Sector News

Banks - CHF exposure

January 15, 2015 **Banks**

Swiss National Bank unexpectedly gives up minimum EUR exchange rate, lowers interest rate to -0.75%

Strongest NEGATIVE in our universe:

- ***Bank Millennium***
- ***Getin Noble Bank***
- ***mBank***
- ***Banca Transilvania***

The Swiss let loose... implications on CEE banks

In a surprise move, the Swiss National Bank (SNB) gave up its minimum exchange rate of CHF 1.20 per EUR today, ending a three-year-old policy designed to shield the economy. SNB still considers the CHF high, but thinks that the overvaluation has decreased since. Additionally, it lowered the interest rate on sight deposit account balances that exceed a given exemption threshold to minus 0.75% from minus 0.25%, it said in a statement today. We have quickly screened our universe for its exposure towards Switzerland and the CHF.

Erste Group: Excluding FX mortgages in Hungary, which are covered by the mortgage conversion/rate fixing scheme the total CHF loan exposure amounts to EUR 7.5 bn (5.8% of total loans, 3.7% of total loans excl. Savings Banks): EUR 4.1 bn Savings Banks (very low bottom-line impact given high minority portion), EUR 2.5 bn Erste Bank Österreich, EUR 0.56 bn Erste Croatia, EUR 0.25 bn other Austria, ca. EUR 0.1-0.2 bn consumer loans in Hungary. There is no open CHF position from the Hungarian mortgage conversion program (the NB delivered EUR, the bank already converted the full amount into CHF). We are not much concerned regarding a significant weakening of the credit quality of the Austrian CHF mortgage book as the credit rating of CHF borrowers should be quite above average.

Komercni Banka has no meaningfull CHF exposure.

OTP: There should be no impact on Hungarian FX mortgages which are already covered by the rate fixing scheme as the bank has fully closed its open CHF position concerning the CHF book, but the remaining CHF exposure should amount to ca. HUF 326 bn (4.4% of the total loan book) based on CHF consumer/car lending exposure in HU of ca. HUF 135 bn, HUF 161 bn in Romania and HUF 5 bn FX mortgage exposure in Serbia and HUF 23 bn in Croatia.

Poland: Despite gradual decline of the share of CHF denominated mortgages in total loan books - following almost no new loan CHF mortgage generation since 2010 - the banks are still exposed to this type of loans: MIL (39% of total loans), GNB (29%), MBK (26%), PKO (20%), BZW (15%) and to les extent PEO (4.5%) while ALR and BHW have marginal or no CHF exposure. For the banks with no correspondent CHF funding, mostly GNB, MIL and PKO the one can expect pressure on the swaps (higher collaterals, higher spreads) and on deposit collection as higher CHF/PLN rate will inflate the respective part of CHF denominated loan book; both factors might cause interest margins erosion. On the other hand, MBK has naturally hedged ~57% of its CHF loans so here this effect could appear somewhat calmer.

From the asset quality perspective, we do forecasts still upward trend of respective NPL ratios (sector data shows NPL ratio of CHF mortgages at 3.1% up from 0.8% in early 2009) in the mid-term. NPL coverage climbed to 57%, up from ~40% in 03/2010 that might provide some cushion. Some banks so far were vocal that there would not expect a big pressure on repayment ability of their clients until the CHF/PLN ratio is below 5. We remind that between mid-2008 – 1Q 2009, the CHF/PLN exchange ratio catapulted relatively much stronger from 2 to 3.13 which did not have a dramatic impact from the asset quality perspective on the sector, but rather from the funding side. Also to that point of time the FX share was visible higher than current one (23% for sector vs. 15% now) and secondly the spreads for FX hedging peaked to 150-200 bps (lack of correspondent swap counterparties) vs. current levels of 15-30 bps.

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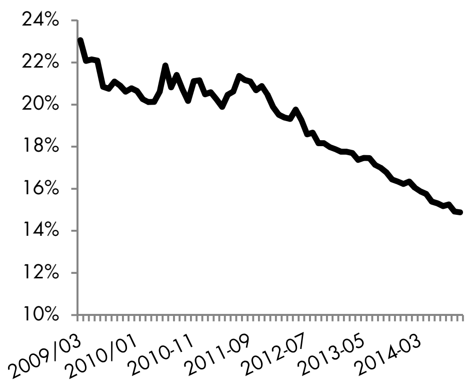
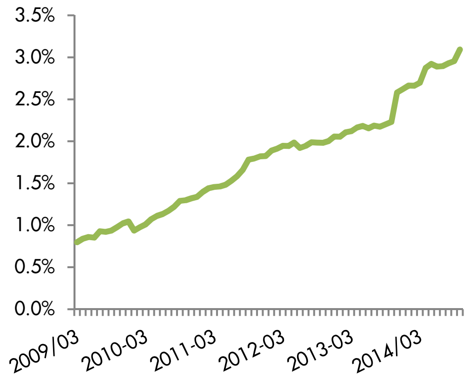
Portion of CHF mortgage loans in total



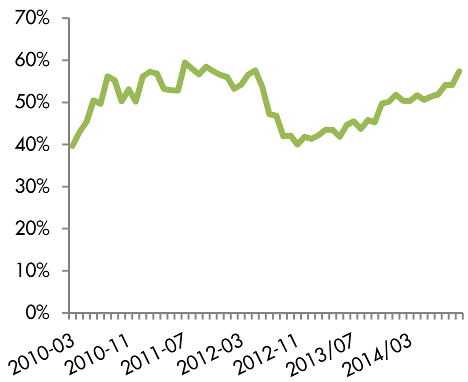
Source: NBP

CHF mortgage NPL ratio



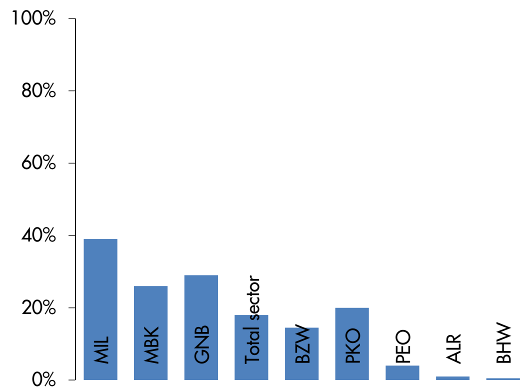
Source: NBP

CHF Mortgage NPL coverage ratio



Source: NBP

CHF mortgage as % of total loans



Source: companies

At this stage we have to raise the risk on the whole sector from any potential regulatory/political actions into this topic also knowing that 2015 is election year and that different parties might get creative on the idea to reduce the FX burden on retail clients. However we are not predicting any Hungary like scenario as the starting point is quite different between PL and HU.

The bank that is particularly pressured at the moment is GNB due to its below average capitalisation level as the higher CHF/PLN rates will inflate its risk-weighted asset base and hence reduce the CT1 by approx. 50 bps to the levels back to 9%. Also it remains uncertain what would be the final impact of the AQR on GNB's result in 2014/1H2015 as the KNF's findings were 100% linked to GNB's mortgage exposure. Speaking to the bank, from the funding side, there should be no big pressure on liquidity given its solid gross L/D of 92%.

Romania: Banca Transilvania (TLV) does not have currently any CHF exposure, but its acquisition, Volksbank Romania, had EUR 0.85 bn of CHF denominated loans as of Dec' 2013 (or around 45% of its loan book). TLV said the acquisition will be completed in 2Q 15. In the new TLV, CHF loans will have a weight of around 15% in total loans and 9% in total assets.

Russia: Russian Banks have some CHF bonds outstanding: VTB' CHF 1.55 bn mature in 2015-24 and Sberbank's two CHF bonds (CHF 660 mn) mature in 2015-17. We estimate the percentage level of CHF mortgages at close to zero.

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