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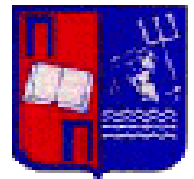


# Greek Banks

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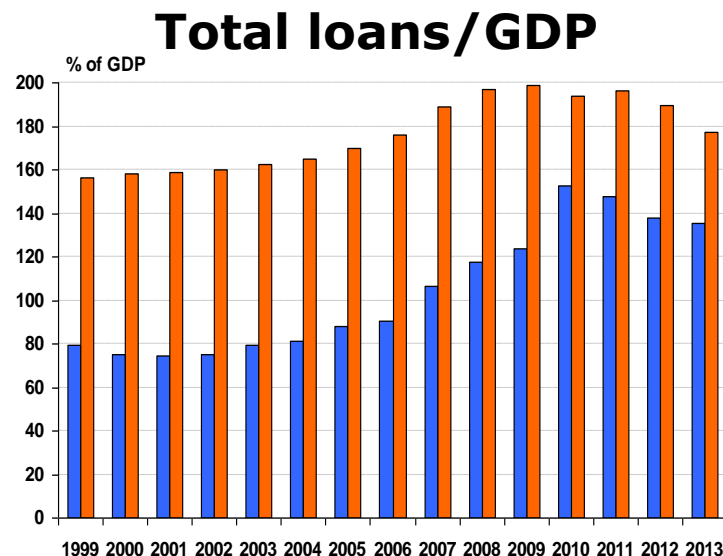
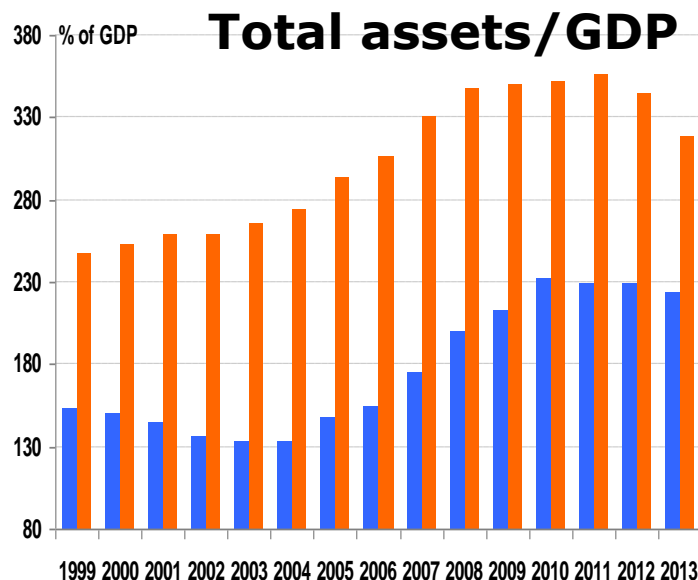
Panel Discussion on:

“Drivers of economic growth – The day after for Greece”

at DERE College, Athens

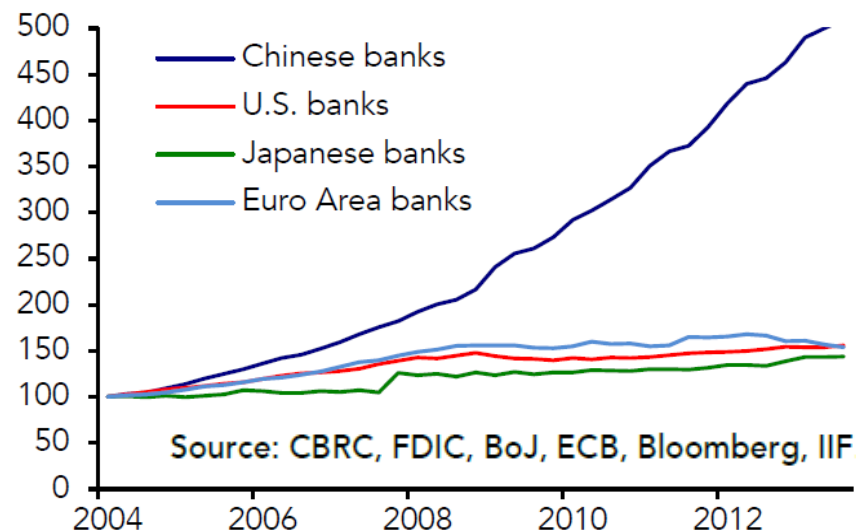
- I. Size of Banking in Greece is small compared to Europe**
- II. The multiple crises affected financial intermediation as the financing of bank balance sheets became difficult**
- III. Major bank restructuring in 2012-13 has led to fewer over-capitalized banks, which now face challenges in the management of Liquidity and NPLs**

# I. Growth in Greek banking during the EMU years: nothing extraordinary



- ✓ Bank asset size in Greece smaller than in Euro Area throughout history
- ✓ Asset size grew faster than nominal GDP after 2004, but stabilized after 2010
- ✓ Greek Lending is closer to EA average, especially loans to the private sector
- ✓ Chinese banking growth overwhelms everyone else

Chinese, U.S., European and Japanese Bank Assets  
index level, 2002=100

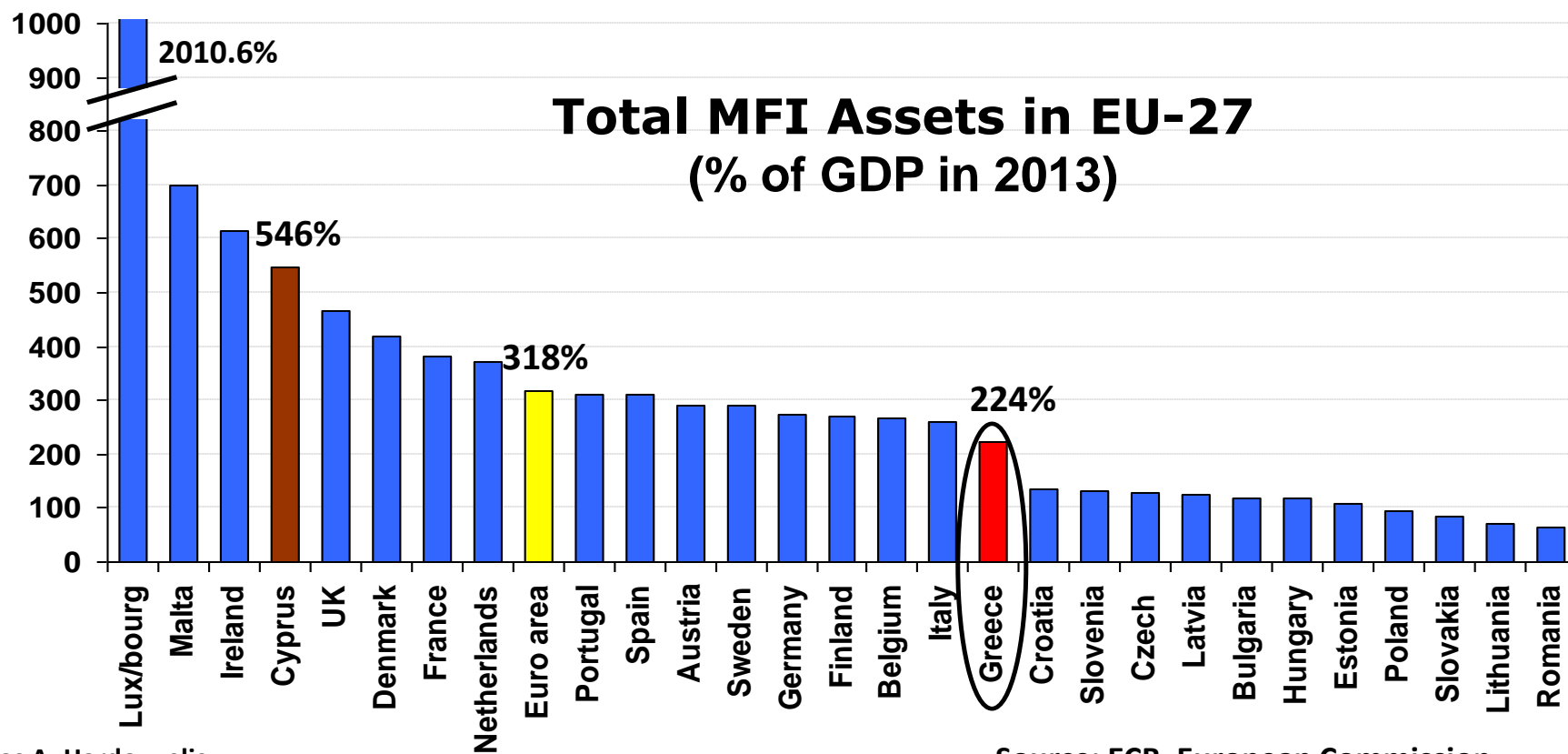


# I. Bank size varies across the Globe & across EU countries, remains small in Greece

- ✓ Banks are more important in Europe
- ✓ Greek banking has room to expand

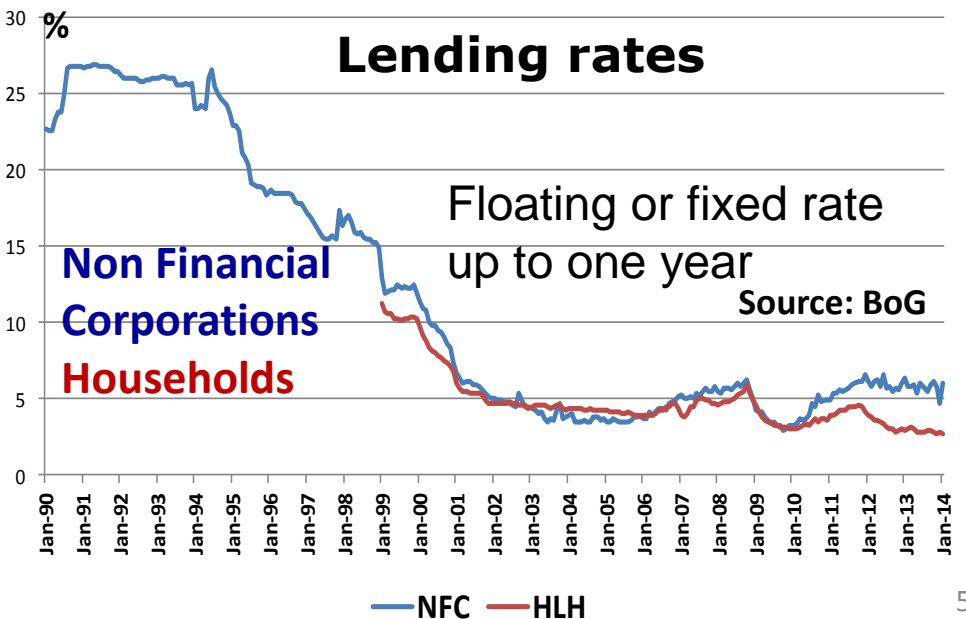
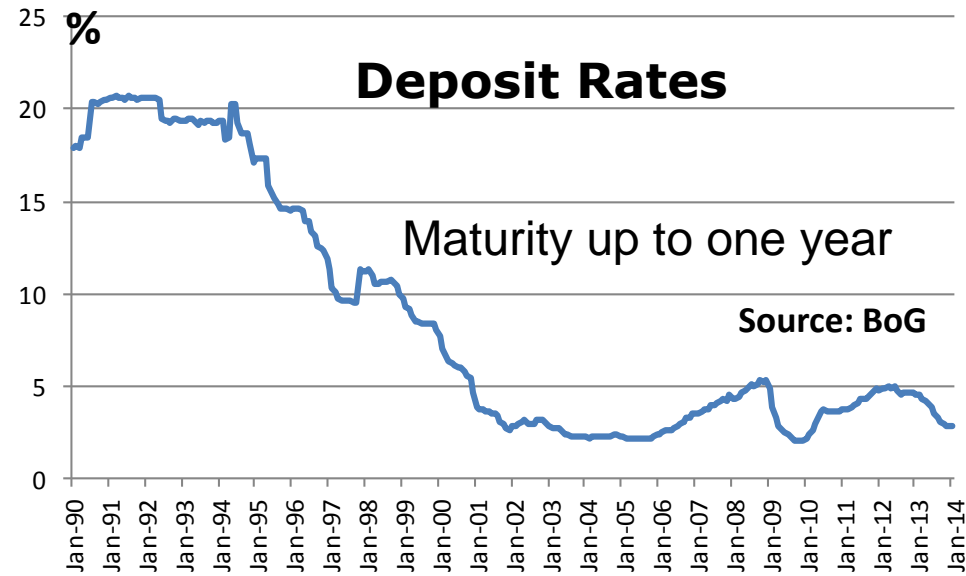
## EU, USA & Japan- banking sector (2013)

	EU	USA	Japan
Total Assets (€ tr.)	€ 42.5	10.4	7.2
Total Assets (% GDP)	325%	85%	213%

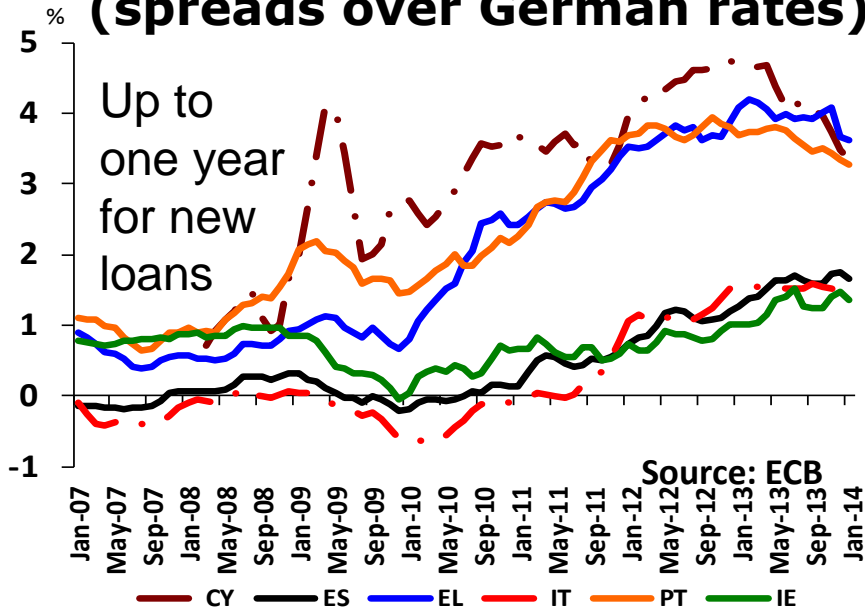


# I. A brief history of Greek banking: Interest rates on deposits & loans over time

- ✓ Drastic reduction in interest & lending rates after 1994
- ✓ Interest rates flat during the Greek crisis, with loan rates to households falling a bit
- ✓ Differences with Germany in lending rates have risen since 2011 ⇒ **fragmentation in the transmission mechanism of monetary policy across the Euro Area**

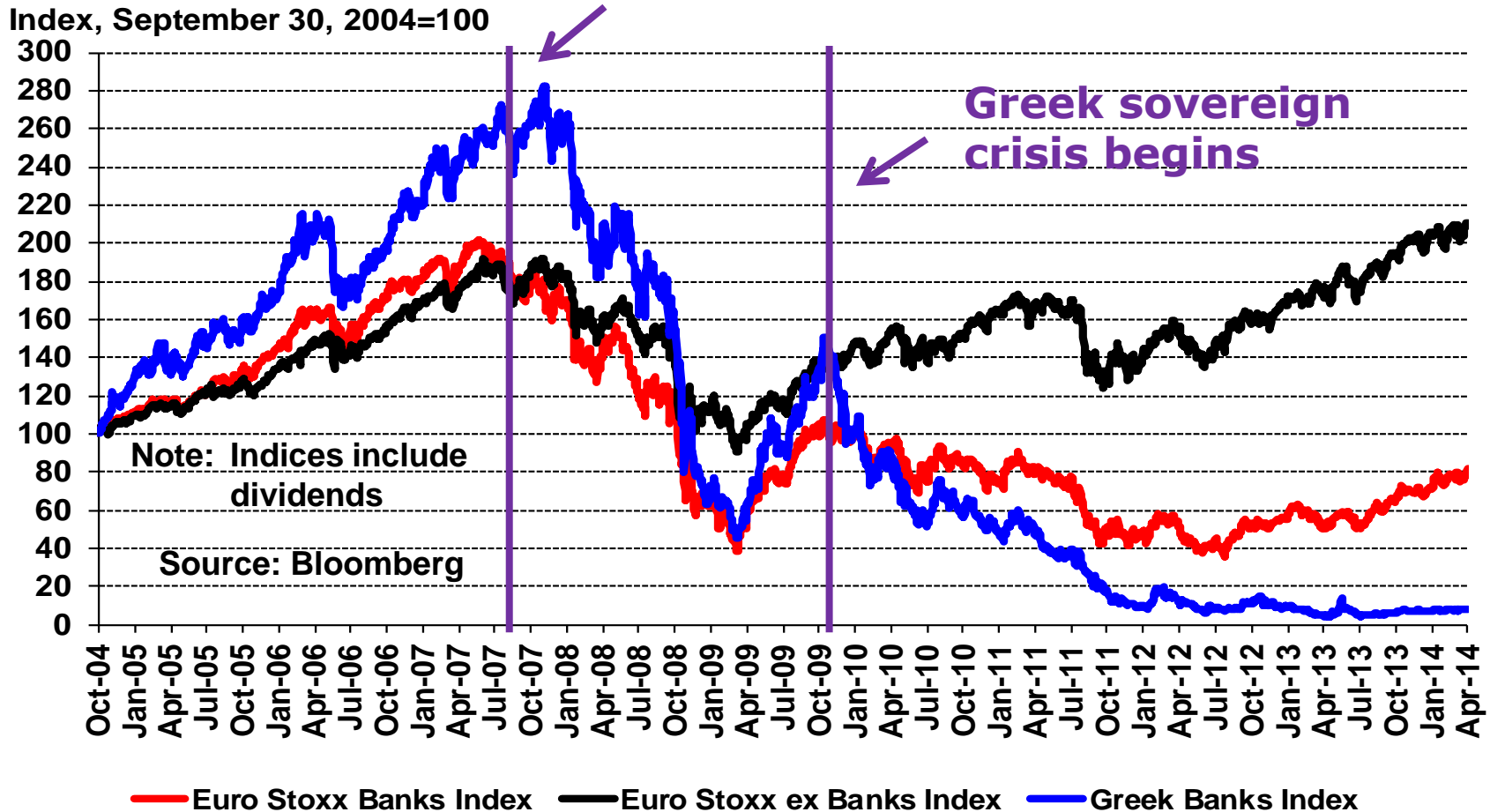


## Lending rates to NFCs (spreads over German rates)



## II. International & Greek crises hit banks hard

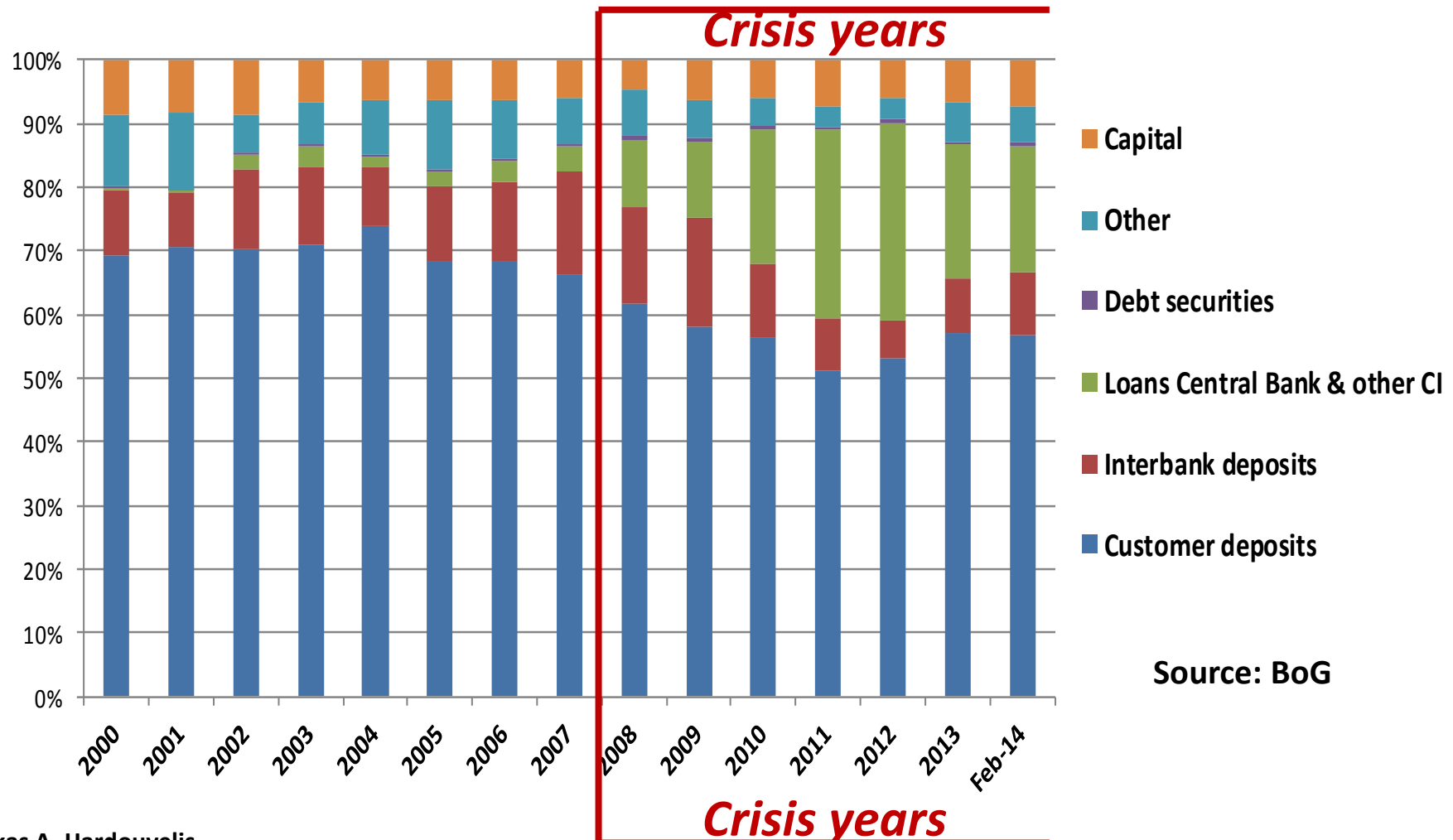
### International financial crisis begins



- ✓ European **financial stocks** at **80%** their Sept 2004 level, when remaining stocks at 210%
- ✓ **Greek financial sector stocks** almost completely wiped out

## II. The evolution of financing of banks' balance sheets in Greece

- ✓ Share of deposits falls after 2004, but more so after 2007
- ✓ **Eurosystem funding** increasingly important after 2007
- ✓ Share of **Capital** declines until 2008, improves subsequently

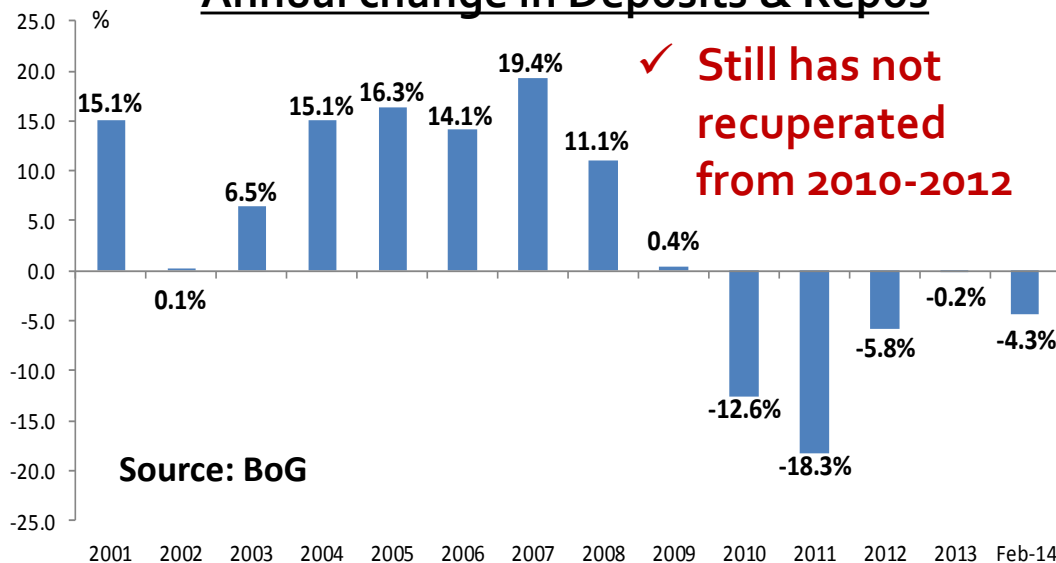


# II. Crisis makes the financing of bank balance sheets increasingly more difficult

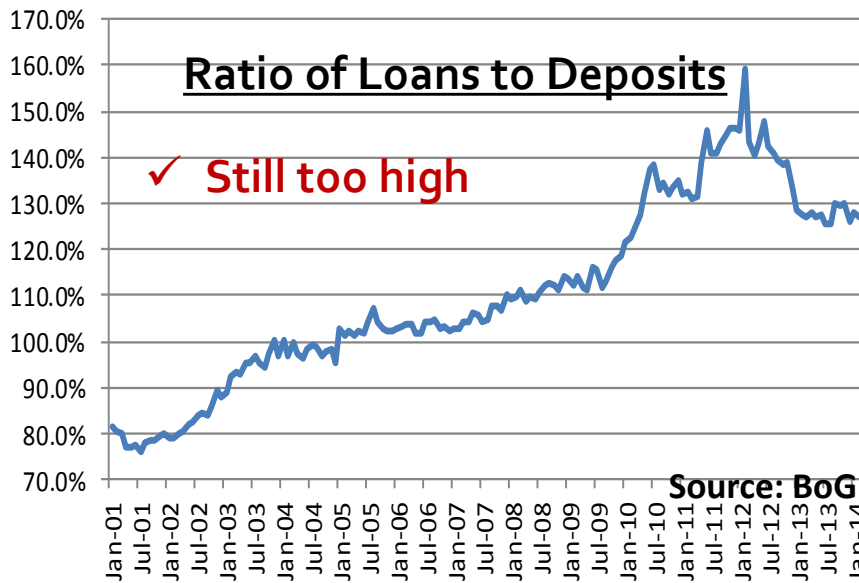
✓ Large drop in deposits from late 2009 to June 2012 elections ⇒

- Increase in dependence on the Eurosystem
- Increase in the ratio of loans to deposits with improvement only after 2012H2
- ELA borrowing more expensive, but has shrunk

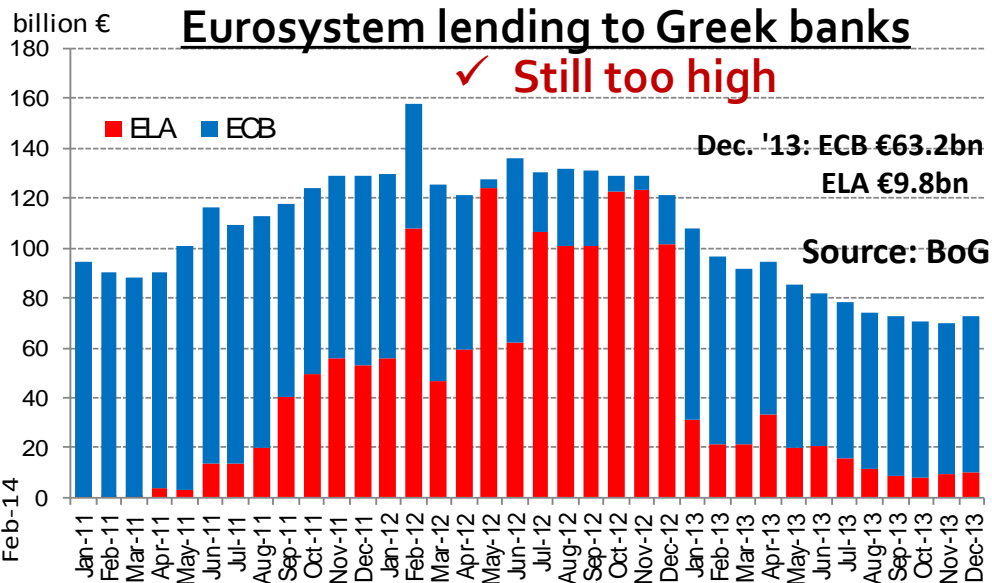
## Annual change in Deposits & Repos



✓ Still has not recuperated from 2010-2012



## Eurosystem lending to Greek banks





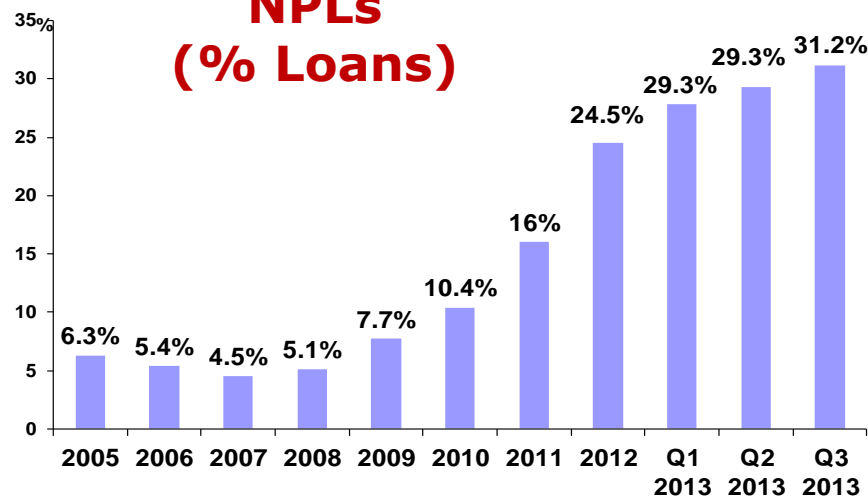
# II. Despite the Greek crisis, financial intermediation continues

- ❖ The drop in lending is smaller than the drop in deposits
- ❖ Continuous loan restructurings contain the rise in NPLs, which are expected to stabilize in 2015
- ❖ For strong economic growth in 2015, lending growth has to turn positive

## Domestic Private Sector

(€ bn)	Credit	Deposits		Credit	Deposits
2007	215.1	197.9	Jan. 2013	225.1	161.0
2008	249.3	227.6	Mar. 2013	227.0	164.1
2009	249.3	237.5	Jun. 2013	223.4	162.7
2010	257.5	209.6	Sep. 2013	220.6	161.4
2011	248.2	174.2	Oct. 2013	219.3	160.4
2012	227.3	161.5	Nov. 2013	218.6	161.0
Source: BoG			Dec. 2013	217.5	163.3
			Feb. 2014	216.2	160.5

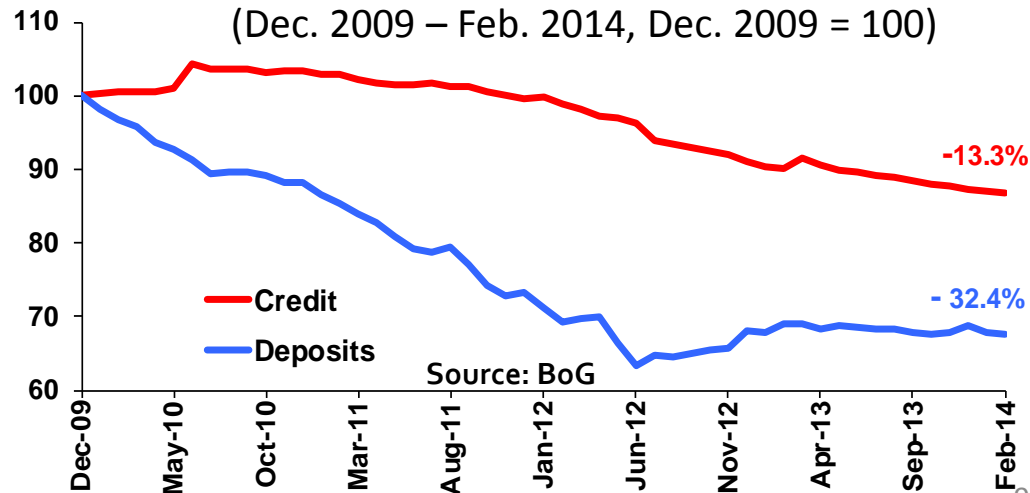
## NPLs (% Loans)



Source: BoG

## Domestic Private Sector Deposits & Loans

(Dec. 2009 – Feb. 2014, Dec. 2009 = 100)



Source: BoG

# III. A new era begins following PSI+ losses on past stockowners

(million euro)

**Table II.1 Impairment losses on Greek government bonds (GGBs)**

**and state-related loans under the PSI : Average 78% NPV loss**

<b>Banks</b>	<b>Face amount of GGBs (1)</b>	<b>Face amount of state - related loans (2)</b>	<b>Total face amount (3)=(1)+(2)</b>	<b>PSI loss of GGBs (4)</b>	<b>PSI loss of state - related loans (5)</b>	<b>Total gross PSI loss (6)=(4)+(5)</b>	<b>Total gross PSI loss / Core Tier 1 (Dec 2011) (%) (7)</b>	<b>Total gross PSI loss / Total Assets (Dec 2011) (%) (8)</b>
NBG	13,748	1,001	14,749	10,985	751	11,735	161.0	11.0
Eurobank	7,001	335	7,336	5,517	264	5,781	164.5	7.5
Alpha	3,898	2,145	6,043	3,087	1,699	4,786	105.7	8.1
Piraeus	7,063	280	7,343	5,686	225	5,911	226.0	12.0
Emporiki	351	415	766	270	320	590	40.3	2.7
ATEbank	5,164	608	5,772	3,873	456	4,329	1,144.2	17.1
Postbank	4,197	175	4,372	3,306	138	3,444	618.3	24.8
Millennium	185	0	185	137	0	137	29.0	2.2
Geniki	384	7	391	287	5	292	78.1	8.9
Attica	199	0	199	142	0	142	38.8	3.4
Probank	415	0	415	295	0	295	105.1	8.7
New Proton <sup>1</sup>	934	0	934	216	0	216	378.8	12.6
FBB	70	0	70	49	0	49	33.8	3.1
Panellinia	34	0	34	26	0	26	31.7	3.5
<b>Total</b>	<b>43,643</b>	<b>4,966</b>	<b>48,609</b>	<b>33,876</b>	<b>3,857</b>	<b>37,733</b>	<b>170.6</b>	<b>10.1</b>

<sup>1</sup> For New Proton Bank, part of the impact has been funded through the resolution of Proton Bank

# III. Huge restructuring with infusion of public capital that has benefited the tax-payer

- ✓ Crisis caused a major restructuring of the banking system in 2012-13
- ✓ HFSF was set up to implement the restructuring with €50bn of EA funds
- ✓ BoG decided on the existence of 4 systemic banks, which would have access to HFSF funding
- ✓ Remaining banks would have to raise capital from the market or be resolved
- ✓ Three of the four systemic banks raised €3.1bn

Bank	HFSF Participation	HFSF investment (€bn)	Average Market value of HFSF stock ownership, March-end 2014
NBG	84.0 %	8.68	€bn 7.67
Alpha	83.7 %	4.00	6.56
Piraeus	81.0 %	6.98	8.05
Eurobank	95.2 %	5.84	2.38
Total	85.4 %	25.50	24.66

Source: HFSF, Eurobank SA, NBG SA, Bloomberg

HFSF also allocated **€14.72bn** to other financial institutions, which were resolved and sold to the systemic banks (Agricultural Bank, New TT, New Proton, Probank, FBB, 3 cooperative banks)

- ✓ Today, Net Benefit to the Greek State ≈ [€35bn savings from PSI+] - €40bn investment + €25bn in stock value ≈ €20bn

# III. New stress tests on the Greek banks in 2013H2 reveal further capital needs

**(June 2013 – December 2016; consolidated basis)**

(million euro)

<b>Banks<sup>1</sup></b>	<b>Reference Core Tier 1 capital (June 2013) (A)</b>	<b>Loan loss reserves (June 2013) (B)</b>	<b>CLPs for Greek risk<sup>2</sup> (C)</b>	<b>CLPs for foreign risk (D)</b>	<b>Internal capital generation<sup>3</sup> (E)</b>	<b>Stress Test Core Tier 1 capital (Dec. 2016) (F)</b>	<b>Capital needs (G) = (F) - (A) - (B) - (C) - (D) - (E)</b>
Alpha	7,380	10,416	-14,720	-2,936	4,047	4,450	262
Eurobank <sup>4</sup>	2,228	7,000	-9,519	-1,628	2,106	3,133	2,945
NBG <sup>5</sup>	4,821	8,134	-8,745	-3,100	1,451	4,743	2,183
Piraeus	8,294	12,362	-16,132	-2,342	2,658	5,265	425
Attica	225	403	-888	0	106	243	397
Panellinia	61	66	-237	0	-26	31	169
<b>Total</b>	<b>23,009</b>	<b>38,380</b>	<b>-50,241</b>	<b>-10,005</b>	<b>10,341</b>	<b>17,866</b>	<b>6,382</b>

Source: Bank of Greece.

<sup>1</sup> The exercise concluded that for ABB, Credicom and IBG no additional capital was needed.

<sup>2</sup> CLPs for Greek risk are calculated on the basis of the methodology described in page 10.

<sup>3</sup> Internal capital generation based on banks' Restructuring Plans for June 2013 – December 2016, as conservatively stressed according to the Bank of Greece methodology (see Chapter IV).

<sup>4</sup> Eurobank Loan loss reserves as of June 2013 pro-forma of the provisions of New Hellenic Postbank and New Proton Bank (c. €1.7bn) that were acquired in August 2013.

<sup>5</sup> NBG Loan loss reserves as of June 2013 pro-forma of the provisions of FBB and Probank.

✓ **Banks immediately initiated capital increases: Alpha €1.2bn, Piraeus €1.75bn, Eurobank €3bn**

### III. The four systemic Greek banks today, fully capitalized, face new challenges

- ✓ Four systemic banks hold 90% of assets and loans
- ✓ Liquidity remains a challenge as long as deposits do not return to the system, the wholesale market is expensive, and ECB borrowing becomes costly
- ✓ Banks create special divisions to handle NPLs, which continue to rise but at lower rates
- ✓ Loan restructurings can help export-oriented companies and contribute to growth

<b>31.12. 2013</b>	<b>Group Assets €bn.</b>	<b>Group Net Loans €bn.</b>	<b>Group Deposits €bn.</b>	<b>Group Loans / Deposits</b>	<b>Employees World- wide</b>	<b>Greek- only Branches</b>
<b>NBG</b>	<b>110.9</b>	<b>61.3</b>	<b>62.9</b>	<b>98%</b>	<b>36,306</b>	<b>540*</b>
<b>Piraeus</b>	<b>92.0</b>	<b>60.4</b>	<b>54.3</b>	<b>111%</b>	<b>22,509</b>	<b>1,037</b>
<b>Eurobank</b>	<b>77.6</b>	<b>45.6</b>	<b>41.5</b>	<b>110%</b>	<b>20,053</b>	<b>580</b>
<b>ALPHA</b>	<b>73.7</b>	<b>51.7</b>	<b>42.5</b>	<b>122%</b>	<b>16,934</b>	<b>655</b>

Source: Bank announcements in February-March 2014

\* Data as of 30.09.2013

- ❖ The Greek financial system grew rapidly after its deregulation in 1994, but especially after interest rates began declining, yet it remains small compared to EA
- ❖ The expansion stopped in 2008, and in 2009 Greece suffered from two of the three legs of the EMU crisis: (β) High Public Debt (γ) Uncompetitive economy.
- ❖ The 3<sup>rd</sup> leg of the crisis came in early 2012, as PSI+ caused a huge reduction (78%) in the value of GGBs, which banks held, eliminating their capital base, while later the prolonged recession resulted in a rise in NPLs, further deteriorating the capital base.
- ❖ HFSF was allocated €50bn of European funds to rescue the financial system
  - Following the first stress test results of 2011, it has used up €40bn
  - Four systemic banks were created, which hold 90% of assets and loans
  - In 2013H1, €3.1bn of private funds were infused as new capital in 3 of the 4 banks
  - Thus far the Greek State is earning a net benefit of €20bn
- ❖ On March 6, 2014 the results of the second BoG stress tests were announced
  - Need for additional €6.4bn of new capital to cover needs up to the end of 2016
  - Subsequently, Piraeus Bank raised €1.75bn and Alpha €1.2bn, while Eurobank is in line to raise €3.0bn
- ❖ Banks are now over-capitalized, face liquidity challenges and the task of handling their NPL portfolio
- ❖ Through NPL restructurings, a new export-oriented growth model can be achieved

Athens, April 03, 2014, Panel Discussion on:  
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## Thank you for your attention

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