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EEMEA Banks

1st Take: Front-loading stress tests for Greek banks

The ECB may start stress testing Greek banks in February next year, suggesting a front-loading versus the EU-Wide process. This would provide results ahead of the end of Greece's current bailout programme and we believe mitigates risk of an AQR.

What's new: the ECB may bring forward its stress test of Greek banks next year, producing results in plenty of time before the end of Greece's bailout programme in August, according to [press reports](#). This firstly confirms Greek banks would be subject to a stress test, as they do not appear in the sample of banks on which the EBA exercise is carried out (Appendix 1, [here](#)). It is our understanding that Greek banks will have a test conducted by the ECB and not the SSM, although using the same EBA methodology.

Our take: as we wrote in our recent [feedback note](#) following our meetings with Greek bank management, we see it unlikely and unnecessary to conduct an Asset Quality Review on Greek banks. We understand the push for an AQR is the sole view of the IMF, which appears more of a political standpoint given it forms part of the Stand-By Agreement that the IMF approved in July this year. By conducting a stress test and providing results ahead of the end of Greece's programme, along with the Troubled Asset Review, the Targeted Review of Internal Models and that Greek banks will implement new accounting standards related to provisions (IFRS 9), we think Greek banks are being scrutinised sufficiently and we expect transparency on these pillars as they occur should provide comfort.

Greek bank valuations: Greek bank shares have sold off in the last two weeks on newsflow related to the AQR, with this past weekend's German election result reigniting concerns about headwinds to deeper financial integration in the euro area. The pro-market Free Democrats, as well as part of the CDU/CSU, oppose deeper financial integration in the euro area and in exchange for debt relief the FDP would likely insist that Greece leaves the euro (see: [Germany Election: The Choppy Waters to Jamaica](#)). Greek bank shares now trade at 0.14x-0.35x 2018e TBV, towards the bottom end of trading ranges at Alpha, Eurobank and Piraeus. We retain our Equal-weight view on Greek bank shares as the medium-term recovery post NPE-reduction remains unclear, yet current valuations appear oversold given we do not believe the newsflow over the last couple of weeks represents anything new or materially different to before.

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EMEA - Banks

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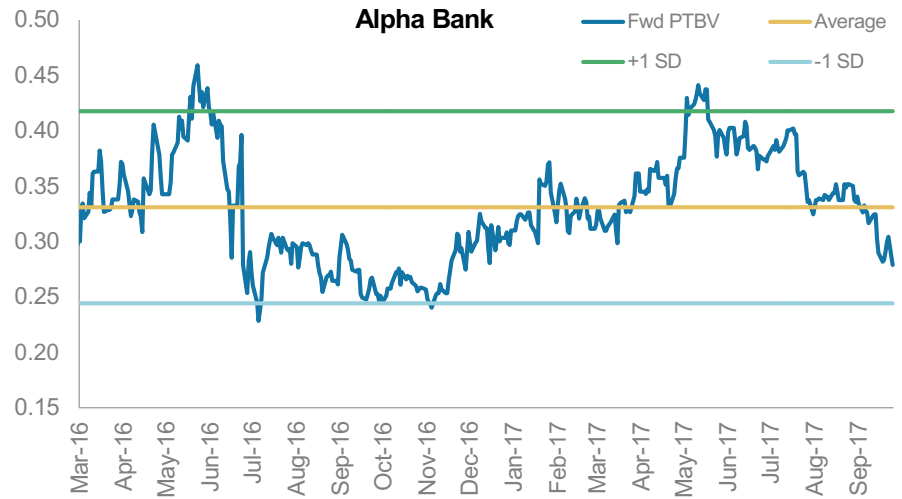
In-Line

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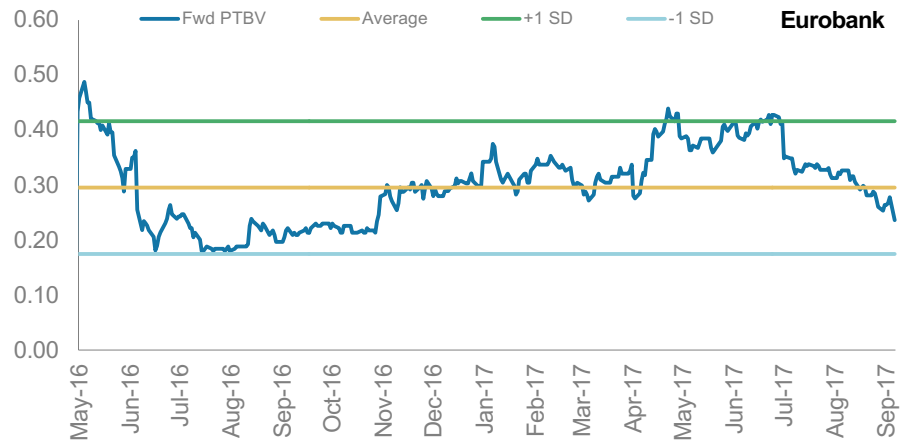
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Exhibit 1:



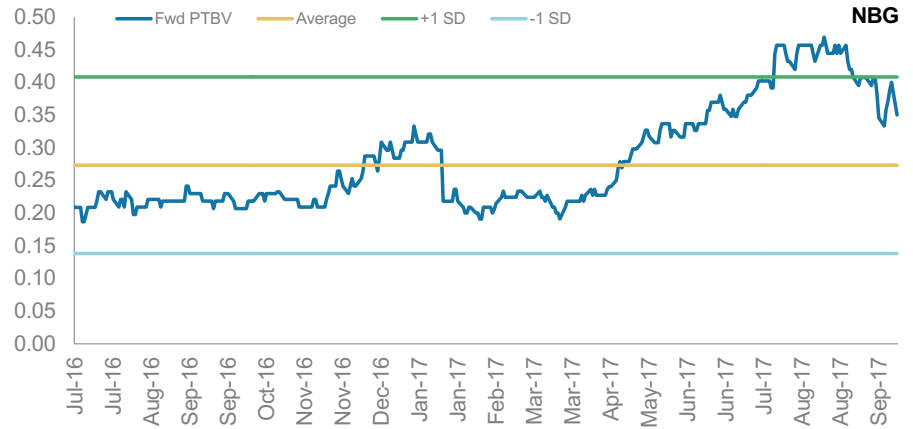
Source: Thomson Reuters, Morgan Stanley research

Exhibit 2:



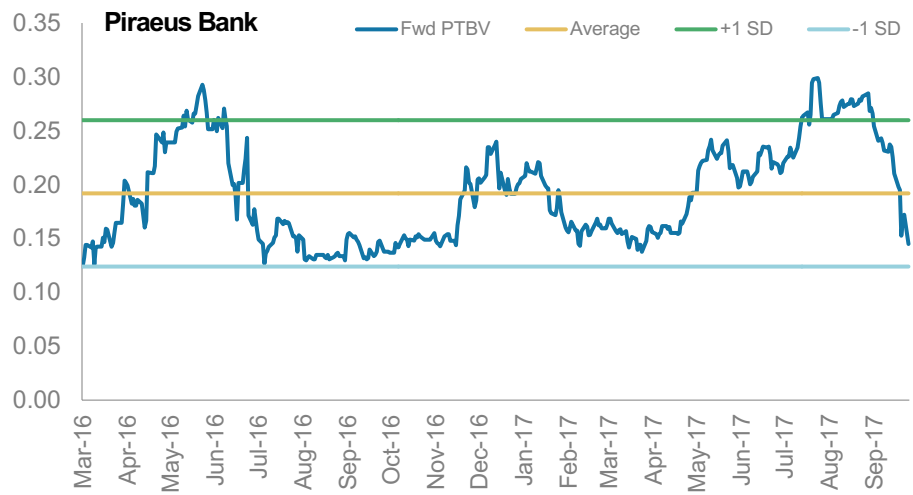
Source: Thomson Reuters, Morgan Stanley research

Exhibit 3:



Source: Thomson Reuters, Morgan Stanley research

Exhibit 4:



Source: Thomson Reuters, Morgan Stanley research

Valuation methodology and risks

ACBr.AT

Valuation methodology for our Alpha Bank PT of €2.9. We value Alpha Bank using a target P/BV derived from a Gordon Growth Model, which we apply to our 2019e forecast NAV. We use sustainable RoTNAV of 6.4% and obtain a fair value for each of our base, bear and bull cases, with our price target being 100% base case weighted. We estimate COE of 11.0% and use 2% growth in perpetuity.

Risks:

- **Upside** : Faster than expected GDP growth; progress with reform catalyses provision reversal potential; visibility increases on potential for capital return. Cost of equity declines materially if GGBs qualify for ECB bond buying.
- **Downside** : Early stage (and therefore still fragile) recovery in macro environment could impact growth; exit of Greece from the Eurozone.

EURBr.AT

Valuation methodology for our Eurobank PT of €0.90. We value Eurobank using a target P/BV derived from a Gordon Growth Model, which we apply to our 2019e forecast NAV. We use sustainable RoTNAV of 5.1% and obtain a fair value for each of our base, bear and bull cases, with our price target being 100% base case weighted. We estimate COE of 11.0% and use 2% growth in perpetuity.

Risks to Achieving Price Target

Upside: Faster than expected GDP growth; progress with reform catalyses provision reversal potential; visibility increases on potential for capital return. Cost of equity declines materially if GGBs qualify for ECB bond buying.

Downside: early stage (and therefore still fragile) recovery in macro environment could impact growth; exit of Greece from the Eurozone.

NBGr.AT

Valuation methodology for our National Bank of Greece PT of €0.40. We value NBG using a target P/BV derived from a Gordon Growth Model, which we apply to our 2019e forecast NAV. We use sustainable RoTNAV 6.5% and obtain a fair value for each of our base, bear and bull cases, with our price target being 100% base case weighted. We estimate COE of 11.0% and use 2% growth in perpetuity.

Risks to Achieving Price Target

Upside: Faster-than-expected GDP growth; progress with reform catalyses provision reversal potential; visibility increases on potential for capital return; cost of equity declines materially if GGBs qualify for ECB bond buying.

Downside: Early stage (and therefore still fragile) recovery in macro environment could impact growth; exit of Greece from the Eurozone.

BOPr.AT

Valuation methodology for our Piraeus Bank PT of €5.2. We value Piraeus bank using a target P/BV derived from a Gordon Growth Model, which we apply to our 2019e forecast NAV. We use sustainable RoTNAV of 4.8% and obtain a fair value for each of our base, bear and bull cases, with our price target been 100% base case weighted. We estimate COE of 11.0% and use 2% growth in perpetuity.

Risks to Achieving Price Target

Upside: Faster than expected GDP growth; progress with reform catalyses provision reversal potential; visibility increases on potential for capital return. Cost of equity declines materially if GGBs qualify for ECB bond buying.

Downside: Early stage (and therefore still fragile) recovery in macro environment could impact growth; exit of Greece from the Eurozone.

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(as of August 31, 2017)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MSC
Overweight/Buy	1164	36%	306	41%	26%	555	37%
Equal-weight/Hold	1425	44%	349	46%	24%	701	46%
Not-Rated/Hold	61	2%	6	1%	10%	10	1%
Underweight/Sell	606	19%	91	12%	15%	242	16%
TOTAL	3,256		752			1508	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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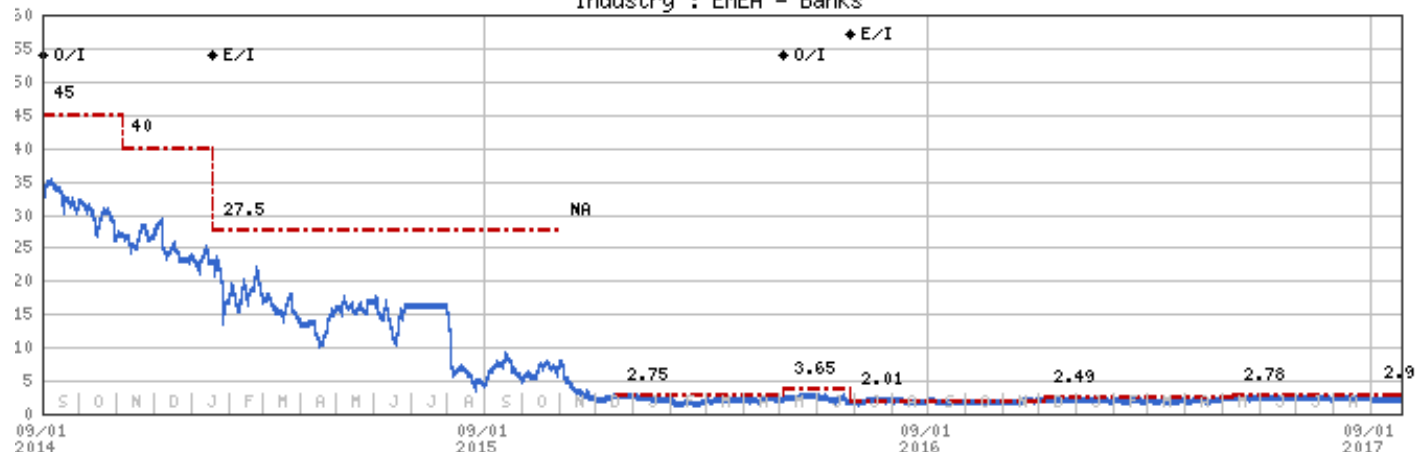
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

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Stock Price, Price Target and Rating History (See Rating Definitions)

Alpha Bank SA (ACBr.AT) - As of 9/25/17 in EUR
Industry : EMEA - Banks



Stock Rating History: 9/1/14 : 0/I; 1/19/15 : E/I; 5/4/16 : 0/I; 6/29/16 : E/I

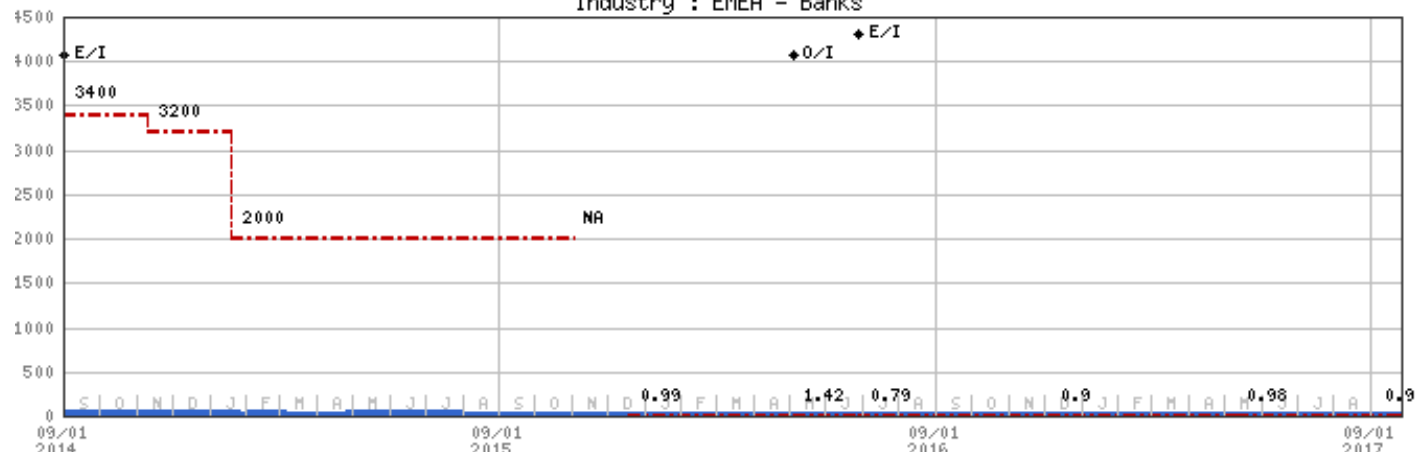
Price Target History: 8/20/14 : 45; 11/5/14 : 40; 1/19/15 : 27.5; 11/2/15 : NA; 12/18/15 : 2.75; 5/4/16 : 3.65; 6/29/16 : 2.01; 12/5/16 : 2.49; 5/11/17 : 2.78; 9/16/17 : 2.9

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Eurobank Ergasias SA (EURBr.AT) - As of 9/25/17 in EUR
 Industry : EMEA - Banks



Stock Rating History: 9/1/14 : E/I; 5/4/16 : O/I; 6/29/16 : E/I

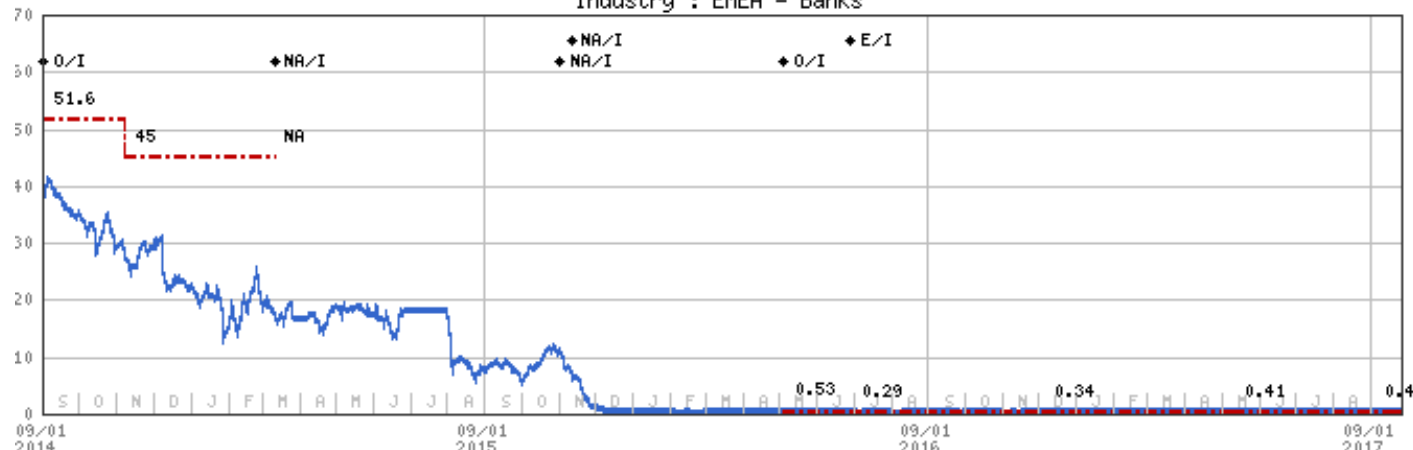
Price Target History: 8/20/14 : 3400; 11/10/14 : 3200; 1/19/15 : 2000; 11/2/15 : NA; 12/18/15 : 0.99; 5/4/16 : 1.42; 6/29/16 : 0.79; 12/5/16 : 0.9; 5/11/17 : 0.98; 9/16/17 : 0.9

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
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National Bank of Greece (NBGr.AT) - As of 9/25/17 in EUR
 Industry : EMEA - Banks



Stock Rating History: 9/1/14 : O/I; 3/11/15 : NA/I; 11/2/15 : NA/I; 11/11/15 : NA/I; 5/4/16 : O/I; 6/29/16 : E/I

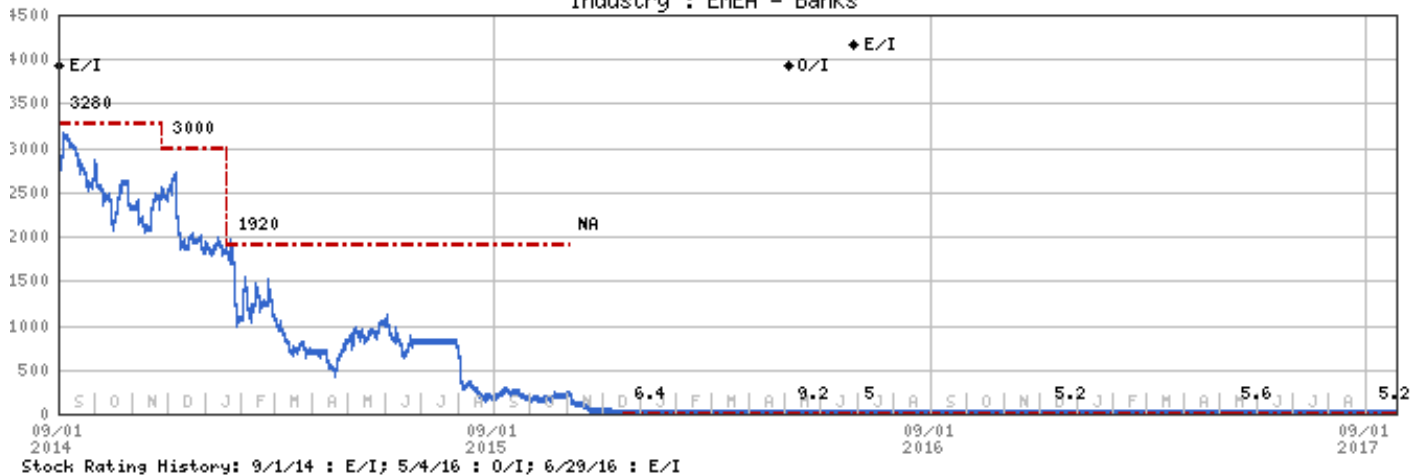
Price Target History: 8/20/14 : 51.6; 11/7/14 : 45; 3/11/15 : NA; 5/4/16 : 0.53; 6/29/16 : 0.29; 12/5/16 : 0.34; 5/11/17 : 0.41; 9/16/17 : 0.4

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
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Piraeus Bank SA (BOPr.AT) - As of 9/25/17 in EUR
Industry : EMEA - Banks



Stock Rating History: 9/1/14 : E/I; 5/4/16 : O/I; 6/29/16 : E/I

Price Target History: 8/20/14 : 3280; 11/26/14 : 3000; 1/19/15 : 1920; 11/2/15 : NA; 12/18/15 : 6.4;
5/4/16 : 9.2; 6/29/16 : 5; 12/5/16 : 5.2; 5/11/17 : 5.6; 9/16/17 : 5.2

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
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INDUSTRY COVERAGE: EMEA - Banks

COMPANY (TICKER)	RATING (AS OF)	PRICE* (09/25/2017)
Elan Levy		
Alexander Forbes Group (AFHJ.J)	E (12/10/2015)	ZAc 672
Barclays Africa Group Ltd. (BGAJ.J)	E (05/07/2015)	ZAc 13,959
Capitec Bank Holdings Ltd (CPIJ.J)	E (07/28/2016)	ZAc 90,872
Firststrand (FSRJ.J)	O (12/04/2015)	ZAc 5,350
Nedbank (NEDJ.J)	E (05/07/2015)	ZAc 20,447
Standard Bank (SBKJ.J)	E (07/06/2017)	ZAc 16,265
Neri Tollardo, CFA		
Alior Bank S.A. (ALRR.WA)	E (08/22/2017)	PLN 65.28
Al Rajhi Bank (1120.SE)	O (01/18/2017)	SAR 66.03
National Commercial Bank (1180.SE)	E (07/02/2017)	SAR 50.58
Riyad Bank (1010.SE)	E (05/28/2017)	SAR 11.89
Samba Financial Group (1090.SE)	E (07/02/2017)	SAR 23.70
Saudi British Bank (1060.SE)	O (09/10/2017)	SAR 26.63
Samuel Goodacre		
Akbank (AKBNK.IS)	O (05/24/2017)	TL 9.80
Alpha Bank SA (ACBr.AT)	E (06/29/2016)	€1.76
Eurobank Ergasias SA (EURBr.AT)	E (06/29/2016)	€0.68
Garanti Bank (GARAN.IS)	O (03/31/2016)	TL 9.99
Isbank (ISCTR.IS)	O (04/04/2016)	TL 6.93
Komerčni Banka (BKOM.PR)	E (05/21/2013)	CZK 973.00
National Bank of Greece (NBGr.AT)	E (06/29/2016)	€0.28
OTP (OTP.BU)	O (05/16/2017)	HUF 10,175.00
Pekao SA (PEO.WA)	E (02/27/2015)	PLN 126.65
Piraeus Bank SA (BOPr.AT)	E (06/29/2016)	€2.56
PKO BP (PKO.WA)	U (02/27/2015)	PLN 35.35
Sberbank (SBER.MM)	O (08/23/2015)	RUB 191.20
TCS Group Holding PLC (TCSq.L)	E (09/16/2017)	US\$16.15
VTB Bank JSC (VTBRq.L)	U (10/09/2014)	US\$2.18
Yapi Kredi (YKBNK.IS)	E (01/22/2015)	TL 4.23

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.