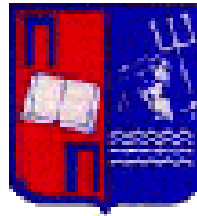


# **BANKING CHALLENGES IN GREECE**

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# Banking Challenges in Greece

## Summary

**Greek banks have been in crisis for a long time, losing twice ~100% of their stock value, once in February 2012 and then November 2015**

- **Now for a third time in a row their valuation wavers, with stock prices recently moving up to only 70% their post recapitalization level of 11/ 2015**
- **They are pressed to quickly shed their NPEs and focus on profitability**
- **Risks are contained yet profitability under pressure due to stricter regulation, technology and competition**

# Bank troubles began after the 2012 Greek government default

**Table II.1 Impairment losses on Greek government bonds (GGBs) and state-related loans under the PSI : Average 78% NPV loss**  
(million euro)

Banks	Face amount of GGBs (1)	Face amount of state - related loans (2)	Total face amount (3)=(1)+(2)	PSI loss of GGBs (4)	PSI loss of state - related loans (5)	Total gross PSI loss (6)=(4)+(5)	Total gross PSI loss / Core Tier 1 (Dec 2011) (%) (7)	Total gross PSI loss / Total Assets (Dec 2011) (%) (8)
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>

# The crisis depresses bank stocks everywhere



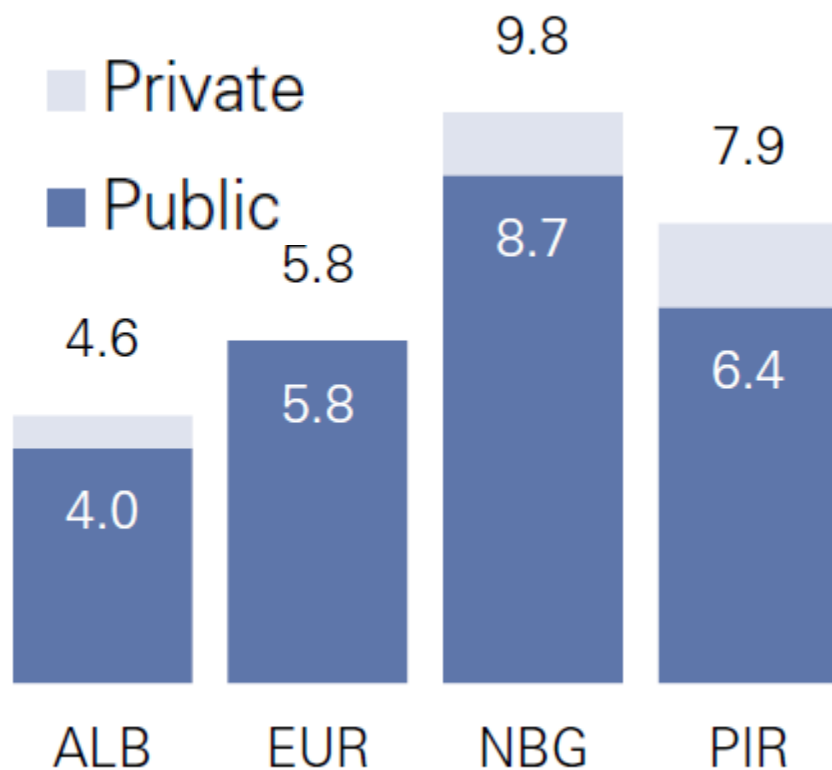
- ❑ Non-financial stocks in Europe perform a lot better
- ❑ Europe went through a second crisis with lower profitability than the US, hence its banks stocks lagged behind US stocks
- ❑ Greek bank stock prices close to zero in early 2012 due to PSI

# Four systemic banks; two recapitalizations in 2013, 2014

- ☐ €36.3bn injected into 4 systemic banks in two consecutive recapitalizations

- ☐ By 2014 the Greek economy began expanding and private investors flocked into Greek banking

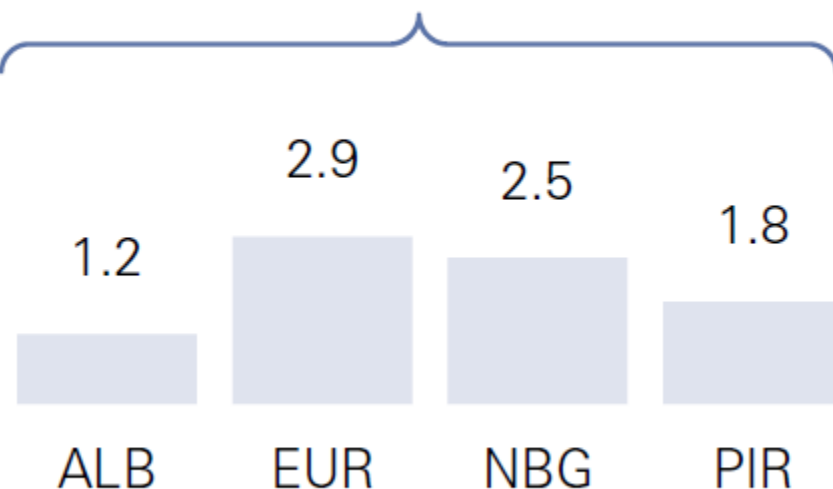
**First recap:** €28.0bn



2013

**Second recap: All private funds**

€8.3bn raised post BoG 2013 stress test



2014

# Greek banks pass the Europe-wide AQR and Stress tests of October 2014 ... but fail the November 2015 ones

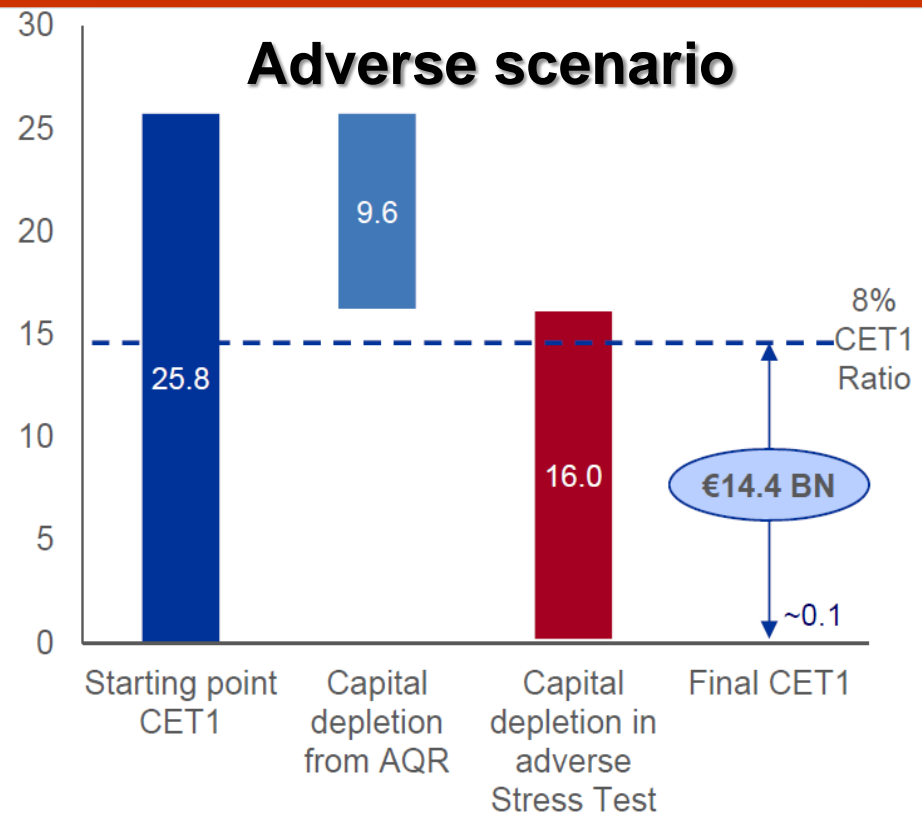
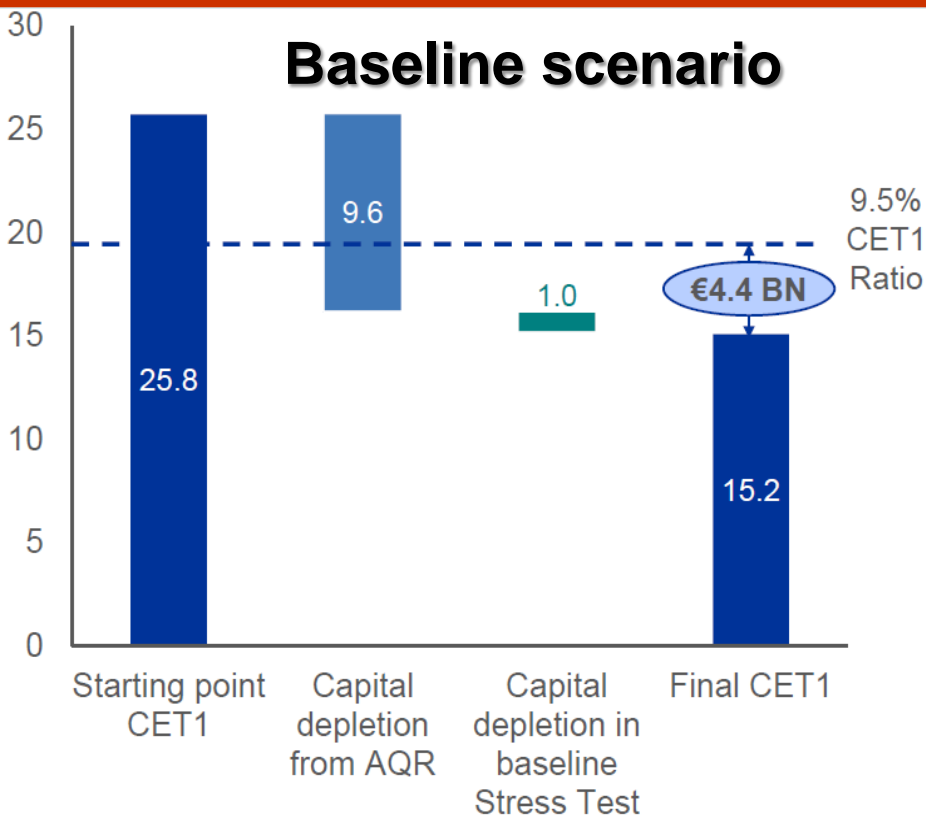
- ❑ In November 2014, SSM takes over supervision having conducted an Asset Quality Review and Stress Tests on 130 large European banks
- ❑ Thanks to DTC , Greek banks avoid a new (third) recapitalization
- ❑ Yet a year later, under a new erratic government, economic growth stalls and SSM decides to refresh its AQR and Stress Tests with ... adverse consequences

**BANK INDICES**  
= 100 at  
30/3/2012

❑ Bank stocks  
reached zero  
value for a  
second time  
in November  
2015



# Consequences of the October 2015 AQR & Stress Tests



	Capital depletion from...			Capital shortfall...	
	... AQR	... Baseline scenario	... Adverse scenario	... in baseline to 9.5% CET1 ratio	... in adverse to 8% CET1 ratio
Alpha Bank	1,744	227	4,069	263	2,744
Eurobank	2,186	55	2,793	339	2,122
NBG	2,459	419	5,078	1,576	4,602
Piraeus	3,213	320	4,096	2,213	4,933
System-wide	9,602	1,021	16,036	4,391	14,401

# Private investors take over the banks in Nov 2015

- ❑ The Nov 2015 AQR depleted the banks' equity capital base
- ❑ Stricter stress tests relative to 2014 ones, as target CET1 ratio ↑
- ❑ Plus banks were required to find private investors to cover the capital shortfall of the baseline stress scenario – one bank barely failed
- ❑ Hedge funds, which had entered in April 2014 and lost their money, decided to re-enter and acquire control of the banks
- ❑ HFSF ownership shrank to: Eurobank 2.4% , Alpha 11%, Piraeus 26.4%, NBG 40.4%

**BANK INDICES = 100  
at 30/11/2015**

- ❑ After the third recapitalization, the Greek bank index fluctuated, declining even to 30%!
- ❑ After the May 2019 European elections prices are up to 70%





# December 2018 regulatory capital of Greek systemic banks

	Eurobank	NBG	Alpha	Piraeus	Total
1. Assets (€bn)	60.0	65.1	61.0	61.9	248.0
2. Risk Weighted Assets (€bn)	39.9	35.0	47.6	47.6	170.1
3. RWAs / Assets (%)	66.5%	53.8%	78.0%	76.9%	68.6%
4. Equity (€bn)	5.0	5.0	8.1	5.5 <sup>1</sup>	23.6
5. Tangible Equity (€bn)	4.8	4.8	7.7	4.9 <sup>1</sup>	22.5
6. Deferred Tax Credit (€bn)	4.0	4.6	3.2	4.0	15.8
7. DTC/Equity Capital	83.2%	95.6%	41.5%	77.4%	70.2%
8. Regulatory Capital CET1 (€bn)	6.5 <sup>2</sup>	5.6	8.3	6.5	26.8
9. CET1/RWAs	16.2% <sup>2</sup>	16.0%	17.4%	13.7%	15.8%

**Notes:** Tangible Equity  $\equiv$  Shareholders' Equity – Goodwill – Intangible Assets

a) Piraeus bank owns Conditional Convertible bonds (CoCos) €2,040 mn.

b) In 2018 Eurobank paid the Greek State its preferred stocks of €950 mn. and issued an equal amount of Tier II bonds, which were bought by the Greek State. Also in 2019 it merged with Grivalia, adding to its equity base €0.9bn

c) Regulatory equity (Core Equity Tier I ή CET1) may turn out to be smaller than Equity capital due to regulatory filters and other changes brought by capital regulation CRR 573/2013.

**Source:** Calculations are based on official published data by the banks.

1. Does not include CoCos (€2.0bn)

2. Pro-forma for the Grivalia merger

# Non-performing loans & exposures – December 2018

Group level, Dec-2018	Eurobank	NBG	Alpha	Piraeus	Total
1. Total Loans - gross (€bn)	45.0	39.6	52.5	53.1	190.2
2. Non-Performing Exposures (€bn)	16.7	16.2	25.7	27.3	85.9
3. NPE ratio (%)	37.0%	40.9%	49.0%	51.5%	45.2%
4. Non-Performing Loans (€bn)	13.2	11.8	17.6	17.4	60.0
5. NPL ratio (%)	29.3%	29.9%	33.5%	32.8%	31.6%
6. Provisions (€bn)	8.8	9.5	12.3	13.3	44.0
7. Regulatory Capital CET1 (€bn)	6.5 <sup>2</sup>	5.6	8.3	6.5	26.8
8. <b>Texas Ratio 1</b> = $4/(6+7)$	86.5%	78.3%	85.5%	87.7%	84.8%
9. <b>Tangible Equity</b>	4.8	4.8	7.7	4.9 <sup>1</sup>	22.5
10. <b>Texas Ratio 2</b> = $4/(6+9)$	97.0%	82.6%	88.0%	94.1%	90.4%

## Notes:

1. In the theoretical stress situation in which all NPL value is lost, all of four systemic banks survive because they all have a **Texas Ratio less than unity**. For NPEs, those ratios are larger than unity.
2. About **70% of regulatory capital is DTC** and without it, no bank survives.
3. In January 2018, new IFRS-9 rules impose additional capital needs over the following five years, to the tune of €5.9bn. However this is gradually phased in over 5 years
4. 2018 stress tests did not result in recapitalization of the Greek banks

**Source:** Calculations based on banks' published data

# Estimated NPE reduction plan

- ❑ Until recently, target NPE reductions were not ambitious plus government's sluggishness protected strategic defaulters
- ❑ HFSF & BoG SPV schemes promise to reduce NPEs more quickly

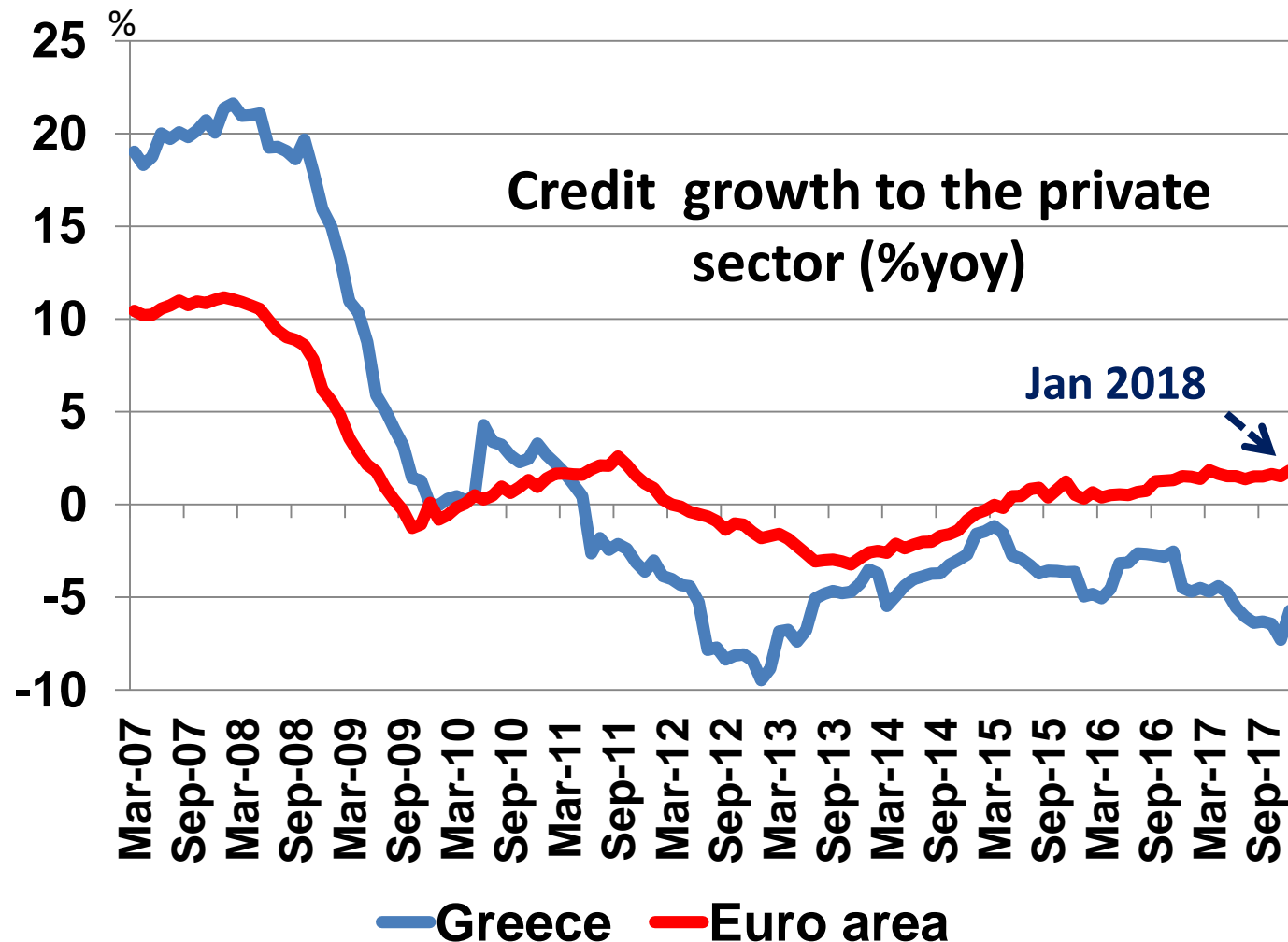
	NPEs (% of gross loans, million euro)			
Banking Group	2018	2019	2020	2021
EUROBANK	37%	15%	12%	9%
	16,700	4,987	4,001	3,196
NBG	41%	17%	13%	9%
	16,200	4,887	3,752	2,809
ALPHA	49%	27%	23%	20%
	25,674	9,828	7,595	6,708
PIRAEUS	53%	43%	35%	27%
	27,300	19,724	13,295	10,287
<b>TOTAL</b>	<b>45%</b>	<b>27%</b>	<b>22%</b>	<b>17%</b>
	<b>85,874</b>	<b>39,425</b>	<b>28,643</b>	<b>23,001</b>

Note: Actual 2018 Group data; estimates for 2019, 2020, 2021

# Credit growth needs to recover

❑ Greek economy cannot recover in a sustainable manner unless banks recover, which means:

- Cost of risk needs to come down
- Demand for healthy lending and fee generation need to rise
- A tough stance on costs required
- Technology to be espoused not only as a cost-reduction tool but for sales enhancement as well



# Greek banks in the future

- ❑ Future risks remain contained
- ❑ Yet profitability continues to be under pressure
  - ❖ Banks face even stricter regulation which affects profitability negatively
    - Pillar 2 of Basel III bites
    - Basel IV in effect from 2022, fully loaded in 2027, expected impact of additional 5ppts on CAD ratios
    - EU Banking Union brings stricter provisioning rules on NPLs
  - ❖ Technology and new competitors bite on profitability
    - PSD2 puts pressure on fee income
    - Digital transformation brings competition from Fin Tech and need to invest in technology
  - ❖ Normalized (higher) interest rates would follow QE, which would put pressure on economic growth and profitability

**Thank you  
for your attention**

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