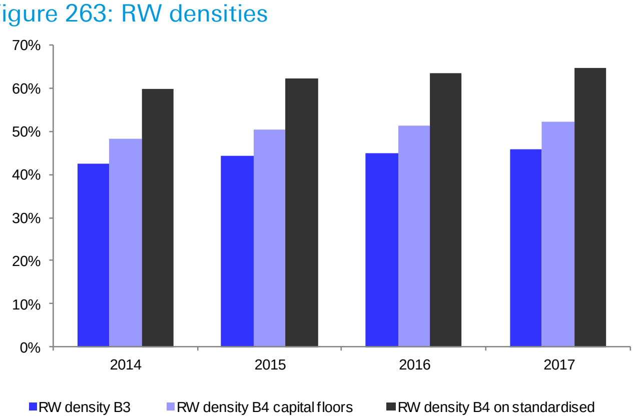
Source: Deutsche Bank, Company data

Figure 262: RWA B4 2014E



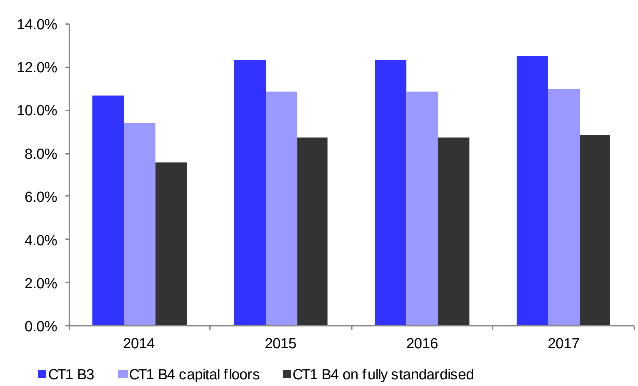
Source: Deutsche Bank, Company data

Figure 263: RW densities



Source: Deutsche Bank, Company data *Future data are forecasts*

Figure 264: CT1 capital ratios



Source: Deutsche Bank, Company data *Future data are forecasts*

Figure 265: Standard Chartered – modelling pro-forma 2014 RWA inflation by category before management action

STAN.L

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign	174,019	12%	20,144	12%	20,144	12%	20,144	0
Institution	154,798	9%	13,719	30%	46,439	23%	34,830	21,111
Corporate	223,583	61%	135,903	82%	183,338	62%	137,504	1,601
Retail	90,386	27%	24,077	48%	43,403	36%	34,208	10,131
o/w mortgage	60,966	10%	5,873	35%	21,338	26%	16,004	10,131
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	29,420	62%	18,204	75%	22,065	62%	18,204	0
Other	32,296	15%	4,763	15%	4,763	15%	4,763	0
IRB	675,082	29%	198,606	44%	298,088	33%	223,566	24,960
Sovereign	19,167	10%	1,841	10%	1,841	10%	1,841	0
Institution	6,788	2%	162	30%	2,036	23%	1,527	1,365
Corporate	32,299	53%	17,250	82%	26,485	62%	19,864	2,614
Retail	34,555	57%	19,763	57%	19,763	57%	19,763	0
Other	20,209	107%	21,658	107%	21,658	107%	21,658	0
Standardised	113,018	54%	60,674	64%	71,784	48%	53,838	0
Other	0	na	0	na	0	na	0	0
Credit Risk	**788,100**	**33%**	**259,280**	**47%**	**369,871**	**35%**	**277,403**	**18,123**
Operational Risk		**na**	**35,107**	**na**	**53,563**	**na**	**40,172**	**18,456**
Other risk (settlement, failed trades, equity risk outside trading book)		**na**	**26,966**	**na**	**26,966**	**na**	**26,966**	**0**
Market Risk		**na**	**20,295**	**na**	**30,443**	**na**	**30,443**	**10,148**
Net insurance		**na**		**na**	**0**	**na**	**0**	**na**
Deductions		**na**		**na**	**0**	**na**	**0**	**na**
RWA Basel III	**788,100**	**43%**	**341,648**	**61%**	**480,842**	**48%**	**374,984**	**46,726**
RWA inflation								14%

Source: Deutsche Bank, Company data

Model updated:29 April 2015

Running the numbers

Europe

United Kingdom

Banks

Standard Chartered

Reuters: STAN.L Bloomberg: STAN LN

Sell

Price (15 Jun 15)	GBP 1,038.00
Target Price	GBP 850.00
52 Week range	GBP 881.00 - 1,308.00
Market Cap (m)	GBPm 30,220
	USDm 47,054

Company Profile

Standard Chartered plc is an international banking group operating principally in Asia, Africa and the Middle East. StanChart is organised into three customer groups (Corporate & Institutional, Commercial, Private Banking and Retail) and has strongest positions in Transaction Banking, Financial Markets, and Retail banking in Hong Kong.

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Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(USD)	1.88	1.23	1.02	0.91	1.00	1.31
EPS (DB) (USD)	2.13	1.66	1.51	1.03	1.06	1.30
Growth Rate - EPS (DB) (%)	5.1	-22.2	-8.8	-31.6	2.4	23.2
DPS (USD)	0.84	0.86	0.86	0.26	0.26	0.33
BVPS (stated) (USD)	18.18	18.44	18.78	17.90	18.20	18.78
Tang. NAV p. sh. (USD)	15.15	15.94	16.68	16.14	16.50	17.14
Market Capitalisation	60,178	51,655	39,236	47,054	47,054	47,054
Shares in issue	2,421	2,447	2,473	2,707	2,963	3,037
Valuation Ratios & Profitability Measures						
P/E (stated)	13.3	17.3	15.5	17.9	16.2	12.3
P/E (DB)	11.7	12.8	10.5	15.6	15.3	12.4
P/B (stated)	1.4	1.2	0.8	0.9	0.9	0.9
P/Tangible equity (DB)	1.6	1.3	1.0	1.0	1.0	0.9
ROE(stated)(%)	10.8	6.7	5.5	4.9	5.5	7.1
ROTE (tangible equity) (%)	15.0	10.8	9.3	6.3	6.5	7.8
ROIC (invested capital) (%)	12.2	9.0	8.1	5.6	5.8	7.0
Dividend yield(%)	3.6	3.5	4.4	1.6	1.6	2.0
Dividend cover(x)	2.2	1.4	1.2	3.5	3.8	4.0
Profit & Loss (USDm)						
Net interest revenue	10,781	11,156	11,003	10,527	10,809	11,463
Non interest income	7,788	7,621	7,331	6,326	6,606	6,861
Commissions	4,121	4,101	4,179	3,303	3,443	3,518
Trading Revenue	2,739	2,514	1,896	2,100	2,193	2,325
Other revenue	928	1,006	1,256	923	970	1,018
Total revenue	18,569	18,777	18,334	16,853	17,414	18,324
Total Operating Costs	10,286	10,815	11,453	10,322	10,521	10,807
Employee Costs	6,492	6,570	6,788	6,796	6,899	7,083
Other costs	3,794	4,245	4,665	3,527	3,622	3,724
Pre-Provision profit/(loss)	8,101	8,865	7,794	6,371	6,700	7,292
Bad debt expense	1,457	1,617	2,141	1,999	2,053	1,546
Operating Profit	6,826	6,345	4,740	4,533	4,840	5,971
Pre-tax associates	0	0	0	0	0	0
Pre-tax profit	6,826	6,345	4,740	4,533	4,840	5,971
Tax	1,866	1,864	1,530	1,104	1,117	1,468
Other post tax items	-453	-1,492	-698	-992	-776	-546
Stated net profit	4,507	2,989	2,512	2,437	2,946	3,957
Goodwill	254	281	205	205	209	213
Extraordinary & Other items	397	783	1,018	154	-23	-213
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	5,158	4,053	3,735	2,796	3,133	3,957
Key Balance Sheet Items (USDm) & Capital Ratios						
Risk-weighted assets	301,861	322,251	341,648	351,897	369,492	387,967
Interest-earning assets	504,733	550,196	579,105	580,069	581,032	599,412
Customer Loans	289,607	296,711	288,599	283,110	290,378	301,294
Total Deposits	385,117	390,971	414,189	406,596	419,532	432,890
Stated Shareholder Equity	43,867	44,752	46,432	52,109	54,312	57,447
Equals: Tangible Equity	36,555	38,682	41,242	46,979	49,242	52,437
Tier 1 capital	40,600	42,335	38,799	47,656	49,819	52,787
Tier 1 ratio (%)	13	13	11	14	13	14
o/w core tier 1 capital ratio (%)	11.7	11.8	10.5	12.2	12.2	12.4
Credit Quality						
Gross NPLs/Total Loans(%)	1.91	2.18	2.60	4.00	3.00	2.00
Risk Provisions/NPLs(%)	56	54	52	46	54	72
Bad debt / Avg loans (%)	0.52	0.55	0.73	0.70	0.72	0.52
Bad debt/Pre-Provision Profit(%)	18.0	18.2	27.5	31.4	30.7	21.2
Growth Rates & Key Ratios						
Growth in revenues (%)	5	1	-2	-8	3	5
Growth in costs (%)	7	5	6	-10	2	3
Growth in bad debts (%)	43	11	32	-7	3	-25
Growth in RWA (%)	12	7	6	3	5	5
Net int. margin (%)	2.21	2.14	1.90	1.82	1.86	1.91
Cap.-market rev. / Total revs (%)	0	3	3	4	4	4
Total loans / Total deposits (%)	75	76	70	70	69	70
ROTE Decomposition						
Revenue % ARWAs	6.49	6.02	5.52	4.86	4.83	4.84
Net interest revenue % ARWA	3.77	3.57	3.31	3.04	3.00	3.03
Non interest revenue % ARWA	2.72	2.44	2.21	1.82	1.83	1.81
Costs/income ratio (%)	56.4	52.8	57.5	62.2	61.5	60.2
Bad debts % ARWAs	0.51	0.52	0.64	0.58	0.57	0.41
Tax rate (%)	27.3	29.4	32.3	24.3	23.1	24.6
Adj. Attr. earnings % ARWA	1.80	1.30	1.13	0.81	0.87	1.04
Capital leverage (ARWA/Equity)	8.3	8.3	8.3	7.9	7.5	7.4
ROTE (Adj. earnings/Ave. equity)	15.0	10.8	9.3	6.3	6.5	7.8

Source: Company data, Deutsche Bank estimates

Bank of Ireland (Hold TP EUR 0.34)

Investment thesis

BKIR has made good progress restructuring its business post-crisis. We see a number of potential positives for the stock in 2015: a new set of targets from the company, potentially including a dividend policy; writebacks given the positive moves in Irish house and CRE prices; tailwinds to NIM driven by lower liability pricing; and a trough in the balance sheet during 2015, with loan growth returning. We have a Hold Rating.

One of the lowest impacts to risk weighted assets in Europe

Bank of Ireland has one of the lowest impacts to risk weighted assets across our European banking coverage. This is primarily driven by the fact that it already has high **credit risk** weightings, particularly for corporate (73%) and mortgages (23%). Mortgage risk weights under the new standardised rules we estimate to be amongst the highest in Europe (41%) driven by a high LTV distribution, however this is offset by risk weights that are already higher than in the standardised portfolios in corporate, and our use of a 75% floor. As a result we expect zero incremental credit RWAs. For **operational risk** (currently calculated on the standardised method) we expect an additional E1bn from the new standardised methodology and using a 75% floor. For **market risk** we apply a standard 50% increase to market RWAs for all banks. The overall result is E1.3bn of additional RWAs, a 3% increase in RWAs, and worth around 25bps off CET1.

Wider considerations around capital & RWAs

Risk weights in Ireland are already high vs. Europe – the range for Irish banks for Irish mortgage risk weights if 32->150% (with BKIR at the lower end of that range due in part to better mortgage quality than peers). We forecast 0.27% growth in RWAs in 2015, 2.5% in 2016 and 3.7% incorporating some of the risk weighting increases, and also a return to credit growth in Ireland. A wider consideration is that there is the possibility of upside to capital should risk weights fall: as mentioned above, the new standardised level of risk weights is in fact lower than the IRB equivalent for corporates.

Valuation & risks

We value BKIR using the sum of 3 components: 1) 12-month forward book value of the group derived from 2017 TNAV, 2017 RoTE, discounted back with 10% sustainable cost of equity, 3% sustainable growth , 2) 12-month forward value of dividends from 2015-17, 3) E600m of post-tax writebacks, with an assumed 20% TVM discount. Using this methodology we arrive at our target price.

Key downside risks: 1) higher capital requirements: our base case is that BKIR is able to build capital organically without having to raise additional equity. Higher capital requirements may put this expectation at risk, and/or delay dividend payouts; 2) deterioration in European/Irish/UK economic growth and/or slower loan growth than expected; 3) lower and/or slower writebacks of provisions; and 4) any price war on loan pricing which could limit future NII. Key upside risks: 1) faster writebacks than expected, 2) better loan growth, 3) relaxation of regulation.

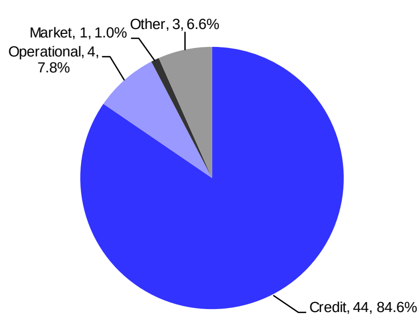
Figure 266: Capital sensitivities

Reporting FXbn	2014	2015E	2016E	2017E
RWA B3	52	52	53	55
RWA capital floors	53	53	54	56
RWA standardised	60	61	62	64
Leverage assets	130	130	133	138
RW density B3	40%	40%	40%	40%
RW density B4 capital floors	41%	41%	41%	41%
RW density B4 on fully standardised	47%	47%	47%	47%
CT1 B3	5	5	6	7
AT1	0	0	1	1
CT1 B4	9.2%	10.0%	11.3%	12.5%
CT1 B4 capital floors	**9.0%**	**9.8%**	**11.0%**	**12.2%**
CT1 B4 on standardised	7.8%	8.6%	9.7%	10.7%
Leverage ratio	3.7%	4.0%	5.1%	5.7%

Source: Deutsche Bank, Company data

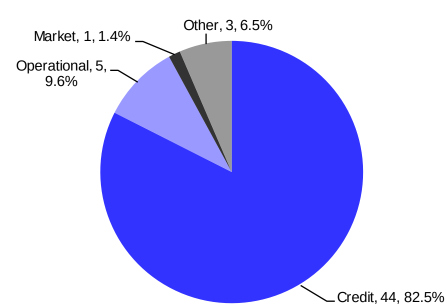
Under our framework, Bank of Ireland will experience RWA inflation of 3%.

Figure 267: RWA B3 2014



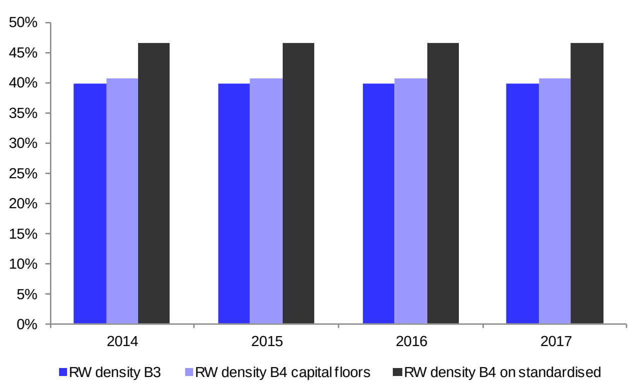
Source: Deutsche Bank, Company data

Figure 268: RWA B4 2014E



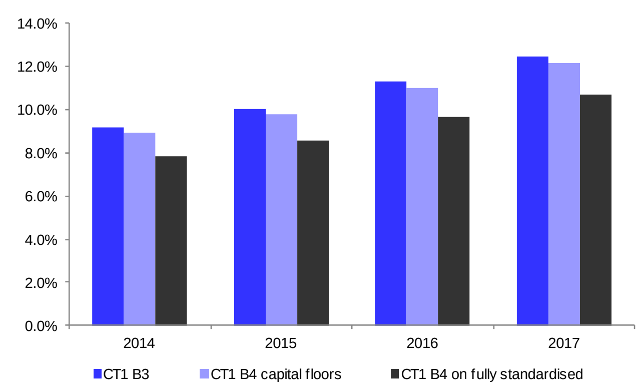
Source: Deutsche Bank, Company data

Figure 269: RW densities



Source: Deutsche Bank, Company data Future data are forecasts

Figure 270: CT1 capital ratios



Source: Deutsche Bank, Company data Future data are forecasts

Figure 271: Bank of Ireland – modelling pro-forma 2014 RWA inflation by category before management action

BKIR.I

2014 (reporting FXm)	EAD	RW	RWA	RW (new Standardised)	RWA (new Standardised)	RW (capital floor)	Floored RWAs	Increase
Sovereign		0%		0%	0	0%	0	0
Institution	5,634	21%	1,158	30%	1,690	23%	1,268	110
Corporate	27,593	73%	20,238	67%	18,424	73%	20,238	0
Retail	53,888	24%	13,201	43%	23,295	32%	17,471	4,270
o/w mortgage	50,206	23%	11,420	41%	20,533	31%	15,400	3,980
o/w Lombard or collateralised				0%	0	0%	0	0
o/w other	3,682	48%	1,781	75%	2,762	56%	2,071	290
Other	401	68%	272	68%	272	68%	272	0
IRB	87,516	40%	34,869	50%	43,680	37%	32,760	0
Sovereign	18,787	0%	21	0%	21	0%	21	0
Institution		0%		30%	0	23%	0	0
Corporate	5,341	91%	4,865	67%	3,566	91%	4,865	0
Retail	2,319	71%	1,649	71%	1,649	71%	1,649	0
Other	1,838	121%	2,215	121%	2,215	121%	2,215	0
Standardised	28,285	31%	8,750	26%	7,451	20%	5,588	0
Other		na		na	0	na	0	0
Credit Risk	**115,801**	**38%**	**43,619**	**44%**	**51,132**	**33%**	**38,349**	**0**
Operational Risk		**na**	**4,032**	**na**	**5,085**	**na**	**3,814**	**1,053**
Other risk (settlement, failed trades, equity risk outside trading book)		na	3,438	na	3,438	na	3,438	0
Market Risk		**na**	**511**	**na**	**767**	**na**	**767**	**256**
Net insurance		na		na	0	na	0	na
Deductions		na		na	0	na	0	na
RWA Basel III	**115,801**	**45%**	**51,600**	**52%**	**60,421**	**40%**	**46,367**	**1,308**
RWA inflation								3%

Source: Deutsche Bank, Company data

Model updated:21 May 2015

Running the numbers

Europe

Ireland

Banks

Bank of Ireland

Reuters: BKIR.I Bloomberg: BKIR ID

Hold

Price (15 Jun 15)	EUR 0.35
Target Price	EUR 0.34
52 Week range	EUR 0.24 - 0.38
Market Cap (m)	EURm 11,159
	USDm 12,575

Company Profile

Bank of Ireland is, with AIB, one of the Republic of Ireland's (RoI) largest retail and commercial banks. Exposure to Irish property lending led to significant losses in 2009 and 2010, leading to injections of capital by the government, a reliance on state and ECB funding schemes and the transfer of E10bn of loans to the National Asset Management Agency (NAMA). At December 2010 the Irish government held a 36% stake in BKIR through the National Treasury Management Agency.

Fiscal year end 31-Dec	2012	2013	2014	2015E	2016E	2017E
Data Per Share						
EPS (stated)(EUR)	-0.07	-0.02	0.02	0.02	0.03	0.03
EPS (DB) (EUR)	-0.04	-0.02	0.02	0.02	0.03	0.03
Growth Rate - EPS (DB) (%)	27.6	34.9	171.4	18.1	36.6	17.4
DPS (EUR)	0.00	0.00	0.00	0.00	0.01	0.02
BVPS (stated) (EUR)	0.29	0.24	0.27	0.28	0.25	0.27
Tang. NAV p. sh. (EUR)	0.28	0.23	0.26	0.27	0.24	0.26
Market Capitalisation	3,432	8,151	10,124	11,159	11,159	11,159
Shares in issue	30,133	31,248	32,363	32,363	32,363	32,363
Valuation Ratios & Profitability Measures						
P/E (stated)	-1.7	-10.9	15.7	15.1	12.4	10.3
P/E (DB)	-3.2	-10.9	19.0	17.7	13.0	11.1
P/B (stated)	0.4	1.0	1.2	1.2	1.4	1.3
P/Tangible equity (DB)	0.4	1.1	1.2	1.3	1.4	1.3
ROE(stated)(%)	-21.5	-8.7	7.8	8.4	10.5	12.7
ROTE (tangible equity) (%)	-11.8	-9.1	6.7	7.4	10.4	12.3
ROIC (invested capital) (%)	-11.3	-8.7	6.4	7.1	10.0	11.8
Dividend yield(%)	0.0	0.0	0.0	0.0	3.6	4.9
Dividend cover(x)	nm	nm	nm	nm	2.2	2.0
Profit & Loss (EURm)						
Net interest revenue	1,446	2,004	2,321	2,402	2,565	2,672
Non interest income	282	512	651	688	679	698
Commissions	300	301	344	370	380	390
Trading Revenue	-275	12	-42	70	70	70
Other revenue	257	199	349	248	229	238
Total revenue	1,728	2,516	2,972	3,090	3,244	3,370
Total Operating Costs	2,183	1,402	1,672	1,762	1,784	1,762
Employee Costs	771	691	717	731	739	746
Other costs	1,412	711	955	1,030	1,045	1,016
Pre-Provision profit/(loss)	-60	850	1,211	1,328	1,460	1,608
Bad debt expense	1,769	1,665	472	339	363	333
Operating Profit	-2,224	-551	828	989	1,097	1,276
Pre-tax associates	46	31	92	60	75	90
Pre-tax profit	-2,178	-520	920	1,049	1,172	1,366
Tax	-337	-34	134	178	199	232
Other post tax items	-189	-235	-141	-132	-70	-50
Stated net profit	-2,030	-721	645	739	903	1,084
Goodwill	0	0	0	0	0	0
Extraordinary & Other items	962	0	-112	-110	-43	-75
Bad Debt Provisioning	0	0	0	0	0	0
Investment reval, cap gains / losses	0	0	0	0	0	0
DB adj. core earnings	-1,068	-721	533	629	860	1,009
Key Balance Sheet Items (EURm) & Capital Ratios						
Risk-weighted assets	56,500	54,800	51,600	51,738	53,052	55,039
Interest-earning assets	0	0	0	0	0	0
Customer Loans	92,621	84,514	82,117	84,393	88,377	93,120
Total Deposits	75,170	73,867	74,837	75,490	75,985	77,505
Stated Shareholder Equity	8,657	7,889	8,753	8,941	8,213	8,829
Equals: Tangible Equity	8,300	7,528	8,355	8,604	7,886	8,512
Tier 1 capital	8,213	7,648	7,716	7,929	7,935	8,889
Tier 1 ratio (%)	15	14	15	15	15	16
o/w core tier 1 capital ratio (%)	14.4	12.6	14.8	15.2	13.5	14.3
Credit Quality						
Gross NPLs/Total Loans(%)	19.11	20.26	17.46	12.77	8.33	5.13
Risk Provisions/NPLs(%)	43	48	52	50	50	50
Bad debt / Avg loans (%)	1.82	1.88	0.57	0.41	0.42	0.37
Bad debt/Pre-Provision Profit(%)	-2,948.3	195.9	39.0	25.5	24.8	20.7
Growth Rates & Key Ratios						
Growth in revenues (%)	-56	46	18	4	5	4
Growth in costs (%)	0	-36	19	5	1	-1
Growth in bad debts (%)	-10	-6	-72	-28	7	-8
Growth in RWA (%)	-16	-3	-6	0	3	4
Net int. margin (%)	1.09	1.75	2.13	2.26	2.36	2.39
Cap.-market rev. / Total revs (%)	nm	nm	nm	nm	nm	nm
Total loans / Total deposits (%)	123	114	110	112	116	120
ROTE Decomposition						
Revenue % ARWAs	2.80	4.52	5.59	5.98	6.19	6.24
Net interest revenue % ARWA	2.34	3.60	4.36	4.65	4.89	4.94
Non interest revenue % ARWA	0.46	0.92	1.22	1.33	1.30	1.29
Costs/income ratio (%)	103.5	66.2	59.3	57.0	55.0	52.3
Bad debts % ARWAs	2.86	2.99	0.89	0.66	0.69	0.62
Tax rate (%)	15.2	6.2	16.2	18.0	18.2	18.2
Adj. Attr. earnings % ARWA	-1.80	-1.35	0.83	1.10	1.50	1.70
Capital leverage (ARWA/Equity)	6.8	7.0	6.7	6.1	6.4	6.6
ROTE (Adj. earnings/Ave. equity)	-12.3	-9.5	5.6	6.7	9.5	11.2

Source: Company data, Deutsche Bank estimates

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Appendix A

G-SIB list – November 2014 update

Figure 272: G-SIBs as of November 2014 allocated to buckets corresponding to required level of additional loss absorbency – changes versus 2013 in bold

Bucket	G-SIB in alphabetical order within each bucket
5 (3.5%)	---
4 (2.5%)	HSBC
	JP Morgan Chase
3 (2.0%)	Barclays
	BNP Paribas
	Citigroup
	Deutsche Bank
2 (1.5%)	Bank of America
	Credit Suisse
	Goldman Sachs
	Mitsubishi UFJ FG
	Morgan Stanley
	Royal Bank of Scotland
1 (1.0%)	**Agricultural Bank of China (new addition)**
	Bank of China
	Bank of New York Mellon
	BBVA
	Groupe BPCE
	Group Crédit Agricole (down)
	Industrial and Commercial Bank of China Limited
	ING Bank
	Mizuho FG
	Nordea
	Santander
	Société Générale
	Standard Chartered
	State Street
	Sumitomo Mitsui FG
	UBS (down)
	Unicredit Group
	Wells Fargo

Source: Deutsche Bank, BIS

Link to Financial Stability Board update:
http://www.financialstabilityboard.org/wp-content/uploads/r_141106b.pdf

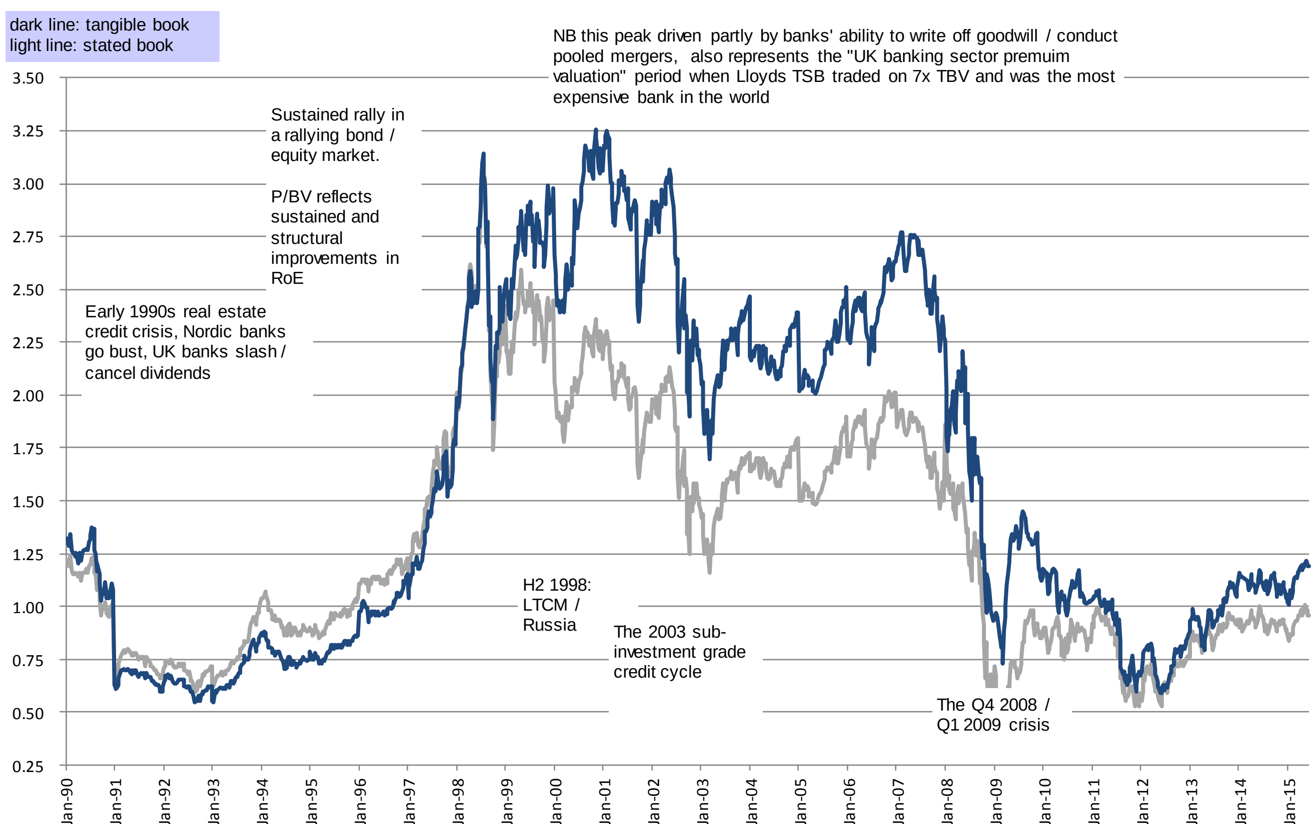
Appendix: Valuation data

Below we set out standardized European banks data, covering the following.

- Summary data and price targets
- Earnings and dividend per share data
- Credit quality gearing data
- Cost saving gearing
- Yields data
- RoE and Book value data
- RoTE and Tangible book value data
- Capital building blocks
- Capital ratios data
- Leverage ratios data
- Share price performance
- Key growth metrics

We also show below the long-run PTBV of the European banks sector.

Figure 273: Long-run price to tangible book value chart



Source: Deutsche Bank estimates

Figure 274: Summary data and price targets

Geography	Stock	DB Rec.	Current price	Target price	Upside / (downside)	Mkt Cap E'm	Adjusted P/E				Dividend Yield				Price : Tangible Book				Return on Avg. Tangible Equity			
							2014	2015e	2016e	2017e	2014	2015e	2016e	2017e	2014	2015e	2016e	2017e	2014	2015e	2016e	2017e
Austria	Erste Bank	Hold	24.8	25.0	1%	10,163	187.2	12.3	10.5	9.7	0.0%	2.0%	2.8%	3.0%	1.21	1.10	1.03	0.95	0.6%	9.4%	10.1%	10.2%
Austria	Raiffeisen Bank Intern.	Hold	12.4	13.0	5%	3,626	2,848.4	45.7	5.5	3.6	0.0%	0.0%	3.0%	6.0%	0.51	0.49	0.42	0.37	0.0%	1.1%	8.2%	11.0%
Benelux	KBC	Buy	58.2	66.0	13%	24,311	12.8	11.7	11.4	10.8	3.4%	0.0%	5.4%	5.8%	2.05	1.84	1.73	1.63	17.0%	16.5%	15.6%	15.6%
Benelux	ING	Hold	14.4	14.4	0%	55,471	14.3	13.8	12.1	11.2	0.8%	6.6%	7.4%	8.1%	1.52	1.29	1.19	1.18	11.4%	10.2%	10.2%	10.6%
France	BNP Paribas	Hold	54.0	60.0	11%	67,018	9.8	9.8	8.9	8.2	2.8%	4.4%	5.0%	5.5%	1.06	1.00	0.94	0.88	10.5%	10.6%	10.9%	11.2%
France	Credit Agricole	Hold	13.0	14.5	11%	34,343	10.4	10.3	9.1	8.1	2.7%	4.1%	5.8%	6.5%	1.07	0.95	0.90	0.85	11.0%	9.9%	10.3%	10.9%
France	Societe Generale	Buy	41.9	48.0	15%	33,006	10.4	9.6	8.8	8.1	2.9%	5.2%	4.6%	6.2%	0.83	0.77	0.75	0.71	8.2%	8.4%	8.6%	9.0%
Germany	Aareal Bank	Hold	34.3	39.0	14%	2,054	14.1	11.4	11.4	11.5	3.5%	4.4%	7.3%	7.3%	0.99	0.84	0.81	0.80	7.5%	8.0%	7.3%	7.0%
Germany	Comdirect	Hold	9.2	10.0	9%	1,277	19.6	22.8	21.9	20.9	4.4%	3.7%	3.9%	4.1%	2.19	2.19	2.15	2.11	11.6%	9.6%	9.9%	10.2%
Germany	Commerzbank	Buy	11.4	14.0	22%	14,339	13.0	12.8	11.3	10.2	0.0%	1.3%	2.6%	4.4%	0.57	0.55	0.53	0.51	4.4%	4.6%	4.7%	5.1%
Greece	Alpha Bank	Buy	0.3	0.6	129%	3,320	n/a	17.5	8.0	4.2	0.0%	0.0%	0.0%	0.0%	0.44	0.43	0.41	0.37	(10.5%)	2.5%	5.2%	9.3%
Greece	Eurobank	Buy	0.1	0.3	105%	1,765	n/a	n/a	14.6	4.1	0.0%	0.0%	0.0%	0.0%	0.40	0.41	0.40	0.37	(31.5%)	(3.7%)	2.8%	9.3%
Greece	National Bank of Greece	Buy	1.0	2.0	102%	3,498	n/a	9.3	6.4	4.1	0.0%	0.0%	0.0%	0.0%	0.53	0.50	0.44	0.38	(22.0%)	5.5%	7.2%	9.9%
Iberia	Banco Popular	Sell	4.5	3.5	(21%)	9,580	34.3	37.1	28.1	12.5	1.5%	1.8%	2.3%	4.5%	0.94	0.92	0.86	0.84	2.9%	2.5%	3.2%	6.7%
Iberia	Banco Santander	Hold	6.3	6.7	6%	90,603	13.7	12.4	11.1	10.0	9.5%	3.2%	3.2%	3.2%	1.59	1.38	1.28	1.19	12.5%	12.6%	12.0%	12.4%
Iberia	Bankia	Hold	1.15	1.25	9%	13,199	17.7	12.8	11.5	10.4	0.7%	2.6%	5.0%	5.0%	1.06	1.01	0.99	0.98	6.3%	8.0%	8.7%	9.5%
Iberia	Bankinter	Buy	6.7	7.6	14%	5,977	21.7	15.1	13.7	12.1	2.3%	3.3%	4.4%	5.0%	1.75	1.68	1.61	1.54	8.5%	11.4%	12.0%	13.0%
Iberia	BBVA	Buy	8.9	10.2	15%	55,933	17.2	20.1	12.2	10.0	4.2%	4.2%	4.2%	4.2%	1.35	1.31	1.24	1.16	8.1%	6.7%	10.5%	12.0%
Iberia	BCP	Sell	0.08	0.07	(13%)	4,764	n/a	19.9	14.9	10.9	0.0%	0.0%	0.0%	0.0%	0.95	0.82	0.82	0.77	(5.9%)	4.6%	5.5%	7.3%
Iberia	Liberbank	Hold	0.70	0.76	8%	1,839	15.8	11.3	8.9	9.2	0.0%	2.8%	4.1%	5.4%	0.74	0.70	0.69	0.68	5.9%	6.3%	7.7%	7.8%
Ireland	Bank of Ireland	Hold	0.3	0.3	(1%)	11,159	20.9	17.7	13.0	11.1	0.0%	0.0%	3.6%	4.9%	1.34	1.30	1.42	1.31	6.7%	7.4%	10.4%	12.3%
Italy	Banca Popolare di Milano	Hold	0.9	0.9	1%	3,981	31.1	20.9	13.9	11.5	2.4%	2.6%	3.9%	4.8%	0.90	0.88	0.86	0.83	3.2%	4.3%	6.2%	7.3%
Italy	Banco Popolare	Buy	14.4	17.6	22%	5,205	n/a	13.9	9.7	7.6	0.0%	2.8%	4.1%	5.2%	0.87	0.84	0.80	0.76	(25.8%)	6.1%	8.4%	10.3%
Italy	Credem	Hold	7.2	8.3	16%	2,359	15.9	12.1	12.3	11.2	2.1%	4.1%	4.1%	4.5%	1.18	1.13	1.08	1.03	7.9%	9.6%	9.0%	9.4%
Italy	Intesa SanPaolo	Hold	3.2	3.5	11%	52,853	30.3	14.0	11.7	10.9	2.2%	3.9%	5.5%	7.5%	1.33	1.28	1.24	1.22	4.4%	9.3%	10.8%	11.3%
Italy	UBI Banca	Hold	7.0	7.2	3%	6,308	34.4	22.5	12.7	10.8	1.1%	2.0%	3.8%	4.5%	0.79	0.77	0.74	0.71	2.4%	3.5%	6.0%	6.7%
Italy	UniCredit	Buy	6.0	7.7	28%	35,498	13.8	13.2	9.8	7.9	2.0%	2.7%	3.9%	4.9%	0.81	0.80	0.78	0.74	6.0%	6.1%	8.1%	9.5%
Nordics	Danske Bank	Buy	195.6	215.0	10%	25,697	16.6	12.8	11.3	10.6	2.8%	4.2%	5.5%	5.9%	1.45	1.31	1.24	1.17	9.1%	10.6%	11.1%	11.4%
Nordics	DNB	Hold	132.6	135.0	2%	24,693	10.9	9.9	10.2	10.0	2.9%	4.0%	4.8%	6.0%	1.42	1.29	1.20	1.13	13.8%	13.6%	12.1%	11.7%
Nordics	Nordea	Hold	11.4	12.0	5%	45,575	13.1	12.4	11.9	11.3	5.4%	6.0%	6.3%	6.6%	1.73	1.63	1.57	1.51	13.3%	13.5%	13.4%	13.6%
Nordics	SEB	Buy	104.1	118.0	13%	24,768	13.9	13.0	11.9	11.1	4.6%	5.0%	5.5%	5.9%	1.94	2.00	1.88	1.79	14.7%	15.2%	16.2%	16.6%
Nordics	Svenska Handelsbanken	Hold	120.5	128.0	6%	24,944	15.8	14.8	13.7	12.9	4.8%	5.0%	5.3%	5.5%	2.00	1.79	1.73	1.66	13.6%	12.6%	12.8%	13.0%
Nordics	Swedbank	Hold	192.0	182.0	(5%)	23,012	12.8	13.4	12.9	12.7	5.9%	5.9%	5.9%	5.9%	2.06	2.03	1.95	1.88	16.7%	15.3%	15.4%	15.1%
Switzerland	Cembra Money Bank	Hold	56.8	57.0	0%	1,553	11.7	11.1	10.7	10.8	5.5%	5.9%	6.3%	6.5%	2.06	2.08	1.92	1.81	17.9%	18.2%	18.5%	17.3%
Switzerland	Credit Suisse Group	Buy	25.7	30.0	17%	40,302	11.7	9.5	8.5	7.9	2.7%	2.7%	4.9%	5.8%	1.17	1.21	1.12	1.05	10.2%	12.6%	13.7%	13.8%
Switzerland	Julius Baer	Hold	51.1	51.0	(0%)	10,610	19.1	14.8	13.6	11.9	2.0%	2.0%	2.0%	2.0%	3.76	4.09	3.34	2.74	19.9%	26.5%	27.1%	25.3%
Switzerland	UBS	Buy	20.0	23.0	15%	73,516	20.7	14.5	11.6	11.1	2.5%	3.0%	4.0%	5.0%	1.77	1.67	1.57	1.46	8.7%	11.9%	13.9%	13.6%
UK	Aldermore	Buy	287.5	290.0	1%	1,358	19.4	15.4	11.9	10.0	0.0%	0.0%	0.0%	1.5%	3.06	2.39	2.01	1.73	16.9%	18.4%	18.5%	18.6%
UK	Barclays	Buy	265.0	305.0	15%	60,987	13.8	11.4	9.1	8.1	2.5%	2.5%	3.0%	4.9%	0.93	0.92	0.89	0.84	6.8%	8.2%	10.0%	10.7%
UK	HSBC	Hold	600.0	580.0	(3%)	162,504	10.9	11.4	10.8	9.6	5.4%	5.4%	5.5%	5.6%	1.20	1.21	1.16	1.09	11.1%	10.6%	11.1%	11.8%
UK	Lloyds Banking Group	Buy	86.4	97.0	12%	85,727	10.6	10.0	10.2	9.4	0.9%	3.5%	5.8%	6.9%	1.57	1.48	1.40	1.32	15.7%	15.2%	14.1%	14.5%
UK	RBS	Hold	350.5	395.0	13%	56,377	11.6	11.6	15.5	12.4	0.0%	0.0%	1.4%	3.7%	0.91	0.90	0.95	0.93	8.1%	7.8%	6.0%	7.6%
UK	Standard Chartered	Sell	1038.0	850.0	(18%)	41,749	10.7	16.8	15.4	12.5	5.3%	1.6%	1.6%	2.0%	0.97	1.00	0.98	0.94	9.3%	6.3%	6.5%	7.8%

Source: Deutsche Bank, Price at close of 15 June 2015

Figure 275: Earnings and dividend per share data

Geography	Stock	DB Rec.	Current	DB Adjusted EPS				Adjusted P/E				DPS				Dividend Yield				Dividend Cover			
			price	2014	2015e	2016e	2017e	2014	2015e	2016e	2017e	2014	2015e	2016e	2017e	2014	2015e	2016e	2017e	2014	2015e	2016e	2017e
Austria	Erste Bank	Hold	24.8	0.13	2.02	2.35	2.55	187.2	12.3	10.5	9.7	0.00	0.50	0.70	0.75	0.0%	2.0%	2.8%	3.0%	n/a	4.0	3.4	3.4
Austria	Raiffeisen Bank Intern.	Hold	12.4	0.00	0.27	2.25	3.43	2,848.4	45.7	5.5	3.6	0.00	0.00	0.37	0.75	0.0%	0.0%	3.0%	6.0%	n/a	n/a	6.1	4.6
Benelux	KBC	Buy	58.2	4.57	4.96	5.09	5.39	12.8	11.7	11.4	10.8	2.00	0.00	3.17	3.35	3.4%	0.0%	5.4%	5.8%	2.3	n/a	1.6	1.6
Benelux	ING	Hold	14.4	1.00	1.04	1.18	1.28	14.3	13.8	12.1	11.2	0.12	0.95	1.07	1.16	0.8%	6.6%	7.4%	8.1%	8.2	1.1	1.1	1.1
France	BNP Paribas	Hold	54.0	5.50	5.53	6.03	6.62	9.8	9.8	8.9	8.2	1.50	2.39	2.71	2.98	2.8%	4.4%	5.0%	5.5%	3.7	2.3	2.2	2.2
France	Credit Agricole	Hold	13.0	1.28	1.27	1.44	1.61	10.4	10.3	9.1	8.1	0.35	0.54	0.76	0.84	2.7%	4.1%	5.8%	6.5%	3.6	2.4	1.9	1.9
France	Societe Generale	Buy	41.9	4.06	4.39	4.77	5.20	10.4	9.6	8.8	8.1	1.20	2.20	1.94	2.60	2.9%	5.2%	4.6%	6.2%	3.4	2.0	2.5	2.0
Germany	Aareal Bank	Hold	34.3	2.43	3.01	3.02	2.98	14.1	11.4	11.4	11.5	1.20	1.50	2.50	2.50	3.5%	4.4%	7.3%	7.3%	2.0	2.0	1.2	1.2
Germany	Comdirect	Hold	9.2	0.47	0.40	0.42	0.44	19.6	22.8	21.9	20.9	0.40	0.34	0.36	0.37	4.4%	3.7%	3.9%	4.1%	1.2	1.2	1.2	1.2
Germany	Commerzbank	Buy	11.4	0.88	0.92	1.01	1.12	13.0	12.8	11.3	10.2	0.00	0.15	0.30	0.50	0.0%	1.3%	2.6%	4.4%	n/a	6.1	3.4	2.2
Greece	Alpha Bank	Buy	0.3	(0.06)	0.02	0.03	0.06	n/a	17.5	8.0	4.2	0.00	0.00	0.00	0.00	0.0%	0.0%	0.0%	0.0%	n/a	n/a	n/a	n/a
Greece	Eurobank	Buy	0.1	(0.10)	(0.01)	0.01	0.03	n/a	n/a	14.6	4.1	0.00	0.00	0.00	0.00	0.0%	0.0%	0.0%	0.0%	n/a	n/a	n/a	n/a
Greece	National Bank of Greece	Buy	1.0	(0.38)	0.11	0.15	0.24	n/a	9.3	6.4	4.1	0.00	0.00	0.00	0.00	0.0%	0.0%	0.0%	0.0%	n/a	n/a	n/a	n/a
Iberia	Banco Popular	Sell	4.5	0.13	0.12	0.16	0.35	34.3	37.1	28.1	12.5	0.07	0.08	0.10	0.20	1.5%	1.8%	2.3%	4.5%	2.0	1.5	1.6	1.8
Iberia	Banco Santander	Hold	6.3	0.48	0.51	0.56	0.63	13.7	12.4	11.1	10.0	0.60	0.20	0.20	0.20	9.5%	3.2%	3.2%	3.2%	0.8	2.6	2.8	3.1
Iberia	Bankia	Hold	1.15	0.06	0.09	0.10	0.11	17.7	12.8	11.5	10.4	0.01	0.03	0.06	0.06	0.7%	2.6%	5.0%	5.0%	8.3	3.0	1.7	1.9
Iberia	Bankinter	Buy	6.7	0.31	0.44	0.49	0.55	21.7	15.1	13.7	12.1	0.15	0.22	0.29	0.33	2.3%	3.3%	4.4%	5.0%	2.0	2.0	1.7	1.7
Iberia	BBVA	Buy	8.9	0.53	0.45	0.73	0.89	17.2	20.1	12.2	10.0	0.37	0.37	0.37	0.37	4.2%	4.2%	4.2%	4.2%	1.4	1.2	2.0	2.4
Iberia	BCP	Sell	0.08	(0.01)	0.00	0.01	0.01	n/a	19.9	14.9	10.9	0.00	0.00	0.00	0.00	0.0%	0.0%	0.0%	0.0%	n/a	n/a	n/a	n/a
Iberia	Liberbank	Hold	0.70	0.05	0.06	0.07	0.08	15.8	11.3	8.9	9.2	0.00	0.02	0.03	0.04	0.0%	2.8%	4.1%	5.4%	n/a	2.9	2.5	2.0
Ireland	Bank of Ireland	Hold	0.3	0.02	0.02	0.03	0.03	20.9	17.7	13.0	11.1	0.00	0.00	0.01	0.02	0.0%	0.0%	3.6%	4.9%	n/a	n/a	2.1	1.9
Italy	Banca Popolare di Milano	Hold	0.9	0.03	0.04	0.06	0.08	31.1	20.9	13.9	11.5	0.02	0.02	0.04	0.04	2.4%	2.6%	3.9%	4.8%	1.3	1.8	1.8	1.8
Italy	Banco Popolare	Buy	14.4	(4.23)	1.04	1.48	1.90	n/a	13.9	9.7	7.6	0.00	0.40	0.58	0.75	0.0%	2.8%	4.1%	5.2%	n/a	2.6	2.5	2.5
Italy	Credem	Hold	7.2	0.45	0.59	0.58	0.64	15.9	12.1	12.3	11.2	0.15	0.30	0.29	0.32	2.1%	4.1%	4.1%	4.5%	3.0	2.0	2.0	2.0
Italy	Intesa SanPaolo	Hold	3.2	0.10	0.21	0.25	0.27	30.3	14.0	11.7	10.9	0.07	0.12	0.17	0.24	2.2%	3.9%	5.5%	7.5%	1.4	1.8	1.5	1.2
Italy	UBI Banca	Hold	7.0	0.20	0.31	0.55	0.65	34.4	22.5	12.7	10.8	0.08	0.14	0.26	0.31	1.1%	2.0%	3.8%	4.5%	2.5	2.2	2.1	2.1
Italy	UniCredit	Buy	6.0	0.44	0.46	0.62	0.76	13.8	13.2	9.8	7.9	0.12	0.16	0.24	0.29	2.0%	2.7%	3.9%	4.9%	3.6	2.8	2.6	2.6
Nordics	Danske Bank	Buy	195.6	11.78	15.24	17.28	18.52	16.6	12.8	11.3	10.6	5.50	8.30	10.80	11.50	2.8%	4.2%	5.5%	5.9%	2.1	1.8	1.6	1.6
Nordics	DNB	Hold	132.6	12.22	13.37	12.96	13.32	10.9	9.9	10.2	10.0	3.80	5.30	6.40	7.90	2.9%	4.0%	4.8%	6.0%	3.2	2.5	2.0	1.7
Nordics	Nordea	Hold	11.4	0.87	0.92	0.96	1.01	13.1	12.4	11.9	11.3	0.62	0.69	0.71	0.75	5.4%	6.0%	6.3%	6.6%	1.4	1.3	1.3	1.3
Nordics	SEB	Buy	104.1	7.47	8.02	8.73	9.42	13.9	13.0	11.9	11.1	4.75	5.20	5.70	6.10	4.6%	5.0%	5.5%	5.9%	1.6	1.5	1.5	1.5
Nordics	Svenska Handelsbanken	Hold	120.5	7.65	8.15	8.77	9.31	15.8	14.8	13.7	12.9	5.83	5.97	6.37	6.67	4.8%	5.0%	5.3%	5.5%	1.3	1.4	1.4	1.4
Nordics	Swedbank	Hold	192.0	15.02	14.37	14.91	15.14	12.8	13.4	12.9	12.7	11.35	11.35	11.35	11.36	5.9%	5.9%	5.9%	5.9%	1.3	1.3	1.3	1.3
Switzerland	Cembra Money Bank	Hold	56.8	4.86	4.99	5.26	5.27	11.7	11.1	10.7	10.8	3.10	3.35	3.60	3.69	5.5%	5.9%	6.3%	6.5%	1.6	1.5	1.5	1.4
Switzerland	Credit Suisse Group	Buy	25.7	2.20	2.73	3.02	3.26	11.7	9.5	8.5	7.9	0.70	0.70	1.25	1.50	2.7%	2.7%	4.9%	5.8%	3.1	3.9	2.4	2.2
Switzerland	Julius Baer	Hold	51.1	2.71	3.45	3.75	4.28	19.1	14.8	13.6	11.9	1.00	1.00	1.00	1.00	2.0%	2.0%	2.0%	2.0%	2.7	3.5	3.8	4.3
Switzerland	UBS	Buy	20.0	0.97	1.38	1.72	1.80	20.7	14.5	11.6	11.1	0.50	0.60	0.80	1.00	2.5%	3.0%	4.0%	5.0%	1.9	2.3	2.2	1.8
UK	Aldermore	Buy	287.5	14.69	18.63	24.16	28.53	19.4	15.4	11.9	10.0	0.00	0.00	0.00	4.30	0.0%	0.0%	0.0%	1.5%	n/a	n/a	n/a	6.6
UK	Barclays	Buy	265.0	18.99	22.94	28.78	32.28	13.8	11.4	9.1	8.1	6.50	6.50	8.00	12.91	2.5%	2.5%	3.0%	4.9%	2.9	3.5	3.6	2.5
UK	HSBC	Hold	600.0	86.09	81.87	87.01	97.16	10.9	11.4	10.8	9.6	50.00	50.50	51.01	52.03	5.4%	5.4%	5.5%	5.6%	1.7	1.6	1.7	1.9
UK	Lloyds Banking Group	Buy	86.4	8.01	8.39	8.24	8.92	10.6	10.0	10.2	9.4	0.75	3.00	5.00	6.00	0.9%	3.5%	5.8%	6.9%	10.7	2.8	1.6	1.5
UK	RBS	Hold	350.5	30.46	30.20	22.69	28.41	11.6	11.6	15.5	12.4	0.00	0.00	5.00	13.00	0.0%	0.0%	1.4%	3.7%	n/a	n/a	4.5	2.2
UK	Standard Chartered	Sell	1038.0	151.02	103.28	105.72	130.28	10.7	16.8	15.4	12.5	86.00	25.82	26.43	32.57	5.3%	1.6%	1.6%	2.0%	1.8	4.0	4.0	4.0

Source: Deutsche Bank, Price at close of 15 June 2015

Figure 276: Credit quality gearing data

Geography	Stock	DB Rec.	Current price	Pre-provision profits (E'm)				Market cap to PPP				Bad debt charge / Avg. Loans			
				2014	2015e	2016e	2017e	2014	2015e	2016e	2017e	2014	2015e	2016e	2017e
Austria	Erste Bank	Hold	24.8	1,357	2,561	2,667	2,768	7.5	4.0	3.8	3.7	174bps	88bps	79bps	76bps
Austria	Raiffeisen Bank Intern.	Hold	12.4	1,739	1,866	2,114	2,244	2.1	1.9	1.7	1.6	234bps	226bps	168bps	122bps
Benelux	KBC	Buy	58.2	2,871	3,362	3,480	3,622	8.5	7.2	7.0	6.7	46bps	34bps	33bps	31bps
Benelux	ING	Hold	14.4	6,317	7,590	7,932	8,368	8.8	7.3	7.0	6.6	32bps	34bps	29bps	26bps
France	BNP Paribas	Hold	54.0	12,644	13,752	15,322	16,241	5.3	4.9	4.4	4.1	153bps	61bps	53bps	48bps
France	Credit Agricole	Hold	13.0	4,761	5,755	6,475	7,213	7.1	6.0	5.4	5.0	71bps	84bps	62bps	59bps
France	Societe Generale	Buy	41.9	7,522	8,366	8,612	9,080	4.4	3.9	3.8	3.6	87bps	76bps	89bps	64bps
Germany	Aareal Bank	Hold	34.3	582	544	402	404	3.5	3.8	5.1	5.1	52bps	39bps	30bps	28bps
Germany	Comdirect	Hold	9.2	83	77	80	85	15.6	16.8	16.1	15.3	13bps	4bps	21bps	42bps
Germany	Commerzbank	Buy	11.4	1,828	2,785	2,807	3,016	7.1	5.1	5.1	4.7	48bps	46bps	39bps	39bps
Greece	Alpha Bank	Buy	0.3	857	1,430	1,544	1,727	3.9	2.3	2.2	1.9	366bps	228bps	195bps	131bps
Greece	Eurobank	Buy	0.1	834	916	1,089	1,236	2.2	2.0	1.6	1.5	516bps	246bps	203bps	141bps
Greece	National Bank of Greece	Buy	1.0	1,467	1,912	2,094	2,328	2.4	1.8	1.7	1.5	362bps	191bps	162bps	125bps
Iberia	Banco Popular	Sell	4.5	2,005	1,597	1,492	1,624	4.8	6.0	6.5	5.9	207bps	119bps	92bps	45bps
Iberia	Banco Santander	Hold	6.3	22,574	24,535	25,312	26,355	3.5	3.7	3.6	3.5	149bps	134bps	128bps	121bps
Iberia	Bankia	Hold	1.15	2,267	2,245	2,261	2,344	5.8	5.9	5.8	5.6	100bps	70bps	56bps	47bps
Iberia	Bankinter	Buy	6.7	730	788	814	871	8.2	7.6	7.3	6.9	78bps	50bps	42bps	36bps
Iberia	BBVA	Buy	8.9	10,406	12,401	13,761	14,591	5.3	4.5	4.1	3.9	131bps	106bps	92bps	86bps
Iberia	BCP	Sell	0.08	1,061	1,273	1,266	1,320	4.1	3.7	3.8	3.6	200bps	110bps	100bps	91bps
Iberia	Liberbank	Hold	0.70	500	385	416	410	3.7	4.8	4.4	4.9	135bps	53bps	41bps	35bps
Ireland	Bank of Ireland	Hold	0.3	1,211	1,328	1,460	1,608	9.2	8.4	7.6	6.9	57bps	41bps	42bps	37bps
Italy	Banca Popolare di Milano	Hold	0.9	648	648	722	786	6.1	6.1	5.5	5.1	130bps	102bps	76bps	65bps
Italy	Banco Popolare	Buy	14.4	1,291	1,330	1,536	1,683	4.0	3.9	3.4	3.1	434bps	100bps	80bps	69bps
Italy	Credem	Hold	7.2	369	423	380	411	6.4	5.6	6.2	5.7	54bps	47bps	25bps	25bps
Italy	Intesa SanPaolo	Hold	3.2	8,354	9,454	10,055	10,480	6.0	5.3	5.0	4.8	131bps	100bps	86bps	82bps
Italy	UBI Banca	Hold	7.0	1,356	1,283	1,458	1,583	4.7	4.9	4.3	4.0	107bps	91bps	72bps	69bps
Italy	UniCredit	Buy	6.0	8,675	9,419	10,444	11,284	4.1	3.8	3.4	3.1	90bps	86bps	75bps	65bps
Nordics	Danske Bank	Buy	195.6	1,550	3,038	3,296	3,510	17.1	8.5	7.6	7.2	23bps	11bps	12bps	12bps
Nordics	DNB	Hold	132.6	3,415	3,668	3,597	3,728	7.6	6.7	6.9	6.6	12bps	23bps	24bps	24bps
Nordics	Nordea	Hold	11.4	4,859	5,423	5,638	5,918	9.4	8.4	8.1	7.7	15bps	16bps	16bps	16bps
Nordics	SEB	Buy	104.1	2,726	2,511	2,762	2,974	9.2	9.9	9.0	8.3	10bps	8bps	10bps	10bps
Nordics	Svenska Handelsbanken	Hold	120.5	2,307	2,330	2,537	2,689	11.3	10.7	9.8	9.3	10bps	8bps	10bps	10bps
Nordics	Swedbank	Hold	192.0	2,385	2,294	2,410	2,507	9.8	10.0	9.6	9.2	5bps	5bps	9bps	12bps
Switzerland	Cembra Money Bank	Hold	56.8	179	205	215	220	7.8	7.6	7.1	6.9	101bps	101bps	101bps	101bps
Switzerland	Credit Suisse Group	Buy	25.7	3,137	4,944	7,159	7,859	10.9	8.2	5.6	5.2	7bps	11bps	11bps	13bps
Switzerland	Julius Baer	Hold	51.1	387	672	874	1,004	23.7	15.8	12.1	10.6	0bps	155bps	0bps	0bps
Switzerland	UBS	Buy	20.0	2,198	4,187	6,549	8,073	29.1	17.6	11.2	9.1	3bps	4bps	6bps	8bps
UK	Aldermore	Buy	287.5	74	142	197	234	14.4	9.6	6.9	5.9	23bps	38bps	38bps	39bps
UK	Barclays	Buy	265.0	9,504	11,749	14,375	16,701	5.7	5.2	4.3	3.7	45bps	46bps	52bps	56bps
UK	HSBC	Hold	600.0	15,078	18,660	21,095	26,810	9.0	8.7	7.9	6.3	39bps	34bps	35bps	34bps
UK	Lloyds Banking Group	Buy	86.4	4,332	9,901	11,894	13,831	17.6	8.7	7.3	6.3	24bps	23bps	32bps	35bps
UK	RBS	Hold	350.5	7,196	7,509	6,808	8,385	6.9	7.5	8.4	6.9	-29bps	-2bps	12bps	19bps
UK	Standard Chartered	Sell	1038.0	5,876	5,662	5,954	6,480	5.1	7.4	7.2	6.8	73bps	70bps	72bps	52bps

Source: Deutsche Bank, Price at close of 15 June 2015

Figure 277: Credit quality gearing data

Geography	Stock	DB Rec.	Current price	Cost:income ratio 2014	2015e	2016e	2017e	Costs (E'm) 2014	2015e	2016e	2017e	Market cap to costs 2014	2015e	2016e	2017e
Austria	Erste Bank	Hold	24.8	73.6%	59.5%	58.6%	58.0%	3,787	3,763	3,782	3,826	2.7	2.7	2.7	2.7
Austria	Raiffeisen Bank Intern.	Hold	12.4	63.5%	61.2%	57.7%	55.6%	3,024	2,940	2,879	2,814	1.2	1.2	1.3	1.3
Benelux	KBC	Buy	58.2	56.8%	53.7%	53.1%	52.3%	3,775	3,906	3,947	3,975	6.4	6.2	6.2	6.1
Benelux	ING	Hold	14.4	58.7%	53.7%	53.1%	52.2%	8,979	8,816	8,982	9,152	6.2	6.3	6.2	6.1
France	BNP Paribas	Hold	54.0	67.7%	67.2%	64.2%	63.1%	26,524	28,210	27,512	27,732	2.5	2.4	2.4	2.4
France	Credit Agricole	Hold	13.0	70.0%	66.8%	64.6%	62.5%	11,088	11,571	11,825	12,033	3.0	3.0	3.0	3.0
France	Societe Generale	Buy	41.9	68.1%	66.5%	66.8%	66.2%	16,037	16,619	17,334	17,785	2.1	2.0	1.9	1.9
Germany	Aareal Bank	Hold	34.3	43.0%	50.2%	55.6%	53.6%	439	549	504	467	4.7	3.7	4.1	4.4
Germany	Comdirect	Hold	9.2	76.6%	78.6%	78.3%	77.8%	271	283	291	297	4.8	4.6	4.5	4.4
Germany	Commerzbank	Buy	11.4	79.1%	71.6%	71.3%	69.8%	6,926	7,015	6,971	6,961	1.9	2.0	2.1	2.1
Greece	Alpha Bank	Buy	0.3	64.9%	43.4%	41.8%	39.5%	1,585	1,098	1,109	1,125	2.1	3.0	3.0	3.0
Greece	Eurobank	Buy	0.1	55.8%	52.4%	47.7%	44.9%	1,055	1,007	993	1,008	1.7	1.8	1.8	1.8
Greece	National Bank of Greece	Buy	1.0	58.9%	51.1%	49.7%	48.1%	2,104	1,995	2,072	2,160	1.7	1.8	1.7	1.6
Iberia	Banco Popular	Sell	4.5	48.3%	52.5%	53.8%	51.2%	1,871	1,767	1,737	1,704	5.1	5.4	5.5	5.6
Iberia	Banco Santander	Hold	6.3	47.0%	46.2%	46.0%	45.5%	20,038	21,052	21,545	22,026	4.0	4.3	4.2	4.2
Iberia	Bankia	Hold	1.15	43.5%	42.9%	42.7%	41.8%	1,742	1,685	1,684	1,681	7.6	7.8	7.8	7.9
Iberia	Bankinter	Buy	6.7	49.6%	48.4%	47.8%	46.1%	719	737	745	745	8.3	8.1	8.0	8.0
Iberia	BBVA	Buy	8.9	51.3%	49.6%	48.7%	47.9%	10,951	12,217	13,052	13,394	5.0	4.6	4.3	4.2
Iberia	BCP	Sell	0.08	52.0%	46.5%	46.1%	44.7%	1,150	1,107	1,082	1,065	3.8	4.3	4.4	4.5
Iberia	Liberbank	Hold	0.70	46.7%	52.3%	48.6%	49.5%	439	421	394	402	4.2	4.4	4.7	5.0
Ireland	Bank of Ireland	Hold	0.3	59.3%	57.0%	55.0%	52.3%	1,761	1,762	1,784	1,762	6.3	6.3	6.3	6.3
Italy	Banca Popolare di Milano	Hold	0.9	61.5%	61.4%	58.8%	56.8%	1,034	1,031	1,031	1,034	3.9	3.9	3.9	3.8
Italy	Banco Popolare	Buy	14.4	62.2%	62.0%	58.7%	56.4%	2,127	2,173	2,179	2,181	2.4	2.4	2.4	2.4
Italy	Credem	Hold	7.2	67.9%	65.6%	68.0%	66.4%	782	806	806	810	3.0	2.9	2.9	2.9
Italy	Intesa SanPaolo	Hold	3.2	50.6%	47.3%	45.8%	44.7%	8,544	8,497	8,481	8,488	5.8	5.9	5.9	5.9
Italy	UBI Banca	Hold	7.0	62.4%	63.6%	60.3%	58.0%	2,248	2,243	2,212	2,184	2.8	2.8	2.9	2.9
Italy	UniCredit	Buy	6.0	61.5%	59.1%	56.5%	54.4%	13,838	13,629	13,538	13,449	2.6	2.6	2.6	2.6
Nordics	Danske Bank	Buy	195.6	73.8%	49.4%	46.5%	44.7%	4,362	2,967	2,862	2,832	6.1	8.7	8.8	8.9
Nordics	DNB	Hold	132.6	42.2%	39.8%	39.9%	39.4%	2,493	2,420	2,386	2,428	10.4	10.2	10.3	10.2
Nordics	Nordea	Hold	11.4	52.5%	46.4%	45.7%	44.7%	5,366	4,702	4,740	4,780	8.5	9.7	9.6	9.6
Nordics	SEB	Buy	104.1	47.2%	49.3%	47.0%	45.3%	2,433	2,440	2,452	2,462	10.3	10.2	10.1	10.1
Nordics	Svenska Handelsbanken	Hold	120.5	45.2%	45.4%	44.0%	43.2%	1,904	1,934	1,990	2,048	13.7	12.9	12.5	12.2
Nordics	Swedbank	Hold	192.0	44.8%	44.4%	42.3%	41.5%	1,935	1,831	1,767	1,775	12.0	12.6	13.0	13.0
Switzerland	Cembra Money Bank	Hold	56.8	42.6%	43.6%	42.4%	41.4%	133	159	158	156	10.5	9.8	9.6	9.8
Switzerland	Credit Suisse Group	Buy	25.7	85.5%	79.8%	70.5%	69.1%	18,469	19,490	17,148	17,544	1.8	2.1	2.4	2.3
Switzerland	Julius Baer	Hold	51.1	81.5%	75.6%	70.3%	68.6%	1,710	2,080	2,071	2,197	5.4	5.1	5.1	4.8
Switzerland	UBS	Buy	20.0	90.5%	85.3%	78.0%	74.3%	20,943	24,349	23,199	23,345	3.0	3.0	3.2	3.2
UK	Aldermore	Buy	287.5	63.7%	53.3%	45.7%	42.9%	130	162	166	176	8.2	8.4	8.2	7.9
UK	Barclays	Buy	265.0	70.2%	66.3%	60.7%	56.3%	22,422	23,118	22,185	21,545	2.4	2.6	2.8	2.9
UK	HSBC	Hold	600.0	67.3%	65.6%	63.0%	55.8%	31,099	35,662	35,980	33,910	4.3	4.6	4.6	5.0
UK	Lloyds Banking Group	Buy	86.4	80.8%	62.5%	53.3%	48.4%	18,178	16,508	13,584	12,991	4.2	5.2	6.4	6.7
UK	RBS	Hold	350.5	68.1%	67.4%	62.3%	56.0%	15,385	15,521	11,267	10,674	3.2	3.6	5.1	5.4
UK	Standard Chartered	Sell	1038.0	57.5%	62.2%	61.5%	60.2%	7,946	9,316	9,522	9,805	3.8	4.5	4.5	4.5

Source: Deutsche Bank, Price at close of 15 June 2015

Figure 278: Yields data

Geography	Stock	DB Rec.	Current price	Target price	Upside / ownside)	Income yield 2014	2015e	2016e	2017e	Dividend Yield 2014	2015e	2016e	2017e	Payout ratio 2014	2015e	2016e	2017e	FCF Yield 2014	2015e	2016e	2017e
Austria	Erste Bank	Hold	24.8	25.0	1%	-14.2%	8.3%	9.5%	10.3%	0.0%	2.0%	2.8%	3.0%	n/a	25%	30%	29%	-16.8%	6.0%	6.9%	7.9%
Austria	Raiffeisen Bank Intern.	Hold	12.4	13.0	5%	-13.6%	-1.3%	14.8%	24.2%	0.0%	0.0%	3.0%	6.0%	n/a	n/a	16%	22%	17.2%	-0.8%	11.5%	15.1%
Benelux	KBC	Buy	58.2	66.0	13%	5.9%	4.7%	9.1%	9.6%	3.4%	0.0%	5.4%	5.8%	44%	n/a	62%	62%	5.9%	3.8%	8.3%	8.8%
Benelux	ING	Hold	14.4	14.4	0%	2.3%	8.8%	8.3%	9.0%	0.8%	6.6%	7.4%	8.1%	12%	91%	90%	90%	-0.2%	6.1%	4.7%	5.1%
France	BNP Paribas	Hold	54.0	60.0	11%	-0.1%	9.8%	11.2%	12.3%	2.8%	4.4%	5.0%	5.5%	27%	43%	45%	45%	-9.1%	4.7%	8.4%	9.3%
France	Credit Agricole	Hold	13.0	14.5	11%	7.0%	8.2%	11.7%	12.9%	2.7%	4.1%	5.8%	6.5%	27%	42%	53%	52%	8.9%	0.5%	7.4%	8.8%
France	Societe Generale	Buy	41.9	48.0	15%	6.9%	10.6%	9.2%	12.4%	2.9%	5.2%	4.6%	6.2%	30%	50%	41%	50%	-4.4%	2.0%	6.4%	9.6%
Germany	Aareal Bank	Hold	34.3	39.0	14%	14.3%	15.2%	9.1%	9.4%	3.5%	4.4%	7.3%	7.3%	49%	50%	83%	84%	2.9%	1.7%	14.3%	12.3%
Germany	Comdirect	Hold	9.2	10.0	9%	5.1%	4.4%	4.6%	4.8%	4.4%	3.7%	3.9%	4.1%	85%	85%	85%	85%	2.2%	3.8%	4.1%	4.3%
Germany	Commerzbank	Buy	11.4	14.0	22%	2.0%	7.2%	8.8%	9.8%	0.0%	1.3%	2.6%	4.4%	n/a	16%	30%	45%	-16.9%	2.3%	9.1%	9.6%
Greece	Alpha Bank	Buy	0.3	0.6	129%	-9.9%	5.7%	12.4%	24.1%	0.0%	0.0%	0.0%	0.0%	n/a	n/a	n/a	n/a	-14.9%	12.5%	9.9%	19.8%
Greece	Eurobank	Buy	0.1	0.3	105%	-67.9%	-9.2%	6.9%	24.1%	0.0%	0.0%	0.0%	0.0%	n/a	n/a	n/a	n/a	-78.5%	1.8%	2.5%	18.4%
Greece	National Bank of Greece	Buy	1.0	2.0	102%	1.9%	10.8%	26.9%	35.8%	0.0%	0.0%	0.0%	0.0%	n/a	n/a	n/a	n/a	-9.6%	13.2%	21.0%	27.7%
Iberia	Banco Popular	Sell	4.5	3.5	(21%)	3.4%	3.6%	4.5%	9.0%	1.5%	1.8%	2.3%	4.5%	50%	67%	64%	57%	8.3%	4.5%	2.9%	4.7%
Iberia	Banco Santander	Hold	6.3	6.7	6%	7.3%	8.1%	9.0%	10.0%	9.5%	3.2%	3.2%	3.2%	125%	39%	36%	32%	-4.7%	1.6%	6.2%	7.1%
Iberia	Bankia	Hold	1.15	1.25	9%	5.7%	7.8%	8.7%	9.6%	0.7%	2.6%	5.0%	5.0%	12%	33%	58%	52%	5.9%	8.2%	9.5%	8.2%
Iberia	Bankinter	Buy	6.7	7.6	14%	4.6%	6.6%	7.3%	8.3%	2.3%	3.3%	4.4%	5.0%	50%	50%	60%	60%	1.9%	5.9%	5.6%	7.2%
Iberia	BBVA	Buy	8.9	10.2	15%	6.1%	5.3%	8.6%	10.4%	4.2%	4.2%	4.2%	4.2%	69%	83%	51%	42%	1.1%	-9.9%	5.2%	6.3%
Iberia	BCP	Sell	0.08	0.07	(13%)	-5.0%	5.0%	6.7%	9.2%	0.0%	0.0%	0.0%	0.0%	n/a	n/a	n/a	n/a	-3.4%	5.3%	5.3%	4.2%
Iberia	Liberbank	Hold	0.70	0.76	8%	6.3%	8.8%	11.2%	10.9%	0.0%	2.8%	4.1%	5.4%	n/a	35%	40%	50%	10.9%	9.7%	9.0%	-3.7%
Ireland	Bank of Ireland	Hold	0.3	0.3	(1%)	5.8%	6.6%	8.1%	9.7%	0.0%	0.0%	3.6%	4.9%	n/a	n/a	47%	54%	8.6%	6.5%	6.9%	7.9%
Italy	Banca Popolare di Milano	Hold	0.9	0.9	1%	5.8%	4.8%	7.2%	8.7%	2.4%	2.6%	3.9%	4.8%	76%	55%	55%	55%	28.3%	3.0%	4.7%	5.9%
Italy	Banco Popolare	Buy	14.4	17.6	22%	-37.4%	7.0%	10.2%	13.1%	0.0%	2.8%	4.1%	5.2%	n/a	39%	39%	40%	-34.8%	1.5%	12.1%	11.2%
Italy	Credem	Hold	7.2	8.3	16%	6.4%	8.3%	8.1%	8.9%	2.1%	4.1%	4.1%	4.5%	33%	50%	50%	50%	5.6%	15.4%	5.2%	5.8%
Italy	Intesa SanPaolo	Hold	3.2	3.5	11%	2.5%	6.9%	8.4%	9.0%	2.2%	3.9%	5.5%	7.5%	71%	57%	68%	87%	3.8%	4.2%	6.9%	8.4%
Italy	UBI Banca	Hold	7.0	7.2	3%	-11.5%	4.0%	7.5%	8.9%	1.1%	2.0%	3.8%	4.5%	39%	45%	48%	48%	-12.6%	2.7%	5.1%	6.4%
Italy	UniCredit	Buy	6.0	7.7	28%	5.7%	6.7%	9.8%	12.2%	2.0%	2.7%	3.9%	4.9%	27%	35%	38%	39%	-1.2%	3.0%	9.0%	10.1%
Nordics	Danske Bank	Buy	195.6	215.0	10%	1.9%	8.4%	9.2%	9.8%	2.8%	4.2%	5.5%	5.9%	47%	54%	62%	62%	1.3%	7.3%	9.2%	9.0%
Nordics	DNB	Hold	132.6	135.0	2%	9.5%	9.9%	9.6%	10.0%	2.9%	4.0%	4.8%	6.0%	31%	40%	49%	59%	8.1%	7.9%	7.6%	7.9%
Nordics	Nordea	Hold	11.4	12.0	5%	7.4%	8.1%	8.4%	8.9%	5.4%	6.0%	6.3%	6.6%	71%	74%	74%	74%	9.5%	6.8%	8.4%	8.1%
Nordics	SEB	Buy	104.1	118.0	13%	8.5%	7.7%	8.4%	9.0%	4.6%	5.0%	5.5%	5.9%	64%	65%	65%	65%	6.2%	7.1%	7.4%	7.9%
Nordics	Svenska Handelsbanken	Hold	120.5	128.0	6%	6.5%	6.8%	7.3%	7.7%	4.8%	5.0%	5.3%	5.5%	76%	73%	73%	72%	5.9%	5.6%	6.4%	6.8%
Nordics	Swedbank	Hold	192.0	182.0	(5%)	7.9%	7.6%	7.8%	7.9%	5.9%	5.9%	5.9%	5.9%	76%	79%	76%	75%	9.7%	6.7%	7.3%	7.1%
Switzerland	Cembra Money Bank	Hold	56.8	57.0	0%	8.2%	8.4%	9.1%	9.3%	5.5%	5.9%	6.3%	6.5%	64%	67%	69%	70%	7.7%	8.0%	8.6%	8.8%
Switzerland	Credit Suisse Group	Buy	25.7	30.0	17%	4.3%	7.2%	11.6%	12.7%	2.7%	2.7%	4.9%	5.8%	32%	26%	41%	46%	0.0%	9.3%	13.6%	12.7%
Switzerland	Julius Baer	Hold	51.1	51.0	(0%)	3.3%	0.6%	6.8%	7.9%	2.0%	2.0%	2.0%	2.0%	37%	29%	27%	23%	2.6%	-0.2%	6.1%	7.0%
Switzerland	UBS	Buy	20.0	23.0	15%	4.6%	5.1%	7.9%	9.7%	2.5%	3.0%	4.0%	5.0%	51%	43%	46%	56%	5.7%	5.9%	7.4%	9.7%
UK	Aldermore	Buy	287.5	290.0	1%	4.5%	6.6%	9.3%	10.8%	0.0%	0.0%	0.0%	1.5%	n/a	n/a	n/a	15%	-3.8%	-2.0%	1.4%	3.0%
UK	Barclays	Buy	265.0	305.0	15%	-0.3%	3.3%	6.9%	11.6%	2.5%	2.5%	3.0%	4.9%	34%	28%	28%	40%	7.4%	4.5%	7.7%	10.3%
UK	HSBC	Hold	600.0	580.0	(3%)	7.3%	7.3%	7.9%	10.4%	5.4%	5.4%	5.5%	5.6%	58%	62%	59%	54%	7.0%	6.0%	5.9%	8.4%
UK	Lloyds Banking Group	Buy	86.4	97.0	12%	1.8%	6.0%	8.3%	9.9%	0.9%	3.5%	5.8%	6.9%	9%	36%	61%	67%	7.2%	8.0%	6.4%	9.5%
UK	RBS	Hold	350.5	395.0	13%	-8.6%	-13.2%	-3.6%	8.2%	0.0%	0.0%	1.4%	3.7%	n/a	n/a	22%	46%	-1.3%	5.0%	7.1%	12.1%
UK	Standard Chartered	Sell	1038.0	850.0	(18%)	6.3%	5.2%	6.1%	8.0%	5.3%	1.6%	1.6%	2.0%	57%	25%	25%	25%	1.4%	3.0%	2.5%	4.3%

Source: Deutsche Bank, Price at close of 15 June 2015

Figure 279:RoE and Book value data

Geography	Stock	DB Rec.	Current	Book value (E'm)				Book value per share				Price : Stated Book				Return on Avg. Stated Equity				Return on Avg. RWAs			
			price	2014	2015e	2016e	2017e	2014	2015e	2016e	2017e	2014	2015e	2016e	2017e	2014	2015e	2016e	2017e	2014	2015e	2016e	2017e
Austria	Erste Bank	Hold	24.8	9,838	10,648	11,324	12,062	24.00	25.97	27.62	29.42	1.03	0.95	0.90	0.84	0.5%	8.1%	8.8%	8.9%	0.1%	0.8%	0.9%	1.0%
Austria	Raiffeisen Bank Intern.	Hold	12.4	7,808	8,209	9,327	10,437	26.70	28.07	31.90	35.69	0.46	0.44	0.39	0.35	0.0%	1.0%	7.5%	10.2%	0.0%	0.1%	1.0%	1.4%
Benelux	KBC	Buy	58.2	13,124	14,508	15,311	16,164	31.44	34.73	36.65	38.69	1.85	1.68	1.59	1.50	15.3%	15.0%	14.3%	14.3%	2.1%	2.2%	2.3%	2.3%
Benelux	ING	Hold	14.4	38,064	42,893	46,706	47,198	9.86	11.08	12.07	12.20	1.45	1.29	1.19	1.18	10.9%	10.0%	10.2%	10.6%	1.3%	1.3%	1.4%	1.5%
France	BNP Paribas	Hold	54.0	76,619	80,902	85,344	90,210	61.69	65.14	68.71	72.63	0.87	0.83	0.79	0.74	8.8%	8.7%	9.0%	9.4%	1.2%	1.1%	1.1%	1.2%
France	Credit Agricole	Hold	13.0	46,423	49,866	52,711	55,983	18.02	18.94	19.64	20.29	0.72	0.69	0.66	0.64	7.3%	7.0%	7.5%	8.2%	1.1%	1.1%	1.2%	1.3%
France	Societe Generale	Buy	41.9	45,541	48,791	50,012	52,539	58.00	61.95	63.50	66.71	0.72	0.68	0.66	0.63	7.1%	7.3%	7.6%	8.0%	0.9%	0.9%	1.0%	1.0%
Germany	Aareal Bank	Hold	34.3	2,181	2,550	2,646	2,691	36.44	42.60	44.21	44.95	0.94	0.81	0.78	0.76	7.1%	7.6%	6.9%	6.7%	1.0%	1.1%	1.0%	1.1%
Germany	Comdirect	Hold	9.2	592	592	603	615	4.19	4.19	4.27	4.35	2.19	2.19	2.15	2.11	11.6%	9.6%	9.9%	10.2%	2.5%	2.0%	2.0%	2.0%
Germany	Commerzbank	Buy	11.4	26,054	29,370	30,445	31,469	22.88	23.45	24.31	25.13	0.50	0.49	0.47	0.46	3.9%	4.0%	4.2%	4.5%	0.5%	0.5%	0.6%	0.6%
Greece	Alpha Bank	Buy	0.3	7,652	7,844	8,260	9,066	0.60	0.61	0.65	0.71	0.44	0.43	0.41	0.37	(10.5%)	2.5%	5.2%	9.3%	(1.5%)	0.4%	0.8%	1.6%
Greece	Eurobank	Buy	0.1	4,609	4,444	4,567	5,000	0.31	0.30	0.31	0.34	0.39	0.40	0.39	0.36	(30.6%)	(3.6%)	2.7%	9.1%	(3.1%)	(0.4%)	0.3%	1.1%
Greece	National Bank of Greece	Buy	1.0	8,063	8,441	9,383	10,636	2.28	2.39	2.66	3.01	0.43	0.41	0.37	0.33	(17.5%)	4.6%	6.1%	8.5%	(2.1%)	0.6%	0.9%	1.4%
Iberia	Banco Popular	Sell	4.5	12,670	12,837	13,641	13,866	5.88	5.97	6.30	6.46	0.76	0.75	0.71	0.69	2.3%	2.0%	2.6%	5.5%	0.3%	0.3%	0.4%	0.9%
Iberia	Banco Santander	Hold	6.3	80,806	96,474	101,991	108,331	6.42	6.75	7.09	7.49	0.99	0.94	0.89	0.85	7.7%	8.2%	8.2%	8.7%	1.1%	1.2%	1.2%	1.3%
Iberia	Bankia	Hold	1.15	12,533	13,150	13,419	13,496	1.09	1.14	1.17	1.17	1.05	1.00	0.98	0.98	6.3%	8.0%	8.6%	9.4%	0.8%	1.2%	1.3%	1.4%
Iberia	Bankinter	Buy	6.7	3,710	3,858	4,022	4,171	4.13	4.29	4.47	4.64	1.61	1.55	1.49	1.43	7.8%	10.5%	11.1%	12.1%	1.1%	1.5%	1.6%	1.8%
Iberia	BBVA	Buy	8.9	49,446	51,881	54,655	57,933	8.01	8.21	8.60	9.05	1.11	1.08	1.03	0.98	6.7%	5.5%	8.7%	10.0%	0.9%	0.7%	1.0%	1.2%
Iberia	BCP	Sell	0.08	4,806	6,077	6,092	6,413	0.09	0.10	0.10	0.11	0.90	0.78	0.78	0.74	(5.5%)	4.4%	5.3%	7.0%	(0.5%)	0.6%	0.7%	1.0%
Iberia	Liberbank	Hold	0.70	2,615	2,766	2,817	3,096	1.00	1.06	1.08	1.08	0.70	0.66	0.65	0.65	5.6%	6.0%	7.4%	7.4%	0.7%	1.0%	1.3%	1.2%
Ireland	Bank of Ireland	Hold	0.3	8,753	8,941	8,213	8,829	0.27	0.28	0.25	0.27	1.27	1.25	1.36	1.26	6.4%	7.1%	10.0%	11.8%	1.0%	1.2%	1.6%	1.9%
Italy	Banca Popolare di Milano	Hold	0.9	4,537	4,623	4,751	4,906	1.03	1.05	1.08	1.12	0.88	0.86	0.84	0.81	3.1%	4.2%	6.1%	7.1%	0.3%	0.6%	0.8%	1.0%
Italy	Banco Popolare	Buy	14.4	8,064	8,258	8,491	8,811	22.27	22.80	23.44	24.33	0.65	0.63	0.61	0.59	(18.9%)	4.6%	6.4%	7.9%	(3.2%)	0.8%	1.1%	1.4%
Italy	Credem	Hold	7.2	2,376	2,474	2,570	2,675	7.23	7.53	7.82	8.14	0.99	0.95	0.92	0.88	6.6%	8.0%	7.6%	8.0%	0.9%	1.2%	1.2%	1.3%
Italy	Intesa SanPaolo	Hold	3.2	44,683	46,204	47,540	48,145	2.66	2.75	2.83	2.87	1.12	1.08	1.05	1.04	3.7%	7.8%	9.1%	9.6%	0.6%	1.3%	1.5%	1.6%
Italy	UBI Banca	Hold	7.0	9,804	9,930	10,167	10,448	10.87	11.01	11.27	11.59	0.64	0.64	0.62	0.60	1.8%	2.8%	5.0%	5.7%	0.3%	0.5%	0.8%	0.9%
Italy	UniCredit	Buy	6.0	49,390	51,546	54,595	58,429	8.42	8.76	9.28	9.93	0.72	0.69	0.65	0.61	5.3%	5.3%	6.8%	7.9%	0.6%	0.6%	0.9%	1.0%
Nordics	Danske Bank	Buy	195.6	19,779	21,169	21,852	22,931	146.19	161.11	169.91	178.30	1.34	1.21	1.15	1.10	8.1%	9.8%	10.3%	10.6%	1.4%	1.7%	1.9%	2.0%
Nordics	DNB	Hold	132.6	18,998	19,910	21,292	22,566	97.45	106.93	114.35	121.19	1.36	1.24	1.16	1.09	13.2%	13.1%	11.7%	11.3%	1.8%	1.9%	1.8%	1.8%
Nordics	Nordea	Hold	11.4	29,387	31,090	32,155	33,327	7.31	7.74	8.00	8.29	1.56	1.47	1.42	1.37	11.9%	12.2%	12.1%	12.4%	2.3%	2.5%	2.5%	2.6%
Nordics	SEB	Buy	104.1	14,792	14,236	15,076	15,744	61.40	59.83	63.35	66.16	1.70	1.74	1.64	1.57	12.7%	13.2%	14.2%	14.5%	2.8%	2.8%	3.0%	3.1%
Nordics	Svenska Handelsbanken	Hold	120.5	13,940	14,786	15,345	15,953	64.30	71.42	74.12	77.05	1.87	1.69	1.63	1.56	12.7%	11.8%	12.1%	12.3%	3.2%	3.2%	3.2%	3.3%
Nordics	Swedbank	Hold	192.0	12,883	12,887	13,314	13,768	106.14	107.50	111.06	114.85	1.81	1.79	1.73	1.67	14.6%	13.5%	13.6%	13.4%	3.8%	3.7%	3.8%	3.7%
Switzerland	Cembra Money Bank	Hold	56.8	694	764	810	854	28.12	27.90	30.22	31.88	2.02	2.03	1.88	1.78	17.7%	17.8%	18.1%	17.0%	4.0%	3.9%	3.9%	3.8%
Switzerland	Credit Suisse Group	Buy	25.7	36,385	41,683	44,287	46,914	27.44	26.55	28.12	29.70	0.94	0.97	0.91	0.86	8.2%	10.1%	11.1%	11.3%	1.2%	1.5%	1.8%	2.0%
Switzerland	Julius Baer	Hold	51.1	4,388	4,645	5,157	5,778	24.37	22.35	24.81	27.80	2.10	2.28	2.06	1.84	11.3%	14.8%	15.9%	16.3%	3.6%	4.4%	4.6%	5.0%
Switzerland	UBS	Buy	20.0	41,759	50,005	52,838	56,251	13.10	13.60	14.39	15.33	1.53	1.47	1.39	1.31	7.6%	10.4%	12.3%	12.1%	1.7%	2.5%	3.1%	3.2%
UK	Aldermore	Buy	287.5	379	598	714	830	101.73	126.65	149.51	172.24	2.83	2.27	1.92	1.67	15.6%	17.3%	17.6%	17.9%	1.9%	2.0%	2.1%	2.1%
UK	Barclays	Buy	265.0	68,553	76,840	79,422	84,082	334.86	333.84	341.64	358.10	0.79	0.79	0.78	0.74	5.8%	7.0%	8.7%	9.4%	0.8%	1.0%	1.2%	1.4%
UK	HSBC	Hold	600.0	133,829	158,078	165,326	176,732	9.24	9.07	9.30	9.75	1.01	1.03	1.00	0.96	9.3%	9.0%	9.5%	10.3%	1.3%	1.3%	1.4%	1.5%
UK	Lloyds Banking Group	Buy	86.4	53,774	63,423	66,797	70,466	60.76	63.73	66.46	69.42	1.42	1.36	1.30	1.24	14.1%	13.9%	13.0%	13.5%	2.3%	2.7%	2.6%	2.8%
UK	RBS	Hold	350.5	64,712	64,596	61,735	64,328	454.42	401.46	378.02	388.07	0.77	0.87	0.93	0.90	6.6%	7.1%	5.8%	7.4%	0.9%	1.1%	1.0%	1.5%
UK	Standard Chartered	Sell	1038.0	35,006	46,309	48,267	51,053	18.78	17.90	18.20	18.78	0.86	0.90	0.89	0.86	8.2%	5.7%	5.9%	7.1%	1.1%	0.8%	0.9%	1.0%

Source: Deutsche Bank, Price at close of 15 June 2015

Figure 280: RoTE and Tangible book value data

Geography	Stock	DB Rec.	Current price	Tangible book value (E'm) 2014	2015e	2016e	2017e	Tangible book value per share 2014	2015e	2016e	2017e	Price : Tangible Book 2014	2015e	2016e	2017e	Return on Avg. Tangible Equity 2014	2015e	2016e	2017e
Austria	Erste Bank	Hold	24.8	8,397	9,232	9,909	10,647	20.48	22.52	24.17	25.97	1.21	1.10	1.03	0.95	0.6%	9.4%	10.1%	10.2%
Austria	Raiffeisen Bank Intern.	Hold	12.4	7,048	7,450	8,568	9,678	24.10	25.48	29.30	33.09	0.51	0.49	0.42	0.37	0.0%	1.1%	8.2%	11.0%
Benelux	KBC	Buy	58.2	11,866	13,231	14,034	14,887	28.43	31.67	33.59	35.63	2.05	1.84	1.73	1.63	17.0%	16.5%	15.6%	15.6%
Benelux	ING	Hold	14.4	36,409	42,893	46,706	47,198	9.45	11.10	12.08	12.21	1.52	1.29	1.19	1.18	11.4%	10.2%	10.2%	10.6%
France	BNP Paribas	Hold	54.0	63,091	66,755	71,197	76,063	50.80	53.75	57.32	61.24	1.06	1.00	0.94	0.88	10.5%	10.6%	10.9%	11.2%
France	Credit Agricole	Hold	13.0	31,545	36,266	39,111	42,383	12.24	13.78	14.57	15.36	1.07	0.95	0.90	0.85	11.0%	9.9%	10.3%	10.9%
France	Societe Generale	Buy	41.9	39,608	42,758	43,979	46,506	50.45	54.29	55.84	59.05	0.83	0.77	0.75	0.71	8.2%	8.4%	8.6%	9.0%
Germany	Aareal Bank	Hold	34.3	2,071	2,440	2,536	2,581	34.60	40.76	42.37	43.11	0.99	0.84	0.81	0.80	7.5%	8.0%	7.3%	7.0%
Germany	Comdirect	Hold	9.2	592	592	603	615	4.19	4.19	4.27	4.35	2.19	2.19	2.15	2.11	11.6%	9.6%	9.9%	10.2%
Germany	Commerzbank	Buy	11.4	22,724	26,110	27,185	28,209	19.96	20.85	21.71	22.52	0.57	0.55	0.53	0.51	4.4%	4.6%	4.7%	5.1%
Greece	Alpha Bank	Buy	0.3	7,652	7,844	8,260	9,066	0.60	0.61	0.65	0.71	0.44	0.43	0.41	0.37	(10.5%)	2.5%	5.2%	9.3%
Greece	Eurobank	Buy	0.1	4,494	4,329	4,452	4,885	0.31	0.29	0.30	0.33	0.40	0.41	0.40	0.37	(31.5%)	(3.7%)	2.8%	9.3%
Greece	National Bank of Greece	Buy	1.0	6,640	7,018	7,960	9,213	1.88	1.99	2.25	2.61	0.53	0.50	0.44	0.38	(22.0%)	5.5%	7.2%	9.9%
Iberia	Banco Popular	Sell	4.5	10,215	10,383	11,186	11,411	4.74	4.83	5.17	5.32	0.94	0.92	0.86	0.84	2.9%	2.5%	3.2%	6.7%
Iberia	Banco Santander	Hold	6.3	50,258	65,850	71,090	77,149	3.99	4.61	4.95	5.33	1.59	1.38	1.28	1.19	12.5%	12.6%	12.0%	12.4%
Iberia	Bankia	Hold	1.15	12,464	13,081	13,350	13,427	1.08	1.14	1.16	1.17	1.06	1.01	0.99	0.98	6.3%	8.0%	8.7%	9.5%
Iberia	Bankinter	Buy	6.7	3,409	3,558	3,721	3,870	3.79	3.96	4.14	4.31	1.75	1.68	1.61	1.54	8.5%	11.4%	12.0%	13.0%
Iberia	BBVA	Buy	8.9	40,606	42,591	45,365	48,643	6.58	6.74	7.13	7.60	1.35	1.31	1.24	1.16	8.1%	6.7%	10.5%	12.0%
Iberia	BCP	Sell	0.08	4,553	5,824	5,839	6,160	0.08	0.10	0.10	0.10	0.95	0.82	0.82	0.77	(5.9%)	4.6%	5.5%	7.3%
Iberia	Liberbank	Hold	0.70	2,481	2,632	2,683	2,962	0.95	1.01	1.03	1.03	0.74	0.70	0.69	0.68	5.9%	6.3%	7.7%	7.8%
Ireland	Bank of Ireland	Hold	0.3	8,343	8,591	7,873	8,499	0.26	0.27	0.24	0.26	1.34	1.30	1.42	1.31	6.7%	7.4%	10.4%	12.3%
Italy	Banca Popolare di Milano	Hold	0.9	4,428	4,514	4,643	4,798	1.01	1.03	1.06	1.09	0.90	0.88	0.86	0.83	3.2%	4.3%	6.2%	7.3%
Italy	Banco Popolare	Buy	14.4	6,014	6,227	6,477	6,813	16.61	17.19	17.88	18.81	0.87	0.84	0.80	0.76	(25.8%)	6.1%	8.4%	10.3%
Italy	Credem	Hold	7.2	1,993	2,090	2,186	2,291	6.06	6.36	6.65	6.97	1.18	1.13	1.08	1.03	7.9%	9.6%	9.0%	9.4%
Italy	Intesa SanPaolo	Hold	3.2	37,440	38,961	40,297	40,902	2.23	2.32	2.40	2.44	1.33	1.28	1.24	1.22	4.4%	9.3%	10.8%	11.3%
Italy	UBI Banca	Hold	7.0	8,027	8,221	8,511	8,836	8.94	9.15	9.47	9.83	0.79	0.77	0.74	0.71	2.4%	3.5%	6.0%	6.7%
Italy	UniCredit	Buy	6.0	43,828	44,154	45,679	48,245	7.47	7.51	7.77	8.20	0.81	0.80	0.78	0.74	6.0%	6.1%	8.1%	9.5%
Nordics	Danske Bank	Buy	195.6	18,270	19,668	20,351	21,430	135.03	149.69	158.24	166.63	1.45	1.31	1.24	1.17	9.1%	10.6%	11.1%	11.4%
Nordics	DNB	Hold	132.6	18,246	19,191	20,574	21,847	93.59	103.07	110.49	117.33	1.42	1.29	1.20	1.13	13.8%	13.6%	12.1%	11.7%
Nordics	Nordea	Hold	11.4	26,479	28,067	29,132	30,304	6.59	6.98	7.25	7.54	1.73	1.63	1.57	1.51	13.3%	13.5%	13.4%	13.6%
Nordics	SEB	Buy	104.1	12,898	12,362	13,202	13,870	53.54	51.95	55.48	58.29	1.94	2.00	1.88	1.79	14.7%	15.2%	16.2%	16.6%
Nordics	Svenska Handelsbanken	Hold	120.5	13,047	13,903	14,462	15,070	60.17	67.15	69.85	72.79	2.00	1.79	1.73	1.66	13.6%	12.6%	12.8%	13.0%
Nordics	Swedbank	Hold	192.0	11,309	11,362	11,789	12,243	93.17	94.78	98.34	102.13	2.06	2.03	1.95	1.88	16.7%	15.3%	15.4%	15.1%
Switzerland	Cembra Money Bank	Hold	56.8	680	747	794	838	27.55	27.31	29.61	31.28	2.06	2.08	1.92	1.81	17.9%	18.2%	18.5%	17.3%
Switzerland	Credit Suisse Group	Buy	25.7	29,063	33,392	36,002	38,635	21.91	21.27	22.86	24.46	1.17	1.21	1.12	1.05	10.2%	12.6%	13.7%	13.8%
Switzerland	Julius Baer	Hold	51.1	2,442	2,594	3,176	3,867	13.58	12.50	15.30	18.62	3.76	4.09	3.34	2.74	19.9%	26.5%	27.1%	25.3%
Switzerland	UBS	Buy	20.0	36,173	44,086	46,919	50,272	11.35	11.99	12.77	13.70	1.77	1.67	1.57	1.46	8.7%	11.9%	13.9%	13.6%
UK	Aldermore	Buy	287.5	350	567	683	801	94.07	120.07	143.15	166.08	3.06	2.39	2.01	1.73	16.9%	18.4%	18.5%	18.6%
UK	Barclays	Buy	265.0	58,403	66,043	69,519	74,179	285.28	286.93	299.04	315.93	0.93	0.92	0.89	0.84	6.8%	8.2%	10.0%	10.7%
UK	HSBC	Hold	600.0	113,038	134,402	142,483	154,720	7.80	7.72	8.02	8.54	1.20	1.21	1.16	1.09	11.1%	10.6%	11.1%	11.8%
UK	Lloyds Banking Group	Buy	86.4	48,704	58,243	62,081	66,214	55.03	58.53	61.77	65.23	1.57	1.48	1.40	1.32	15.7%	15.2%	14.1%	14.5%
UK	RBS	Hold	350.5	55,056	62,977	60,116	62,709	386.62	391.40	368.10	378.30	0.91	0.90	0.95	0.93	8.1%	7.8%	6.0%	7.6%
UK	Standard Chartered	Sell	1038.0	31,093	41,750	43,761	46,600	16.68	16.14	16.50	17.14	0.97	1.00	0.98	0.94	9.3%	6.3%	6.5%	7.8%

Source: Deutsche Bank, Price at close of 15 June 2015

Figure 281: Capital building blocks

Geography	Stock	DB Rec.	Current price	2019 basis B3 CET1 (E'm) 2013	2014	2015e	2016e	2017e	2019 basis AT1 (E'm) 2013	2014	2015e	2016e	2017e	2019 basis B3 RWAs (E'm) 2013	2014	2015e	2016e	2017e
Austria	Erste Bank	Hold	24.8	10,868	10,811	11,394	12,070	12,808	5	5	5	6	6	97,901	100,591	102,911	105,553	107,926
Austria	Raiffeisen Bank Intern.	Hold	12.4	5,627	6,877	6,981	7,455	8,113	NA	0	0	0	0	79,896	68,721	68,544	69,746	73,045
Benelux	KBC	Buy	58.2	11,711	13,076	12,330	13,133	13,986	-	1,400	1,400	1,400	1,400	91,216	91,236	93,490	95,451	97,411
Benelux	ING	Hold	14.4	30,110	33,668	38,077	41,890	42,502	-	-	2,048	2,048	2,048	282,503	296,319	311,094	331,042	352,298
France	BNP Paribas	Hold	54.0	64,844	63,700	69,098	73,217	77,738	7,056	6,700	7,300	7,800	8,300	560,000	620,000	654,512	673,346	692,965
France	Credit Agricole	Hold	13.0	26,772	30,363	33,127	35,972	36,795	2,900	4,100	4,500	6,000	6,000	299,600	293,000	319,509	334,408	349,306
France	Societe Generale	Buy	41.9	34,308	35,800	38,624	40,110	42,103	5,992	8,900	8,700	8,700	9,700	316,000	353,200	381,548	390,812	400,076
Germany	Aareal Bank	Hold	34.3	1,810	2,003	2,216	2,252	2,296	0	0	0	0	0	13,150	15,492	18,265	17,184	16,589
Germany	Comdirect	Hold	9.2	379	389	389	400	412	0	0	0	0	0	2,468	2,850	2,930	2,995	3,062
Germany	Commerzbank	Buy	11.4	19,400	19,902	23,033	23,919	24,693	NA	NA	NA	NA	NA	190,589	215,178	222,252	221,829	222,105
Greece	Alpha Bank	Buy	0.3	NA	6,955	7,033	7,587	8,659	NA	-	-	-	-	50,911	52,600	50,339	51,204	52,647
Greece	Eurobank	Buy	0.1	NA	3,971	3,762	3,933	4,512	NA	-	-	-	-	37,166	39,062	37,087	37,863	38,898
Greece	National Bank of Greece	Buy	1.0	NA	5,723	8,060	9,255	10,882	NA	-	-	-	-	55,685	59,700	58,849	60,931	63,769
Iberia	Banco Popular	Sell	4.5	8,390	8,470	8,655	9,512	9,841	-	500	1,250	1,250	1,250	84,588	79,939	79,140	80,723	84,759
Iberia	Banco Santander	Hold	6.3	45,386	48,743	63,426	69,323	76,211	-	4,799	6,299	8,299	10,299	489,119	585,153	643,668	669,415	696,192
Iberia	Bankia	Hold	1.15	7,956	9,388	10,279	10,964	11,469	-	-	-	-	-	88,892	88,565	87,975	86,945	88,766
Iberia	Bankinter	Buy	6.7	2,661	2,981	3,189	3,388	3,563	-	-	-	-	-	24,099	25,704	26,122	27,167	27,825
Iberia	BBVA	Buy	8.9	33,372	36,484	43,584	47,205	51,415	1,088	2,735	4,364	4,364	4,429	323,605	350,803	436,254	455,680	478,485
Iberia	BCP	Sell	0.08	-	3,850	4,874	4,944	5,032	-	-	-	-	-	43,926	43,208	43,050	43,736	46,122
Iberia	Liberbank	Hold	0.70	1,514	1,809	2,024	2,155	2,265	-	-	-	-	-	17,098	16,258	16,095	16,498	19,439
Ireland	Bank of Ireland	Hold	0.3	3,620	4,743	5,189	5,995	6,879	-	75	75	750	1,000	54,800	51,600	51,738	53,052	55,039
Italy	Banca Popolare di Milano	Hold	0.9	3,238	4,186	4,386	4,514	4,669	4	6	8	10	10	42,612	33,677	34,373	35,369	36,464
Italy	Banco Popolare	Buy	14.4	4,407	5,426	5,685	5,913	6,242	-	-	-	-	-	49,319	47,987	50,854	49,865	50,848
Italy	Credem	Hold	7.2	1,576	1,740	1,838	1,934	2,039	-	-	-	-	-	16,528	16,733	15,060	15,761	16,502
Italy	Intesa SanPaolo	Hold	3.2	34,189	35,173	37,397	38,872	39,748	-	-	-	-	-	276,291	269,790	283,280	290,472	293,725
Italy	UBI Banca	Hold	7.0	6,890	7,103	7,613	7,936	8,238	-	-	-	-	-	61,046	61,763	62,603	64,148	65,717
Italy	UniCredit	Buy	6.0	38,100	41,004	42,316	44,917	47,879	NA	3,502	4,002	4,502	5,502	384,750	409,223	422,160	425,020	432,477
Nordics	Danske Bank	Buy	195.6	15,458	16,053	16,412	16,796	17,785	-	769	1,502	1,502	1,502	114,274	116,144	118,771	118,771	120,759
Nordics	DNB	Hold	132.6	15,894	17,009	17,392	18,915	19,898	-	-	669	669	669	139,692	134,136	133,042	137,998	143,163
Nordics	Nordea	Hold	11.4	23,112	22,821	24,224	25,184	26,198	-	1,172	2,054	2,054	2,054	155,254	145,475	151,510	151,510	155,189
Nordics	SEB	Buy	104.1	10,372	11,054	11,649	12,369	12,942	-	939	928	928	928	65,161	67,767	68,337	70,876	73,675
Nordics	Svenska Handelsbanken	Hold	120.5	10,286	10,781	11,551	12,049	12,595	-	-	1,086	1,086	1,086	53,846	52,803	54,985	57,199	59,514
Nordics	Swedbank	Hold	192.0	9,345	9,663	9,714	10,140	10,593	-	-	706	706	706	52,254	45,529	46,942	47,981	49,702
Switzerland	Cembra Money Bank	Hold	56.8	575	626	682	723	766	NA	NA	NA	NA	NA	2,922	3,038	3,578	3,654	3,727
Switzerland	Credit Suisse Group	Buy	25.7	21,578	23,529	28,538	32,093	35,670	6,081	9,318	10,752	10,752	10,752	222,526	239,946	268,739	260,676	260,676
Switzerland	Julius Baer	Hold	51.1	2,338	2,443	2,595	3,177	3,868	0	0	0	0	0	12,927	13,754	16,668	17,502	18,377
Switzerland	UBS	Buy	20.0	23,491	24,336	28,111	32,045	36,559	379	823	1,426	1,901	2,376	185,724	181,065	202,805	206,279	205,978
UK	Aldermore	Buy	287.5	285	349	566	681	799	-	93	104	104	104	2,348	3,353	4,902	5,983	7,063
UK	Barclays	Buy	265.0	47,589	51,439	58,659	62,363	68,307	2,709	5,708	8,288	11,051	13,813	513,057	498,786	547,954	542,773	550,981
UK	HSBC	Hold	600.0	99,789	102,498	127,218	135,243	147,497	-	4,582	7,110	8,887	8,887	914,906	919,635	1,105,706	1,138,877	1,173,043
UK	Lloyds Banking Group	Buy	86.4	32,894	38,082	45,118	48,492	52,161	-	6,645	7,397	7,397	7,397	321,156	297,485	313,404	330,167	333,862
UK	RBS	Hold	350.5	43,348	49,512	48,711	46,107	49,409	-	-	2,763	6,907	6,907	454,098	441,635	389,063	327,728	305,085
UK	Standard Chartered	Sell	1038.0	27,492	27,561	38,581	40,503	43,141	-	-	1,777	1,777	1,777	242,670	257,576	312,728	328,365	344,783

Source: Deutsche Bank, Price at close of 15 June 2015

Figure 282: Capital ratios data

Geography	Stock	DB Rec.	Current	2019 basis B3 CET1 ratio (%)					2019 basis Total T1 ratio (%)					Transitional CET1 ratio (%)				
			price	2013	2014	2015e	2016e	2017e	2013	2014	2015e	2016e	2017e	2013	2014	2015e	2016e	2017e
Austria	Erste Bank	Hold	24.8	10.8%	10.6%	10.9%	11.3%	11.7%	10.8%	10.6%	10.9%	11.3%	11.7%	11.1%	10.6%	11.2%	11.5%	12.0%
Austria	Raiffeisen Bank Intern.	Hold	12.4	6.8%	10.0%	10.2%	10.7%	11.1%	6.8%	10.0%	10.2%	10.7%	11.1%	7.5%	10.9%	11.1%	11.3%	11.7%
Benelux	KBC	Buy	58.2	12.8%	14.3%	13.2%	13.8%	14.4%	12.8%	15.9%	14.7%	15.2%	15.8%	12.8%	14.3%	13.2%	13.8%	14.4%
Benelux	ING	Hold	14.4	10.0%	11.4%	12.2%	12.7%	12.1%	10.0%	11.4%	12.9%	13.3%	12.6%	11.7%	11.2%	12.3%	12.7%	12.1%
France	BNP Paribas	Hold	54.0	10.3%	10.3%	10.6%	10.9%	11.2%	11.5%	11.4%	11.7%	12.0%	12.4%	11.7%	10.3%	10.6%	10.9%	11.2%
France	Credit Agricole	Hold	13.0	8.5%	10.4%	10.4%	10.8%	10.5%	9.4%	11.8%	11.8%	12.6%	12.3%	9.9%	10.4%	10.4%	10.8%	11.2%
France	Societe Generale	Buy	41.9	10.0%	10.1%	10.1%	10.3%	10.5%	11.8%	12.7%	12.4%	12.5%	12.9%	11.2%	10.1%	10.1%	10.3%	10.5%
Germany	Aareal Bank	Hold	34.3	13.4%	12.9%	12.1%	13.1%	13.8%	13.4%	12.9%	12.1%	13.1%	13.8%	12.9%	11.7%	12.5%	14.4%	16.1%
Germany	Comdirect	Hold	9.2	15.4%	13.6%	13.3%	13.3%	13.4%	15.4%	13.6%	13.3%	13.4%	13.4%	15.4%	13.6%	13.3%	13.3%	13.4%
Germany	Commerzbank	Buy	11.4	9.0%	9.3%	10.4%	10.8%	11.2%	9.0%	9.3%	10.4%	10.8%	11.2%	13.3%	11.7%	11.7%	12.1%	12.4%
Greece	Alpha Bank	Buy	0.3	n/a	12.9%	13.7%	14.5%	16.2%	n/a	12.9%	13.7%	14.5%	16.2%	n/a	n/a	n/a	n/a	n/a
Greece	Eurobank	Buy	0.1	n/a	9.7%	9.7%	9.9%	11.1%	n/a	9.7%	9.7%	9.9%	11.1%	n/a	n/a	n/a	n/a	n/a
Greece	National Bank of Greece	Buy	1.0	n/a	9.4%	13.5%	15.1%	17.1%	n/a	9.4%	13.5%	15.1%	17.1%	n/a	n/a	n/a	n/a	n/a
Iberia	Banco Popular	Sell	4.5	9.6%	10.4%	10.6%	11.4%	11.3%	9.6%	11.0%	12.1%	12.9%	12.7%	10.7%	11.5%	11.8%	12.6%	12.2%
Iberia	Banco Santander	Hold	6.3	8.4%	8.3%	10.1%	10.4%	10.9%	8.4%	9.2%	11.0%	11.6%	12.4%	11.7%	11.0%	11.9%	12.6%	13.3%
Iberia	Bankia	Hold	1.15	8.3%	10.6%	11.7%	12.6%	12.9%	8.3%	10.6%	11.7%	12.6%	12.9%	11.9%	12.3%	13.5%	14.3%	14.5%
Iberia	Bankinter	Buy	6.7	10.9%	11.5%	12.1%	12.4%	12.7%	10.9%	11.5%	12.1%	12.4%	12.7%	11.7%	12.8%	13.4%	13.6%	13.9%
Iberia	BBVA	Buy	8.9	9.8%	10.4%	10.0%	10.4%	10.7%	10.1%	11.2%	11.0%	11.3%	11.7%	11.6%	12.0%	11.5%	11.8%	12.1%
Iberia	BCP	Sell	0.08	n/a	8.9%	10.8%	10.7%	10.3%	n/a	8.9%	10.8%	10.7%	10.3%	13.8%	9.0%	13.7%	12.7%	11.7%
Iberia	Liberbank	Hold	0.70	8.9%	11.1%	12.6%	13.1%	11.7%	8.9%	11.1%	12.6%	13.1%	11.7%	97.6%	107.1%	112.6%	116.0%	14.5%
Ireland	Bank of Ireland	Hold	0.3	6.6%	9.2%	10.0%	11.3%	12.5%	6.6%	9.3%	10.2%	12.7%	14.3%	12.6%	14.8%	15.2%	13.5%	14.3%
Italy	Banca Popolare di Milano	Hold	0.9	7.1%	12.4%	12.8%	12.8%	12.8%	7.1%	12.4%	12.8%	12.8%	12.8%	7.2%	11.6%	11.6%	11.6%	11.7%
Italy	Banco Popolare	Buy	14.4	8.1%	11.3%	11.2%	11.9%	12.3%	8.1%	11.3%	11.2%	11.9%	12.3%	9.7%	11.9%	11.8%	12.5%	13.0%
Italy	Credem	Hold	7.2	9.2%	10.4%	12.2%	12.3%	12.4%	9.2%	10.4%	12.2%	12.3%	12.4%	9.9%	11.2%	13.1%	13.1%	13.2%
Italy	Intesa SanPaolo	Hold	3.2	12.3%	13.3%	13.4%	13.5%	13.6%	12.3%	13.3%	13.4%	13.5%	13.6%	11.3%	13.5%	13.5%	13.5%	13.5%
Italy	UBI Banca	Hold	7.0	10.2%	11.5%	12.2%	12.4%	12.5%	10.2%	11.5%	12.2%	12.4%	12.5%	12.6%	12.3%	12.4%	12.4%	12.6%
Italy	UniCredit	Buy	6.0	9.4%	10.0%	10.0%	10.6%	11.1%	9.4%	10.9%	11.0%	11.6%	12.3%	10.6%	10.4%	10.3%	10.7%	11.2%
Nordics	Danske Bank	Buy	195.6	12.8%	13.8%	14.0%	14.3%	14.9%	12.8%	14.5%	15.3%	15.6%	16.2%	14.7%	15.1%	14.8%	15.2%	15.7%
Nordics	DNB	Hold	132.6	11.4%	12.7%	13.1%	13.7%	13.9%	11.4%	12.7%	13.6%	14.2%	14.4%	11.8%	12.7%	13.3%	13.7%	13.9%
Nordics	Nordea	Hold	11.4	14.6%	15.7%	16.0%	16.6%	16.9%	14.6%	16.5%	17.3%	18.0%	18.2%	14.9%	15.7%	16.0%	16.6%	16.9%
Nordics	SEB	Buy	104.1	15.0%	16.3%	17.0%	17.5%	17.6%	15.0%	17.7%	18.4%	18.8%	18.8%	15.9%	16.3%	17.0%	17.5%	17.6%
Nordics	Svenska Handelsbanken	Hold	120.5	18.9%	20.4%	21.0%	21.1%	21.2%	18.9%	20.4%	23.0%	23.0%	23.0%	19.2%	20.4%	21.0%	21.1%	21.2%
Nordics	Swedbank	Hold	192.0	18.3%	21.2%	20.7%	21.1%	21.3%	18.3%	21.2%	22.2%	22.6%	22.7%	18.7%	21.2%	20.7%	21.1%	21.3%
Switzerland	Cembra Money Bank	Hold	56.8	19.7%	20.6%	19.1%	19.8%	20.5%	19.7%	20.6%	19.1%	19.8%	20.5%	19.7%	20.6%	19.1%	19.8%	20.5%
Switzerland	Credit Suisse Group	Buy	25.7	10.0%	10.1%	10.7%	12.4%	13.8%	12.8%	14.0%	14.8%	16.6%	18.0%	9.7%	9.8%	10.6%	12.3%	13.7%
Switzerland	Julius Baer	Hold	51.1	18.1%	17.5%	15.6%	18.2%	21.0%	18.1%	17.5%	15.6%	18.2%	21.0%	19.5%	21.0%	16.7%	19.2%	22.1%
Switzerland	UBS	Buy	20.0	12.8%	13.6%	14.0%	15.7%	18.0%	13.0%	14.1%	14.7%	16.6%	19.1%	18.5%	19.5%	20.2%	21.5%	23.4%
UK	Aldermore	Buy	287.5	12.1%	10.4%	11.5%	11.4%	11.3%	12.1%	13.2%	13.7%	13.1%	12.8%	12.1%	10.4%	11.5%	11.4%	11.3%
UK	Barclays	Buy	265.0	9.1%	10.3%	10.7%	11.5%	12.4%	9.6%	11.5%	12.2%	13.5%	14.9%	10.7%	10.2%	10.6%	11.3%	12.3%
UK	HSBC	Hold	600.0	9.9%	11.1%	11.5%	11.9%	12.6%	9.9%	11.6%	12.1%	12.7%	13.3%	12.3%	10.9%	11.3%	11.7%	12.4%
UK	Lloyds Banking Group	Buy	86.4	10.3%	12.8%	14.4%	14.7%	15.6%	10.3%	15.0%	16.8%	16.9%	17.8%	10.3%	12.8%	14.4%	14.7%	15.6%
UK	RBS	Hold	350.5	8.6%	11.2%	12.5%	14.1%	16.2%	8.6%	11.2%	13.2%	16.2%	18.5%	10.9%	11.2%	12.5%	14.1%	16.2%
UK	Standard Chartered	Sell	1038.0	11.0%	10.7%	12.3%	12.3%	12.5%	11.0%	10.7%	12.9%	12.9%	13.0%	11.8%	10.5%	12.2%	12.2%	12.4%

Source: Deutsche Bank, Price at close of 15 June 2015

Figure 283: Leverage ratios data

Geography	Stock	DB Rec.	Current price	Tang Eq / Tang Assets 2013	2014	2015e	2016e	2017e	Loan to Deposit ratio 2013	2014	2015e	2016e	2017e	Leverage Exposure (E'm) 2013	2014	2015e	2016e	2017e	B3 Leverage Ratio 2013	2014	2015e	2016e	2017e
Austria	Erste Bank	Hold	24.8	4.5%	4.3%	4.6%	4.9%	5.1%	98%	105%	105%	106%	107%	219,876	205,287	214,982	214,437	218,711	4.9%	5.3%	5.3%	5.6%	5.9%
Austria	Raiffeisen Bank Intern.	Hold	12.4	4.7%	5.8%	6.3%	7.1%	7.6%	113%	109%	108%	105%	103%	148,640	121,624	119,560	121,631	127,331	3.8%	5.7%	5.8%	6.1%	6.4%
Benelux	KBC	Buy	58.2	4.4%	4.9%	5.1%	5.3%	5.6%	82%	80%	80%	80%	80%	255,793	226,188	239,123	242,723	246,413	4.6%	6.4%	5.7%	6.0%	6.2%
Benelux	ING	Hold	14.4	4.0%	4.4%	4.8%	5.1%	4.9%	104%	104%	105%	105%	106%	787,644	828,602	887,579	916,752	953,971	3.8%	4.1%	4.5%	4.8%	4.7%
France	BNP Paribas	Hold	54.0	3.7%	3.1%	2.8%	2.9%	3.0%	111%	102%	101%	101%	101%	1,943,243	1,963,278	2,288,871	2,332,325	2,376,860	3.7%	3.6%	3.3%	3.5%	3.6%
France	Credit Agricole	Hold	13.0	1.8%	2.0%	2.2%	2.4%	2.6%	64%	66%	66%	65%	63%	1,199,173	950,000	951,205	964,323	977,697	2.5%	3.6%	4.0%	4.4%	4.4%
France	Societe Generale	Buy	41.9	3.0%	3.0%	3.0%	3.0%	3.2%	97%	98%	98%	99%	99%	1,164,262	1,173,000	1,243,656	1,262,946	1,282,872	3.5%	3.8%	3.8%	3.9%	4.0%
Germany	Aareal Bank	Hold	34.3	4.2%	4.2%	4.3%	4.6%	4.8%	100%	109%	115%	109%	104%	45,254	49,657	56,799	55,047	53,697	4.0%	4.0%	3.9%	4.1%	4.3%
Germany	Comdirect	Hold	9.2	3.9%	3.9%	3.8%	3.7%	3.7%	1%	2%	2%	2%	1%	14,163	15,170	15,734	16,196	16,672	2.7%	2.6%	2.5%	2.5%	2.5%
Germany	Commerzbank	Buy	11.4	4.2%	4.1%	4.7%	5.0%	5.2%	89%	94%	90%	90%	91%	590,000	582,057	530,307	522,247	514,818	3.3%	3.4%	4.3%	4.6%	4.8%
Greece	Alpha Bank	Buy	0.3	10.0%	10.5%	11.2%	11.6%	12.4%	122%	116%	122%	120%	119%	NA	NA	NA	NA	NA	n/a	n/a	n/a	n/a	n/a
Greece	Eurobank	Buy	0.1	4.0%	6.0%	6.0%	6.1%	6.5%	110%	103%	105%	102%	101%	NA	NA	NA	NA	NA	n/a	n/a	n/a	n/a	n/a
Greece	National Bank of Greece	Buy	1.0	3.8%	5.8%	6.2%	6.8%	7.6%	107%	104%	107%	106%	105%	NA	NA	NA	NA	NA	n/a	n/a	n/a	n/a	n/a
Iberia	Banco Popular	Sell	4.5	6.3%	6.8%	6.8%	7.2%	7.0%	113%	103%	101%	103%	108%	137,898	150,614	146,110	148,784	155,425	6.1%	6.0%	6.8%	7.2%	7.1%
Iberia	Banco Santander	Hold	6.3	4.1%	4.1%	4.5%	4.7%	5.0%	112%	113%	116%	118%	121%	1,246,652	1,392,086	1,532,340	1,571,237	1,611,506	3.6%	3.8%	4.6%	4.9%	5.4%
Iberia	Bankia	Hold	1.15	4.5%	5.3%	5.6%	5.8%	5.7%	110%	106%	107%	109%	109%	251,569	233,649	232,091	229,375	234,178	3.2%	4.0%	4.4%	4.8%	4.9%
Iberia	Bankinter	Buy	6.7	5.7%	5.9%	6.1%	6.2%	6.3%	147%	146%	146%	149%	150%	51,732	53,456	52,815	52,681	52,633	5.1%	5.6%	6.0%	6.4%	6.8%
Iberia	BBVA	Buy	8.9	6.5%	6.3%	5.3%	5.4%	5.6%	108%	106%	115%	116%	116%	595,930	647,650	809,455	839,624	874,521	5.8%	6.1%	5.9%	6.1%	6.4%
Iberia	BCP	Sell	0.08	3.5%	6.0%	7.6%	7.6%	7.7%	116%	108%	108%	106%	109%	NA	76,361	76,659	77,367	80,123	n/a	5.0%	6.4%	6.4%	6.3%
Iberia	Liberbank	Hold	0.70	3.3%	5.8%	6.0%	6.0%	6.4%	101%	90%	86%	85%	86%	46,802	45,293	46,358	47,176	48,430	3.2%	4.0%	4.4%	4.6%	4.7%
Ireland	Bank of Ireland	Hold	0.3	5.7%	6.4%	6.6%	5.9%	6.2%	114%	110%	112%	116%	120%	132,133	129,800	130,147	133,453	138,451	2.7%	3.7%	4.0%	5.1%	5.7%
Italy	Banca Popolare di Milano	Hold	0.9	7.2%	9.2%	9.2%	9.2%	9.2%	91%	87%	87%	88%	88%	43,602	43,995	45,445	48,063	50,059	7.4%	9.5%	9.7%	9.4%	9.3%
Italy	Banco Popolare	Buy	14.4	4.7%	5.0%	5.1%	5.2%	5.4%	96%	92%	96%	100%	104%	119,893	125,199	128,320	131,608	135,872	3.7%	4.3%	4.4%	4.5%	4.6%
Italy	Credem	Hold	7.2	5.7%	5.8%	6.0%	6.1%	6.2%	104%	105%	99%	98%	97%	30,474	32,829	33,135	34,280	35,490	5.2%	5.3%	5.5%	5.6%	5.7%
Italy	Intesa SanPaolo	Hold	3.2	6.0%	5.9%	6.3%	6.4%	6.3%	94%	99%	104%	106%	108%	516,542	519,225	522,025	560,888	594,460	6.6%	6.8%	7.2%	6.9%	6.7%
Italy	UBI Banca	Hold	7.0	6.1%	6.7%	7.0%	7.2%	7.5%	174%	166%	170%	176%	182%	135,516	133,071	131,702	131,957	132,165	5.1%	5.3%	5.8%	6.0%	6.2%
Italy	UniCredit	Buy	6.0	5.0%	5.2%	4.9%	5.5%	5.8%	87%	84%	84%	83%	82%	804,733	877,048	976,369	920,197	956,953	4.7%	5.1%	4.7%	5.4%	5.6%
Nordics	Danske Bank	Buy	195.6	3.9%	4.0%	4.1%	4.1%	4.3%	203%	209%	201%	200%	200%	467,152	467,287	457,554	466,705	476,039	3.3%	3.6%	3.9%	3.9%	4.1%
Nordics	DNB	Hold	132.6	5.7%	5.8%	6.1%	6.3%	6.5%	154%	153%	153%	153%	153%	299,895	305,518	302,986	314,272	326,036	5.3%	5.6%	6.0%	6.2%	6.3%
Nordics	Nordea	Hold	11.4	4.1%	4.0%	3.8%	3.9%	3.9%	171%	176%	171%	171%	171%	562,855	590,759	612,509	625,672	640,864	4.1%	4.1%	4.3%	4.4%	4.4%
Nordics	SEB	Buy	104.1	4.3%	4.5%	3.7%	3.8%	3.9%	153%	144%	139%	139%	139%	269,072	275,359	320,697	332,616	345,747	3.9%	4.4%	3.9%	4.0%	4.0%
Nordics	Svenska Handelsbanken	Hold	120.5	4.2%	4.2%	4.4%	4.4%	4.4%	206%	177%	173%	173%	173%	296,655	309,601	326,183	339,321	353,053	3.5%	3.5%	3.9%	3.9%	3.9%
Nordics	Swedbank	Hold	192.0	5.3%	4.9%	4.5%	4.5%	4.5%	204%	208%	184%	184%	184%	215,879	227,872	247,446	257,499	266,735	4.3%	4.2%	4.2%	4.2%	4.2%
Switzerland	Cembra Money Bank	Hold	56.8	17.4%	17.2%	16.1%	16.8%	17.4%	241%	210%	210%	210%	209%	NA	NA	NA	NA	NA	n/a	n/a	n/a	n/a	n/a
Switzerland	Credit Suisse Group	Buy	25.7	4.0%	3.9%	4.3%	4.6%	4.9%	74%	74%	74%	72%	72%	937,588	1,010,740	923,149	922,968	930,687	3.0%	3.2%	4.3%	4.6%	5.0%
Switzerland	Julius Baer	Hold	51.1	4.1%	3.7%	3.7%	4.5%	5.5%	53%	55%	49%	49%	49%	57,532	73,182	70,786	71,503	72,237	4.1%	3.3%	3.7%	4.4%	5.4%
Switzerland	UBS	Buy	20.0	4.2%	4.2%	4.5%	4.9%	5.2%	73%	77%	79%	75%	72%	835,238	845,134	929,025	898,528	898,898	2.9%	3.0%	3.2%	3.8%	4.3%
UK	Aldermore	Buy	287.5	5.8%	5.1%	5.7%	5.6%	5.6%	98%	108%	111%	111%	110%	5,467	6,966	10,006	12,264	14,523	5.2%	6.3%	6.7%	6.4%	6.2%
UK	Barclays	Buy	265.0	3.4%	3.5%	3.8%	4.1%	4.4%	114%	112%	113%	111%	111%	1,607,894	1,530,026	1,591,134	1,489,278	1,461,651	3.1%	3.7%	4.2%	4.9%	5.6%
UK	HSBC	Hold	600.0	5.5%	5.8%	5.8%	6.0%	6.3%	73%	72%	72%	72%	72%	2,280,225	2,226,335	2,598,062	2,546,101	2,622,484	4.4%	4.8%	5.2%	5.7%	6.0%
UK	Lloyds Banking Group	Buy	86.4	4.1%	4.6%	5.0%	5.3%	5.6%	116%	110%	107%	106%	106%	862,672	917,853	1,010,303	991,157	1,016,213	3.8%	4.9%	5.2%	5.6%	5.9%
UK	RBS	Hold	350.5	4.0%	4.3%	4.6%	4.7%	5.3%	104%	96%	92%	87%	85%	1,248,621	1,165,823	1,193,945	1,134,248	1,077,535	3.5%	4.2%	4.3%	4.7%	5.2%
UK	Standard Chartered	Sell	1038.0	5.8%	5.7%	6.6%	6.8%	7.0%	76%	70%	70%	69%	70%	584,941	605,637	706,759	727,962	749,801	4.7%	4.6%	5.7%	5.8%	6.0%

Source: Deutsche Bank, Price at close of 15 June 2015

Figure 284: Share price performance

Geography	Stock	DB Rec.	Current price	Absolute Performance				Performance relative to the market				Performance relative to the sector, DB universe			
				1w	1m	3m	YTD	1w	1m	3m	YTD	1w	1m	3m	YTD
Austria	Erste Bank	Hold	24.8	(1%)	(8%)	6%	29%	(0%)	(5%)	9%	18%	(1%)	(5%)	4%	16%
Austria	Raiffeisen Bank Intern.	Hold	12.4	(6%)	(19%)	(0%)	(1%)	(6%)	(16%)	3%	(12%)	(6%)	(16%)	(2%)	(14%)
Benelux	KBC	Buy	58.2	0%	(4%)	2%	25%	1%	(1%)	6%	14%	0%	(1%)	(0%)	13%
Benelux	ING	Hold	14.4	(0%)	(1%)	6%	33%	0%	2%	10%	21%	0%	2%	4%	20%
France	BNP Paribas	Hold	54.0	(1%)	(5%)	4%	10%	(1%)	(2%)	8%	(2%)	(1%)	(2%)	2%	(3%)
France	Credit Agricole	Hold	13.0	(1%)	(8%)	(0%)	21%	(0%)	(5%)	3%	10%	(0%)	(5%)	(2%)	9%
France	Societe Generale	Buy	41.9	(0%)	(6%)	(1%)	20%	0%	(3%)	3%	9%	0%	(3%)	(3%)	7%
Germany	Aareal Bank	Hold	34.3	(2%)	(11%)	(14%)	3%	(1%)	(7%)	(10%)	(8%)	(1%)	(8%)	(16%)	(9%)
Germany	Comdirect	Hold	9.2	(4%)	(4%)	(5%)	9%	(4%)	(0%)	(1%)	(2%)	(4%)	(1%)	(7%)	(4%)
Germany	Commerzbank	Buy	11.4	(2%)	(9%)	(9%)	4%	(2%)	(5%)	(5%)	(7%)	(2%)	(6%)	(11%)	(8%)
Greece	Alpha Bank	Buy	0.3	(8%)	(14%)	(13%)	(44%)	(7%)	(11%)	(9%)	(55%)	(8%)	(11%)	(15%)	(57%)
Greece	Eurobank	Buy	0.1	(5%)	(6%)	21%	(35%)	(5%)	(3%)	25%	(46%)	(5%)	(3%)	19%	(47%)
Greece	National Bank of Greece	Buy	1.0	(9%)	(17%)	(7%)	(33%)	(9%)	(13%)	(3%)	(44%)	(9%)	(14%)	(9%)	(45%)
Iberia	Banco Popular	Sell	4.5	(2%)	(7%)	11%	8%	(2%)	(4%)	14%	(3%)	(2%)	(4%)	9%	(5%)
Iberia	Banco Santander	Hold	6.3	(2%)	(5%)	1%	(5%)	(1%)	(1%)	5%	(16%)	(1%)	(2%)	(1%)	(18%)
Iberia	Bankia	Hold	1.15	(1%)	(6%)	(15%)	(7%)	(0%)	(3%)	(12%)	(19%)	(0%)	(3%)	(17%)	(20%)
Iberia	Bankinter	Buy	6.7	(0%)	(5%)	(4%)	(1%)	0%	(1%)	(1%)	(12%)	0%	(2%)	(6%)	(13%)
Iberia	BBVA	Buy	8.9	0%	(2%)	(2%)	14%	1%	1%	2%	3%	1%	1%	(4%)	2%
Iberia	BCP	Sell	0.08	(5%)	(12%)	(9%)	22%	(5%)	(9%)	(5%)	11%	(5%)	(9%)	(11%)	9%
Iberia	Liberbank	Hold	0.70	(3%)	(11%)	(5%)	4%	(2%)	(8%)	(1%)	(7%)	(2%)	(8%)	(7%)	(8%)
Ireland	Bank of Ireland	Hold	0.3	1%	(5%)	(7%)	10%	2%	(2%)	(4%)	(1%)	2%	(2%)	(9%)	(2%)
Italy	Banca Popolare di Milano	Hold	0.9	0%	(4%)	(4%)	67%	1%	(1%)	(0%)	56%	1%	(1%)	(6%)	55%
Italy	Banco Popolare	Buy	14.4	(3%)	(5%)	2%	43%	(3%)	(2%)	5%	32%	(3%)	(2%)	(0%)	30%
Italy	Credem	Hold	7.2	(1%)	(7%)	(5%)	15%	(0%)	(4%)	(1%)	4%	(0%)	(5%)	(7%)	3%
Italy	Intesa SanPaolo	Hold	3.2	(1%)	(5%)	3%	30%	(0%)	(2%)	7%	19%	(0%)	(2%)	1%	18%
Italy	UBI Banca	Hold	7.0	(2%)	(6%)	(1%)	17%	(1%)	(2%)	3%	6%	(1%)	(3%)	(3%)	5%
Italy	UniCredit	Buy	6.0	(3%)	(3%)	(1%)	15%	(2%)	1%	3%	4%	(2%)	0%	(3%)	3%
Nordics	Danske Bank	Buy	195.6	0%	0%	11%	17%	1%	4%	15%	6%	1%	3%	9%	4%
Nordics	DNB	Hold	132.6	(4%)	(4%)	2%	20%	(3%)	(1%)	6%	9%	(3%)	(2%)	0%	7%
Nordics	Nordea	Hold	11.4	(1%)	(4%)	(6%)	15%	(0%)	(1%)	(2%)	4%	(1%)	(1%)	(8%)	2%
Nordics	SEB	Buy	104.1	2%	2%	(2%)	5%	3%	6%	2%	(7%)	3%	5%	(4%)	(8%)
Nordics	Svenska Handelsbanken	Hold	120.5	(1%)	(5%)	(13%)	(1%)	(0%)	(1%)	(9%)	(12%)	(1%)	(2%)	(15%)	(14%)
Nordics	Swedbank	Hold	192.0	1%	(2%)	(12%)	(2%)	2%	1%	(9%)	(13%)	2%	1%	(14%)	(14%)
Switzerland	Cembra Money Bank	Hold	56.8	(2%)	(3%)	(5%)	3%	(2%)	0%	(1%)	(8%)	(2%)	(0%)	(7%)	(9%)
Switzerland	Credit Suisse Group	Buy	25.7	(1%)	5%	2%	2%	(1%)	8%	6%	(9%)	(1%)	8%	0%	(10%)
Switzerland	Julius Baer	Hold	51.1	0%	2%	10%	11%	1%	6%	14%	0%	1%	5%	8%	(1%)
Switzerland	UBS	Buy	20.0	(1%)	1%	15%	22%	(0%)	4%	19%	11%	(0%)	4%	13%	9%
UK	Aldermore	Buy	287.5	3%	15%	27%	n/a	3%	19%	30%	n/a	3%	18%	25%	n/a
UK	Barclays	Buy	265.0	1%	1%	6%	9%	2%	5%	10%	(2%)	2%	4%	4%	(4%)
UK	HSBC	Hold	600.0	(3%)	(3%)	7%	(1%)	(3%)	1%	11%	(12%)	(3%)	0%	5%	(14%)
UK	Lloyds Banking Group	Buy	86.4	(0%)	(3%)	9%	14%	1%	0%	13%	3%	0%	0%	7%	1%
UK	RBS	Hold	350.5	(0%)	(0%)	(2%)	(11%)	0%	3%	2%	(22%)	0%	3%	(4%)	(24%)
UK	Standard Chartered	Sell	1038.0	2%	(1%)	9%	8%	2%	2%	12%	(3%)	2%	2%	7%	(5%)

Source: Deutsche Bank, Price at close of 15 June 2015

Figure 285: Key growth metrics

Geography	Stock	DB Rec.	Current price	Income Growth 2015e	Income Growth 2016e	Income Growth 2017e	Cost Growth 2015e	Cost Growth 2016e	Cost Growth 2017e	Operating "jaws" 2015e	Operating "jaws" 2016e	Operating "jaws" 2017e	Op. Profit growth 2015e	Op. Profit growth 2016e	Op. Profit growth 2017e	Adj. EPS Growth 2015e	Adj. EPS Growth 2016e	Adj. EPS Growth 2017e
Austria	Erste Bank	Hold	24.8	22.9%	2.0%	2.2%	(0.6%)	0.5%	1.2%	23.6%	1.5%	1.1%	276.0%	14.1%	7.4%	1428.2%	16.4%	8.4%
Austria	Raiffeisen Bank Intern.	Hold	12.4	0.9%	3.9%	1.3%	(2.8%)	(2.1%)	(2.3%)	3.7%	6.0%	3.6%	857.5%	296.2%	53.3%	5957.4%	728.4%	52.7%
Benelux	KBC	Buy	58.2	9.4%	2.2%	2.3%	3.5%	1.0%	0.7%	5.9%	1.1%	1.6%	28.2%	3.7%	5.3%	8.7%	2.6%	5.9%
Benelux	ING	Hold	14.4	7.3%	3.1%	3.6%	(1.8%)	1.9%	1.9%	9.1%	1.2%	1.7%	23.3%	8.7%	8.3%	3.9%	13.1%	8.4%
France	BNP Paribas	Hold	54.0	7.1%	2.1%	2.7%	6.4%	(2.5%)	0.8%	0.8%	4.6%	1.9%	226.5%	19.9%	9.9%	0.6%	9.1%	9.8%
France	Credit Agricole	Hold	13.0	9.3%	5.6%	5.2%	4.4%	2.2%	1.8%	5.0%	3.4%	3.4%	18.9%	44.4%	18.4%	(0.2%)	13.3%	11.6%
France	Societe Generale	Buy	41.9	6.1%	3.8%	3.5%	3.6%	4.3%	2.6%	2.4%	(0.5%)	0.9%	25.2%	(5.4%)	23.7%	8.1%	8.6%	9.0%
Germany	Aareal Bank	Hold	34.3	7.0%	(17.0%)	(4.0%)	24.9%	(8.1%)	(7.5%)	(18.0%)	(8.9%)	3.5%	(4.9%)	(28.3%)	4.0%	24.1%	0.1%	(1.2%)
Germany	Comdirect	Hold	9.2	1.8%	3.1%	2.7%	4.5%	2.8%	2.0%	(2.7%)	0.3%	0.7%	(6.7%)	3.7%	4.8%	(14.3%)	4.2%	4.8%
Germany	Commerzbank	Buy	11.4	11.9%	(0.2%)	2.0%	1.3%	(0.6%)	(0.1%)	10.7%	0.4%	2.2%	147.5%	10.9%	10.7%	4.7%	9.4%	10.9%
Greece	Alpha Bank	Buy	0.3	3.5%	4.9%	7.5%	(30.7%)	1.0%	1.5%	34.3%	3.9%	6.0%	124.6%	113.0%	92.6%	123.3%	117.4%	93.4%
Greece	Eurobank	Buy	0.1	1.8%	8.2%	7.8%	(4.5%)	(1.4%)	1.5%	6.3%	9.7%	6.3%	88.7%	206.9%	209.4%	89.1%	174.5%	251.8%
Greece	National Bank of Greece	Buy	1.0	9.4%	6.6%	7.7%	(5.2%)	3.8%	4.3%	14.6%	2.8%	3.5%	140.8%	61.8%	49.7%	128.1%	43.6%	57.3%
Iberia	Banco Popular	Sell	4.5	(13.2%)	(4.0%)	3.1%	(5.6%)	(1.7%)	(1.9%)	(7.7%)	(2.3%)	5.0%	680.4%	37.7%	99.3%	(8.5%)	31.5%	121.0%
Iberia	Banco Santander	Hold	6.3	7.0%	2.8%	3.3%	5.1%	2.3%	2.2%	1.9%	0.4%	1.0%	17.9%	4.5%	7.9%	7.3%	9.5%	11.6%
Iberia	Bankia	Hold	1.15	(2.0%)	0.4%	2.0%	(3.3%)	(0.1%)	(0.2%)	1.3%	0.5%	2.2%	31.3%	11.6%	10.7%	37.5%	11.6%	10.7%
Iberia	Bankinter	Buy	6.7	5.3%	2.2%	3.7%	2.5%	1.0%	0.0%	2.7%	1.2%	3.7%	44.4%	10.1%	12.2%	44.8%	10.1%	13.0%
Iberia	BBVA	Buy	8.9	15.3%	8.9%	4.4%	11.6%	6.8%	2.6%	3.7%	2.1%	1.8%	35.8%	16.3%	9.5%	(16.4%)	63.9%	21.3%
Iberia	BCP	Sell	0.08	7.7%	(1.3%)	1.5%	(3.7%)	(2.3%)	(1.6%)	11.4%	0.9%	3.1%	391.5%	24.7%	27.7%	170.5%	29.2%	37.1%
Iberia	Liberbank	Hold	0.70	(14.1%)	0.5%	0.2%	(4.0%)	(6.5%)	2.0%	(10.1%)	7.0%	(1.8%)	60.2%	23.7%	2.0%	11.6%	27.6%	6.7%
Ireland	Bank of Ireland	Hold	0.3	4.0%	5.0%	3.9%	0.0%	1.3%	(1.2%)	3.9%	3.7%	5.1%	19.5%	10.9%	16.2%	18.1%	36.6%	17.4%
Italy	Banca Popolare di Milano	Hold	0.9	(0.1%)	4.4%	3.8%	(0.3%)	0.1%	0.3%	0.1%	4.3%	3.5%	40.2%	47.8%	20.3%	49.3%	49.6%	20.8%
Italy	Banco Popolare	Buy	14.4	2.5%	6.0%	4.0%	2.1%	0.3%	0.1%	0.3%	5.8%	3.9%	119.7%	76.9%	26.9%	124.5%	42.7%	28.0%
Italy	Credem	Hold	7.2	6.8%	(3.6%)	3.0%	3.1%	(0.1%)	0.5%	3.6%	(3.5%)	2.4%	23.9%	1.5%	9.5%	31.4%	(1.7%)	9.7%
Italy	Intesa SanPaolo	Hold	3.2	6.2%	3.3%	2.3%	(0.6%)	(0.2%)	0.1%	6.8%	3.4%	2.2%	99.5%	19.4%	7.0%	115.9%	19.8%	7.2%
Italy	UBI Banca	Hold	7.0	(2.2%)	4.1%	2.6%	(0.2%)	(1.4%)	(1.3%)	(2.0%)	5.5%	3.9%	15.4%	67.4%	16.8%	52.7%	77.6%	17.3%
Italy	UniCredit	Buy	6.0	2.4%	4.1%	3.1%	(1.5%)	(0.7%)	(0.7%)	3.9%	4.7%	3.8%	15.6%	30.4%	21.4%	4.6%	34.7%	23.6%
Nordics	Danske Bank	Buy	195.6	1.6%	2.6%	3.0%	(32.0%)	(3.5%)	(1.1%)	33.6%	6.1%	4.0%	167.0%	7.6%	6.9%	29.3%	13.4%	7.2%
Nordics	DNB	Hold	132.6	7.9%	(1.7%)	2.9%	1.6%	(1.4%)	1.8%	6.3%	(0.3%)	1.1%	7.1%	(3.2%)	3.7%	9.4%	(3.0%)	2.8%
Nordics	Nordea	Hold	11.4	(1.0%)	2.5%	3.1%	(12.4%)	0.8%	0.8%	11.4%	1.7%	2.2%	12.3%	4.1%	5.5%	6.0%	3.8%	5.5%
Nordics	SEB	Buy	104.1	(2.8%)	5.3%	4.2%	1.5%	0.5%	0.4%	(4.4%)	4.8%	3.9%	(6.5%)	9.0%	7.9%	7.3%	8.8%	7.9%
Nordics	Svenska Handelsbanken	Hold	120.5	2.5%	6.2%	4.6%	2.9%	2.9%	2.9%	(0.3%)	3.3%	1.7%	3.7%	7.6%	6.1%	6.6%	7.6%	6.1%
Nordics	Swedbank	Hold	192.0	(3.3%)	1.3%	2.5%	(4.2%)	(3.5%)	0.5%	0.8%	4.7%	2.1%	(3.0%)	2.6%	1.5%	(4.3%)	3.7%	1.5%
Switzerland	Cembra Money Bank	Hold	56.8	1.0%	2.4%	0.7%	3.5%	(0.6%)	(1.5%)	(2.5%)	3.0%	2.2%	(1.5%)	5.3%	2.3%	2.7%	5.3%	0.2%
Switzerland	Credit Suisse Group	Buy	25.7	(2.0%)	(0.5%)	4.5%	(8.6%)	(12.0%)	2.3%	6.5%	11.5%	2.2%	35.0%	47.7%	9.4%	24.1%	10.8%	7.9%
Switzerland	Julius Baer	Hold	51.1	13.7%	7.0%	8.7%	5.4%	(0.4%)	6.1%	8.3%	7.5%	2.6%	(56.0%)	344.6%	14.9%	27.4%	8.8%	14.0%
Switzerland	UBS	Buy	20.0	6.8%	4.2%	5.6%	0.7%	(4.7%)	0.6%	6.1%	9.0%	5.0%	65.8%	55.9%	23.2%	42.3%	24.4%	4.4%
UK	Aldermore	Buy	287.5	33.3%	19.7%	12.5%	11.5%	2.8%	5.5%	21.8%	16.9%	7.0%	62.9%	42.5%	17.5%	26.8%	29.7%	18.1%
UK	Barclays	Buy	265.0	(1.9%)	4.9%	4.6%	(7.4%)	(4.0%)	(2.9%)	5.5%	8.9%	7.5%	15.0%	25.3%	18.1%	20.8%	25.5%	12.2%
UK	HSBC	Hold	600.0	(0.2%)	5.1%	6.4%	(2.7%)	0.9%	(5.8%)	2.5%	4.2%	12.1%	9.7%	14.4%	31.3%	(4.9%)	6.3%	11.7%
UK	Lloyds Banking Group	Buy	86.4	5.4%	(3.5%)	5.3%	(18.4%)	(17.7%)	(4.4%)	23.8%	14.2%	9.6%	223.7%	19.7%	20.1%	4.8%	(1.8%)	8.3%
UK	RBS	Hold	350.5	(8.4%)	(21.5%)	5.4%	(9.4%)	(27.4%)	(5.3%)	1.0%	5.9%	10.7%	(209.8%)	91.9%	2409.3%	(0.9%)	(24.9%)	25.2%
UK	Standard Chartered	Sell	1038.0	(8.1%)	3.3%	5.2%	(0.5%)	2.2%	3.0%	(7.5%)	1.1%	2.3%	(4.4%)	6.8%	23.4%	(31.6%)	2.4%	23.2%

Source: Deutsche Bank, Price at close of 15 June 2015

Appendix 1

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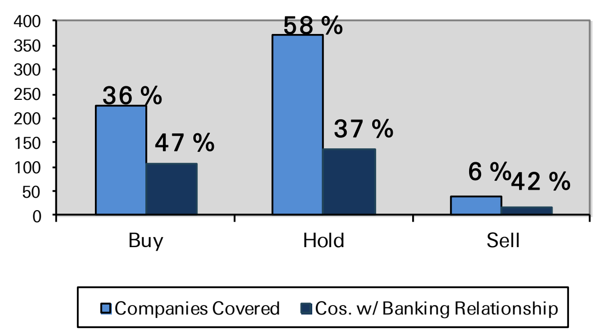

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