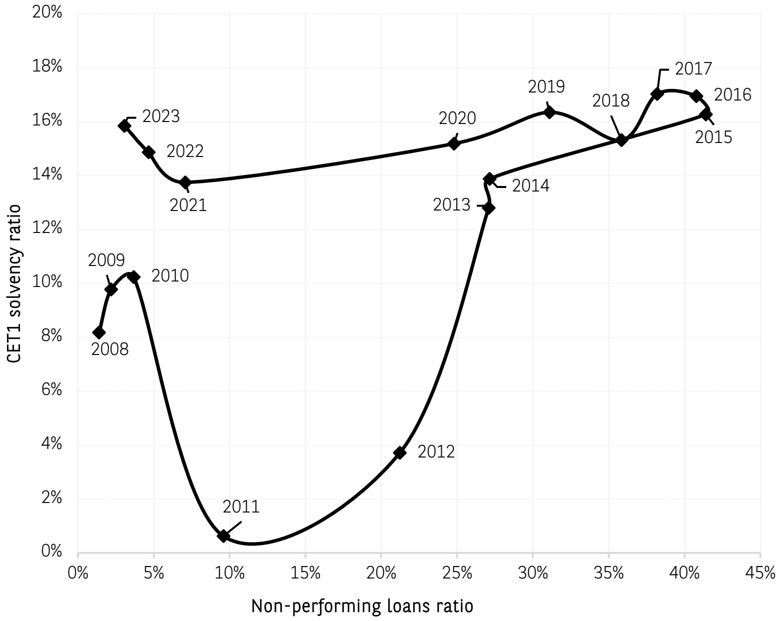
CHART OF THE WEEK

12 June 2024

GREEK BANKING SYSTEM: POSITIVE TRENDS, STRUCTURAL WEAKNESSES

Thomas Humblot

Greek banking system: CET1 solvency ratio and non-performing loans ratio



Source: SNL, BNP Paribas estimations

On 5 June 2024, Eurobank Ergasias Services and Holdings, National Bank of Greece, Alpha Services and Holdings, and Piraeus Financial Holdings (in that order the first to fourth largest Greek banking groups by CET1 capital) were authorised by the European Central Bank to pay out a weighted average of 24% of their 2023 net income attributable to Equity Holders. This payout, totalling EUR 875 million, 93% of which is in the form of dividends, is the first of its kind since 2008 for these banks, which between them account for some 90% of the Greek banking system's total assets.

Since the record losses of EUR 28 billion that were recorded in 2011 and the increase in the non-performing loans ratio to 41% in 2015, the Greek banking system has significantly cleaned up its balance sheet. Total reported net income for the banks in our sample was positive for the second year running in 2023, something unheard of since 2010. At 31 December 2023, the non-performing loans ratio had fallen back to a weighted average of 3.1%, as the result of disposals and securitisations - particularly under the 'Hercules III' public guarantee scheme - bringing it closer to the euro zone average of 2%. Lastly, the CET1 capital ratio stood at a weighted average of 15.9%, higher than prudential requirements and recommendations. The non-performing loans ratio has thus returned to a level similar to that in 2008, whilst capital is twice as high as it was then, and under much stricter definitions. Recognising these encouraging trends, the Hellenic Financial Stability Fund has accelerated the winding down of its holdings of the four banks' capital, which peaked at between 81% and 99% in 2013 – to the extent that it only owned 18.4% of National Bank of Greece on 30 March 2024.

Figures for the first quarter of 2024 suggest that things continue to move in the right direction. However, the key ECB interest rates' cuts that began on 6 June 2024 will reduce net interest income at the Greek banks, given that deposits represent 73% of their total liabilities, thus limiting their internal capacity to generate capital. This will reduce the pace of improvement in the quality of total capital, which still includes 44% of deferred tax credits and 9% of deferred tax assets, for which the capacity to absorb losses is less than that of CET1 capital.

thomas.humblot@bnpparibas.com

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Head office: 16 boulevard des Italiens – 75009 Paris France / Phone : +33 (0) 1.42.98.12.34
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