MOODY'S
INVESTORS SERVICE

OUTLOOK
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Analyst Contacts

Nondas Nicolaides +357.2569.3006
VP-Sr Credit Officer
nondas.nicolaides@moodys.com

Stelios Kyprou +357.2569.3002
Associate Analyst
stelios.kyprou@moodys.com

Henry MacNevin +44.20.7772.1635
Associate Managing Director
henry.macnevin@moodys.com

Sean Marion +44.20.7772.1056
MD-Financial Institutions
sean.marion@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Banking System Outlook – Greece

Positive outlook maintained as banks continue to improve their credit quality

We have maintained our positive outlook for Greece's (Ba3 stable) banking system despite difficult economic conditions and inflationary pressures, which are likely to constrain economic growth in 2022, but with a likely pickup in activity in 2023. Banks still have the capabilities to fully implement their nonperforming exposure (NPE) reduction plans, which will further improve their asset quality. Robust corporate credit demand will continue, supporting Greek banks' asset quality and core profitability, while loan loss provisioning needs will be significantly lower. Capital levels will stabilise because banks took the bulk of NPE securitisation losses upfront in 2020-21. Funding and liquidity will remain sound as customer deposits increase.

Exhibit 1

OVERVIEW OF KEY DRIVERS

Driver	Trend		Comment
Operating environment	Improving	+	We forecast real GDP to expand by 3% in 2022 and 4.3% in 2023, after a contraction of 9% in 2020 and a rebound of 8.3% in 2021. The expansion will be driven by a pickup in consumer spending and a strong performance by the tourism industry.
		=	Sizeable EU funds will also support Greece's growth recovery, although accelerating inflation mainly because of the military conflict in Ukraine and prolonged consequences of the pandemic are risks.
Asset risk	Improving	+	Problem loan ratios will continue to fall as banks offload NPEs and provide new lending of good quality, while provisioning coverage will remain sufficient limiting risks to banks' solvency.
		=	Greek banks are likely to manage risks arising from the withdrawal of any support measures for borrowers affected by the pandemic.
Capital	Stable	=	Capital consumption because of NPE securitizations will be minimal in 2022-23, as most of the transactions have been effected and banks mostly frontloaded relevant losses in past years.
		=	We expect banks to start gradually to pay some modest dividends to shareholders as they return to bottom-line profitability, while ensuring that they remain comfortably above capital requirements. Concurrently, a high proportion of DTAs will continue to be a credit concern.
Profitability and efficiency	Improving	+	New lending will counterbalance the impact on net interest margins from NPE securitizations, supporting banks' top line.
		+	Significantly lower loan impairments and higher fee-based income should also support banks' profitability.
		=	Banks' efforts to contain operating expenses will continue, mostly through voluntary exit schemes for employees, although this will be balanced by ongoing investment in technological innovation.
Funding and liquidity	Stable	=	Banks' liquidity will continue to benefit from ECB's measures in the foreseeable future, with good liquidity ratios and lower encumbered assets.
		=	Access to the international capital markets has been restored for the large Greek banks, although the recent widening of spreads will make it more challenging to meet MREL.
Government support	Stable	=	We expect the government's capacity to provide support to banks to remain weak, leaving our low support assumptions unchanged resulting in no rating uplift for any bank.

● IMPROVING ● STABLE ● DETERIORATING

Source: Moody's Investors Service

Outlook remains positive on expectation of further improvements in banks' underlying financials

The operating environment will be difficult, although economic growth and credit demand will remain sound. We forecast real GDP to expand by 3% in 2022 and 4.3% in 2023, after a contraction of 9% in 2020 and a rebound of 8.3% in 2021, driven by a pickup in consumer spending and a strong performance by the tourism industry. Greece's economy entered 2022 with strong momentum and a sustained recovery before Russia's invasion of Ukraine (Caa2 ratings under review). The military conflict has caused commodity prices to increase substantially, which could be a significant limiting factor on growth in 2022. However, sizable EU (Aaa stable) funds through the Recovery and Resilience Facility (RRF) will be injected in the Greek economy. This is likely to help increase credit flows and mitigate risks over the next 12-18 months.

Loan quality will further improve as banks continue to offload NPEs. Greek banks significantly reduced legacy NPEs in 2021, mainly through securitisations and plan to continue this practice in 2022. Hercules – the asset protection scheme in operation since the end of 2019 and now extended until October 2022 – is an important step in clearing banks' balance sheets and has contributed to an accelerating decline in NPEs. The NPE ratio fell to around 10% in December 2021, according to our estimate[1], from 33% at the end of 2020 and a peak of 49% in December 2016. Despite the decline, Greece's NPE ratio remains one of the highest in the euro area and some vulnerabilities remain from net NPE inflows coming mainly from legacy problem loans.

All Greek banks have a target of a single digit NPE ratio in the next 12-18 months, with two of the largest banks already reporting ratios of around 7% as of December 2021. Recently announced additional government support measures will help mitigate the negative effects from inflationary pressures on vulnerable borrowers. In addition, new lending to companies is gaining traction (net credit to the nonfinancial corporate sector has reached 3.8% in December 2021 compared with a year ago), and will also contribute to sustaining banks' improving asset quality.

Capital levels will stabilise because credit losses were front-loaded. We expect the sector's capital levels to be broadly stable following some depletion in recent years because of NPE securitisations, remaining above regulatory requirements. The four systemic banks reported a weighted average Common Equity Tier 1 (CET1) ratio of around 14% and a capital adequacy ratio of 16.6% as of December 2021, supported by certain capital increases, deleveraging and sale of noncore assets/businesses in recent years. Nonetheless, the high level of deferred tax assets will continue to undermine the quality of Greek banks' capital because they make up more than half of banks' CET1.

Profitability to increase following significant losses in recent years. Greek banks' are gradually shifting focus to improving structural profitability, which is highly dependent on net interest income (NII). Despite an expected pressure on banks' margins and NII from the NPE sales, we expect new lending, higher fee income, cost containment and lower loan loss provisions to support banks' earnings over the next 12-18 months. All banks aim to reach a return on equity (ROE) of close to 10% by 2024, with some already achieving a ROE of 6%-7% in 2021. The ROE increase will allow banks to start paying dividends after more than a decade of nonpayments.

Funding structure and liquidity will remain sound as customer deposits increase. We expect a continuation in relatively benign funding and liquidity conditions with increased customer deposits and favorable European Central Bank (ECB) funding. There were strong increases in customer deposits during 2020-21 (14% in 2020 and 10% in 2021[2]) significantly reducing loan/deposit ratios to less than 70%[3], while ECB funding was used with Greek government bonds accepted as collateral. The four systemic banks reported an average liquidity coverage ratio of 195% as of December 2021. At the same time, Greek banks have been able to access international capital markets since 2019, raising predominantly senior preferred bonds, which will allow them to gradually meet their minimum requirements for own funds and eligible liabilities (MREL) by 2025.

Low government support assumptions are unchanged. The Greek government has limited capacity to support banks and, accordingly, we have made no change to our assumption that the probability of government support for failing banks is low. Accordingly, no bank enjoys any rating uplift in its deposit ratings because of government support.

Rating Universe

We rate six Greek banks, which together account for 96% of the assets of commercial banks in the country (Exhibit 2). The Baseline Credit Assessment (BCA) is b1 for Eurobank and National Bank of Greece, followed by Alpha Bank at b2 and Piraeus Bank at b3. The BCA for the two smaller banks that we rate are currently at caa3 for the two smaller banks we rate. The BCA is our view of a bank's standalone financial strength. The deposit and senior debt ratings are positioned according to each bank's liability structure and its buffer of subordinated debt. They do not incorporate rating uplift from government or supranational support.

Exhibit 2

Rated Greek financial institutions

Ranked by size of total assets

Name	Consolidated total assets (Sep. 2021) € Billion	Market share (commercial banks' total assets)	Long-term domestic bank deposit rating and outlook	Baseline Credit Assessment	Notches of uplift from external support
National Bank of Greece S.A. (NBG)	77.3	25%	Ba3 / Positive	b1	0
Piraeus Financial Holdings S.A. / Piraeus Bank SA (Piraeus Bank)	75.4	24%	B2 / Positive	b3	0
Alpha Services and Holdings S.A. / Alpha Bank SA (Alpha Bank)	72.9	23%	B1 / Positive	b2	0
Eurobank Ergasias Services and Holdings S.A. / Eurobank S.A. (Eurobank)*	70.1	22%	Ba3 / Positive	b1	0
Attica Bank SA (Attica Bank)	3.5	1%	Caa2 / Positive	caa3	0
Pancreta Bank S.A. (Pancreta Bank)	2.5	1%	Caa2 / Positive	caa3	0
Total Rated Banks / Average Ratings (asset-weighted)		96%	B1	b2	0

Notes: Long-term Bank Deposit Ratings reflect a bank's Baseline Credit Assessment (BCA) and any government or affiliate support considerations. A bank's BCA reflects its standalone financial strength without considering support.
Sources: Bank of Greece, banks' disclosures and Moody's Investors Service

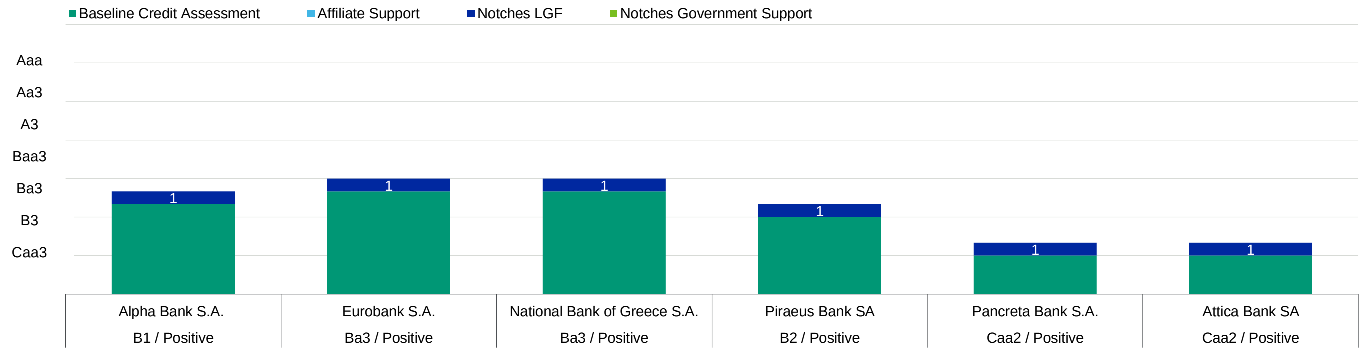
Exhibit 3

Key indicators for the Greek banking system

	2016	2017	2018	2019	2020	Sep-21
Nonperforming Exposures / Gross Loans [2] [3]	48.5%	47.2%	45.4%	40.6%	30.1%	15.0%
Loan Loss Reserves / Nonperforming Exposures [2] [3]	50%	47%	47%	44%	44%	44%
Tangible Common Equity / Risk-Weighted Assets [1]	5.9%	5.4%	1.5%	8.3%	6.7%	5.4%
Common Equity Tier 1 ratio [3]	16.9%	17.0%	15.3%	16.2%	15.0%	12.6%
Pre-Provision Income / Risk-Weighted Assets [1]	2.0%	2.0%	1.9%	1.9%	2.8%	1.2%
Net Income (loss) / Tangible Assets [1]	-0.8%	-0.2%	0.0%	0.1%	0.0%	0.9%
(Market Funds - Liquid Banking Assets) / Total Assets [1]	8.2%	4.1%	-2.0%	-9.3%	-11.9%	-8.0%
Market Funds / Tangible Banking Assets [1]	32%	21%	15%	11%	18%	20%
Gross Loans / Due to Customers [1]	146%	132%	114%	100%	89%	73%
Cost to Income ratio [1]	50%	51%	53%	54%	41%	48%

[1] Based on adjusted figures from six rated banks
[2] NPE and provisioning coverage for banks' solo financials
[3] Based on data from Bank of Greece
Data notes: For 2020 and September 2021 we have used a combination of the operating companies' and the holding companies' data.
Sources: Bank of Greece and Moody's Investors Service

Exhibit 4
Greek financial institutions' long-term deposit ratings



Source: Moody's Investors Service

Banking System Outlook definition

The Banking System Outlook reflects our view of credit fundamentals in the banking sector over the next 12 to 18 months. Banking sector outlooks are distinct from rating outlooks, which, in addition to sector dynamics, also reflect issuers' specific characteristics and actions.The outlook does not represent a sum of upgrades, downgrades or ratings under review, or an average of rating outlooks.

Moody's related publications

Credit Opinions:

» Greece, Government of

» Alpha Bank AE

» Attica Bank S.A.

» Eurobank S.A.

» National Bank of Greece S.A.

» Pancreta Bank S.A.

» Piraeus Bank S.A.

Issuer Comment:

» Alpha Bank's €800 million capital increase positions it to increase lending and profitability

» Attica Bank's capital quality improves after Greek government's capital injection

» Attica Bank's share capital increase improves its regulatory metrics and paves the way for its transformation plan

Issuer In-Depth:

» Annual Credit Analysis: Government of Greece, May 2021

» Greek and Cypriot banks' asset quality and solvency improvements drive positive rating momentum

Sector Comment:

» ECB stress test shows Greece's largest banks have sufficient regulatory capital, a credit positive

Macro profile:

» Greece macro profile: Weak+

Rating methodology:

» Banks Methodology

Endnotes

1 Weighted average of the four systemically important banks.

2 Private sector deposits according to data by the Bank of Greece which includes deposits by corporations and households.

3 Private sector credit (%) Private sector deposits according to data by the Bank of Greece.

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