EUROPE UNBOUND

OVERCOMING STAGNATION:

RE-IGNITING GREECE'S POTENTIAL

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SESSION III

POST PSI PERIOD

THE FINANCIAL SERVICES INDUSTRY:

RECAPITALISATION, CONSOLIDATION & RESTRUCTURING

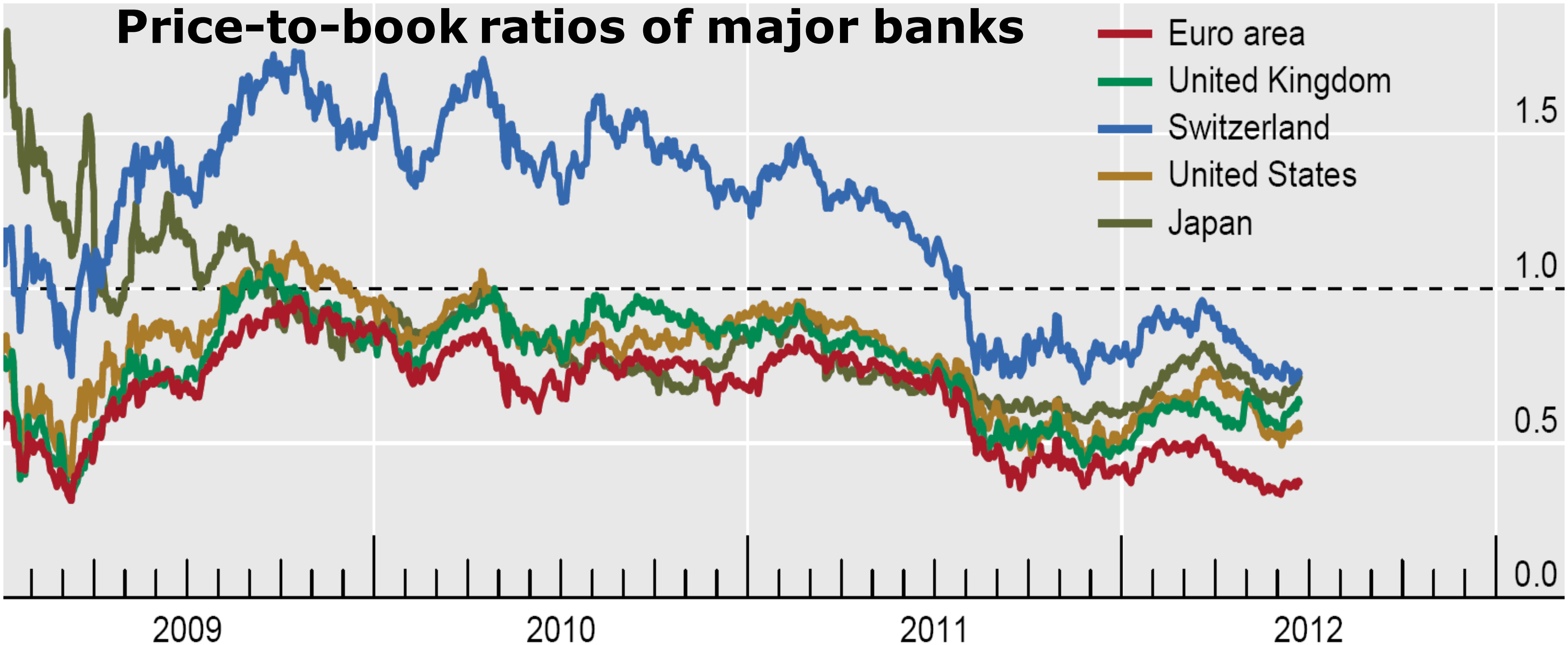
- The recent bail out of Cyprus' banking sector and what this entails for Europe
- Evaluating how the sector is re-shaping itself
- New strategies for lending / liquidity
- European Banking Union: What are the implications?

FORCES INFLUENCING EUROPEAN BANKING

- A shrinking financial sector world wide as deleveraging takes hold both in the private and the public sector
- Tough regulatory responses to the excesses of the past: Stricter BIS capital & liquidity requirements, tighter supervision & market transparency (BASEL III)
- Are we going back to Glass – Steagall types of regimes?
  - Dodd – Frank Act in the US
  - Liikanen Report in EU
- Euro Area bankers worry more about the economy than capital or liquidity
- Euro Area crisis revealed need for a closer banking union in three areas: supervision, resolution and deposit insurance
  - Yet, progress only in supervision as strong resistance by Germany &the UK
  - Cyprus case represents a major step away from a banking union
  - The core of hardliners is likely to break down as countries discover their diverging national interests in banking
- Greek banks became the collateral damage of the Greek sovereign crisis and their future success depends on the country's escape from stagnation

EUROPEAN BANKS HIT THE HARDEST

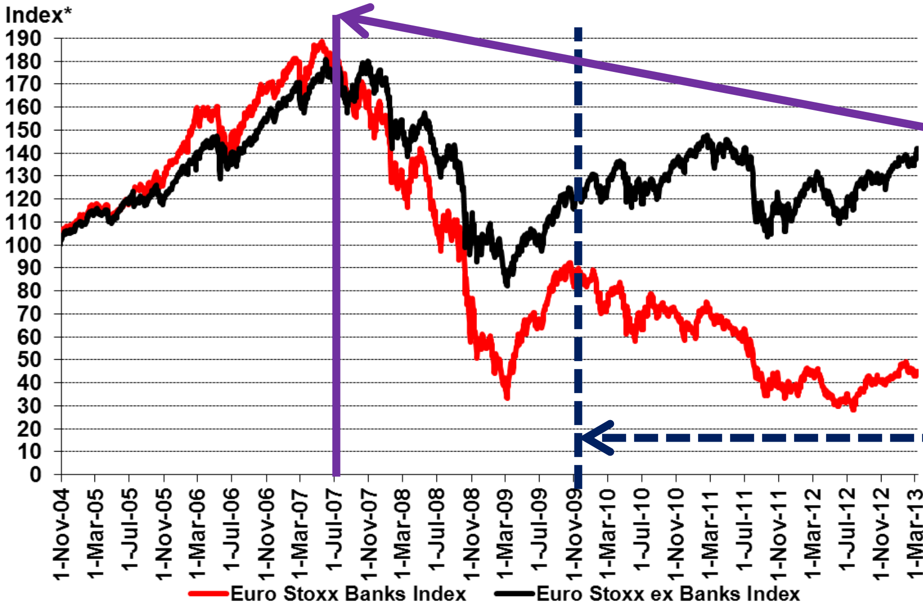
- ✓ Price-to-book value ratios have improved since the summer of 2012 but are still low
- ✓ This is the main problem in the Greek bank recapitalization



[1] Simple average across major banks: for the United States, Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase and Morgan Stanley; for the euro area, Banco Santander, BNP Paribas, Crédit Agricole, Deutsche Bank, ING Group, Société Générale and UniCredit SpA; for the United Kingdom, Barclays, Lloyds, HSBC and RBS; for Switzerland, Credit Suisse and UBS; for Japan, Mitsubishi UFJ, Mizuho and Sumitomo Mitsui.

Source: BIS

CRISIS HITS BANKS HARD EVERYWHERE



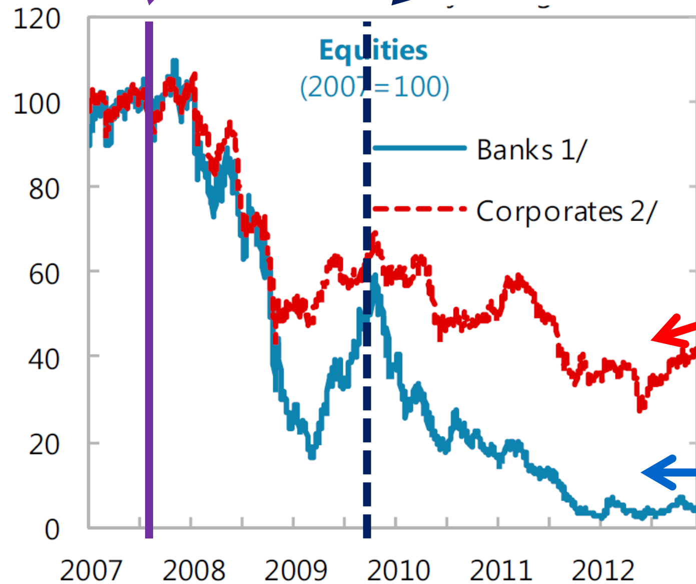
International financial crisis begins

Greek sovereign crisis begins

✓ ***Bank**ing stocks hit harder everywhere*

In Greece,

- Drop in Net Income begins in 2010
- Provisions increase in 2009 and 2011
- PSI reduces income by €30bn in 2011
- Stock holders lost almost all of their investments



Source: BoG

Coca-Cola, ELPE, OTE, OPAP, TITAN

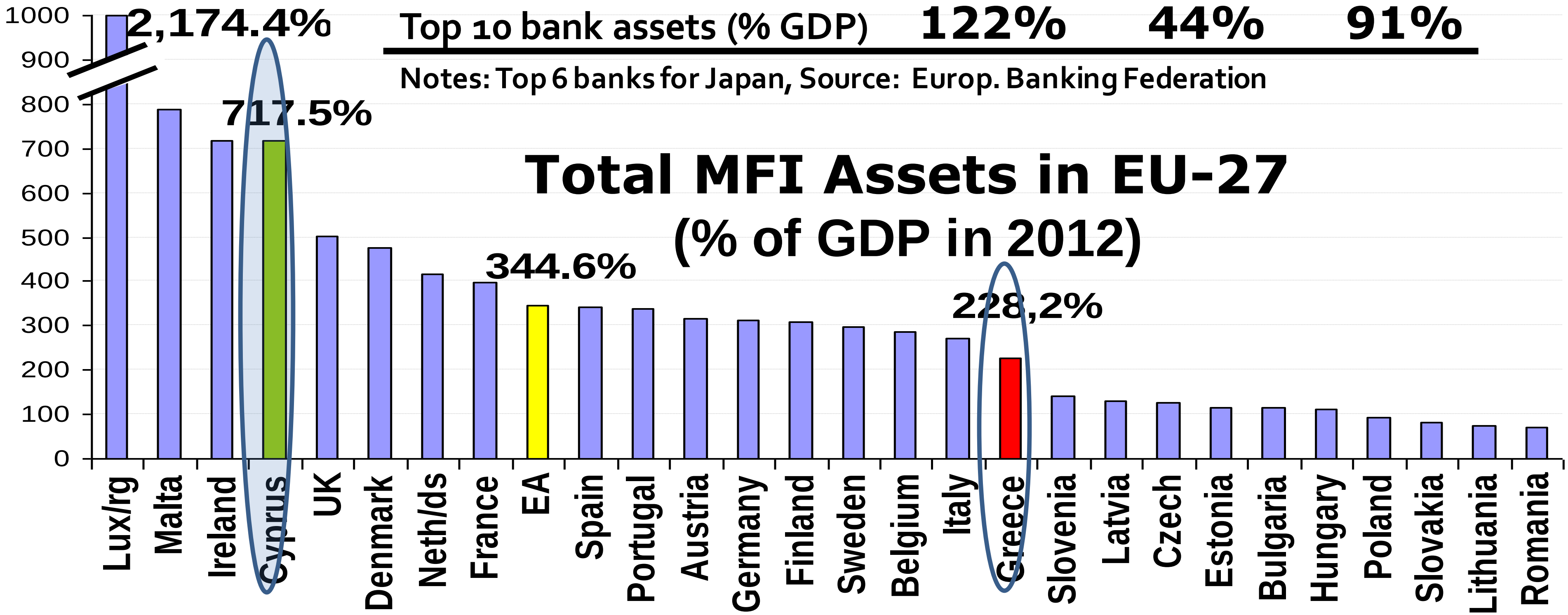
ETE, Alpha, Eurobank, Piraeus

BANKING SECTOR IS LARGE IN EUROPE

EU, USA & Japan- Banking sector (2010)

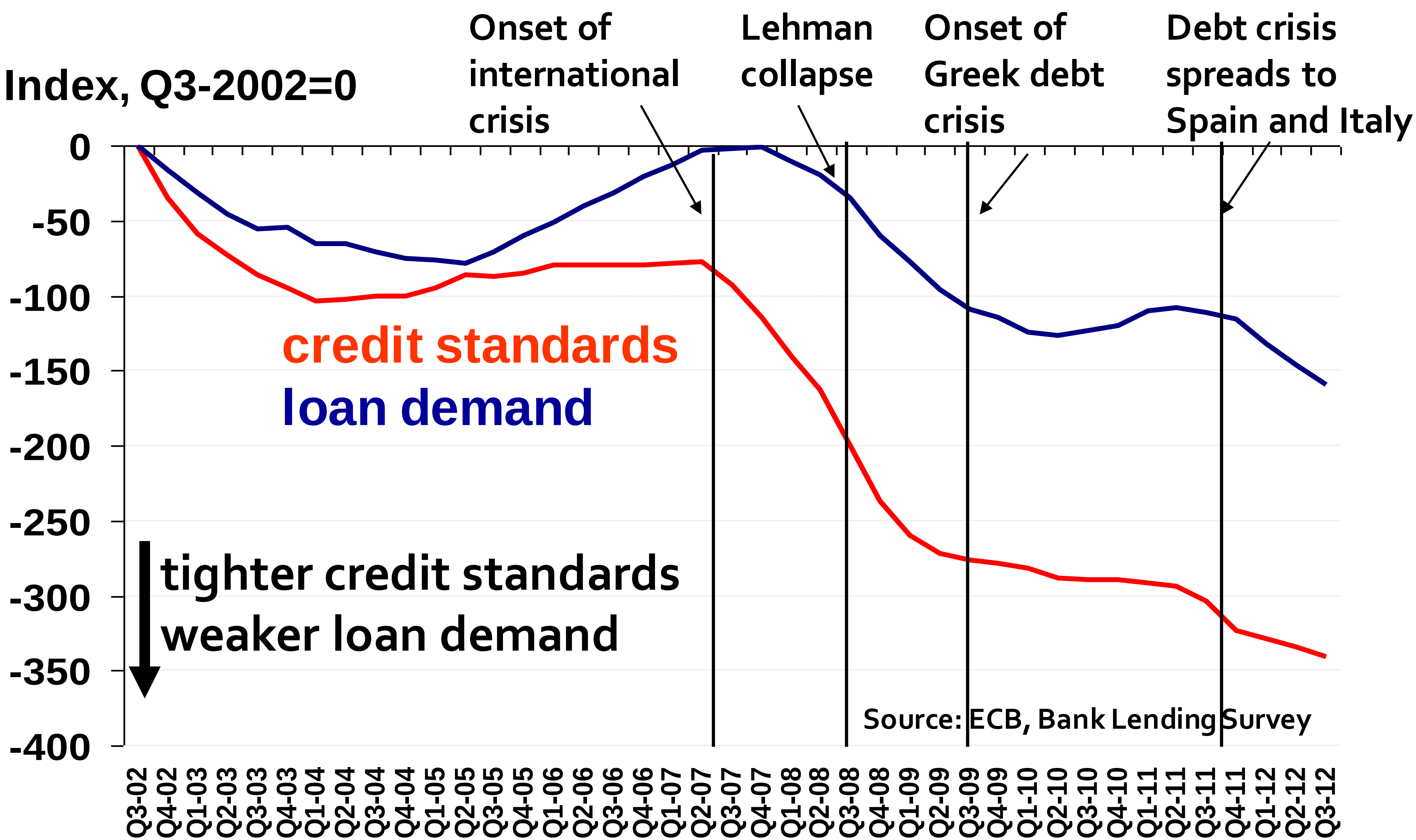
	EU	USA	Japan
Total Assets (€ tr.)	42.9	8.6	7.1
Total Assets (% GDP)	349%	78%	174%
Top 10 bank assets (€ tr.)	15.0	4.8	3.7
Top 10 bank assets (% GDP)	122%	44%	91%

Notes: Top 6 banks for Japan, Source: Europ. Banking Federation



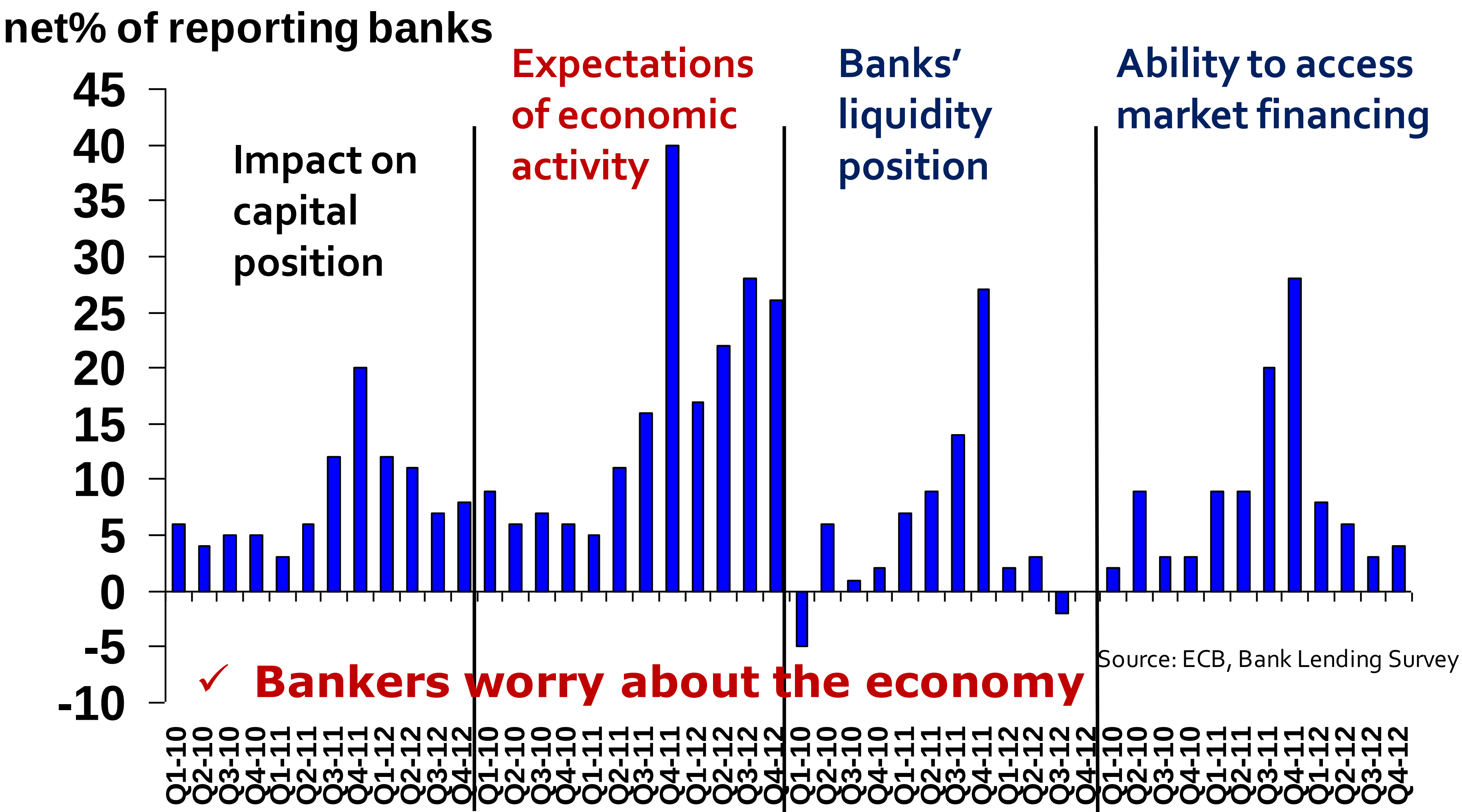
Source: ECB, EU

EURO AREA SUPPLY & DEMAND FOR CREDIT



- ✓ **Since 2002, supply fell by more than demand, with the gap rising following the consecutive crises**

FACTORS CONTRIBUTING TO CHANGE IN CREDIT STANDARDS IN THE EURO AREA



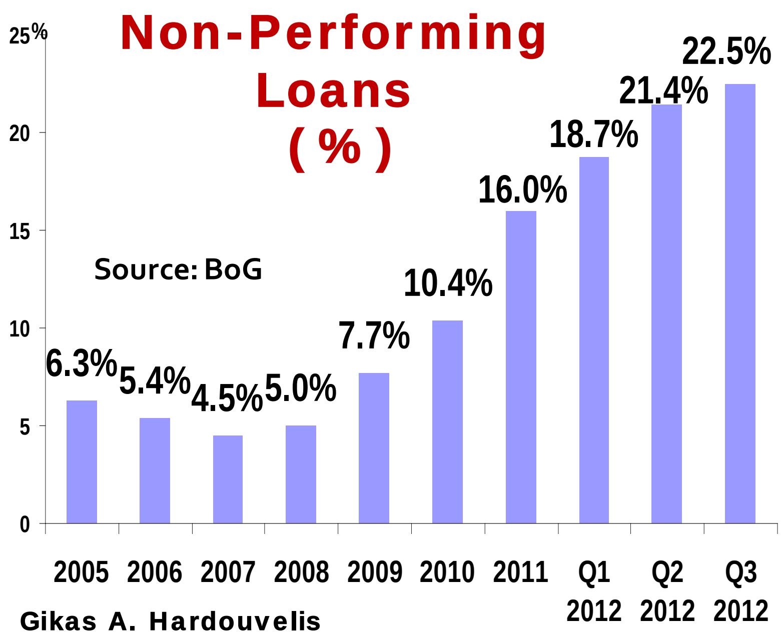
Note: Net % is defined as the difference between the percentage of banks reporting that the given factor contributed to a tightening and the percentage reporting that it contributed to an easing of credit standards

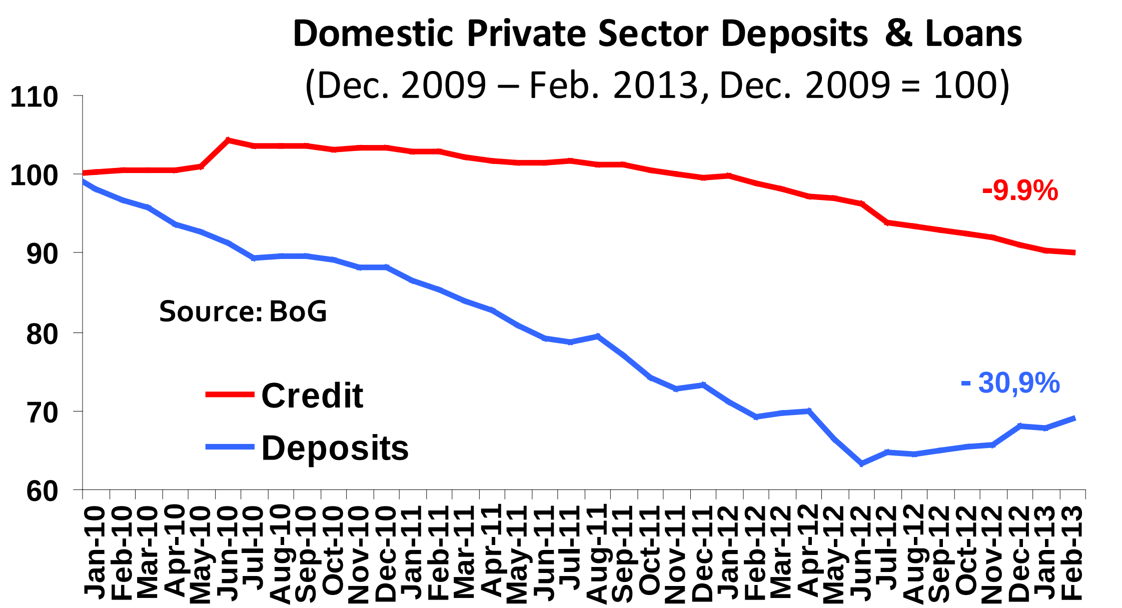
GREEK BANKS CONTINUE TO INTERMEDIATE

- After Greek crisis, a widening gap in evolution of loans and deposits
- Deposit reversal after June 2012 elections when Euro-exit fears subsided
- Loan restructurings dominate Greek bank behavior

Domestic Private Sector

(€ bn)	Credit	Deposits		Credit	Deposits
2007	215.1	197.9	Jan. 2012	248.7	169.0
2008	249.3	227.6	Mar. 2012	244.7	165.4
2009	249.3	237.5	Jun. 2012	239.8	150.6
2010	257.5	209.6	Sep. 2012	231.4	154.3
2011	248.1	174.2	Dec. 2012	227.3	161.5
	Source: BoG		Feb. 2013	224.6	164.0

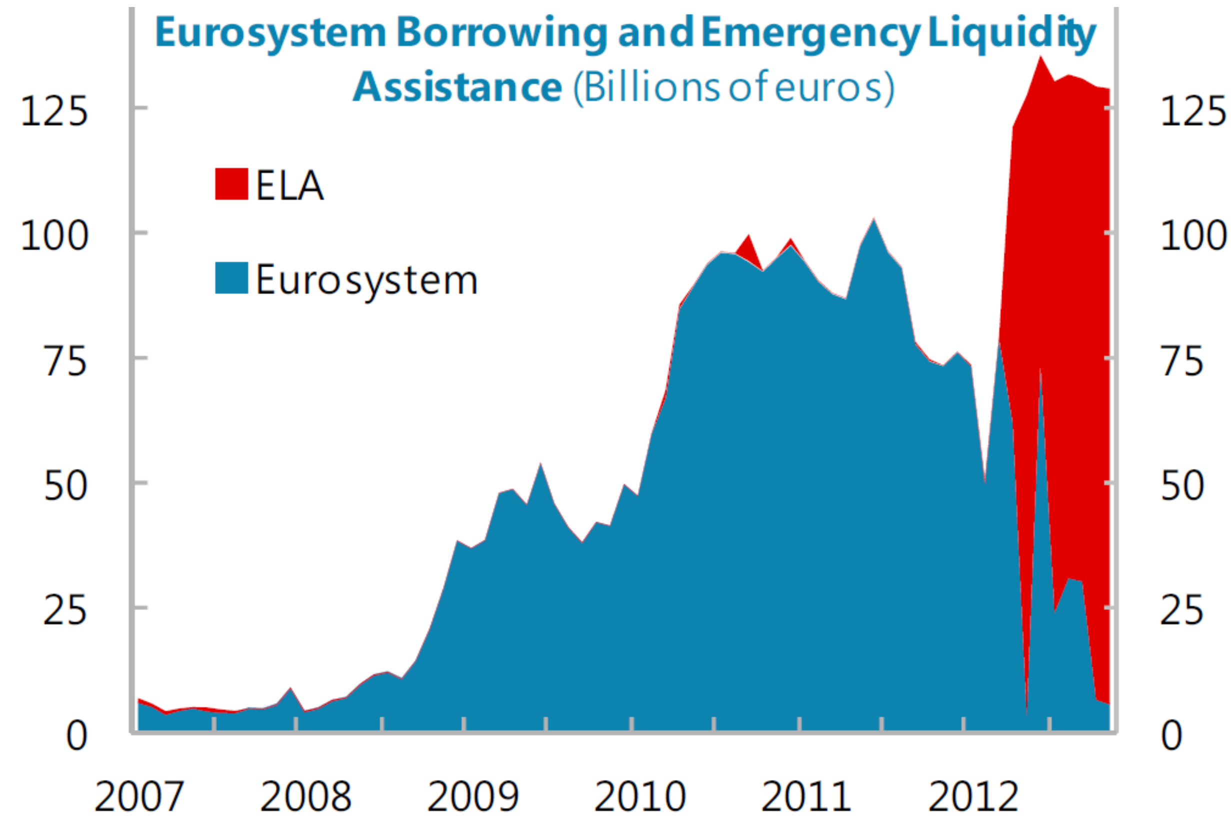




HUGE DEPENDENCE ON THE EUROSYSTEM

- During the International crisis, wholesale borrowing stopped, leading to €50bn increase in borrowing from ECB
- After Greek crisis, deposit withdrawals result in big need for extra liquidity
- ELA borrowing is costly, 2 pp. higher, implying a more restrictive monetary policy on Greece!!

The International crisis and the subsequent deposit withdrawal led banks to the Eurosystem



Source: IMF Country Report No. 13/20, January 2013

Thank you
for your attention

www.hardouvelis.gr

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I wish to thank my colleagues at Eurobank for their comments