Commentary

Greek Banks: Positive Revenues Momentum and Cleaner Balance Sheets Drive FY22 Results; Funding Profiles are Solid

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Overview

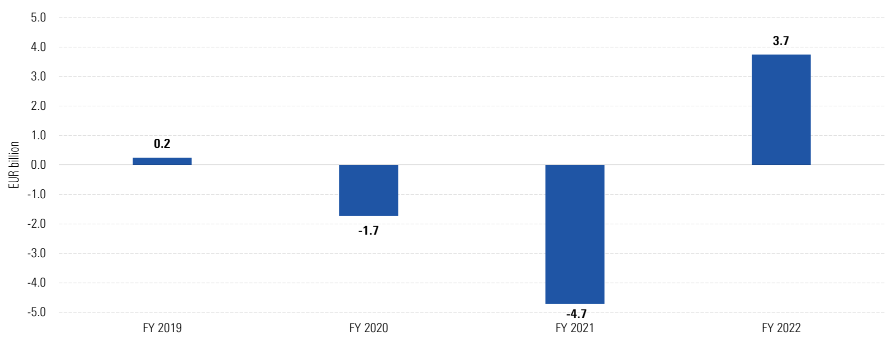
Large Greek banks (Alpha Bank, Eurobank, National Bank of Greece, and Piraeus) reported aggregate net profit of EUR 3.7 billion in FY 2022 which compares to a net loss of EUR 4.7 billion in FY 2021 (Exhibit 1). Higher revenues, lower operating expenses and reduced credit costs supported net profitability levels in 2022 after years affected by de-risking, restructuring and COVID-19.

Revenues in 2022 reflected improvements in all streams, including net interest income (NII), net fees, and other income. New loan origination was sustained in 2022, mainly driven by corporates. We expect credit expansion in 2023 to be lower than in 2022, due to higher interest rates and the slowing economy. The faster repricing of loans than deposits has contributed to increase NII to date, however we expect this to reduce due to higher funding costs. Cost management remained sound despite inflationary pressures.

In 2022, loan loss provisions and cost of risk were down markedly driven by cleaner balance sheets. In our view, the cost of risk could increase in 2023 given higher risks for asset quality in this environment, however we expect it to remain lower than in recent years. Asset quality improved in 2022, thanks to de-risking, low new non-performing exposure (NPE) inflows and higher new loans.

The ample, growing and mostly granular deposit base provides Greek banks with a rather stable, albeit moderately diversified, funding mix. Liquidity was satisfactory in the sector at end-2022, and should absorb the repayment of the ECB's Targeted Longer-Term Refinancing Operations (TLTRO) III. Capitalisation regained ground in 2022 after the impact from de-risking. Capital buffers are sufficient to absorb unrealised losses on the fixed income securities at amortised cost (AC), in the event these materialise due to any funding and liquidity stress after the collapse of SVB and Signature Bank.

Exhibit 1 Aggregate Net Income



Source: DBRS Morningstar, Company Documents.

Revenues Reflecting Improvements in All Streams; Sound Cost Management

In FY 2022, total revenues were up 59% YoY (Exhibit 2), driven by increases in all sources of income although 2021 included a sizeable negative one-off due to de-risking. Total revenues would have gone up 18% YoY in FY 2022 excluding this one-off, supported by NII, net fees, and other income. Core revenues (NII and net fees) were up 7% YoY in FY 2022.

In FY 2022, aggregate NII was up 5% YoY (Exhibit 3), as growth in the loan and bond portfolios carrying higher yields after the rapid increase in interest rates more than offset forgone NII due to de-risking and lower contribution from TLTRO. New loan demand was sustained in 2022, mainly driven by corporates while remaining subdued in the retail segment. We note that the hike in interest rates coupled with weaker economic prospects are starting to lead to slower loan growth in Greece and we expect credit expansion in 2023 to be lower than in 2022. However, Greek banks will progressively benefit more from the origination of loans connected with the Recovery and Resilience Facility (RRF) funds. While the faster repricing of loans than deposits (Exhibits 4 and 5) has contributed to increase NII to date, we expect this to decrease due to the likely increase in cost of deposits, shifts in the customer deposit mix towards products with higher remuneration, market competition, and higher wholesale funding costs. In addition, the partial replacement of TLTRO III funds, due by end-2024, will lead to higher refinancing costs.

In FY 2022, net fees were up 13% YoY, underpinned by transactional and financing activities, and despite high volatility and uncertainty affecting investment and asset management. Nonetheless, the proportion of fee-driven income remained moderate in FY 2022 (18% of total revenues).

Operating costs were down 4% YoY in FY 2022, with recent restructuring efforts more than offsetting inflationary pressure. The average cost-to-income ratio was at a strong 38% in FY 2022, although this included sizeable trading and other non-recurring gains.

Exhibit 2 Aggregate Total and Core Revenues

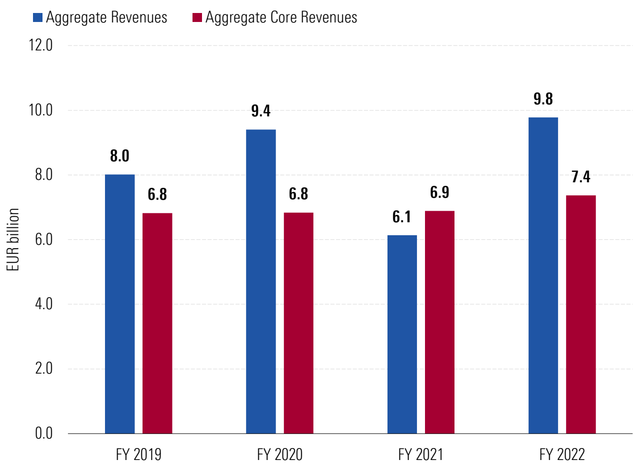
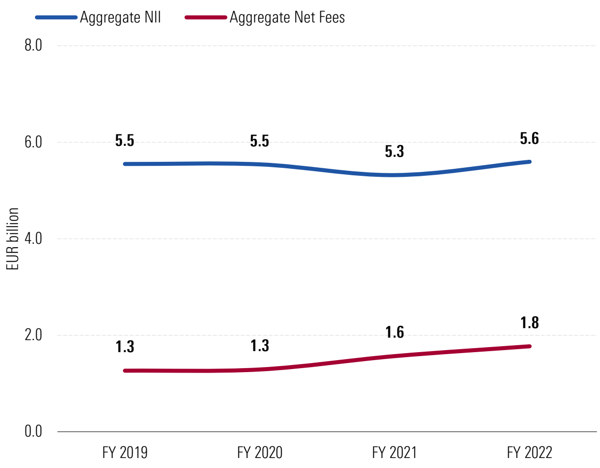


Exhibit 3 Aggregate NII and Net Fees



Source: DBRS Morningstar, Company Documents. Note: core revenues include net interest income (NII) and net fees.

Exhibit 4 Household Loan and Deposit Rates

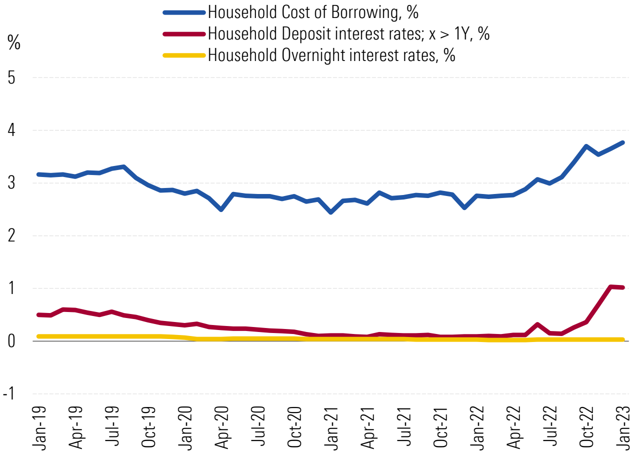
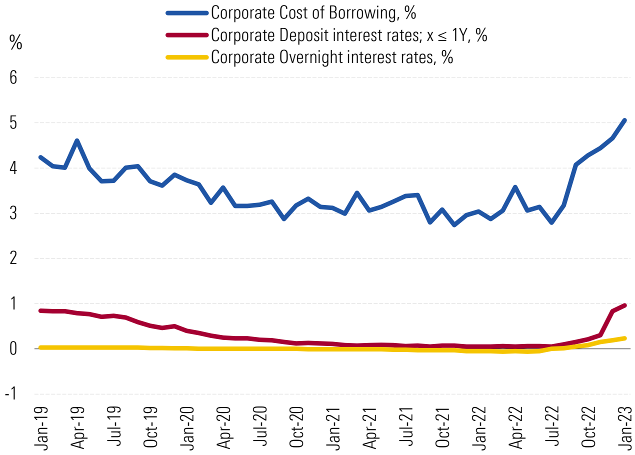


Exhibit 5 Corporate Loan and Deposit Rates



Source: DBRS Morningstar, ECB.

Cost of Risk Reduces on the Back of Cleaner Balance Sheets

In FY 2022, loan loss provisions (LLPs) were more than 70% lower YoY, thanks to a strong improvement in risk profiles (Exhibit 6). In our view, LLPs are likely to increase in 2023 from the level in 2022 to cope with increased risks for asset quality in the current environment due to higher interest rates, higher cost of living, and an overall slowdown expected in the economy. Nonetheless, current estimates still point to positive GDP growth in 2023 for Greece.

The average cost of risk (CoR) remained at a very high 114 bps in FY 2022, although significantly lower than the levels reported in 2019-2021 period (Exhibit 7). Cost of risk is likely to remain above the European average in the short-term as Greek banks' risk profiles still compare unfavourably. However, we expect the cost of risk to remain below the very high level experienced in recent years, should deterioration in asset quality not deviate materially from current projections.

Exhibit 6 Aggregate LLPs

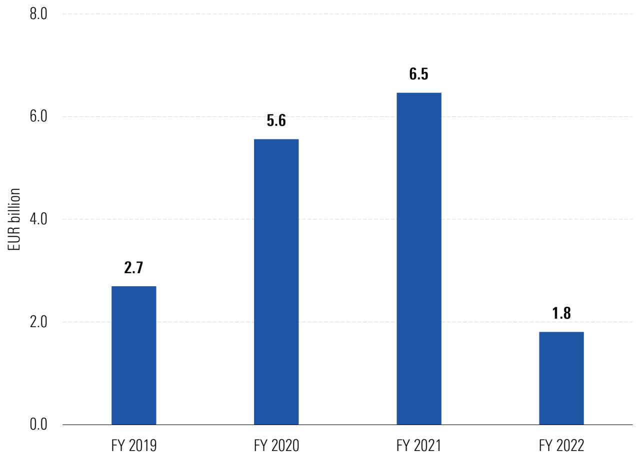
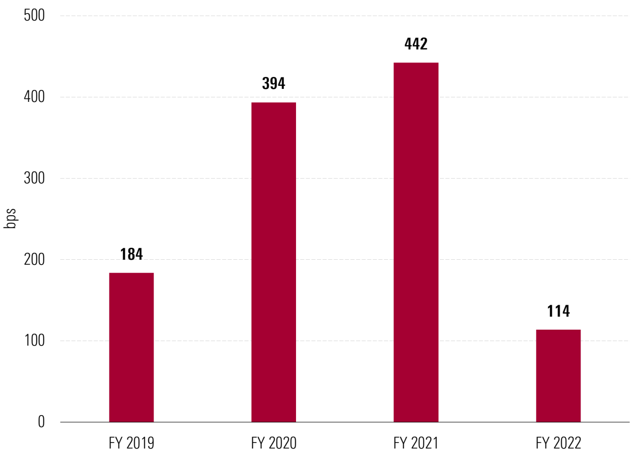


Exhibit 7 Average Cost of Risk



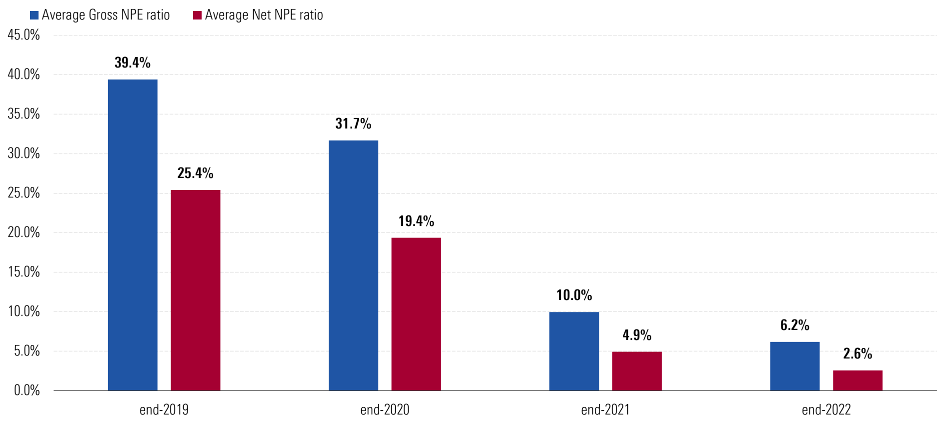
Source: DBRS Morningstar, Company Documents.

De-Risking Actions, Limited NPE Inflows, and Higher New Loans Drive Stronger Risk Profiles

Continued de-risking coupled with limited new NPE formation and sustained new loan origination have contributed to improve asset quality metrics in 2022. The average gross and net NPE ratios fell to 6.2% and 2.6% respectively as of end-2022 from 10% and 4.9% at end-2021 (Exhibit 8). The average coverage level on NPEs, based on total allowances, stood at an adequate 60% at end-2022, up almost 7 p.p. compared to end-2021. The cumulative reduction in the stock of gross NPEs from 2019 to 2022 reached a sizeable -86%, and it was mainly achieved inorganically, leveraging off the Hellenic Asset Protection Scheme (HAPS) for NPE securitisations. However, the HAPS has expired and it is still unknown whether it will be renewed and, if so, under what conditions.

Future de-risking should help offset the expected increase in new NPE inflows due to a weakening economic outlook. While some deterioration in asset quality is reasonable to expect, at this stage we do not anticipate Greek banks' asset quality metrics to deteriorate to the same very weak levels reported in recent years.

Exhibit 8 Average Gross and Net NPE Ratios



Source: DBRS Morningstar, Company Documents.

Granular Deposits Ensure Stable Albeit Moderately Diversified Funding Mix; Sound Liquidity

Greek banks are mostly funded via deposits. Customer deposits represented around 81% of total funding as of end-2022 (Exhibit 9), with around 70% of the total raised from retail customers, which typically tend to be more granular, stickier and less volatile than those from corporates. Around 80% of total deposits were on demand/savings deposits, with the remainder being time deposits. Customer deposits significantly increased from 2019 to 2022, reflecting restored confidence towards the Greek banking sector after the liquidity issues experienced in the recent past as well as higher savings from households and corporates triggered by COVID-19 (Exhibit 10).

The ECB's TLTRO III funds represent the second main funding source for Greek Banks. As of early February 2023, Greek banks had around EUR 33 billion of TLTRO III funding, or around 3% of total TLTRO III in the Eurosystem (Exhibit 11). These funds will expire by end-2024 and the reimbursement should be manageable for Greek banks in our view, considering the comfortable liquidity levels in the sector proved by an average Liquidity Coverage Ratio (LCR) of around 200% at end-2022.

Exhibit 9 Funding Mix (end-2022)

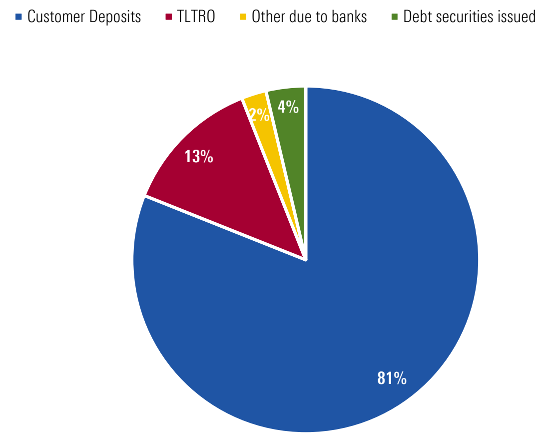
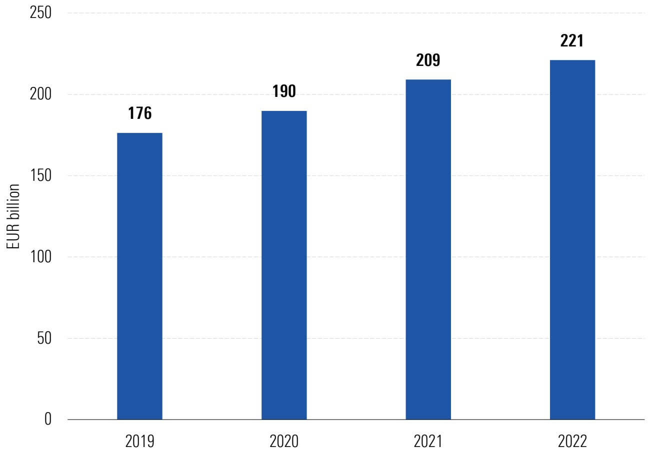
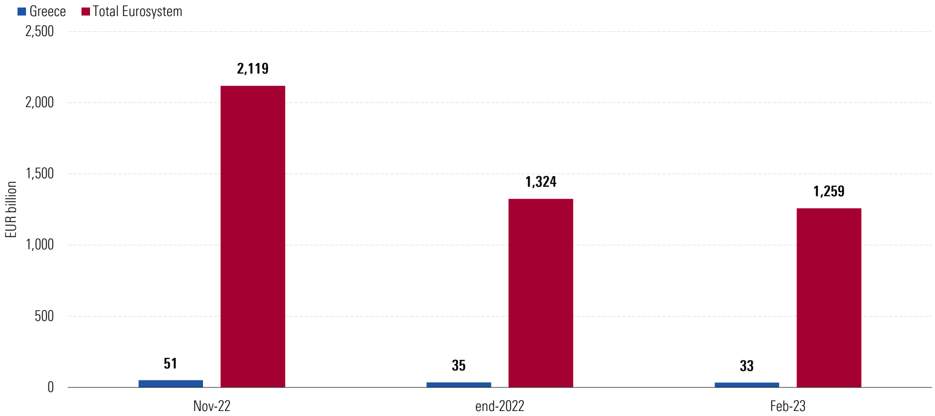


Exhibit 10 Customer Deposits



Source: DBRS Morningstar, Company Documents.

Exhibit 11 ECB TLTRO III Funding - Greece vs Total Eurosystem



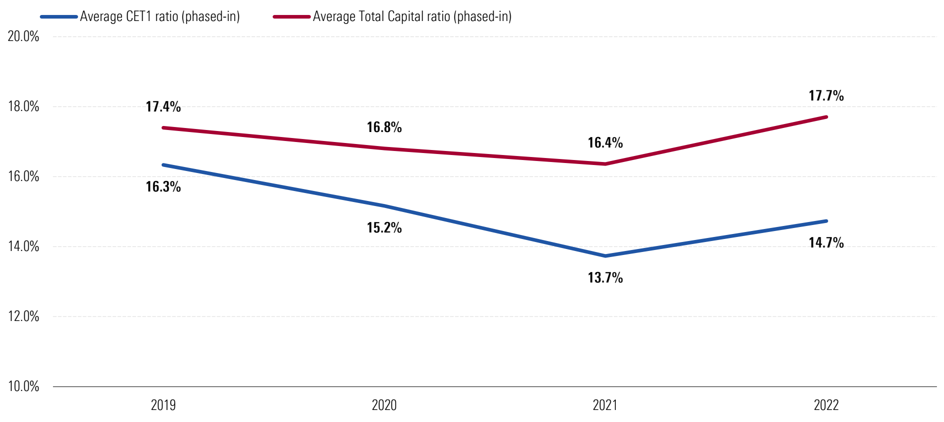
Source: DBRS Morningstar, Company Documents, ECB.

Capitalisation Regaining Ground After Severe Impact Due To De-Risking

The loan clean-up process significantly hit Greek banks' capitalisation in 2020 and 2021, however the capital trajectory improved in 2022. At end-2022, the average phased-in CET1 ratio was 14.7% whereas the average phased-in Total Capital ratio was 17.7%, both up from 13.7% and 16.4% at end-2021 (Exhibit 12). This level of capital ratios ensures satisfactory buffers of around 500 bps and 310 bps respectively for CET1 and Total Capital ratios over the minimum requirements for 2023. In light of the improvement in capitalisation and reflecting the expectation of further upside for internal capital generation, we note that some Greek banks aim to resume dividend distributions in 2023-2024, subject to regulatory approvals.

Large Greek banks hold significant investments in fixed income securities which represented around 16% of total assets at end-2022 on average and around two times their total equity. The vast majority of these securities are Greek sovereign bonds and other sovereign debt securities, and around 80% of total fixed income securities are classified at amortised cost (Exhibit 13). This translates into total fixed income securities at AC accounting for 13% of total assets and 1.6 times of total equity on average. In the current environment characterised by a rapid increase in interest rates, we anticipate these securities at AC to be carrying unrealised losses not accounted for in the banks' accounts as these securities are not marked-to-market. In a theoretical event that led to the sale of the entire fixed income portfolio at AC with a pre-tax loss of 5-10% (for example, if Greek banks were to experience any significant stress on funding and liquidity connected with the collapse of SVB and Signature Bank in the US), we estimate an impact on capital of around 150-300 bps, below the capital buffers at end-2022 (Exhibit 14). The exercise does not take into account banks' duration and hedging strategies which can materially affect the amount of unrealised losses. In addition, these securities are contributing to increase NII given their higher yields. Moreover, we believe it is unlikely that Greek banks will face material stress on funding and liquidity given their granular retail deposit base and adequate liquidity levels.

Exhibit 12 Average CET1 and Total Capital Ratios (Phased-In)



Source: DBRS Morningstar, Company Documents.

Exhibit 13 Fixed Income Securities By Accounting Category (end-2022)

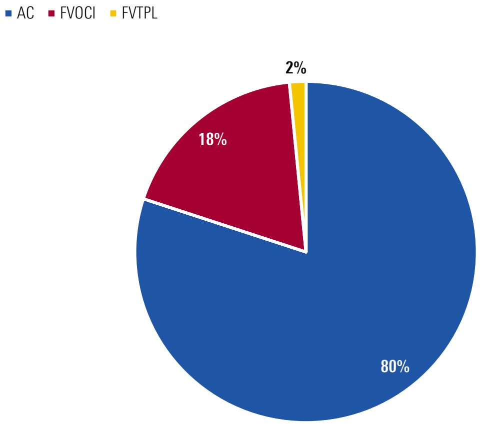
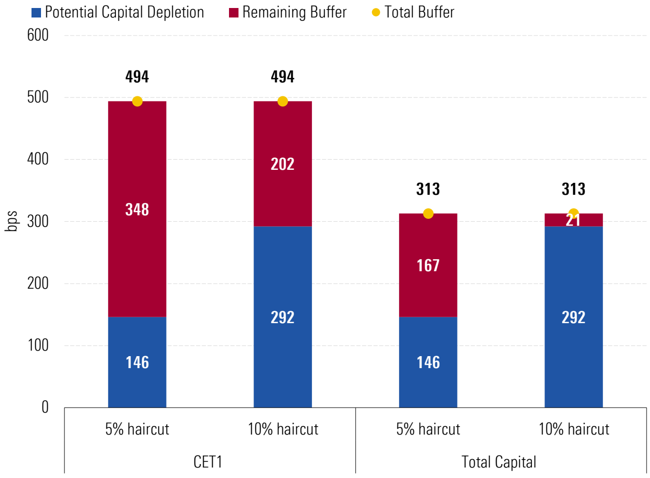


Exhibit 14 Capital Buffers Adjusted For Unrealised Losses (end-2022)



Source: DBRS Morningstar, Company Documents. Note: Amortised Cost (AC), Fair Value Through Other Comprehensive Income (FVOCI), and Fair Value Through Profit and Loss (FVTPL).

Related Research

- EU Banking Sector: Risks from Unrealised Losses Appear Manageable, but Challenges Remain, 17 March 2023.
- DBRS Morningstar Confirms the Hellenic Republic at BB (high), Stable Trend, 10 March 2023.
- ESG Risk Factors for European Banks: Review of 2022, 31 January 2023.
- European CRE: FIG and CMBS Analysis Indicates Risks are Rising, 19 January 2023.
- European Bank 2023 Outlook: Higher Rates Will Help in Navigating Weaker Economies, 16 January 2023.
- ECB Requires European Banks to Step Up Climate-Related Risk Management Practices, 9 November 2022.
- European Banks Face an Increase in Residential Mortgage Risks as Interest Rates Rise, 8 November 2022.
- Growth in European Banks' Stage 2 Loans Poses Risks Amid Weakening Economic Outlook, 12 October 2022.
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- Gender Diversity on European Bank Boards: More Work Still to be Done, 20 September 2022.
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- Greek Banks: H122 Shows Improved Credit Fundamentals, but Momentum Likely to Decelerate due to Slowing Economy, 9 August 2022.
- Potential Stoppage of Russian Gas to Europe - Ongoing Impact from Russia's Invasion of Ukraine on European Banks, 28 April 2022.
- ESG Factors for Banks, Part Three: Social Factors, 11 April 2022.

Notes:

All figures in Euros unless otherwise noted.

Sources: Company Documents, ECB. For Alpha Bank, Eurobank, and Piraeus, data refer to the consolidated financial statements of Alpha Services and Holdings S.A., Eurobank Ergasias Services and Holdings S.A., and Piraeus Financial Holdings S.A. respectively.

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