Greek Banks:
Past, Present & Future

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Greek Banks: Past, Present & Future

I. Size of the banking sector

II. Today vs. the recent past

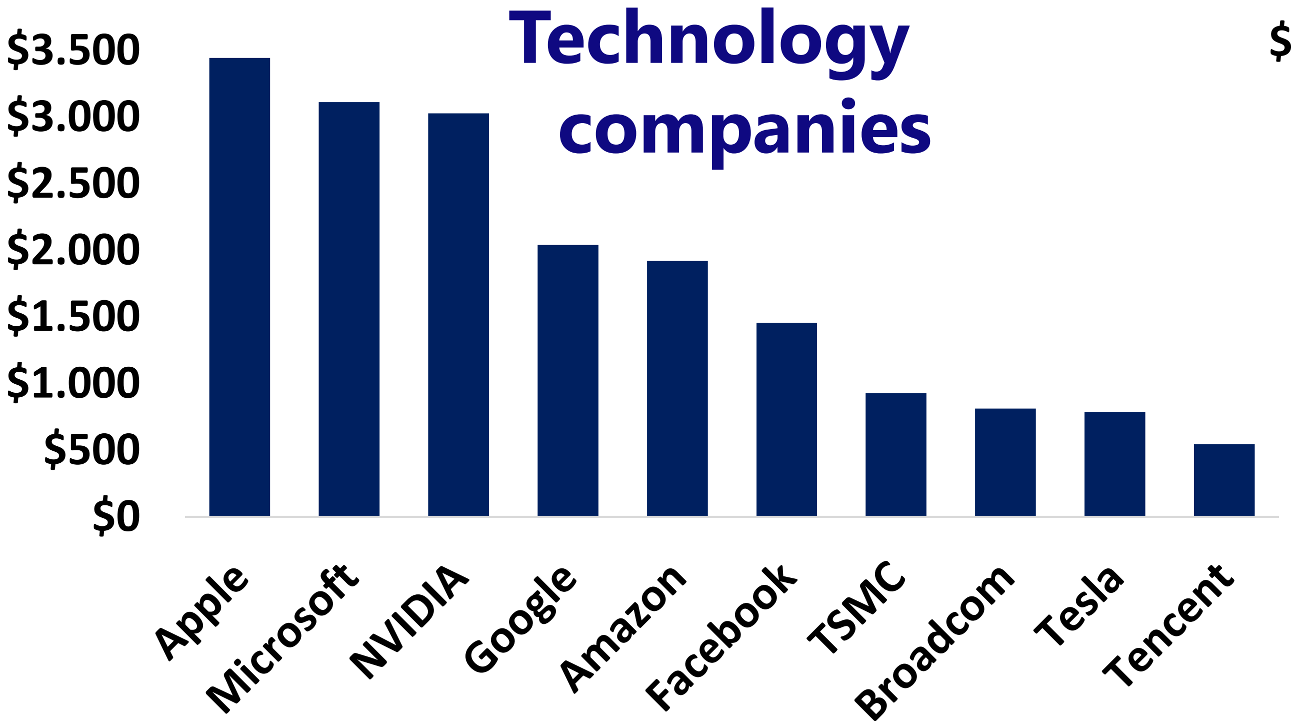
III. Future challenges

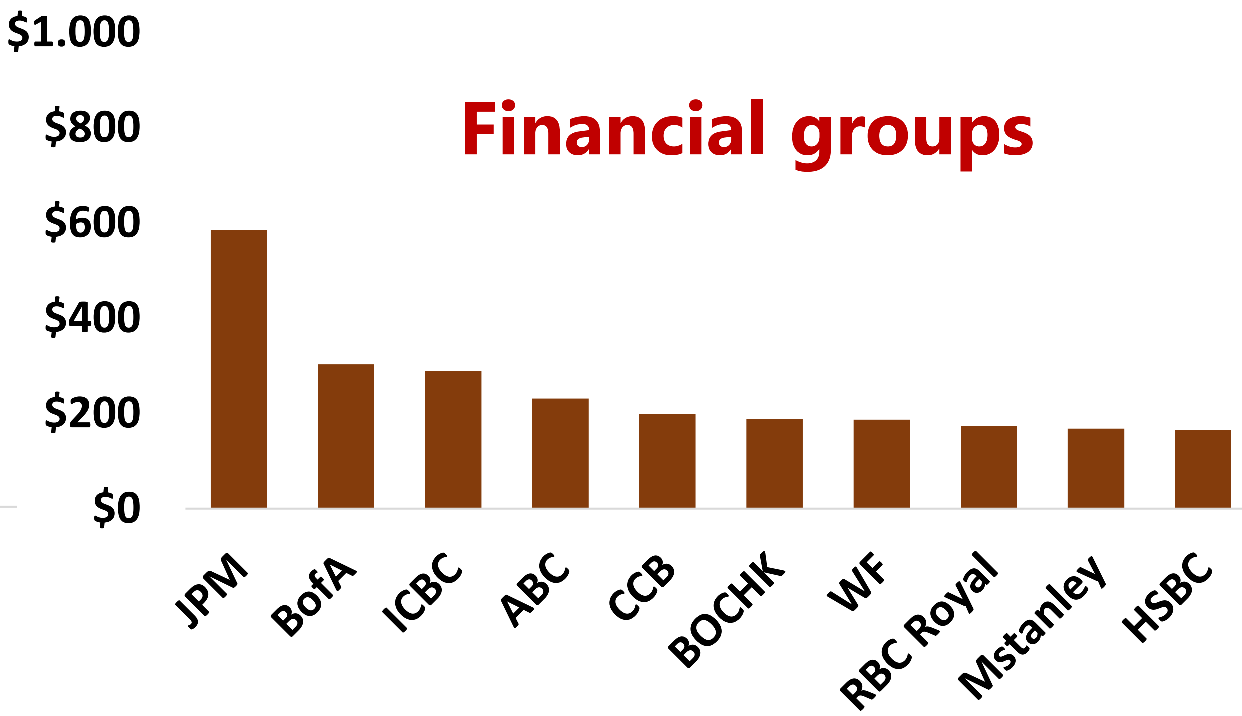
I. Globally, banks are small relative to technology companies

- Market capitalization of banks is a fraction of the capitalization of IT companies.
- Yet banks exert influence due to their higher leverage and their omnipresence in the economy.

Market capitalization

($bn, Oct 3, 2024)





Source: Bloomberg

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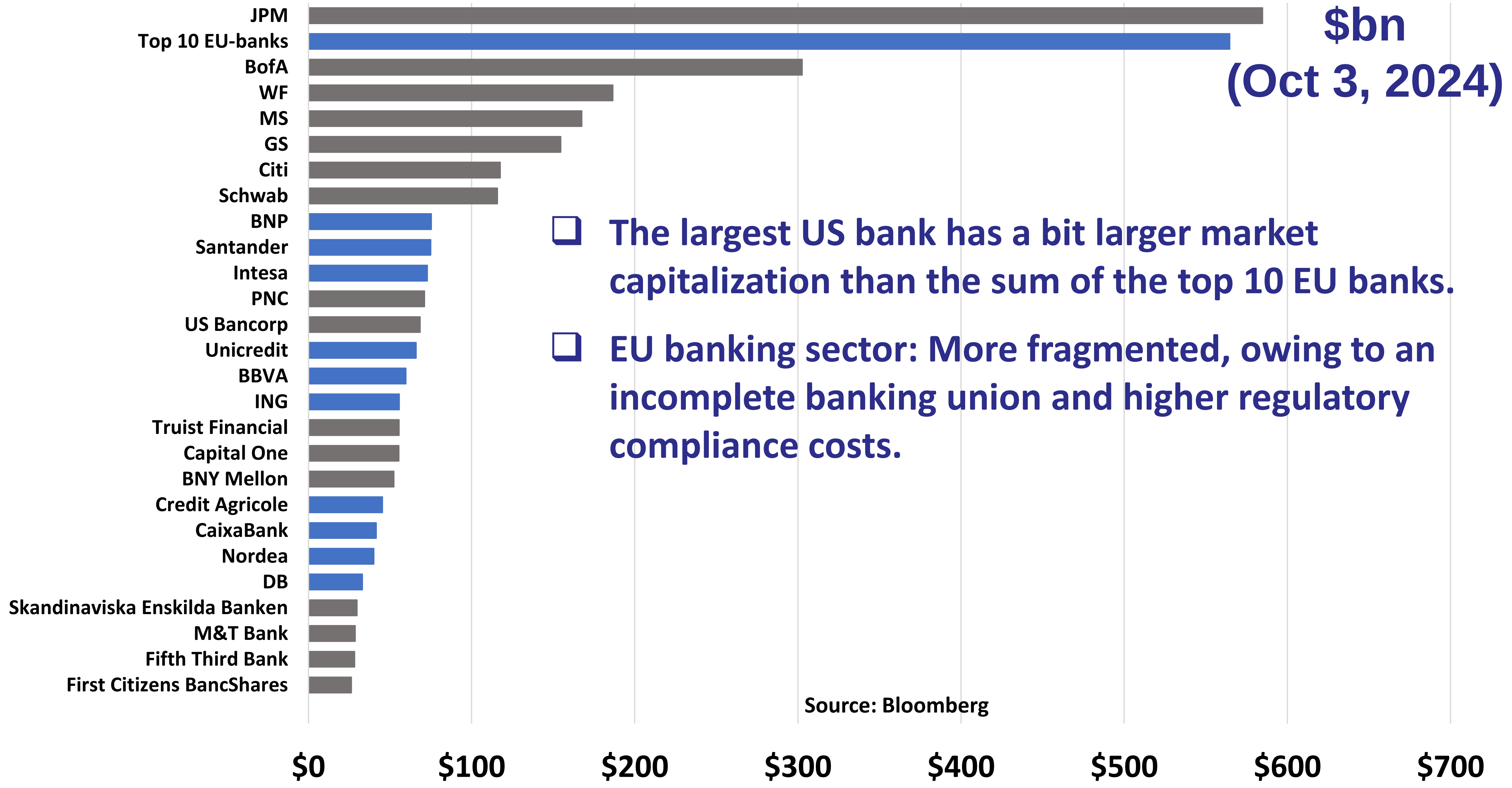
I. European banks are smaller than US banks in capitalization

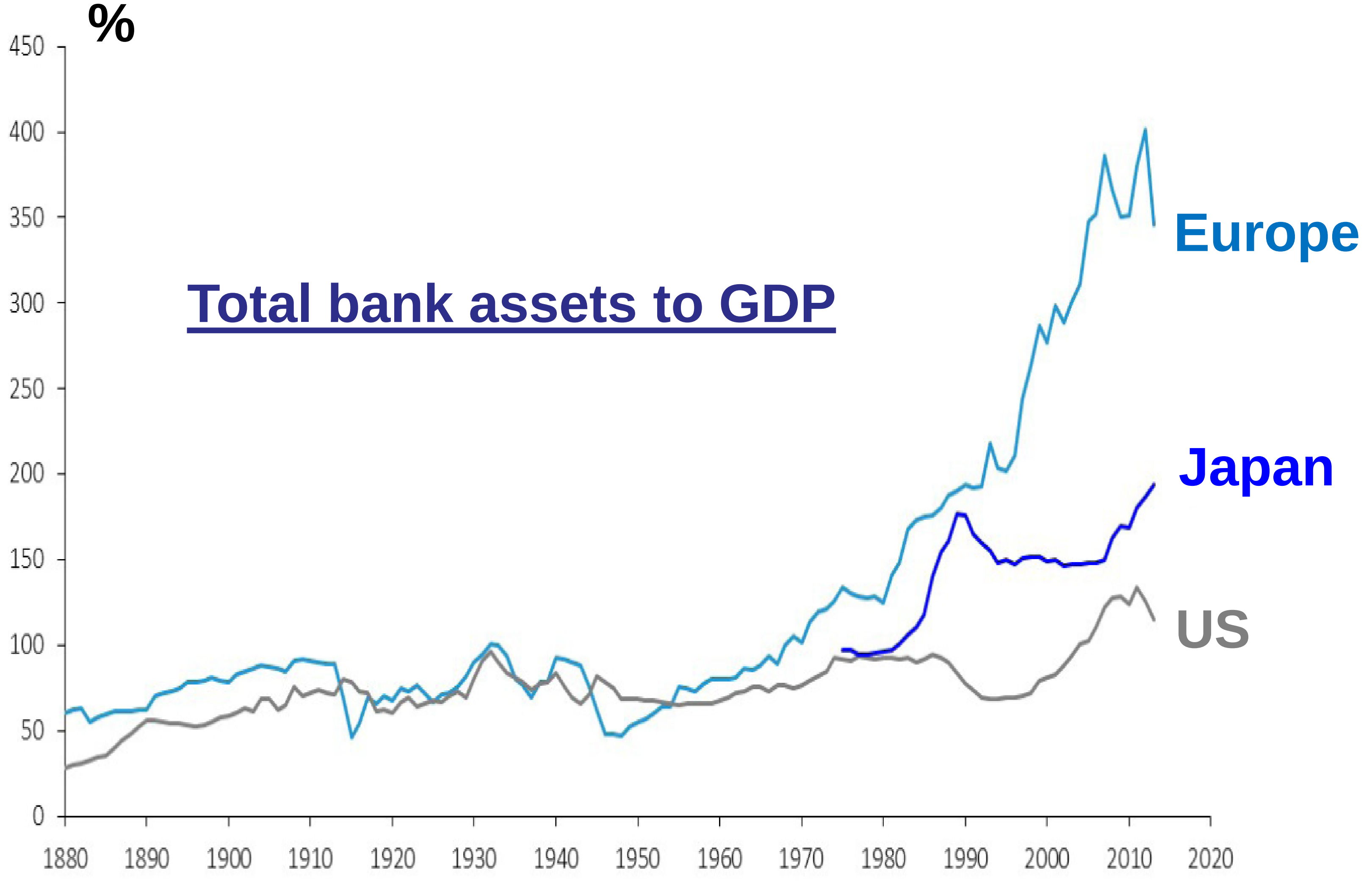


- The largest US bank has a bit larger market capitalization than the sum of the top 10 EU banks.
- EU banking sector: More fragmented, owing to an incomplete banking union and higher regulatory compliance costs.

Source: Bloomberg

I. Today Europe is a bank-based economy in contrast to the US

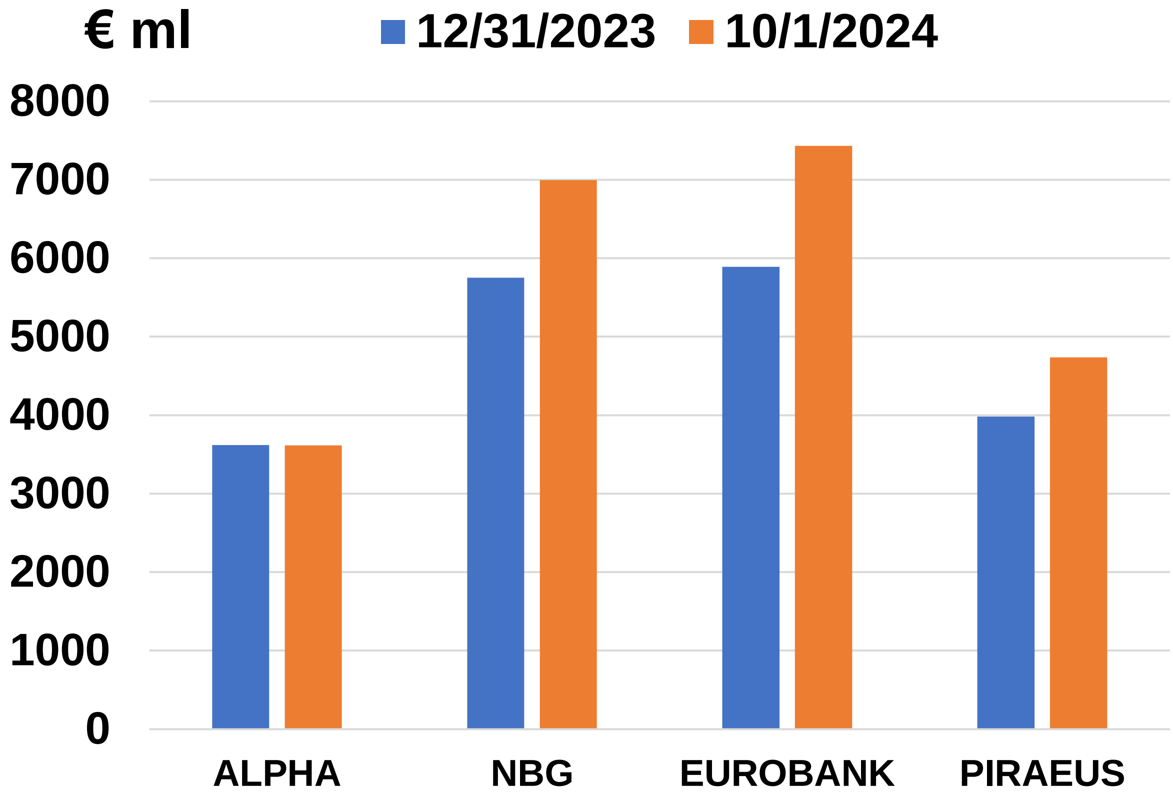
- Although the largest banks in market cap are in the US, Bank Assets to GDP ~400% in Europe, ~ 200% in Japan, ~100% in the US.
- This was not the case in the distant past.
  - Until the 1960s, bank assets to GDP fluctuated ~70% in both Europe and USA.
  - Divergence thereafter.
  - In late 1980s: ~180% of GDP in Europe & Japan.



Source: Langfield and Pagano (2015),
EC The future of European competitiveness (Sept 2024)

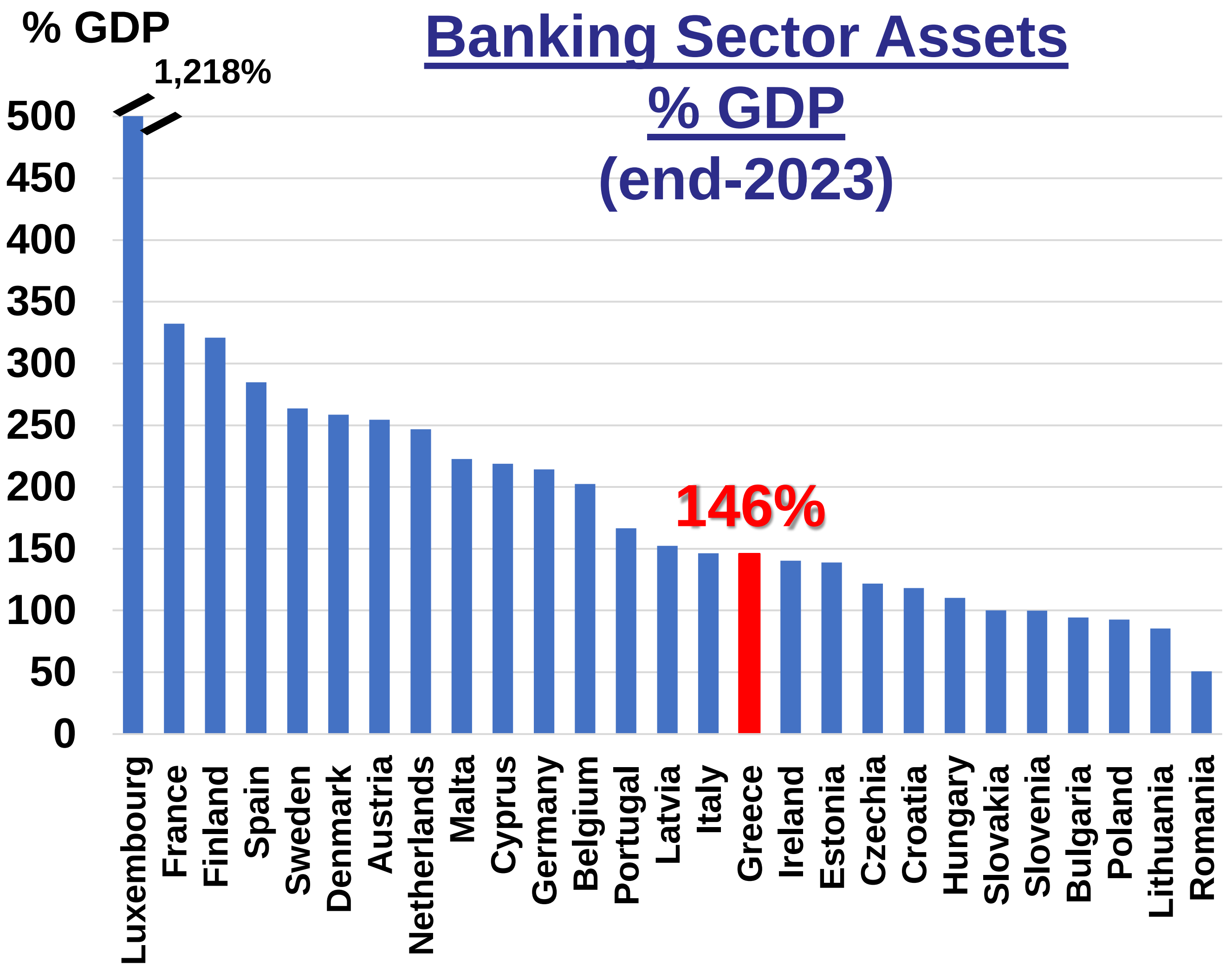
I. Compared to Europe, the Greek banking sector is small

Greek Systemic Banks Market Capitalization



Source: Bloomberg

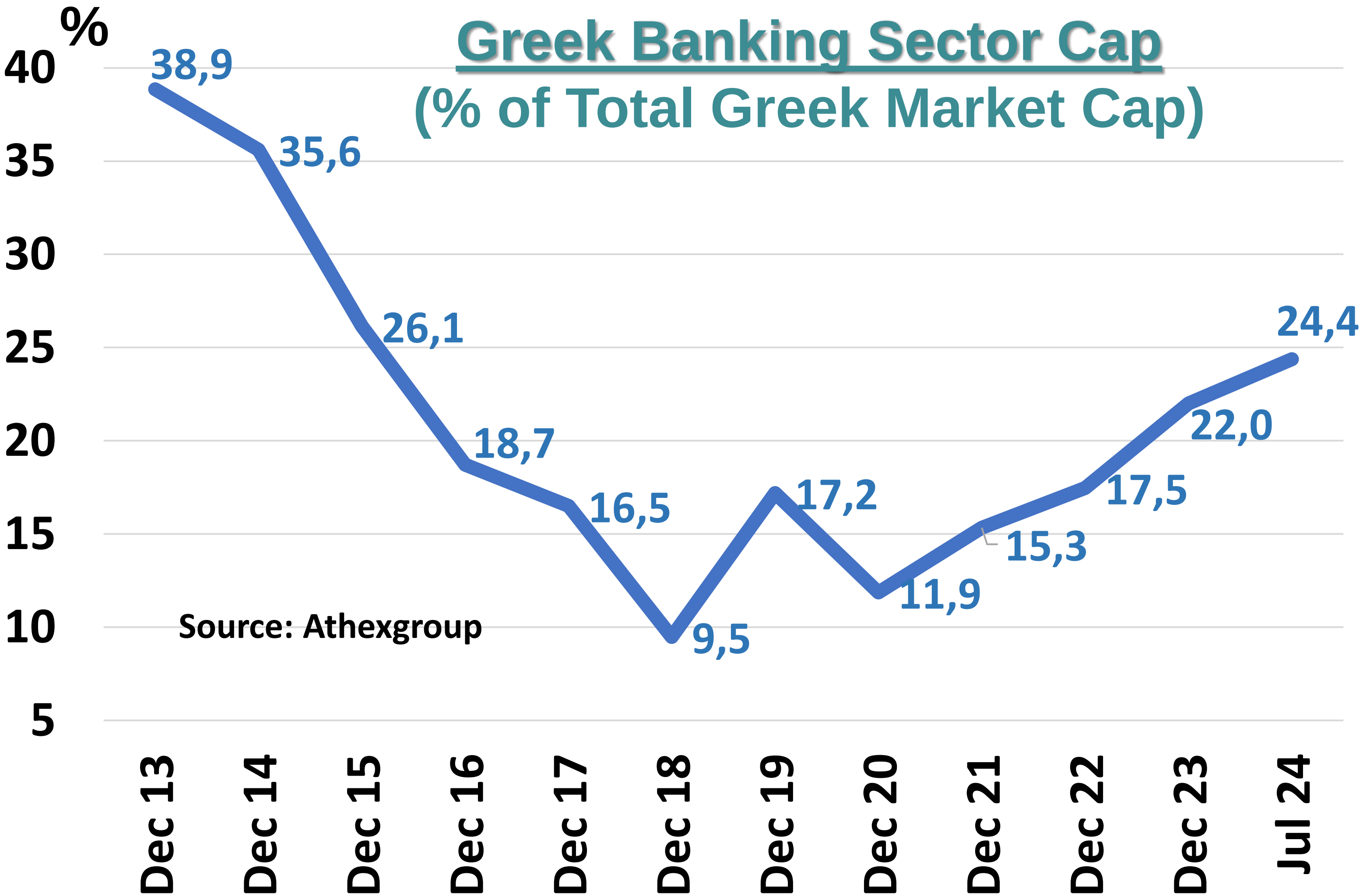
Europe: Banking Sector Assets % GDP (end-2023)



Source: ECB

I. Inside Greece, in terms of capitalization, banks are comparatively very large companies

- Today banks represent 25% of total Athens stock exchange capitalization.
- Compared to their int/al peers, Greek banks are small, yet they carry a disproportionately bigger weight on the domestic economy.



I. Size of the banking sector

II. Today vs. the recent past

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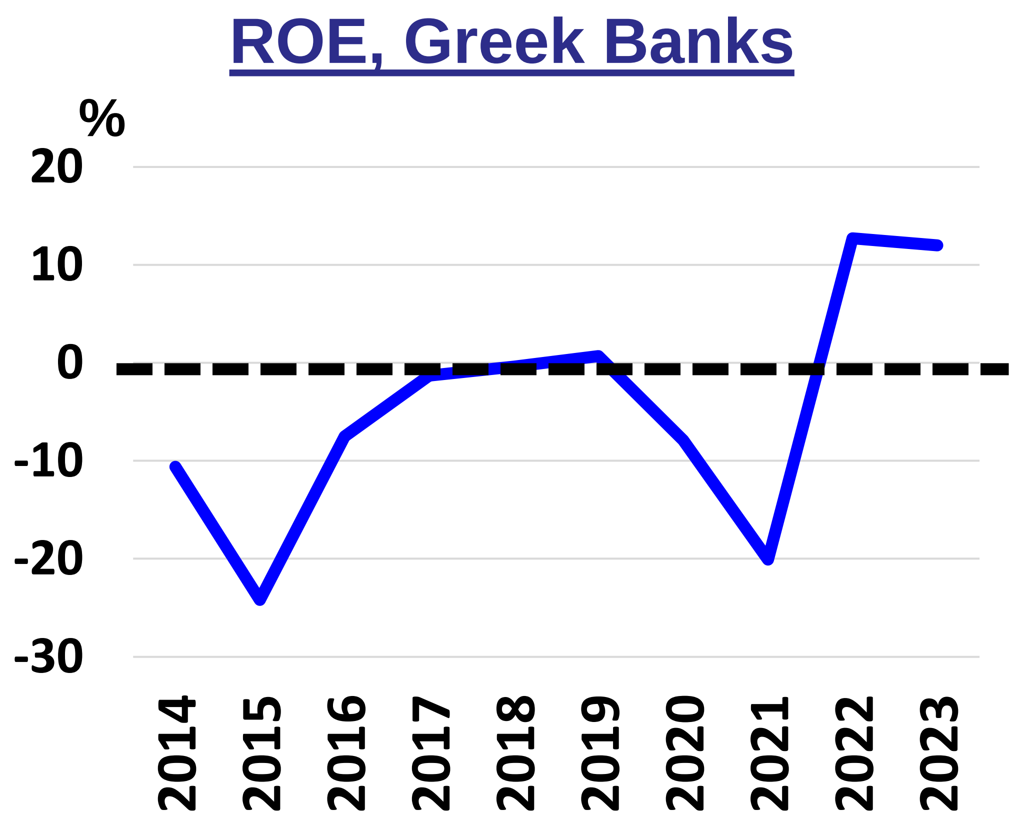
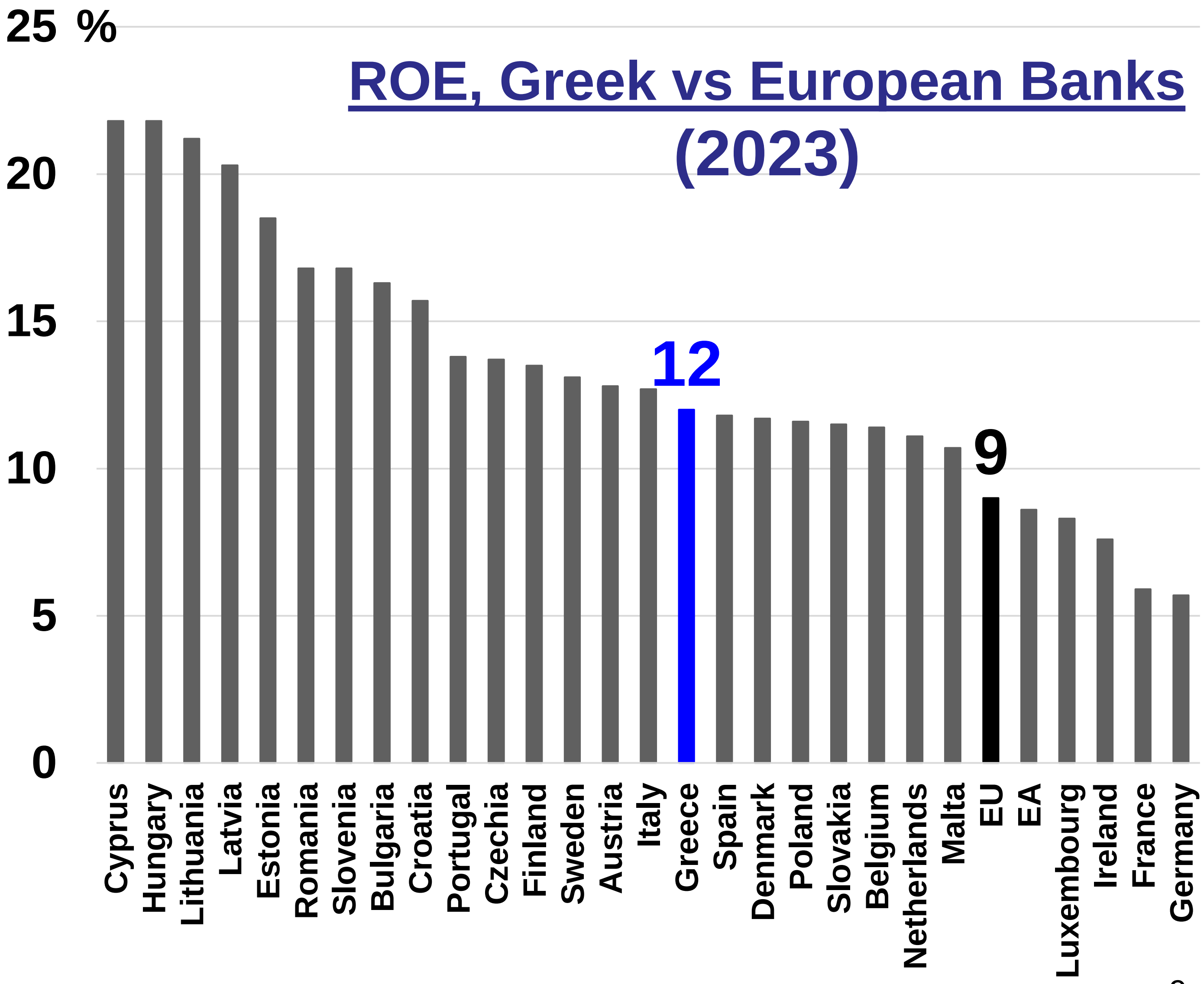
II. The sector went through a major shrinkage & consolidation during the Greek crisis but survived: ROE is back to normal

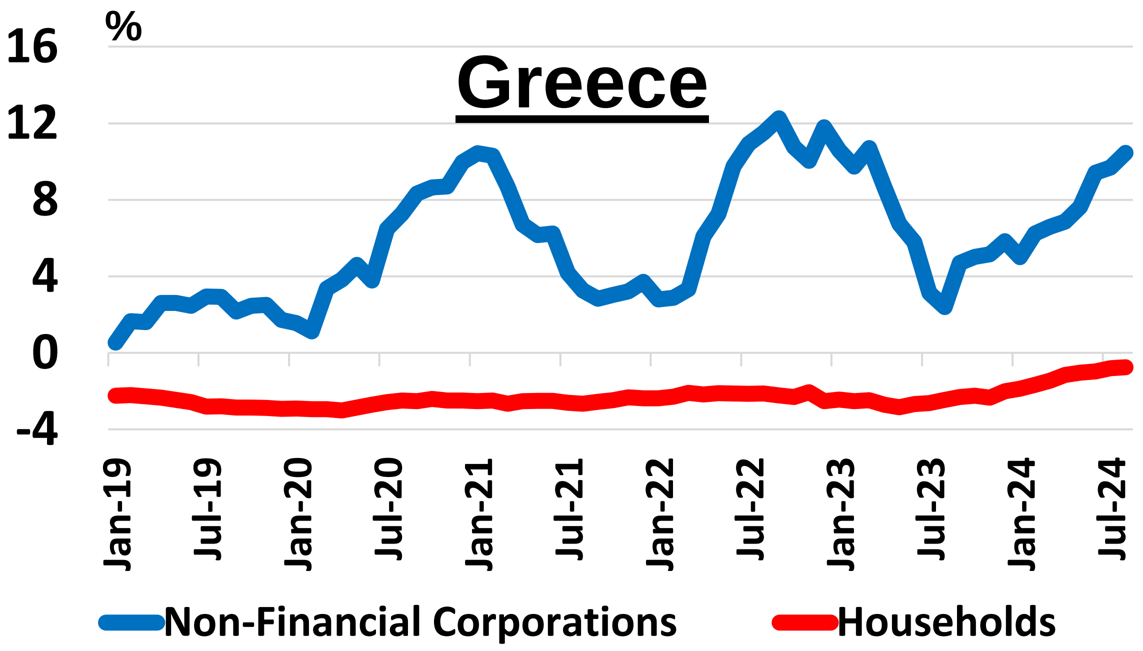


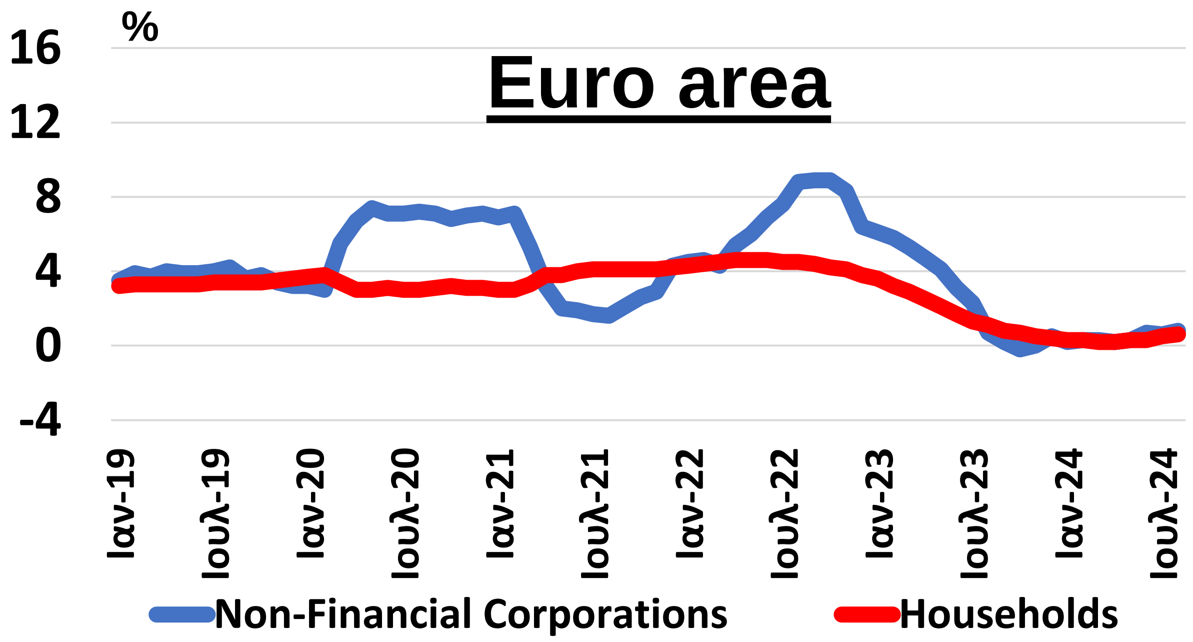


Source: ECB, Eurostat

II. Corporate lending has normalized in Greece

Bank lending to the private sector (%yoy)



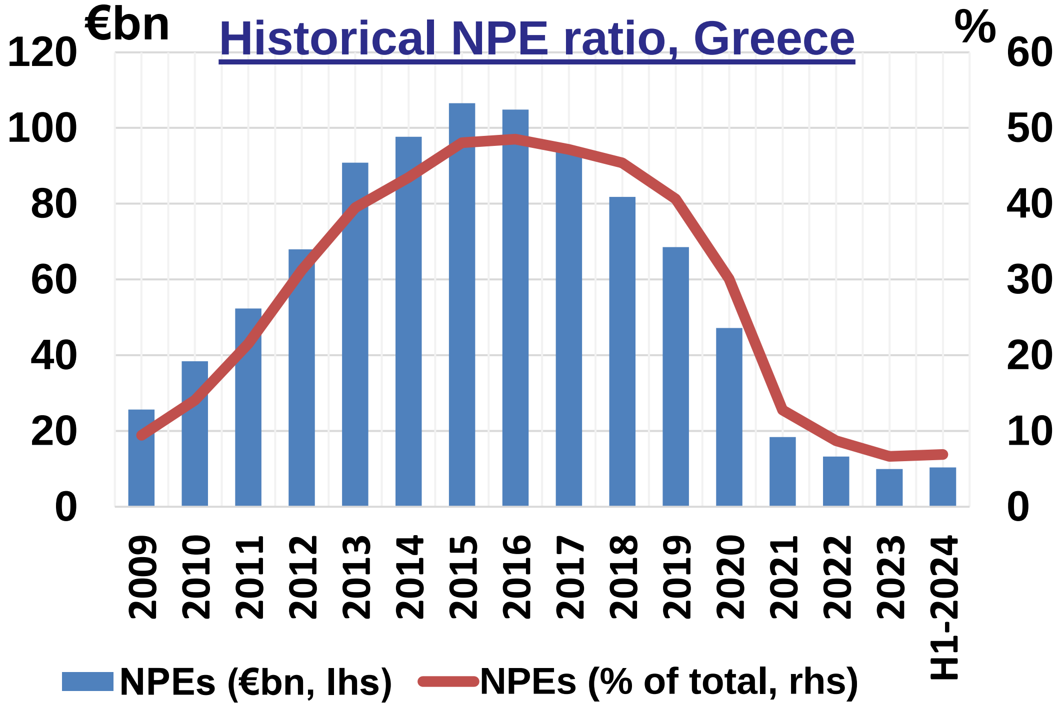


Source: Bank of Greece, ECB

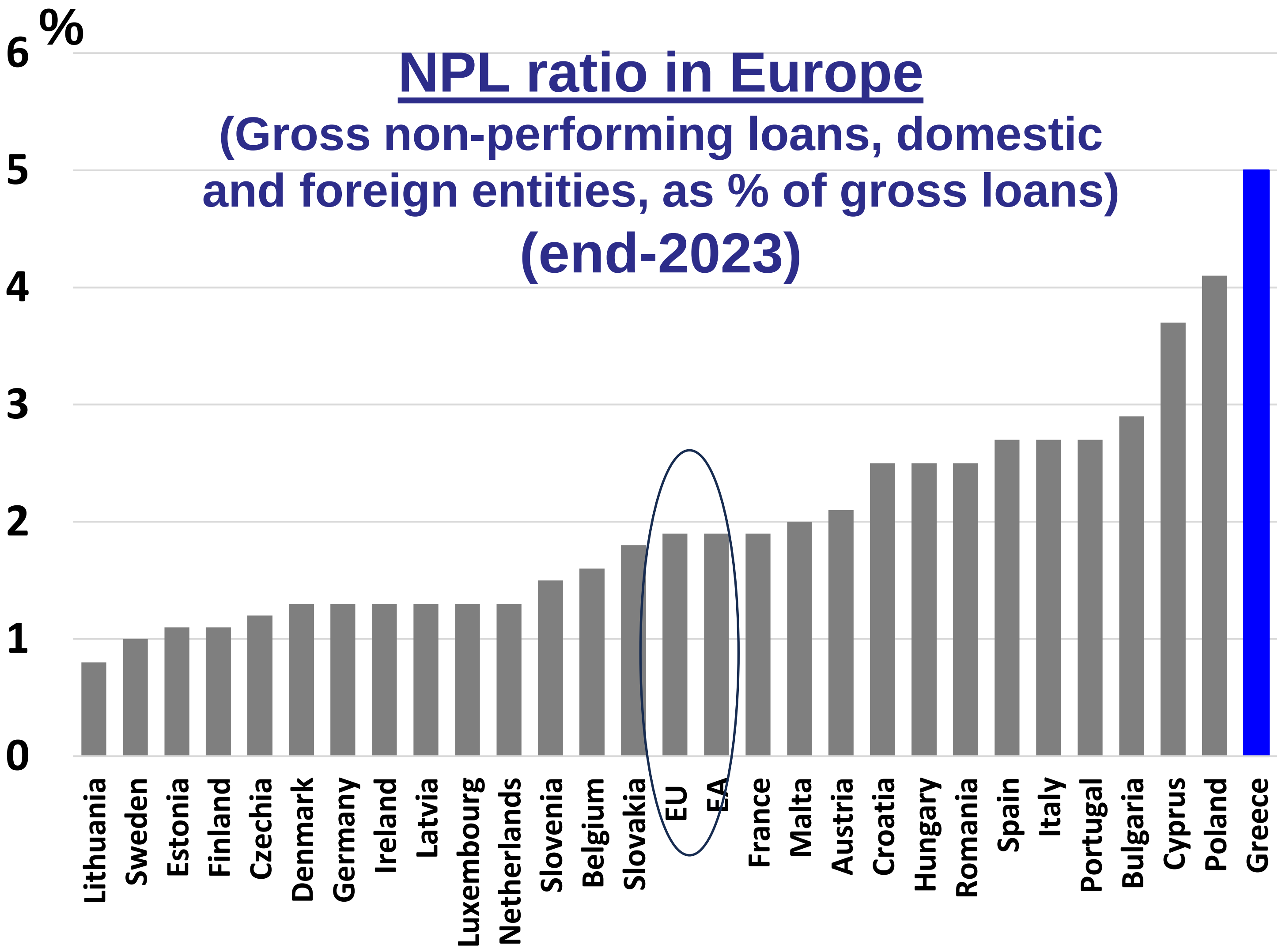
- In corporate lending, positive growth since 2019 and stronger than in Europe since 2022.
- Lending to households has not recovered in Greece yet. Repayments of previous loans are higher than new loans.

II. NPEs have dropped with room for more reduction

- The Hercules securitization with its government guarantee on the senior notes helped expedite the drop in NPEs.
- NPL ratio at 5% vs EU average at 1.9% (End-2023, Source: ECB/Eurostat).



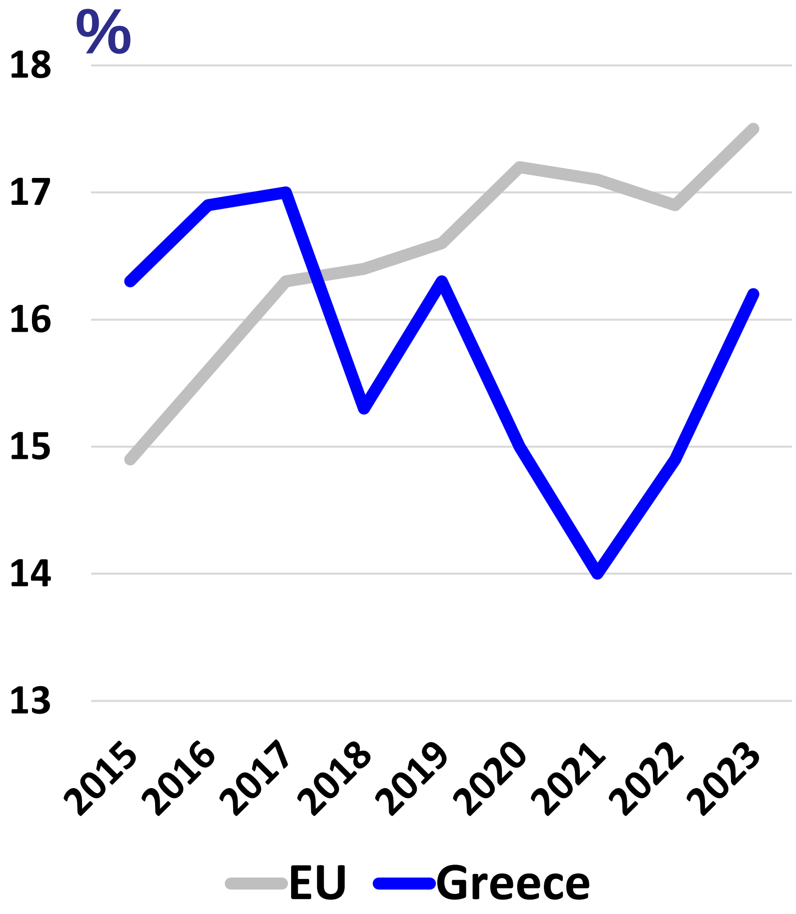
Source: Bank of Greece

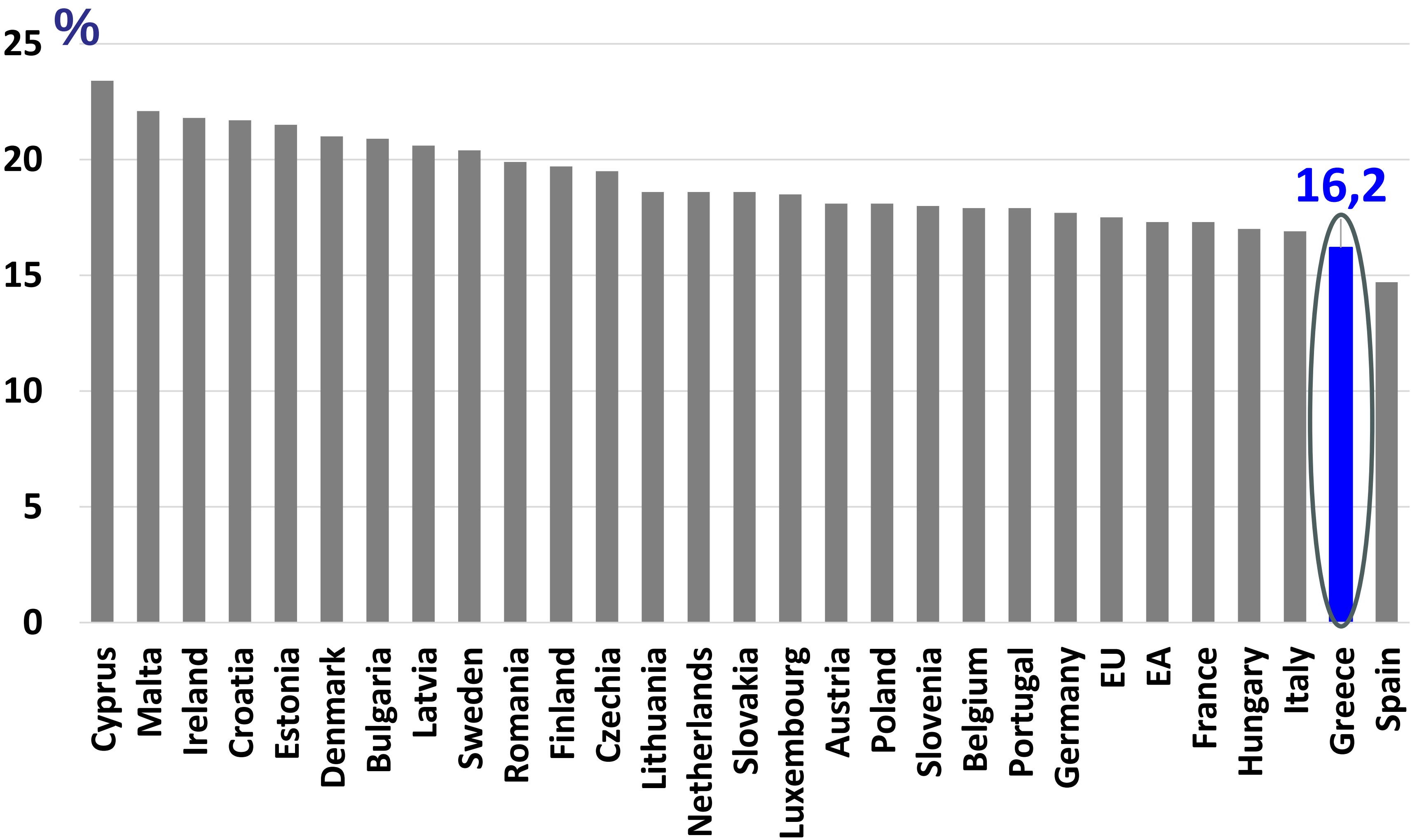


Source: ECB, Eurostat

II. Tier-1 capital ratio in Greece is close to EU average

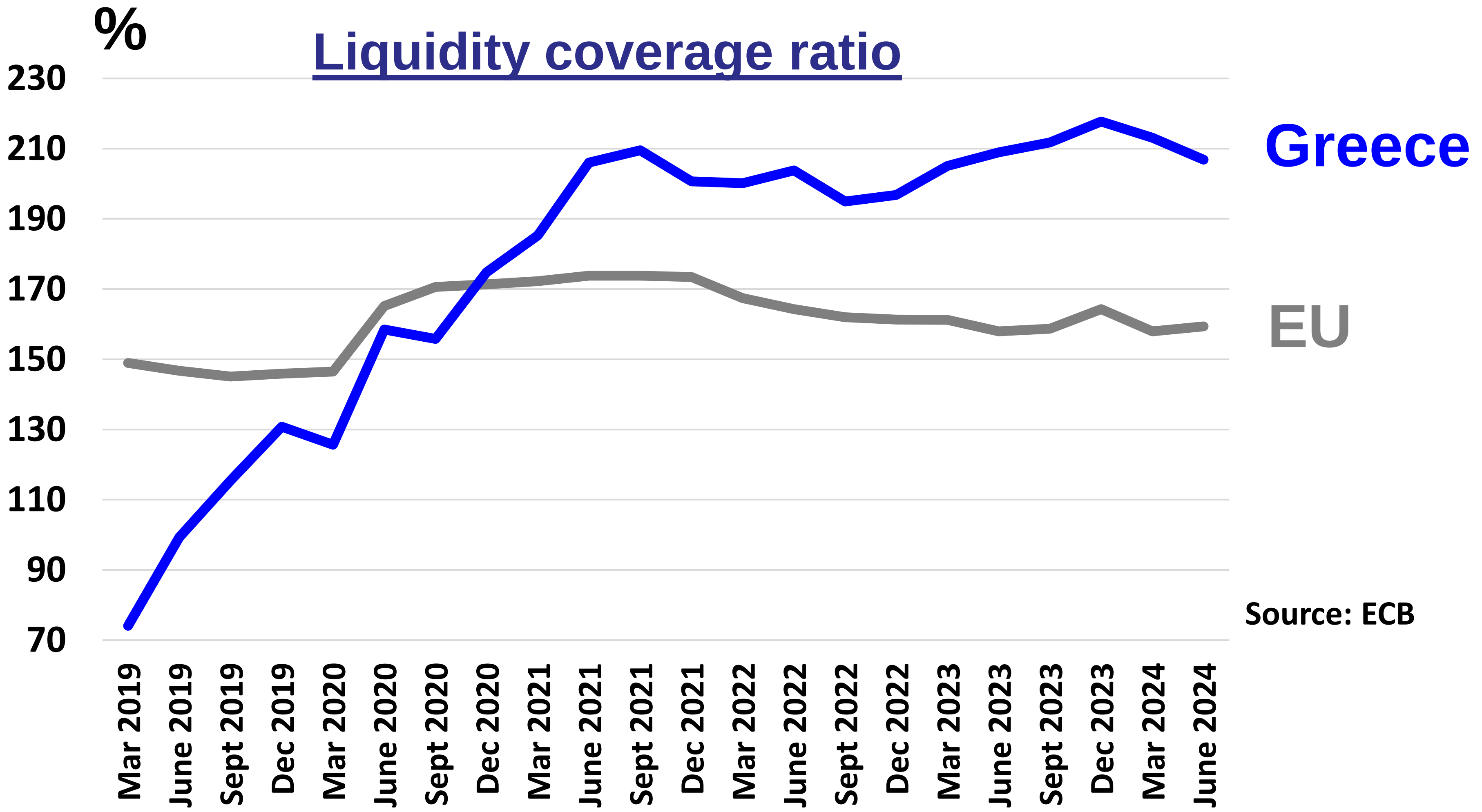
% of risk-weighted assets





Source: Eurostat

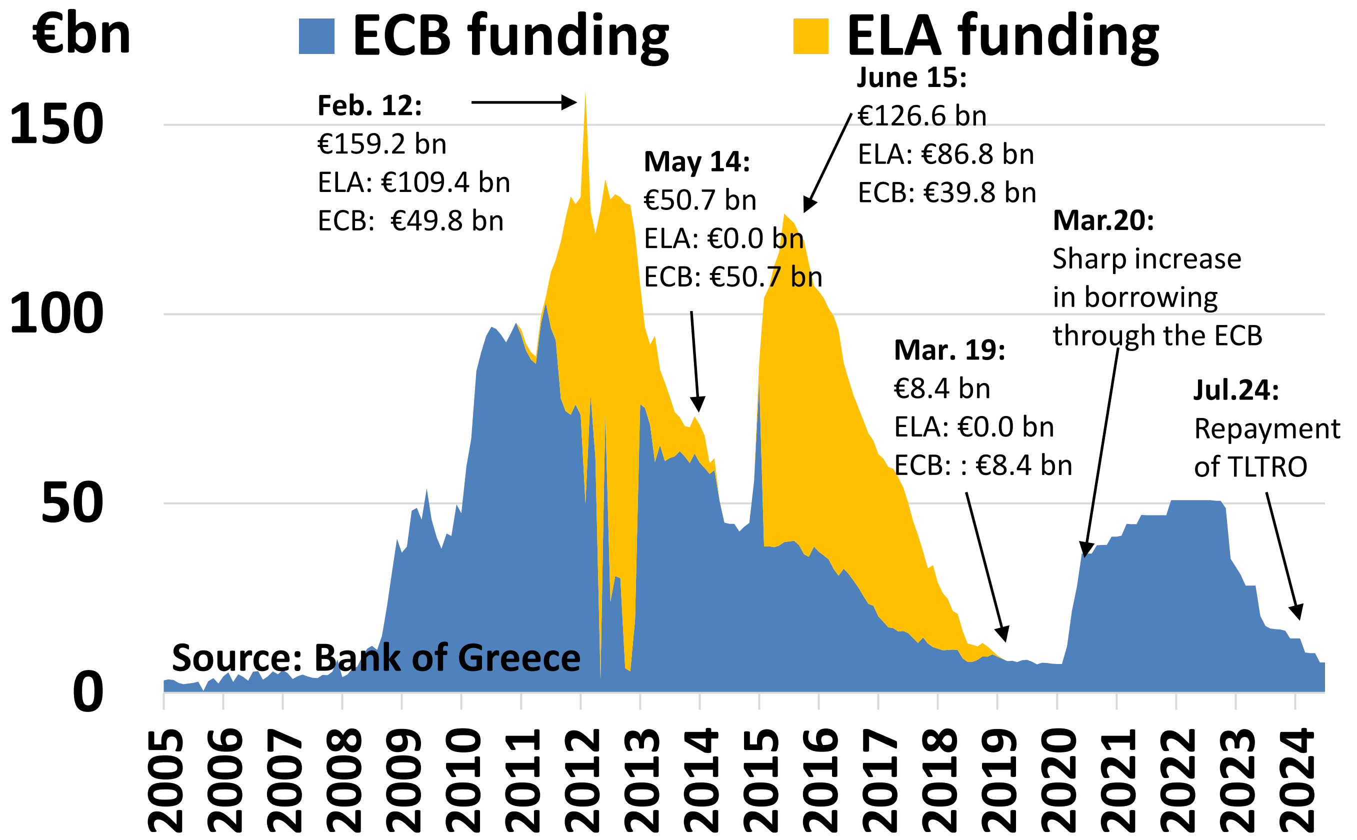
II. Abundant liquidity: Liquidity conditions have improved even after the TLTRO III repayment



Source: ECB

II. During the Greek Crisis, huge dependence on the ECB

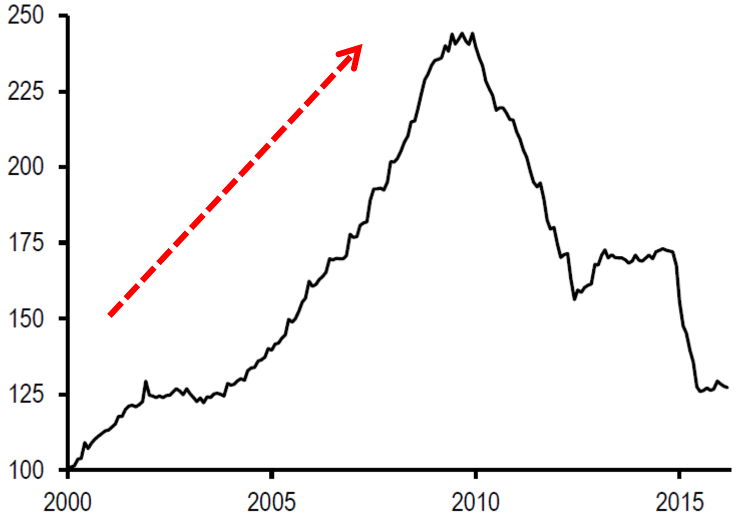
- Prior to GFC little use of ECB funding by Greek banks. Back then German banks biggest user.
- During GFC (2007-2009), interbank market dried up and ECB borrowing rose to €55bn.
- Then during the Greek crisis borrowing above €100bn.
- The **two humps** in borrowing reveal the **two different phases of the Greek crisis**, 1st economic (2010-14) & 2nd political (2015-19)
- Emergency Liquidity Assistance (ELA) since July 2011
  - ELA peaks in Nov. 2011
  - ELA Zero in May 2014.
  - ELA rose again to €86,8bn in June 2015.
  - ELA Zero in March 2019.

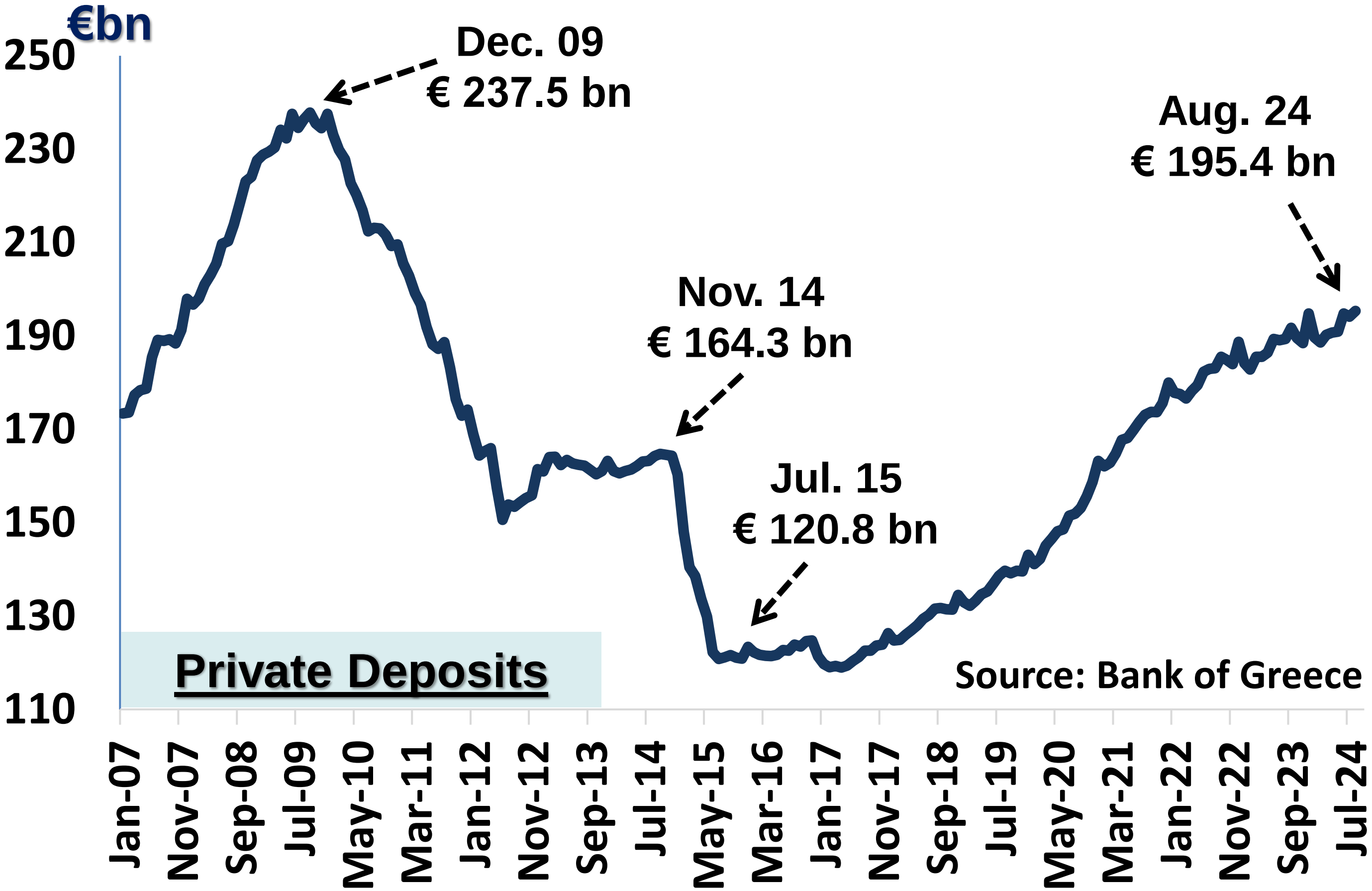


- ELA is more expensive than direct ECB borrowing (1.5%), supported by collateral of worse quality.
- The **third hump is unrelated to the crisis**. Since March 2020, banks borrowed from the ECB not due to need but due to the profit motive.

II. The time series behavior of private deposits since 2000

- Deposits grew 2.5 times from 2000 to December 2009





- **The drop in deposits since January 2010 in two phases:**
  1) From 1/2010 until 5/2012.
  2) From 11/2014 until 7/2015, more abrupt (€43bn), which led to capital controls on 28/6/2015).
- **Steady rise in deposits since 2018.**

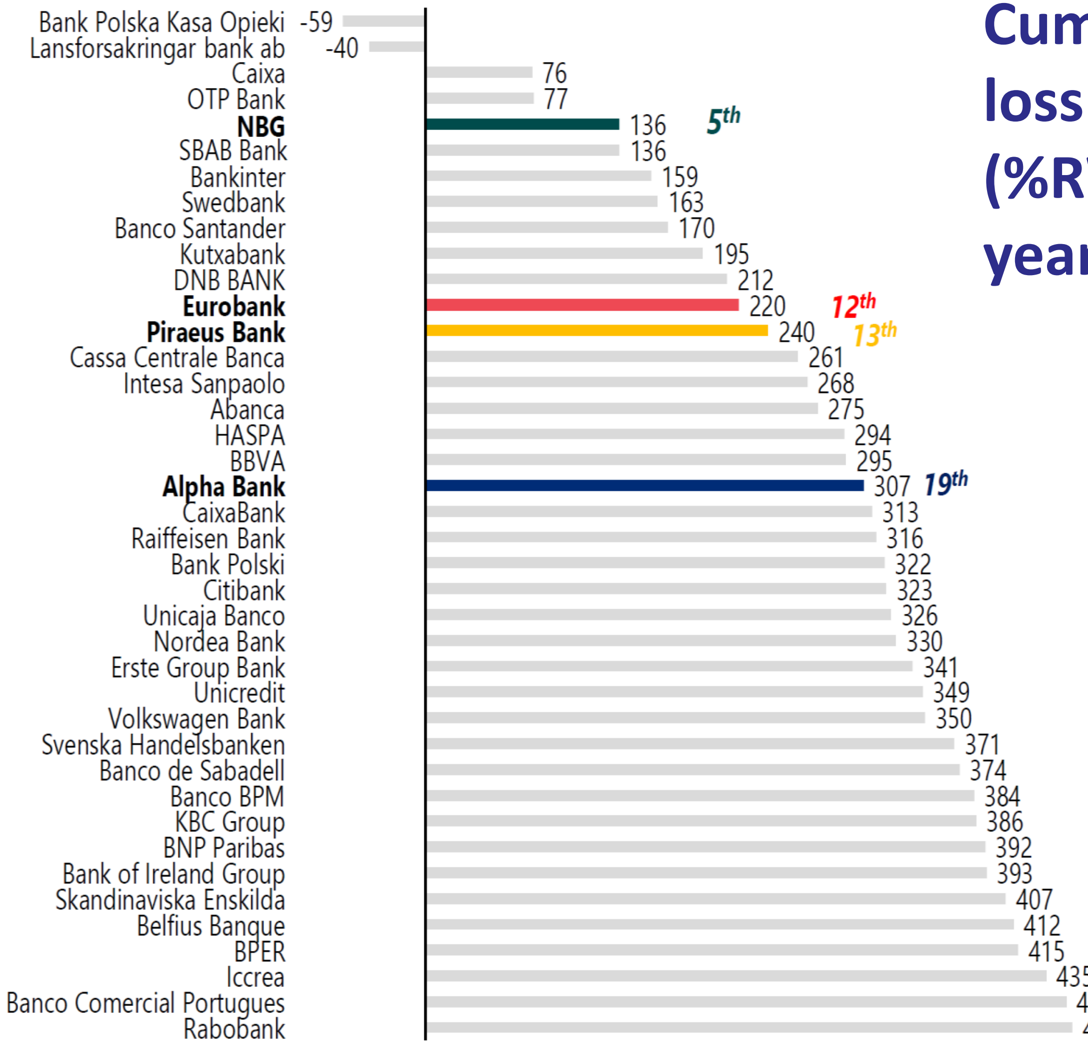
II. Excellent Stress Test results in 2023, improved SREP scores

- Stress tests covered the period from 31/12/2022 to 31/12/2025. The adverse scenario results showed that Greek systemic banks are strong, **ranking from 5th to 19th** among European systemic banks.

- Following the drop of NPEs to single digits, the overall assessment of Greek systemic banks by SSM improved **from category 4 (worst) to category 3.** Most systemic banks belong to categories 2 and 3.
  - Assessment is based on (1) credit risk, (2) capital adequacy, (3) business model, (4) internal governance and risk management.

- In corporate governance banks are pioneers in Greece. The law of 2020 for the governance of listed companies followed banks' prescription on internal governance.

The top 40 banks with the smallest loss in the adverse scenario



Cumulative loss in CET1 (%RWAs) in 3 years

Source: EBA

Median: 407 bps

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Short-term:

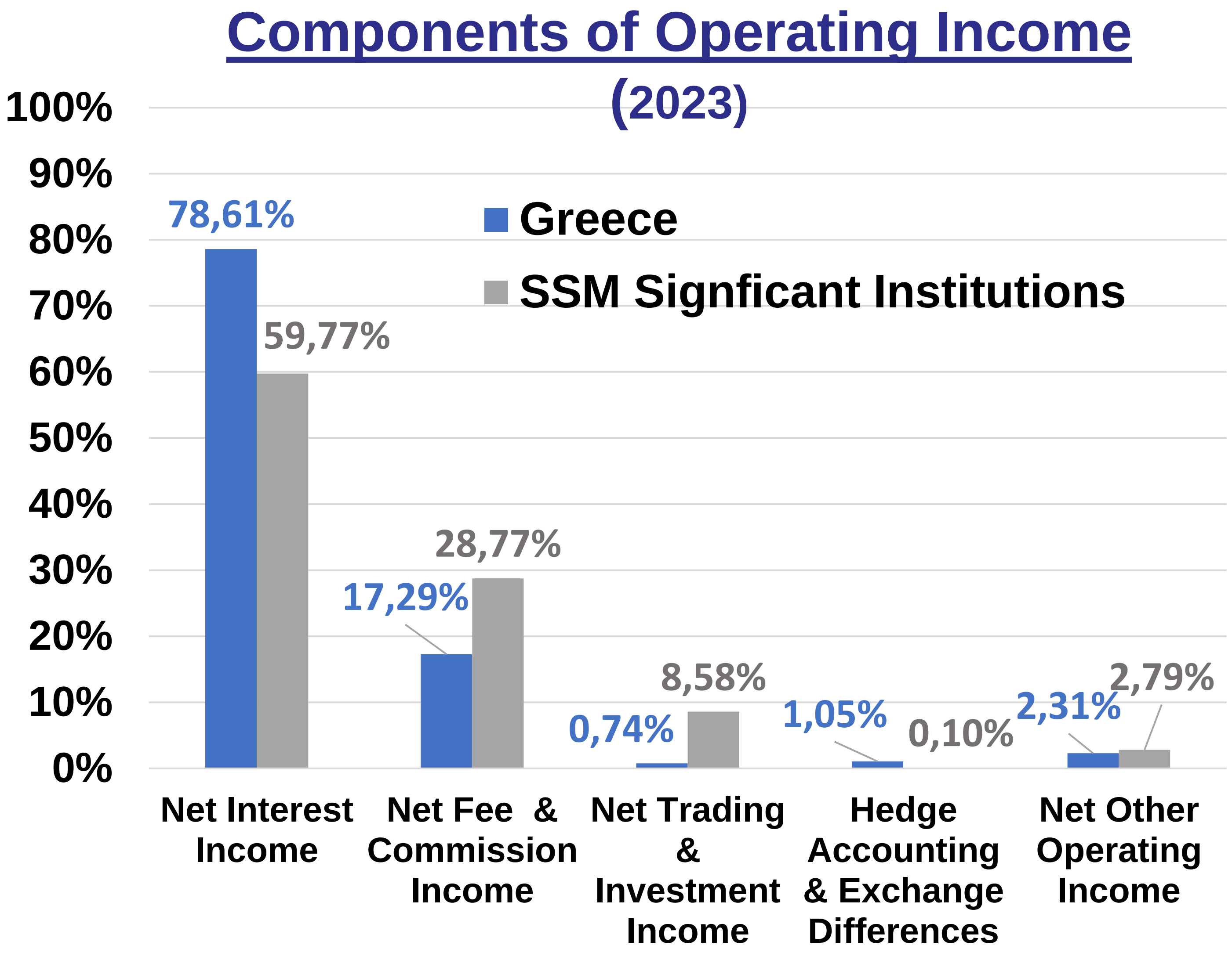
- Will profitability remain high in an environment of declining interest rates by the ECB?
- What about the quality of capital? Critics argue DTA & DTC components are huge, although declining fast.
- Will Basel IV pressure Greek banks as much as MREL does?

Longer-term:

- Are banks adequately prepared for the expanding digital economy? Can they address the evolving needs of their customers? Are they responding to the challenge of Fin-Techs and Big-Techs?
- Should Greek banks expand abroad as they had done 30 years ago?
- Banks and ESG: Do banks service the needs of society?

III. Short-term challenge: Sustainability of profits

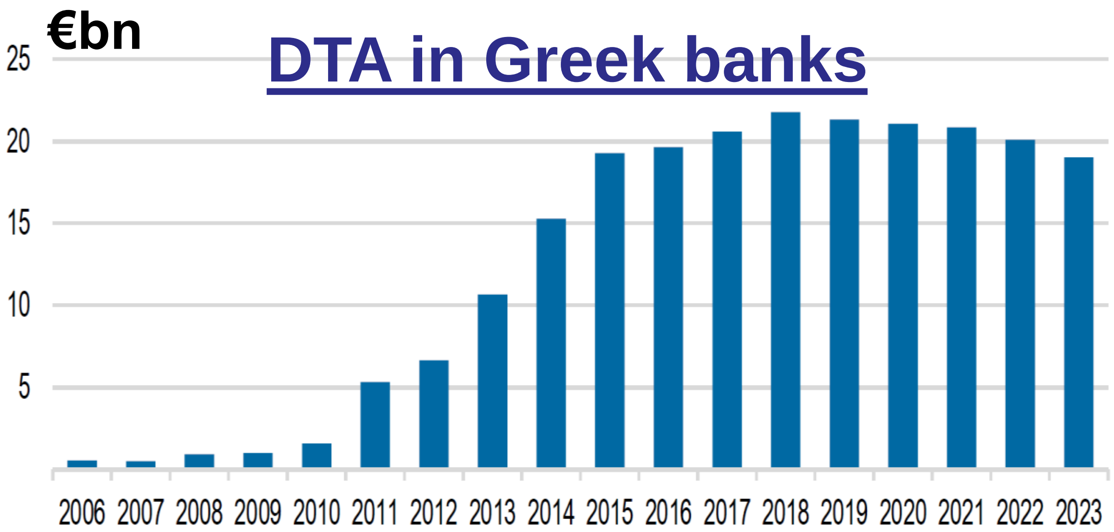
- NII will be under pressure as ECB decreases its intervention rate. This pressure is across all European banks, yet Greek banks depend a lot more on NII than their counterparts.
- Greek banks need to gain more traction in fee generation without hurting the small depositor.
- In an expanding economy, lending volumes are likely to grow and cover the expected loss in NII per loan.
- Prudent banks should have already followed an interest rate hedging strategy in 2024.



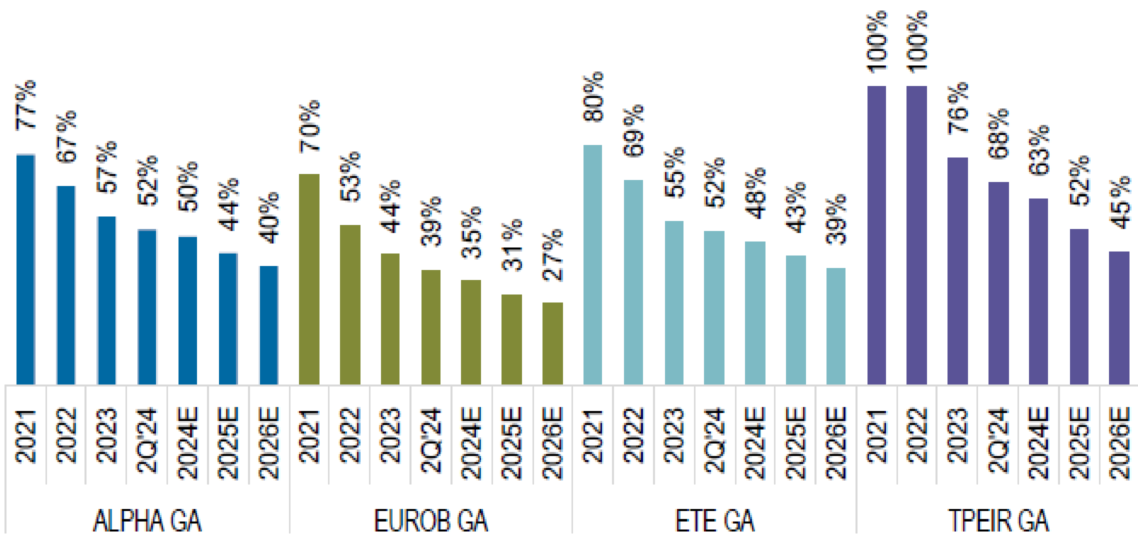
Source: ECB Supervisory Banking Statistics

III. On the antennas of regulators: DTA & DTC

- The crisis brought about €100bn of DTA & DTC in Southern Europe, with ~20% of which in Greek banks.
- DTA or DTC not a concern of investors because banks are healthy, with profitability adding to new capital, hence DTC expected to decline fast as %CET1.
- DTC was invented by Southern countries in 2012-2014 to protect regulatory capital from the new Basel III rules, which restricted DTA to count only up to 10% of CET1.
- Greece initially adopted legislation following the Spanish example but was forced to change it and follow the Portuguese example, which involved the State gaining bank shares for cash.
- Regulators seem to worry about DTC boosting the government-bank nexus, generating systemic risk.
- DTC was a major headache of potential investor dilution by the State at the time of NPL securitizations. The "Hive-down" invention of Eurobank was also followed by Alpha and Piraeus, and successfully prevented the return of the State as a major bank shareholder.



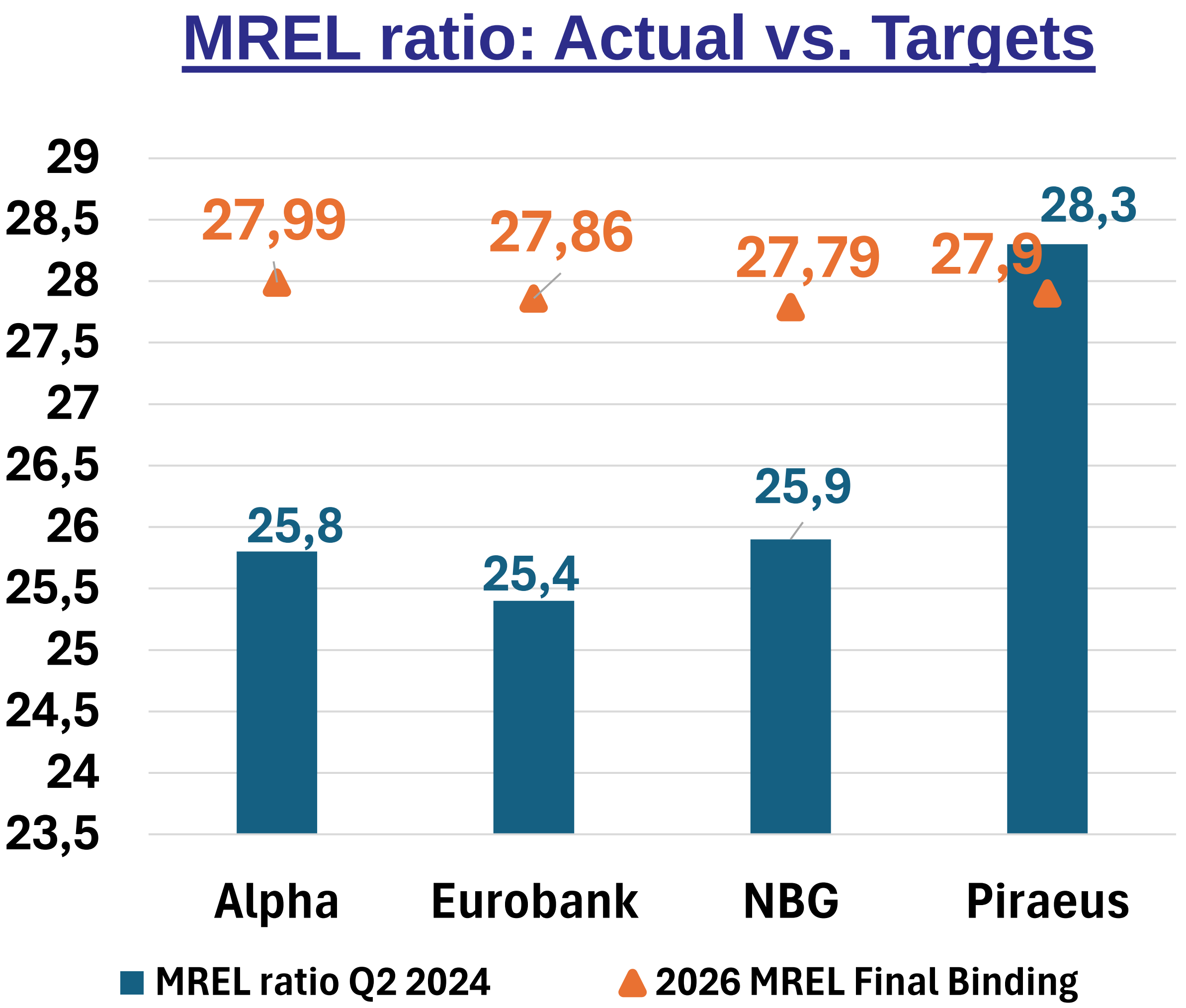
JP Morgan % forecasts of DTC/CET1 by bank



Source: Company data, JP Morgan

III. Basel IV soon in effect, but not biting

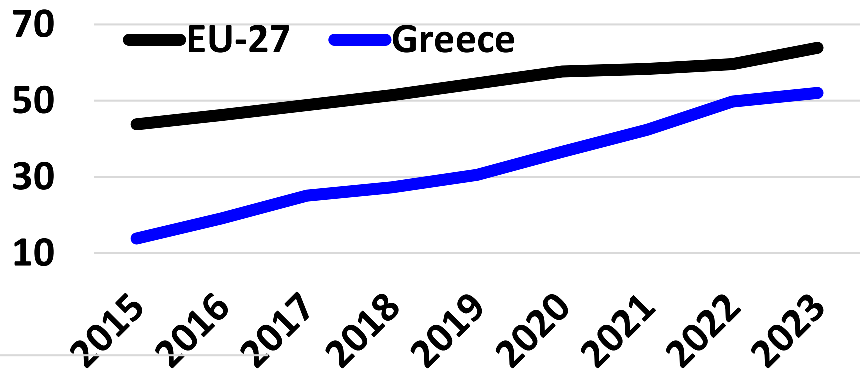
- The effect of Basel IV on the minimum regulatory capital is minor because Greek banks follow the standardized approach in calculating risk weights.
- In 2025, min. capital requirements are expected to increase by 30-60bps, in contrast to some large European banks, where the increase is expected to be substantial, 600-700 bps.
- On the other hand, MREL requirements are biting: They forced banks to issue significant amount of bonds, generating cash that was not necessarily needed.



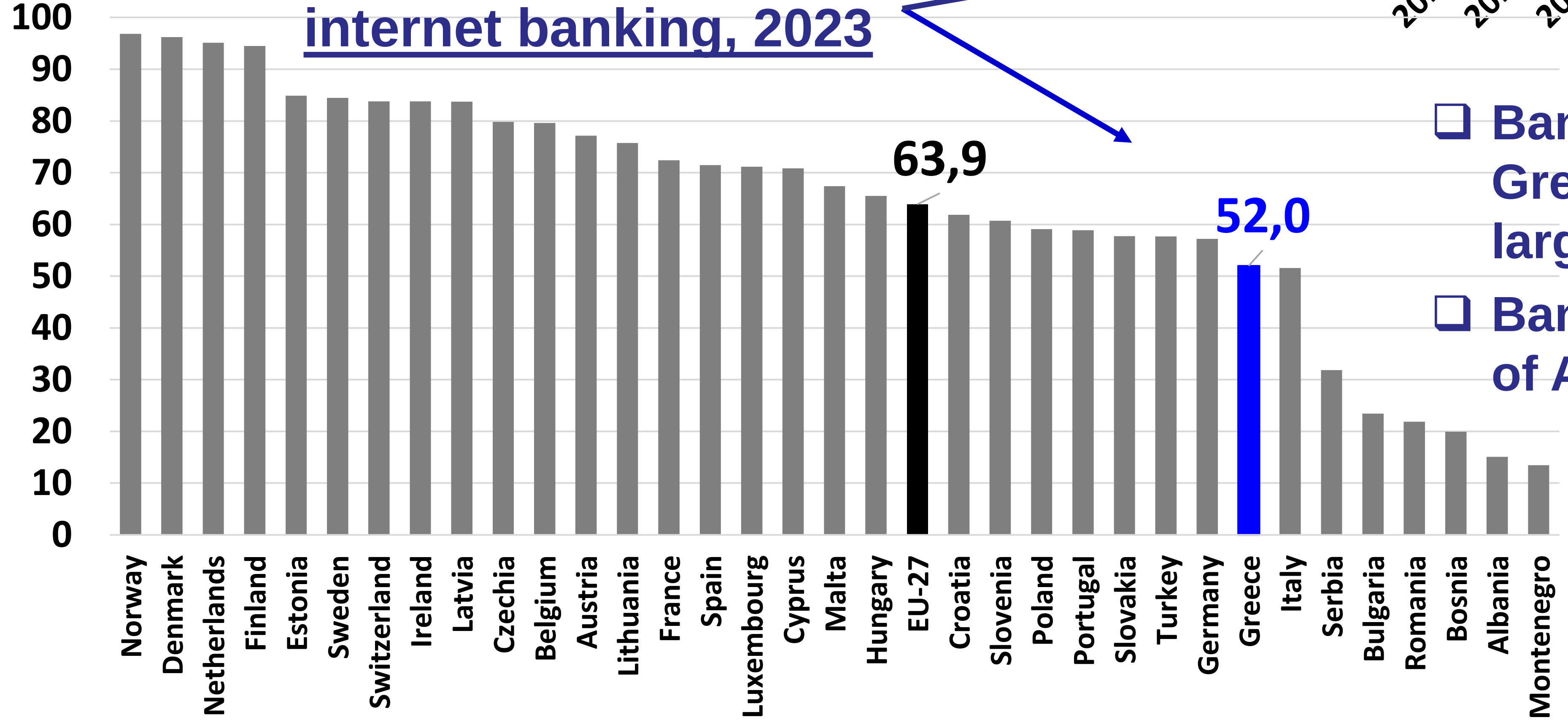
Source: Moody's, Banks' H1 2024 results

III. Greece makes good progress in Digitalization

- % of individuals using internet banking in Greece steadily rising since 2015, yet still below EU average.



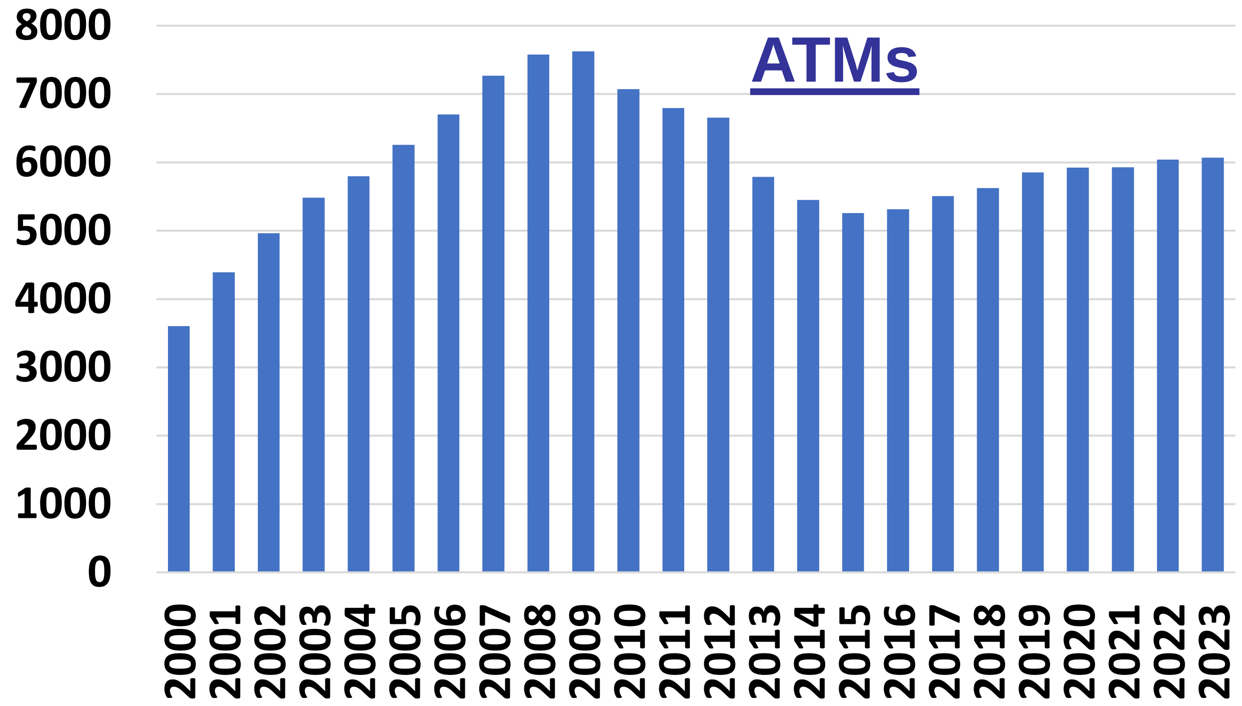
% of individuals using internet banking, 2023



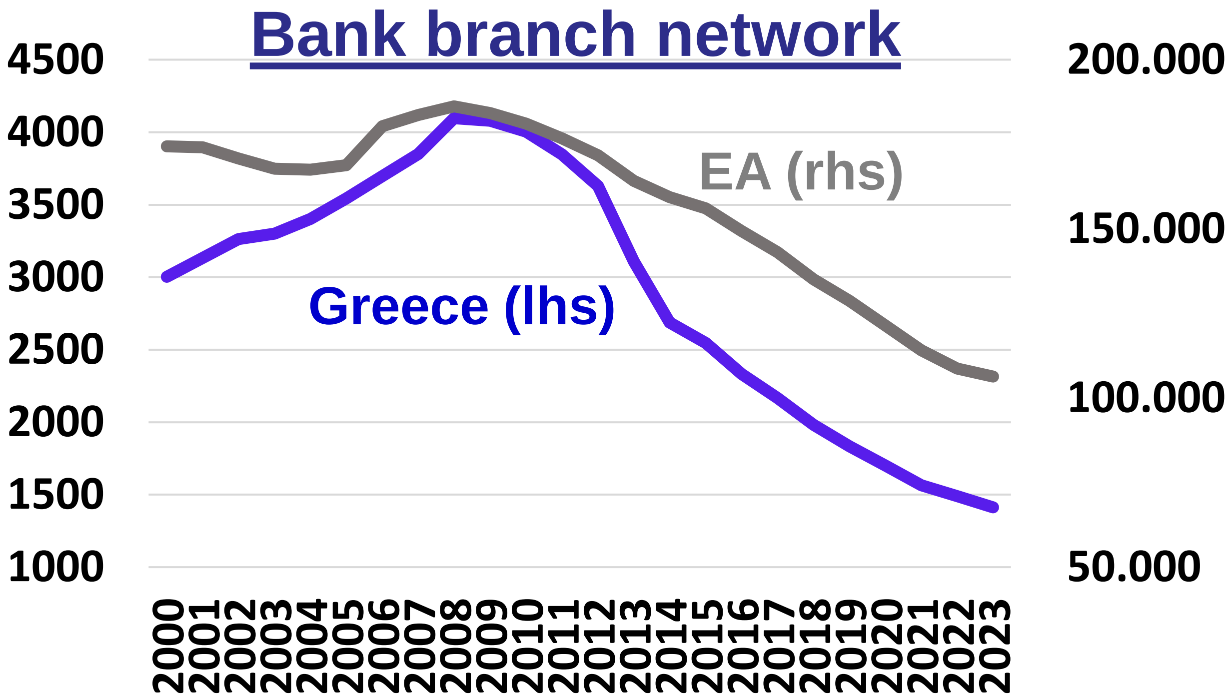
- Banks are ahead of the Greek curve, making large investments in IT
- Banks are main users of AI

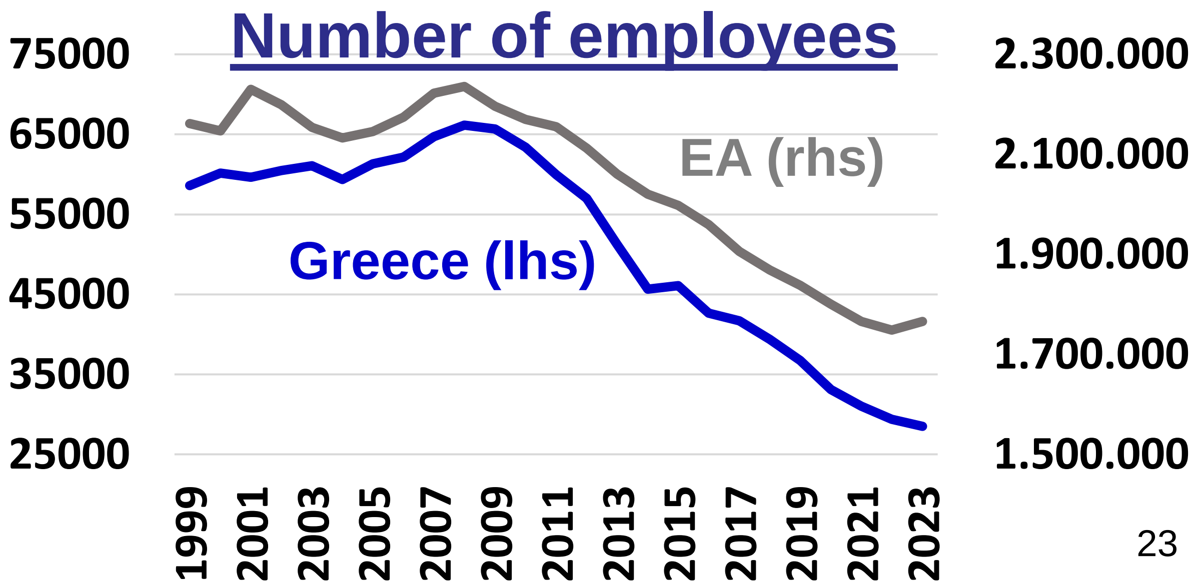
Source: Eurostat

III. Long-term challenge: Digitalization brings transformation in banking



Source: ECB, SSI-Banking structural statistical indicators & HBA data for ATMs



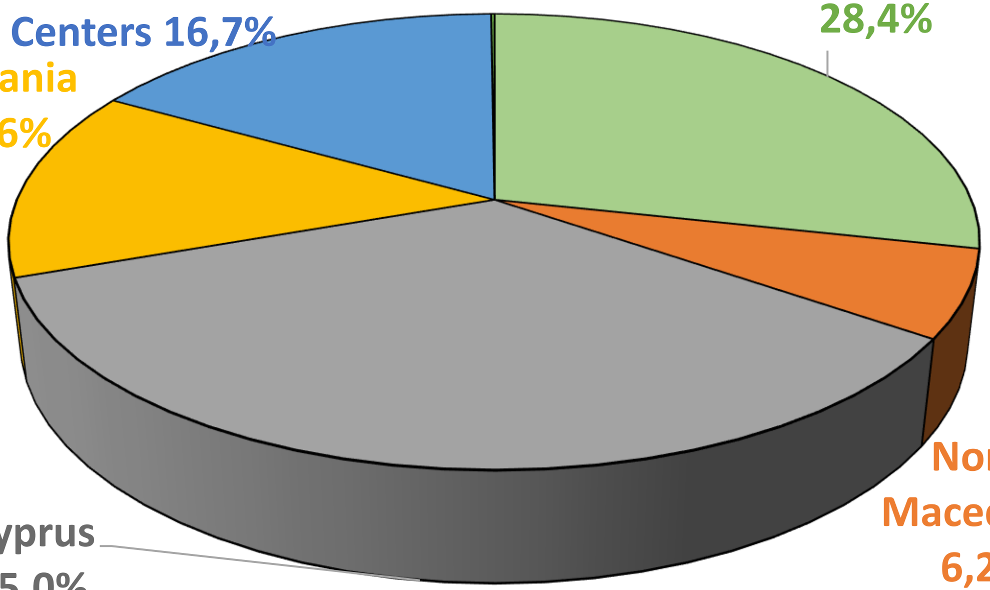


- ❑ Digitalization has already changed the bank – customer relationship: ATMs proliferate, number of branches decline.
- ❑ Banks reduce #tellers and expand #RMs.
- ❑ Use AI for repetitive jobs.

III. Long-term challenge: Expansion abroad

- During the Greek crisis, Greek banks were forced to withdraw from abroad.
- Today they question the strategy to expand and the method of expansion, weighing costs & benefits.

Assets Distribution



Presence of Greek Banks Abroad, Dec 2023 (€, mn.)			
Country	**Assets**	**Branches**	**Personnel**
Bulgaria	9,910	223	3,792
N. Macedonia	2,150	59	941
Cyprus	12,205	23	965
Romania	4,737	131	1,982
SE. Europe	**29,002**	**436**	**7,680**
Germany	1,078	1	15
Luxemburg	4,215	3	125
UK	523	1	65
Financial Centers	**5,816**	**5**	**205**
Other countries	48	1	52
Total	**34,886**	**442**	**7,937**

- International activities (€34.9bn) are 11.0% of total assets (on a consolidated basis) as of Dec. 2023.

Source: Bank of Greece, Financial Stability Review

III. Long-term challenge: ESG

- **Pioneers in Governance**, the "G" component of ESG. The law of 2020 on the governance of listed companies followed the bank example.
- **Pioneers in the "E" component of ESG**. Greek banks facilitate the green transition: So far, around 40% of the RRF projects co-financed by Greek banks are geared to the green transition. Banks created ESG scoring for companies and the platform ESG.gr. Possible future ESG-type capital requirements by the ECB.
- **Deeply Engaged with Society**, the "S" component:
  - Among the **best employers** in Greece and close to society (For more info https://www.youtube.com/watch?v=tL8TJcp3bJY).
  - **Trust** is an element banks must enjoy to be able to carry their function.
  - Greek banks have provided ~€400mn in 2019-2024 to support the Greek State and households through various corporate social responsibility initiatives collectively and individually.

    Examples:

    (1) All banks capped mortgage installments in April 2023 for two years for 442k loan contracts which means €250mn forgone revenue.

    (2) All banks collectively through HBA donated: (a) €1.75mn to the Ministry of Civil Protection to cover leasing expenses of drones & helicopters for fire-protection, (b) €0.75mn for the purchase of police patrol cars, (c) €5mn for the set-up and maintenance of the private debt management platform.

    (3) Systemic banks contributed (a) €50mn for the restoration of damages in the Thessaly region, (b) €26.2mn in culture, (c)€24.8mn in education and public schools, (d) €12.0mn to the installment subsidy due to interest rate increase programme "Gefyra 3", (e) €7.6 in public health, (f) €7.3mn for environment protection, (g) €3.3 in sports, (h) €1.3mn to address the demographic issue, (i) €0.5mn for the relief of earthquake in Turkey.

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Thank you for your attention!

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