ΟΙ ΕΛΛΗΝΙΚΕΣ ΤΡΑΠΕΖΕΣ ΜΕΤΑ ΤΗΝ ΚΡΙΣΗ

GREEK BANKS AFTER THE CRISIS

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Η ΩΡΑ ΤΗΣ ΕΛΛΗΝΙΚΗΣ ΟΙΚΟΝΟΜΙΑΣ
20Ο ΕΤΗΣΙΟ ΣΥΝΕΔΡΙΟ
AMERICAN-HELLENIC CHAMBER OF COMMERECE

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GREEK BANKS AFTER THE CRISIS

MAIN THEMES

I. THE FUTURE OF THE GLOBAL ECONOMY & THE FINANCIAL INDUSTRY

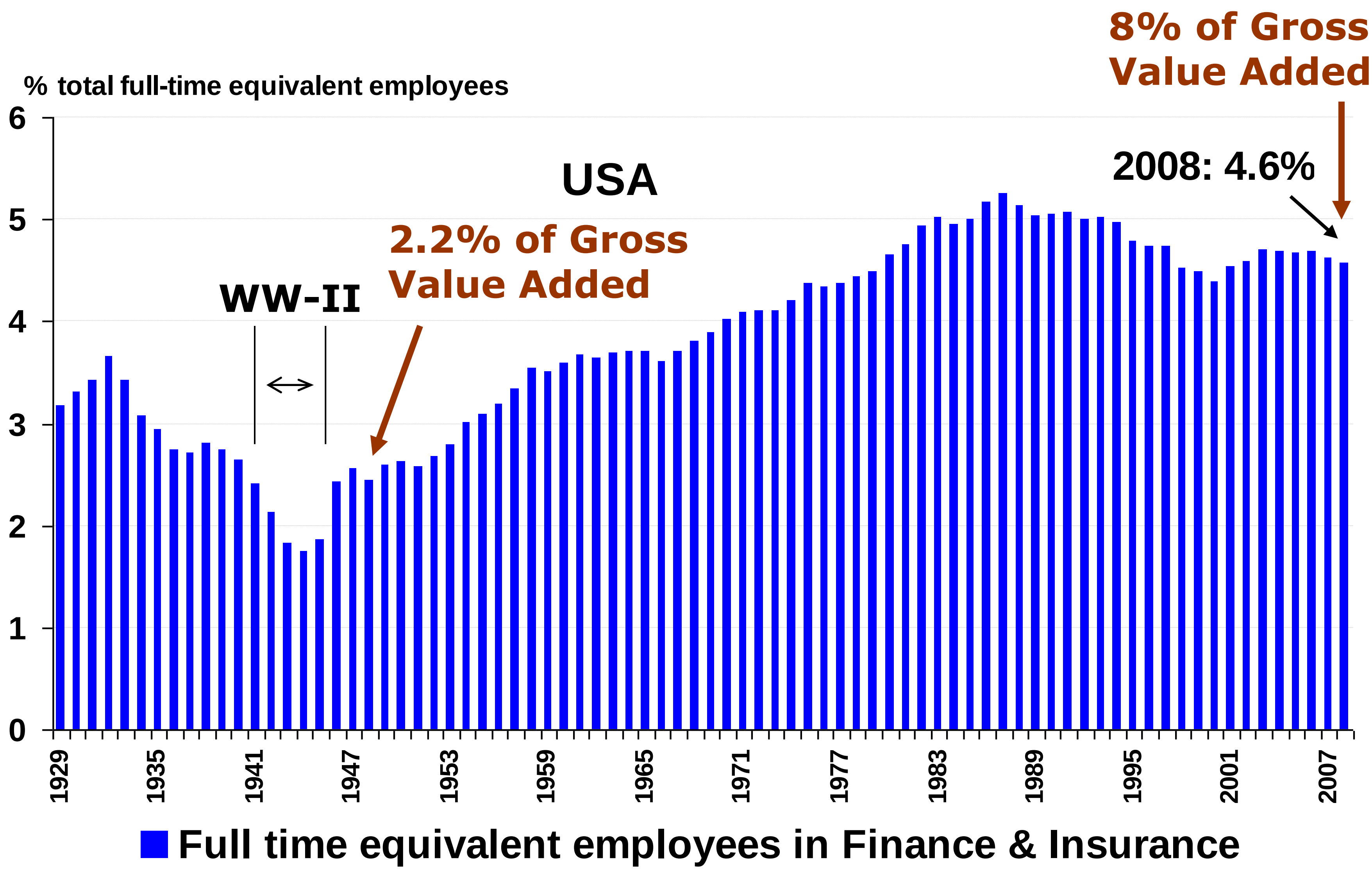
II. GREEK BANKS: CAN PAST SUCCESS PERSIST?

III. CONCLUSION

I. A different world ahead

- ✓ Economics: **Slower global growth due to the crisis:** We are trading off current & future stability against future average growth
- ✓ Politics: Economic & political power ➔ Asia and G-20, with the **crisis expediting the shift**
- ✓ Global Regulation: The Financial Stability Board gains power among IFIs
- ✓ **A different financial landscape,** as G-20 decisions will affect banks and increase the cost of financial intermediation
  - ✶ Aim should be to avoid the excesses of the financial sector without imposing too much unnecessary cost
  - ✶ **Capital is costly**. Some smart proposals by academics that bear a minimum cost, e.g. *during economic expansions, instead of forcing banks to issue additional equity, which is costly, force them to issue debt convertible to equity during a crisis*
  - ✶ More **countercyclical** regulation on capital requirements, leverage ratios, maximum loan-to-value ratios
  - ✶ Additional capital requirements for **large institutions** and greater emphasis on host country regulation
- ✓ **Wall Street** continues to hold considerable **political power <u>against future regulatory restrictions</u>**

I. Will the expanding financial industry suffer?



Source: Bureau of Economic Analysis

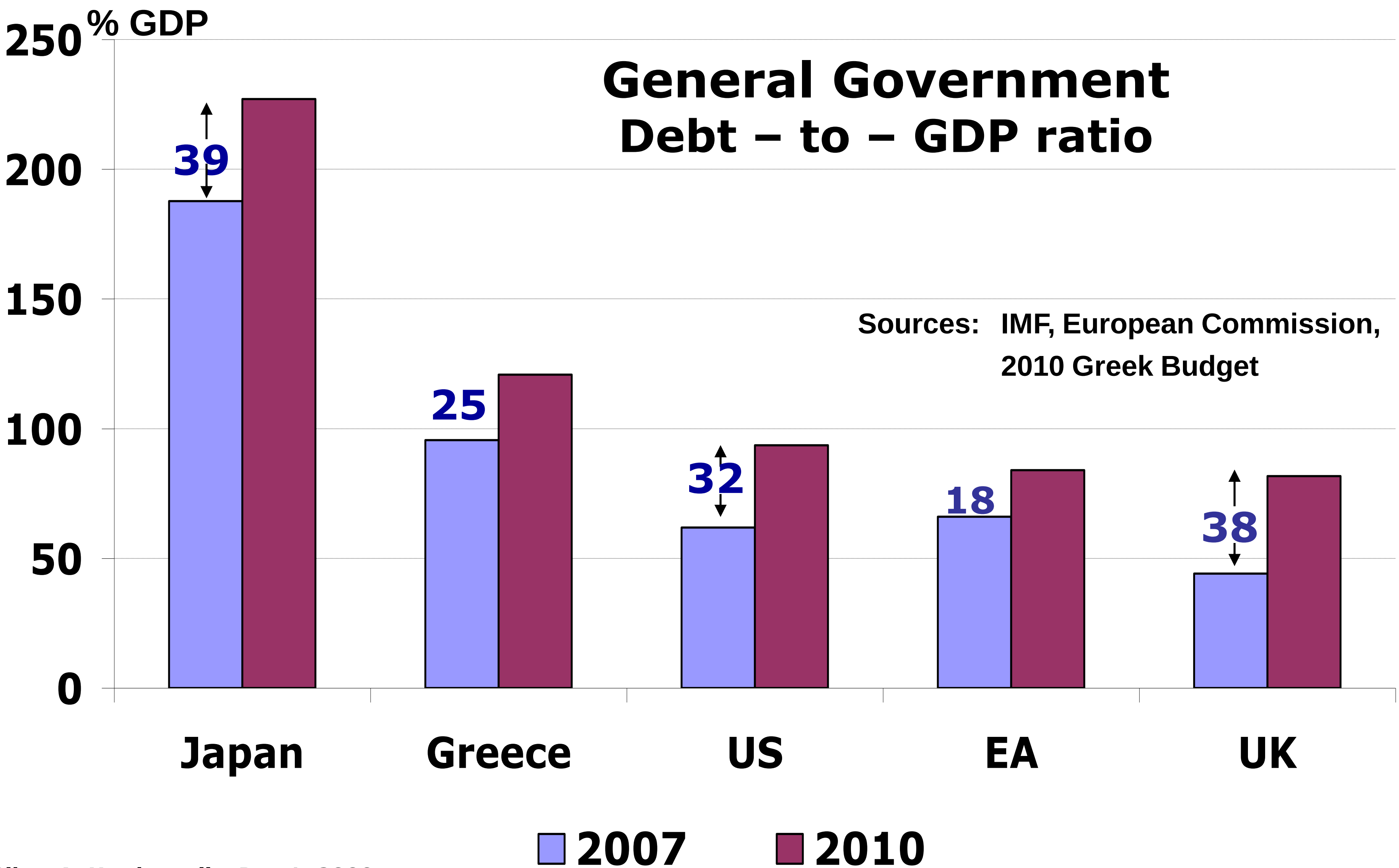
I. Slower future world growth ahead

It was not the Great Depression or Capitalism's 1989, but this Great Recession is likely to leave its permanent marks

My long-term view is for lower growth than the period leading up to the crisis

1. Higher real interest rates ahead
   - ✓ Risk premia to stay high
   - ✓ Higher demand for new bank equity capital will increase the cost of intermediation
   - ✓ Fiscal debt will compete with private debt for funding
   - ✓ Central bank intervention interest rates expected to go back up
2. Future de-leveraging of the government sector, hence restrictive fiscal policy
3. Mediation of global imbalances: The US consumer is forced to reduce leverage and increase savings – hence lower exports by third countries to the US
   - ✓ The Chinese consumer is not ready to close the gap yet
   - ✓ India is still a closed economy
   - ✓ Europe depends on exports

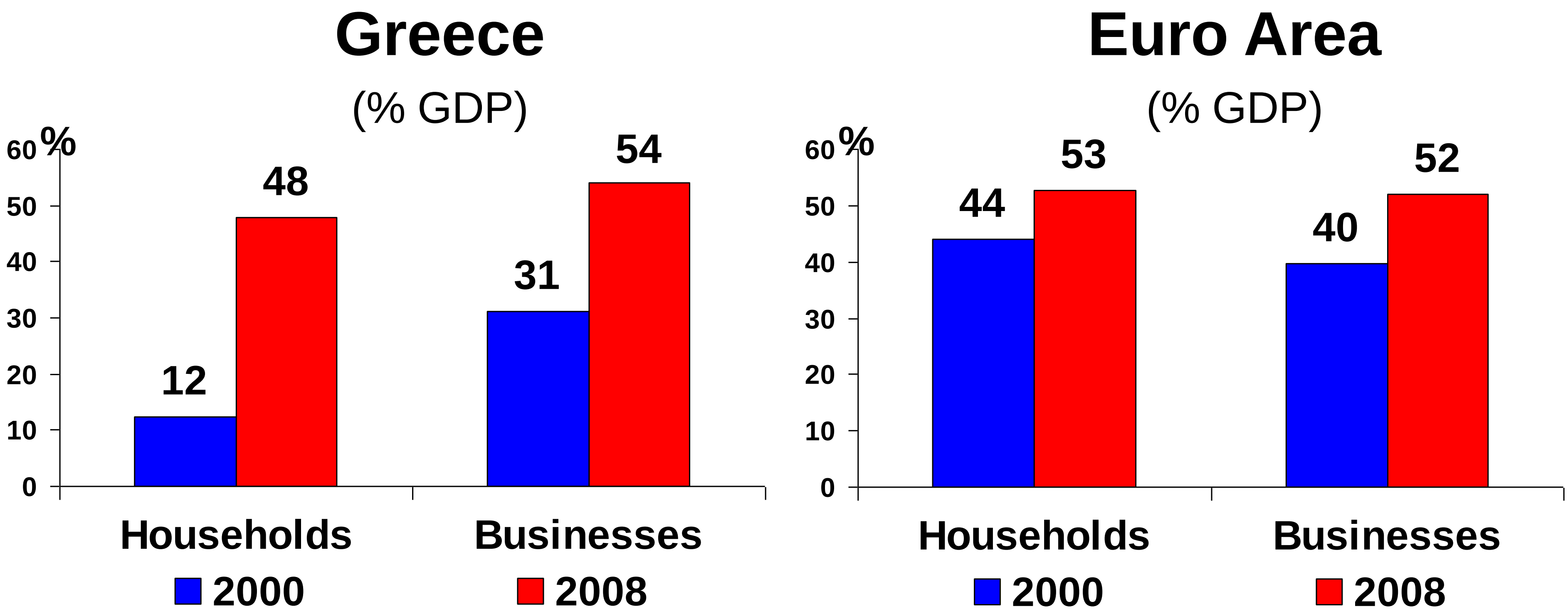
I. Current aggressive response by governments implies future restrictive fiscal policy



II.

GREEK BANKS: CAN PAST SUCCESS PERSIST?

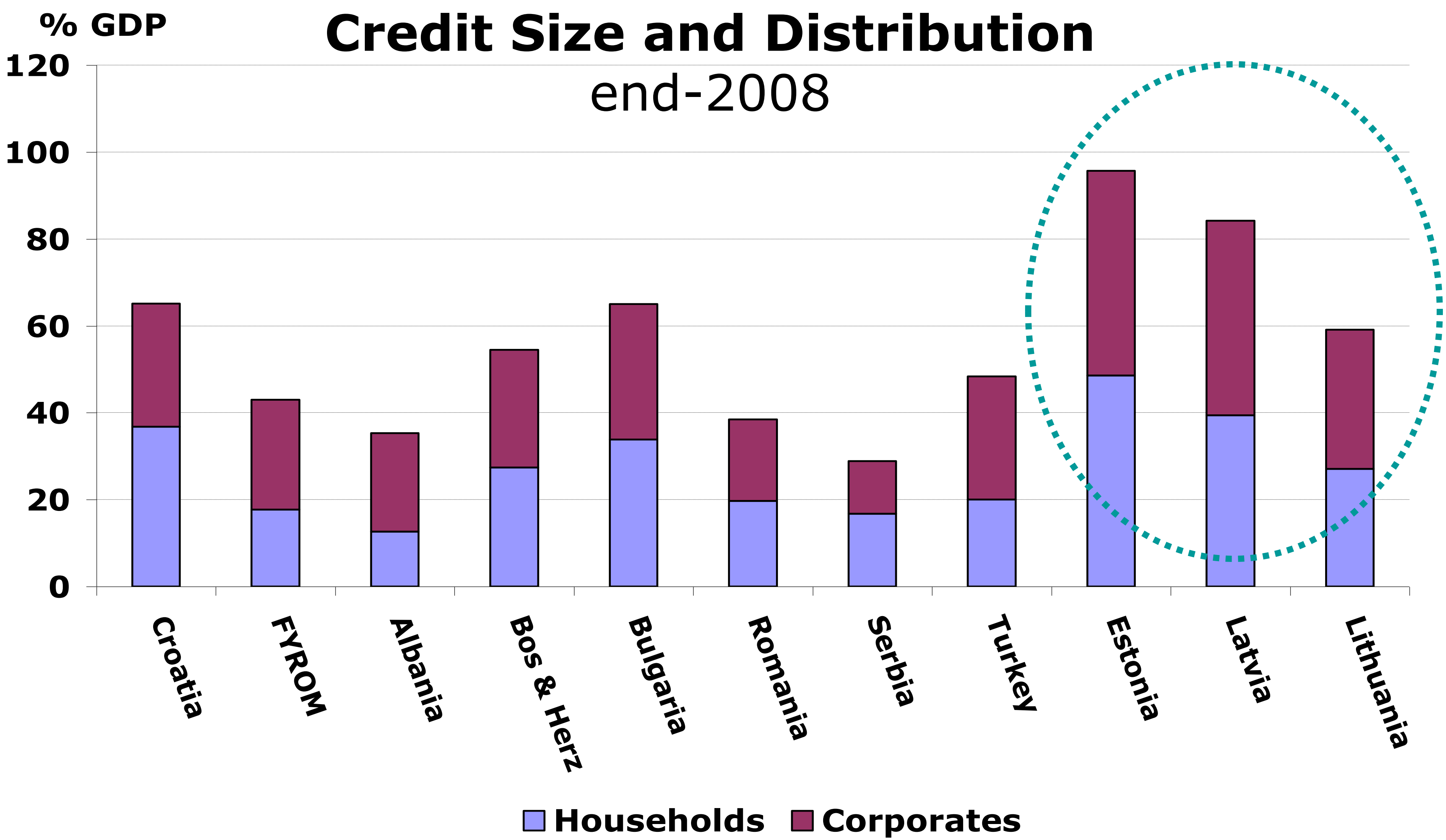
II. Domestic credit expansion has matured



Source: BoG, ECB

- ✓ **Private sector credit / GDP has almost converged to Euro Area levels**
- ✓ **Greek growth model seems to have reached its limits**

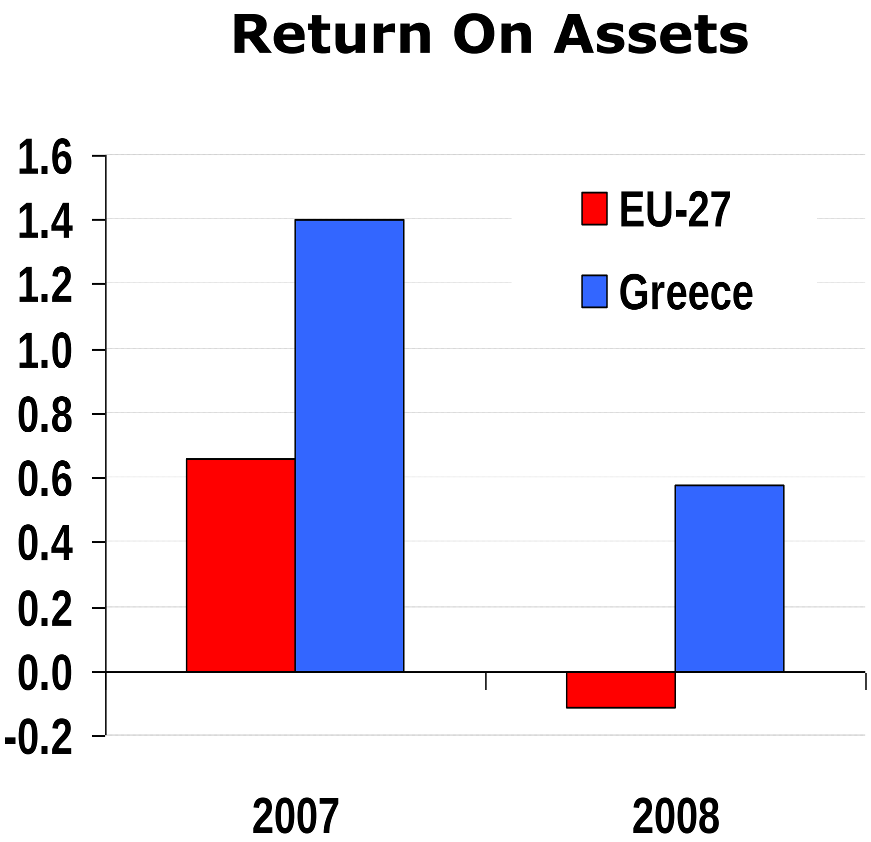
II. Still room for credit expansion in the region but for the long-term

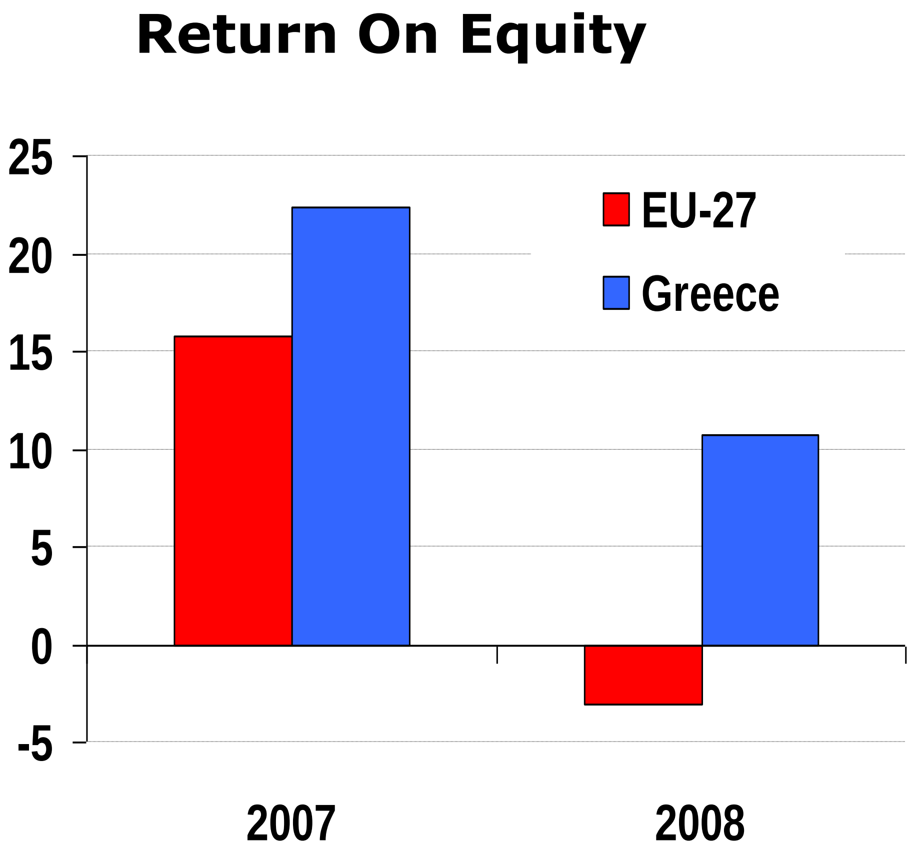


Source: Central Banks, Eurobank Research

II. Profitability of the EU banking sector moved into negative territory in 2008

✓ **Less of a problem in Greece relative to EU-27**

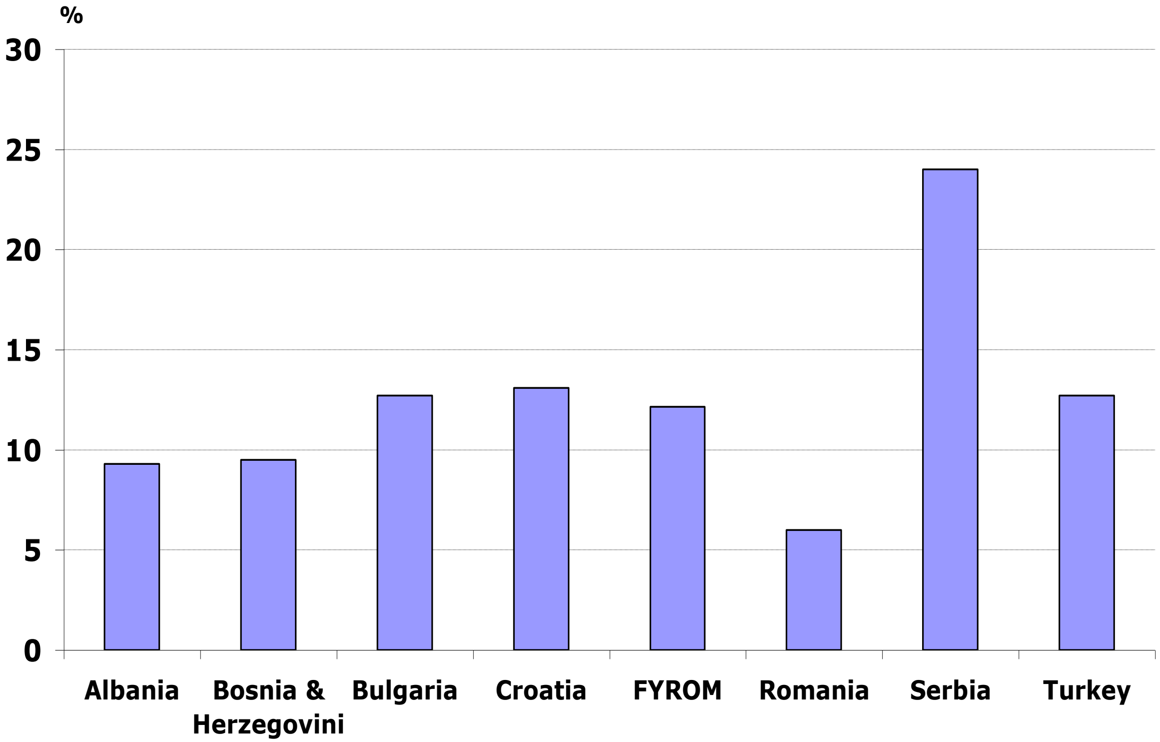




Source: ECB

II. Adequate capitalization

Bank Capital to Assets ratio
(Q2 2009)



*FYROM, Romania and Serbia as of Q1 2009

Source: Central Banks, Eurobank Research

Capital /Assets		
Austria	6.9	Q2 09
Belgium	3.1	Q3 09
Ireland	4.6	2008
Germany	2.5	Q3 09
Portugal	6.7	Q2 09
Norway	4.7	Q3 09
Sweden	4.2	Q3 09
UK	3.3	2008
Greece	7.2	Q2 09
Spain	6.2	Q3 09

Ratio of all traded banks and among the 4 largest in the country

✓ **Capital to assets ratio relatively stronger in SEE**

II. Points of strength: No toxic assets

Eurobank EFG

European banks: Write-downs and capital increases June 2007 – November 2009

	Banks	Loss	Capital Raised	Present in SEE
1	UBS	€ 38.4	€ 27.0	
2	RBS	35.3	65.5	RO,TR
3	HSBC Holdings	33.4	19.4	TR
4	Barclays	24.1	20.5	
5	HBOS	19.7	17.2	
6	Deutsche Bank	15.3	7.4	BG,RO,RS, TR
7	Credit Suisse	14.3	8.6	
8	BNP Paribas	13.9	9.4	AL,BG,RO, RS
9	Bayerische	13.4	14.8	HR,RS
10	ING Group	13.1	16.8	BG,TR,RO
11	Soc Gen	12.5	15.7	TR
12	IKB Deutsche	10.3	8.5	
13	B. Santander	9.4	19.7	
14	KBC Group	7.5	5.5	RS, BG
15	Fortis	6.5	16.0	

	Banks	Loss	Capital Raised	Present in SEE
16	Credit Agricole	€ 6.5	€ 8.9	AL,BG,RO, RS,TR
17	Natixis	6.2	5.7	
18	DZ Bank	5.4	0.0	
19	Anglo Irish	5.2	3.1	
20	Hypo Real Estate	5.0	7.7	
21	Dexia	4.7	6.4	TR
22	Unicredit	4.4	10.3	RO,RS,HR, BG
23	Commerzbank	3.9	18.2	
24	Dresdner Bank	3.6	0.0	
25	Landesbank Baden Wurttemberg	3.3	0.0	
26	HSH Nordbank	2.9	1.3	
27	WestLB	2.7	5.0	
28	Lloyds Group	2.4	33.0	
29	Rabobank	2.4	1.0	
30	Northern Rock	2.2	3.8	

II. No toxic assets

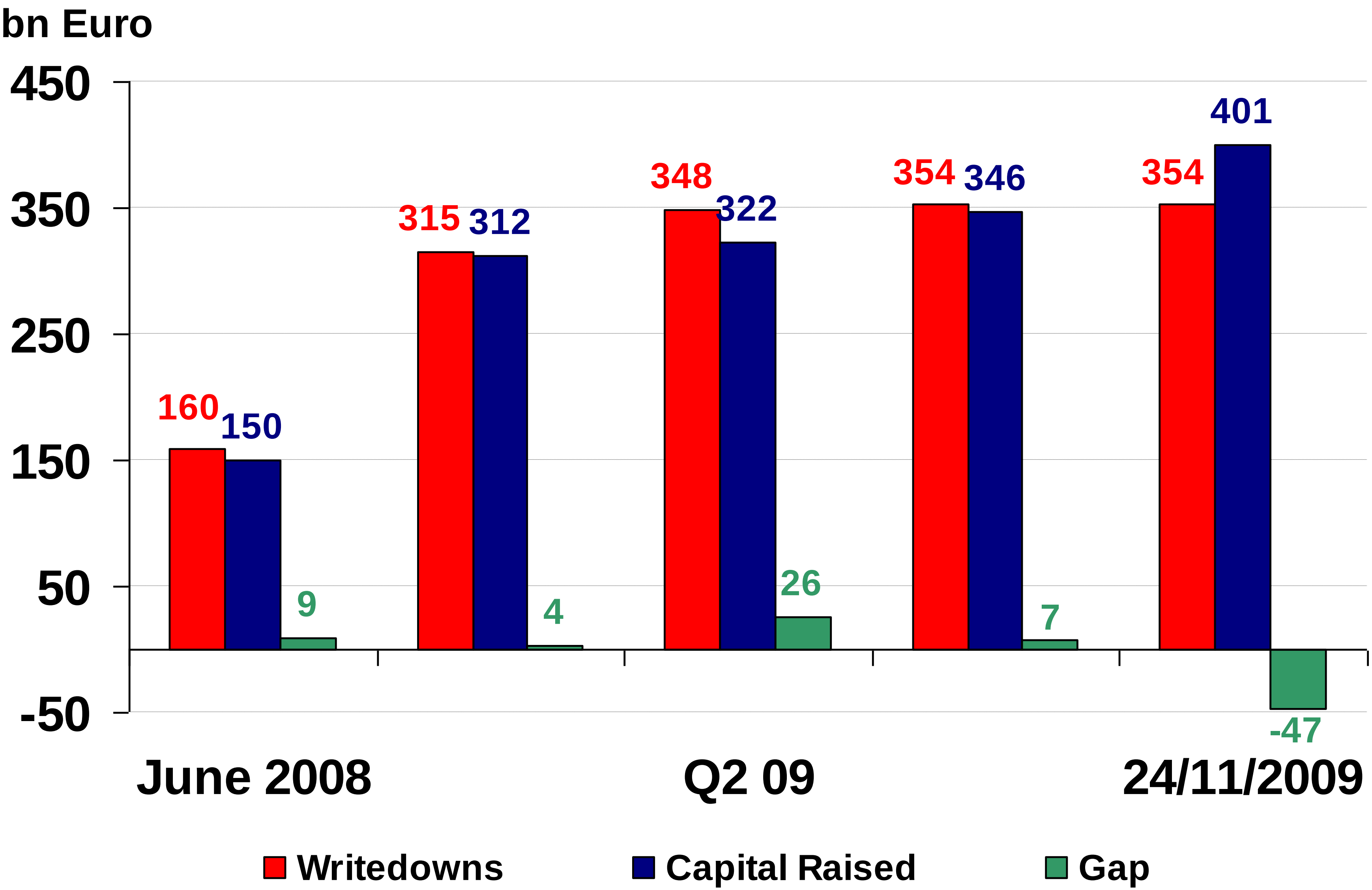
Eurobank EFG

	Banks	Loss	Capital Raised	Present in SEE
31	Bank of Ireland	€ 1.9	€ 3.5	
32	Allied Irish Banks	1.8	3.5	
33	Intesa Sanpaolo	1.8	4.0	AL,RO,RS
34	Landesbank Sachsen	1.8	0.0	
35	Alliance & Leicester	1.8	0.0	
36	Deutsche Postbank	1.7	1.0	
37	BBVA	1.7	0.0	
38	Banco Popolare	1.7	0.0	RO
39	ABN AMRO Holding	1.6	0.0	RO,TR
40	DNB NOR ASA	1.6	1.7	
41	Bradford & Bingley	1.4	2.0	
42	Banco Popular Esp	1.2	1.2	
43	Caisse d'Epargue	0.8	3.6	
44	EFG Eurobank	0.7	0.0	RO,BG,RS
45	Hessen-Thueringen	0.5	0.0	
46	HVB Group	0.5	0.0	

	Banks	Loss	Capital Raised	Present in SEE
47	Standard Ch.	€ 0.4	€ 0.0	
48	Norddeutsche	0.4	0.0	
49	Danske Bank	0.4	0.0	
50	Piraeus Bank	0.4	0.0	AL,BG, RO,RS
51	Roskilde Bank	0.4	0.5	
52	Alpha Bank	0.3	0.0	RO,RS,MK, BG,AL
53	Land. Berlin	0.3	0.0	
54	NIBC Bank	0.3	0.0	
55	SEB	0.3	1.5	
56	Kommunalkredit	0.1	0.0	
57	Aareal Bank AG	0.0	0.0	
58	Kaupthing Bank	0.0	0.0	
59	Erste Group	0.0	2.1	RS,RO
	Total	**354**	**401**	

AL / Albania, BG / Bulgaria, MK / Macedonia - Former Yugoslav Republic of, RO / Romania, RS / Serbia, TR / Turkey

II. European banks: write-downs & capital increases since June 2008



Source: Bloomberg

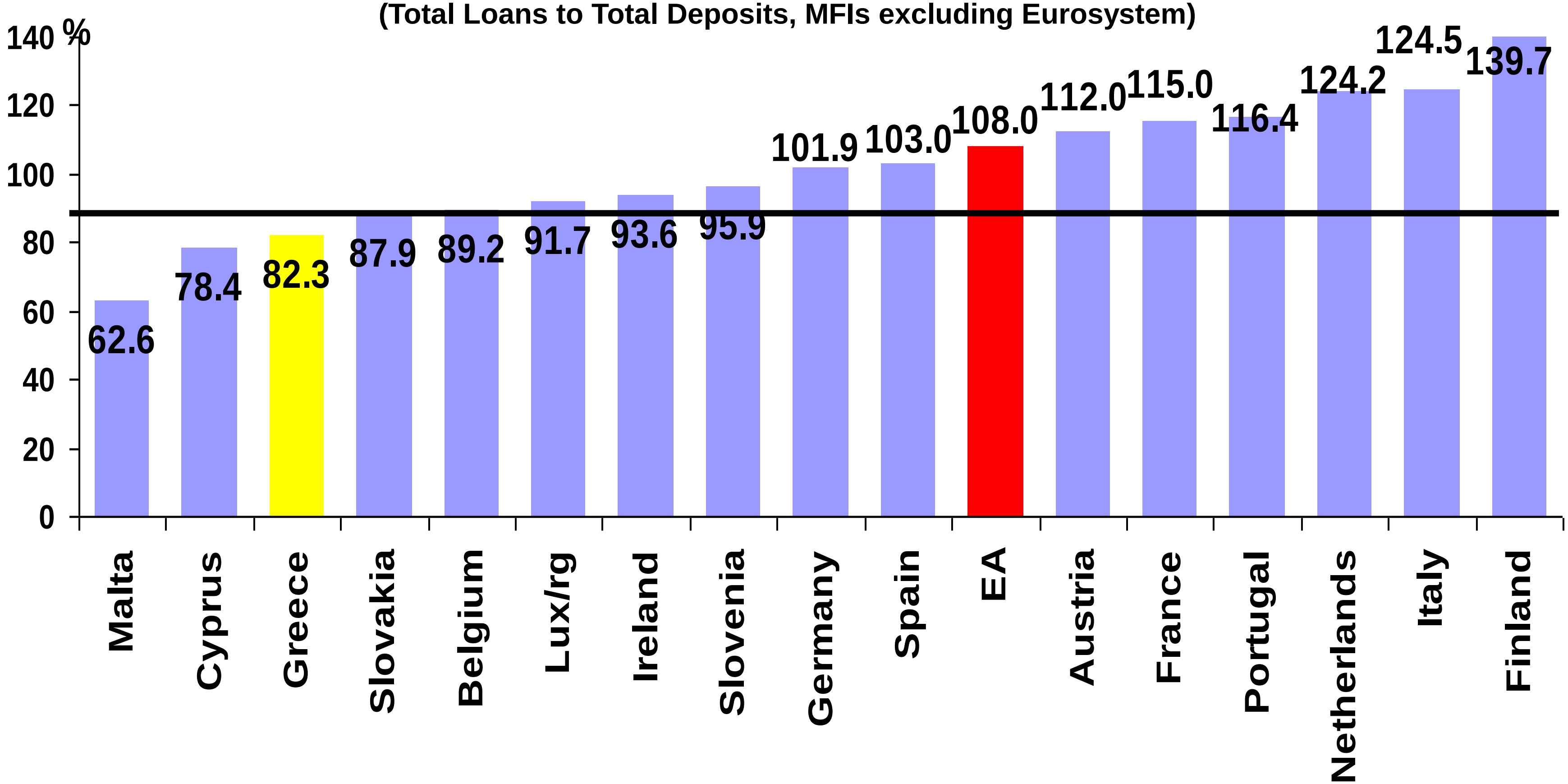
II. Liquidity: Less of a problem in Greece relative to Euro Area

Eurobank EFG

Country Loans to Deposits Ratio

October 2009

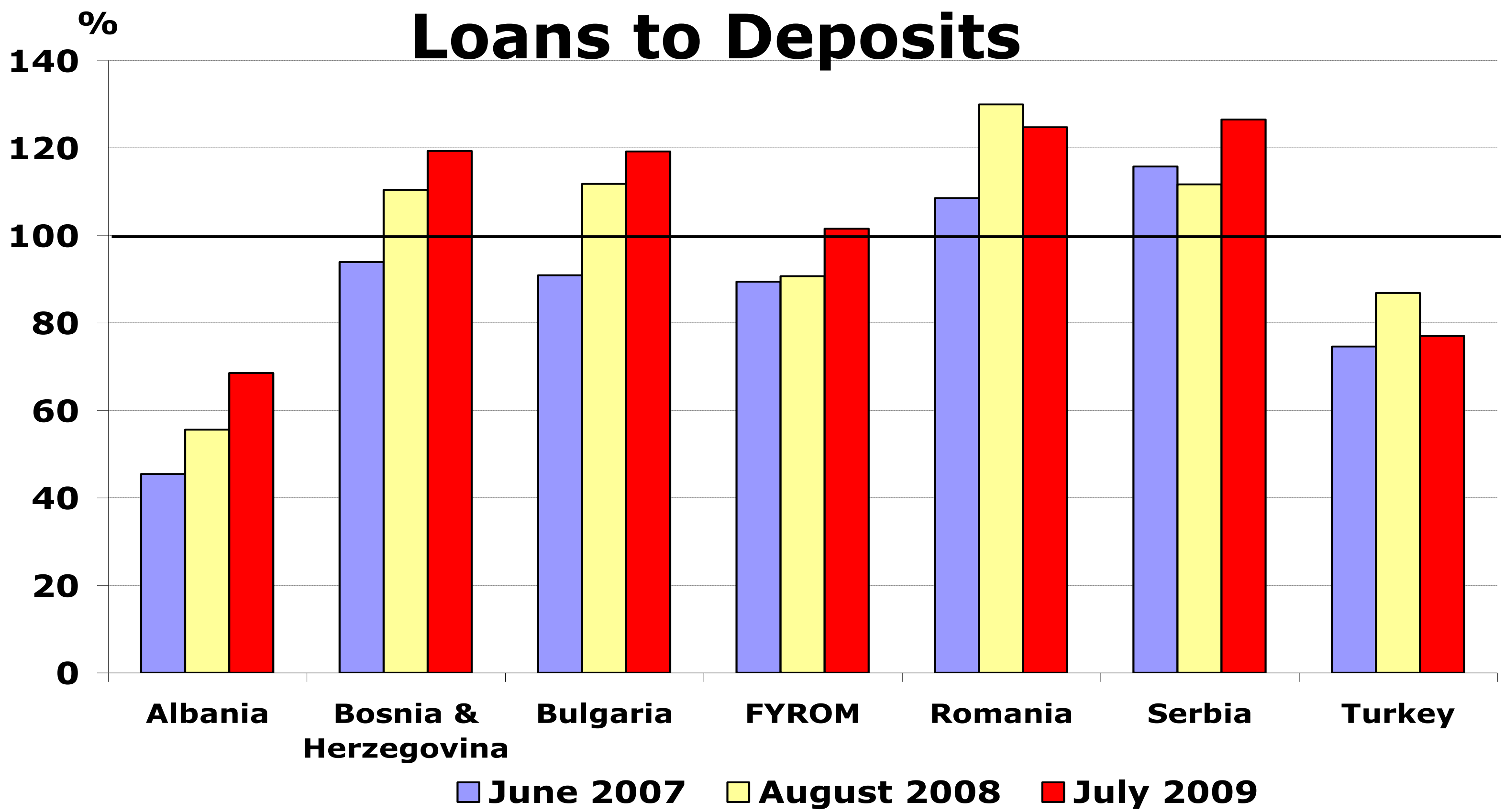
(Total Loans to Total Deposits, MFIs excluding Eurosystem)



Greek banking group L/D ratio: 103.5

Source: ECB, BoG

II. Liquidity is a major constraint in the SEE region

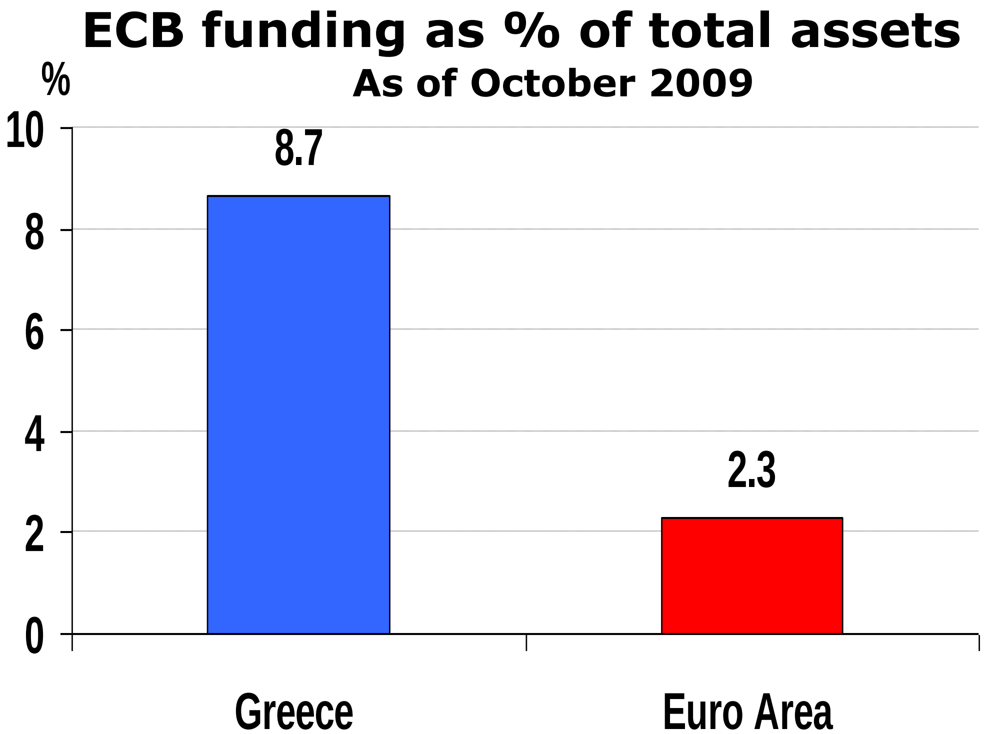


Baltic States at July 2009	
Latvia	105.0
Lithuania	183.3
Estonia	167.9

- ✓ Domestic deposits unable to support a large expansion in credit growth
- ✓ Difficult to bring liquidity from abroad

Source: Central Banks, Eurobank Research

II. Greek banks' reliance on ECB liquidity facilities: Over-blown



	GR	EA
Total Funding	**42**	**710.6**
of which:		
Main refinancing operations	0.2	79.1
Longer-term refinancing operations	41.8	616.9
Other		14.6
Total Assets	**485**	**31,211**

*** numbers in billion €**

Source: BoG, ECB

II. European banks core funding ratio

Eurobank EFG

	Banks	Core Funding	Core funding ratio		Banks	Core Funding	Core funding ratio
1	EFG	€ 48,297 m	78%	13	Deutsche	€ 532,014 m	63%
2	Standard Ch.	199,161	77%	14	Nordea	215,478	59%
3	BBVA	360,368	76%	15	DnB NOR	106,294	58%
4	NBG	67,645	74%	16	Barclays	500,708	57%
5	SAN	645,841	72%	17	BNP	554,140	57%
6	Erste	142,696	71%	18	UBS	369,692	57%
7	HSBC	902,117	68%	19	SocGen	360,901	54%
8	Unicredit	580,260	67%	20	Lloyds	612,917	63%
9	Postbank	140,391	66%	21	RBS	770,231	62%
10	SEB	119,362	65%	22	Commerzba	343,165	57%
11	Intesa Sanpa	363,302	64%	23	SHB	97,829	54%
12	Danske	221,926	63%	24	Dexia	230,227	42%
					Total	**8,484,960**	**62%**

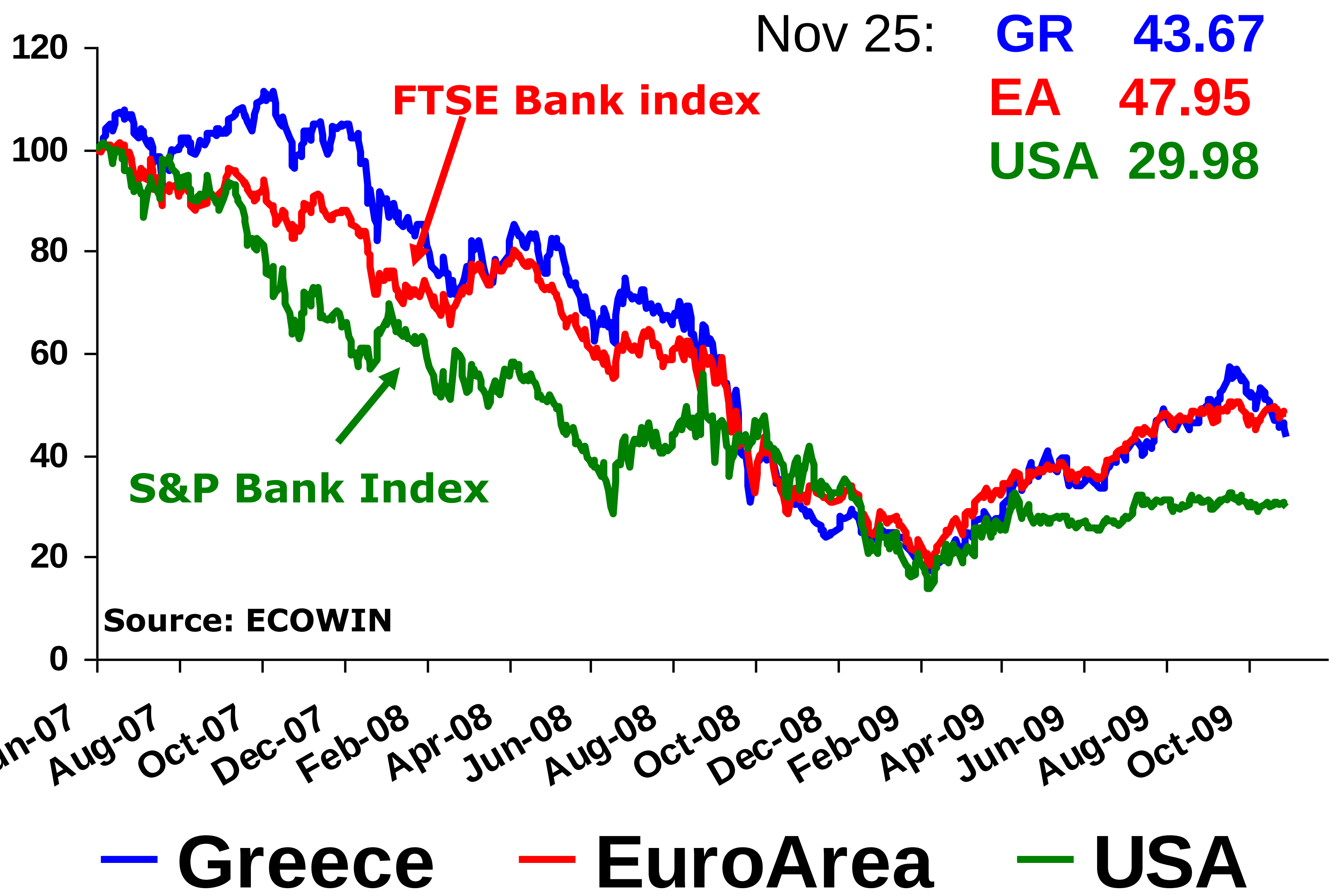
Following the Central Bank of New Zealand:

Core funding = Tangible equity **+** subordinated debt **+** wholesale funding with maturity > 1yr **+** Customer deposits with maturity > 1yr **+** 90% of customer deposits with maturity < 1yr

Total funding = Core funding **+** wholesale funding with maturity < 1yr **+** trading book / fair value liabilities (ex derivatives)

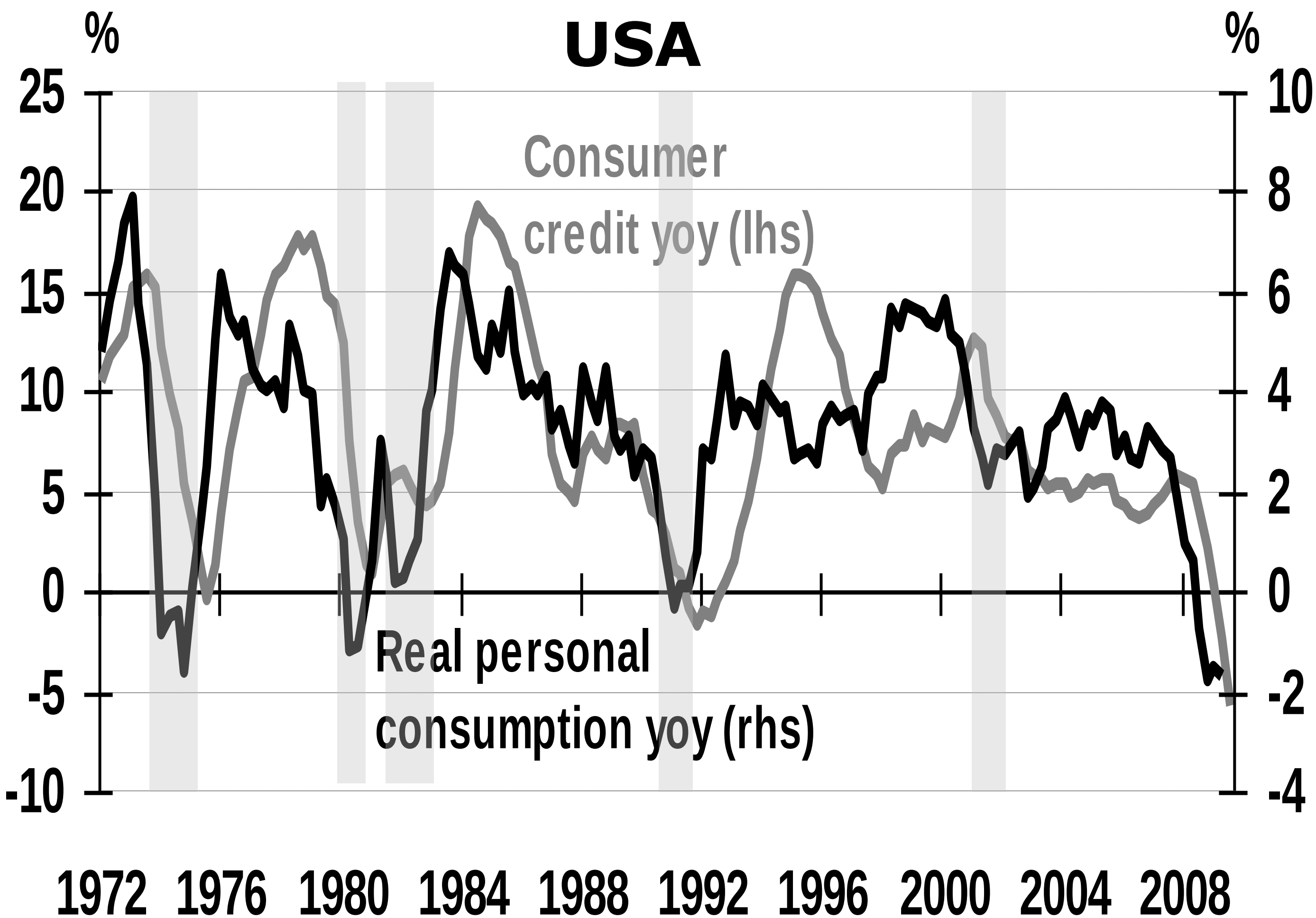
Source: Credit Suisse

II. The market has excessively punished Greek banks, almost as if they are in the same shape as European or US banks



II. Credit expansion follows a recovery ⇨ SEEEs cannot rely on banks to push them out of the recession

Eurobank EFG



Source: Federal Reserve, Eurobank EFG

- ✓ In 9 out of 10 previous US post-war recessions, real personal consumption has rebounded **3 quarters earlier** than consumer credit growth
- ✓ SEEs should therefore hope that good credit flows into their economies, **not any credit**

III. Conclusions

- ✓ Future pressures on international banking
- ✓ Greek and SEE banking did not participate in the excesses of international banking that led to the current crisis
- ✓ Greek banks were strongly capitalized and their liquidity problems may not be as severe as in the rest of Europe
- ✓ An expansion of bank lending will follow the exit from the current recession

THANK YOU FOR YOUR ATTENTION!!

My thanks to the Research Department of Eurobank EFG for able research assistance and support

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