



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Greek Comprehensive Assessment 2015: Results overview

Press call presentation

Saturday, 31 October 2015

Overview

- 1 Overall results
- 2 Asset Quality Review
- 3 Stress Test
- 4 Capital planning and next steps
- 5 Appendix

Executive Summary

- The ECB conducted an evaluation of the capital needs of the four significant Greek banks in line with the decision by the Euro Summit on 12 July 2015 and the Memorandum of Understanding between the European Commission, acting on behalf of the European Stability Mechanism (ESM), the Hellenic Republic and the Bank of Greece signed on 19 August 2015
- The performed comprehensive assessment comprised an asset quality review (AQR) and a Stress Test, including a baseline and adverse scenario
- The AQR resulted in aggregate adjustments of €9.2 BN to asset carrying values across the four significant banks; overall, the Stress Test identified a capital shortfall of €4.4 BN in the baseline, and €14.4 BN in the adverse scenario, including AQR adjustments
- The Stress Test was centrally-led by the ECB, based on bottom-up input data provided by the banks; thorough quality assurance of the AQR and Stress Test results were performed by the ECB on the local and central levels
- The shortfalls will be addressed by capital plans requested from the four banks, followed by a recapitalisation process under the Programme
- Covering those shortfalls by raising capital will result in the creation of prudential buffers in the four Greek banks, which will improve the resilience of their balance sheet and capacity to withstand potential adverse macroeconomic shocks

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1. Overall results

Context and objectives of the Greek comprehensive assessment 2015

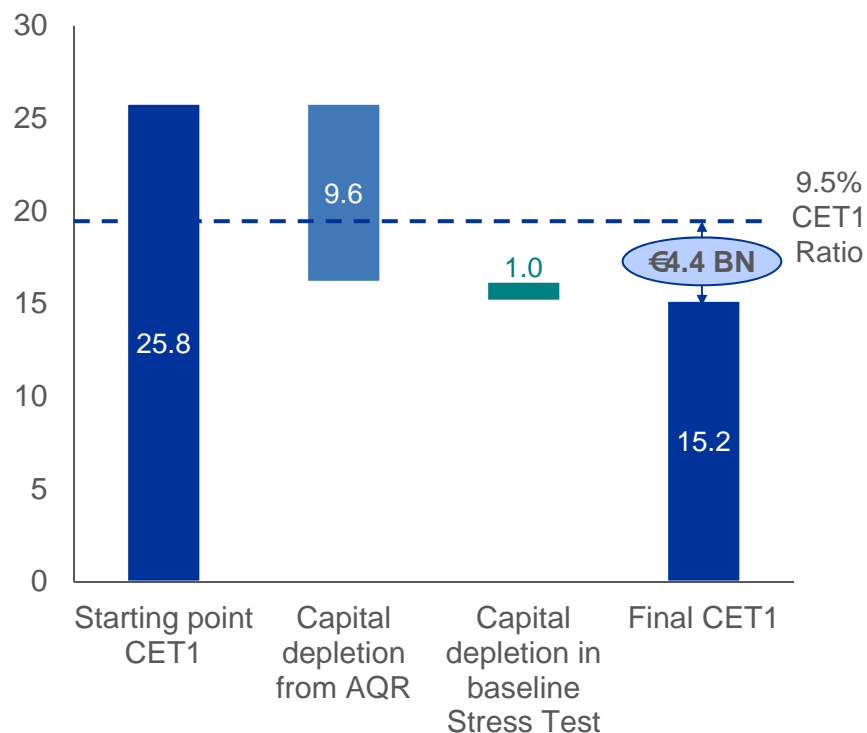
- One of the main objectives of the Memorandum of Understanding (MoU) signed by the European Stability Mechanism, the Hellenic Republic and the Bank of Greece on 19 August 2015 is to implement all necessary policy actions to preserve financial stability and strengthen the viability of the banking system in Greece
- Against this backdrop, “a buffer of up to €25 BN has been envisaged under the Programme to address potential bank recapitalisation needs of viable banks and resolution costs of non-viable banks, in full compliance with EU competition and state aid rules”
- A forward-looking evaluation of each of the four core banks’ capital needs has thus been requested of the ECB in its supervisory function
- As a result, a Comprehensive Assessment (CA) has been conducted by the ECB, based on end of June 2015 data and comprising both an asset quality review (AQR) and a Stress Test with baseline and adverse scenarios
- The Supervisory Board and the Governing Council approved the key methodological criteria and assumptions for both the AQR and Stress Test

1. Overall results

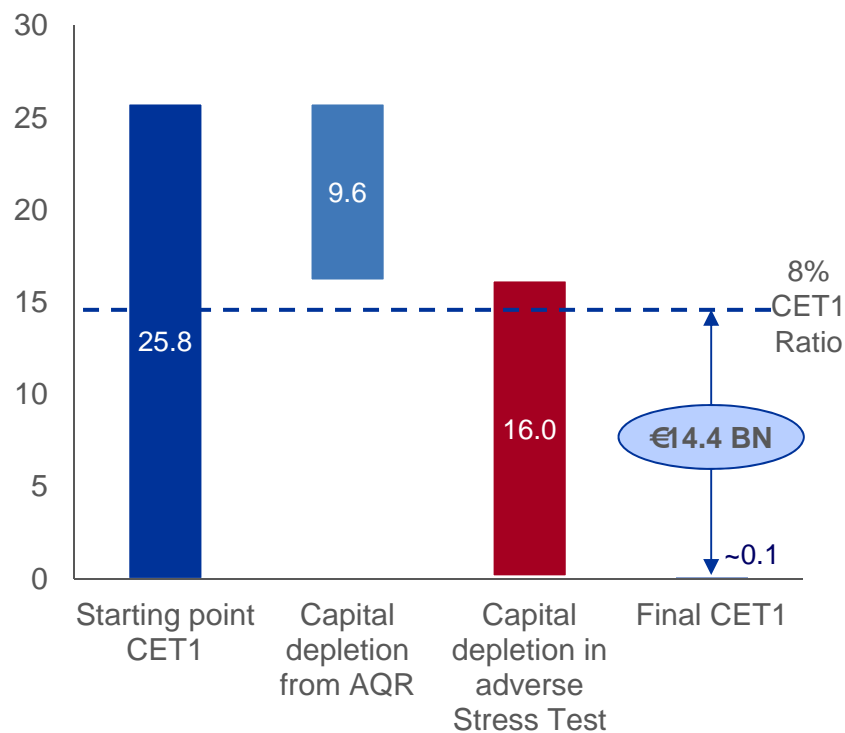
The exercise identified a system-wide capital shortfall of €4.4 BN under baseline vs. €14.4 BN under adverse

Impact on CET1 capital
System-wide, in € BN

Baseline scenario



Adverse scenario



1. Overall results

At a bank-level, the scenarios had a differentiated impact

| | 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 |

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2. Asset Quality Review

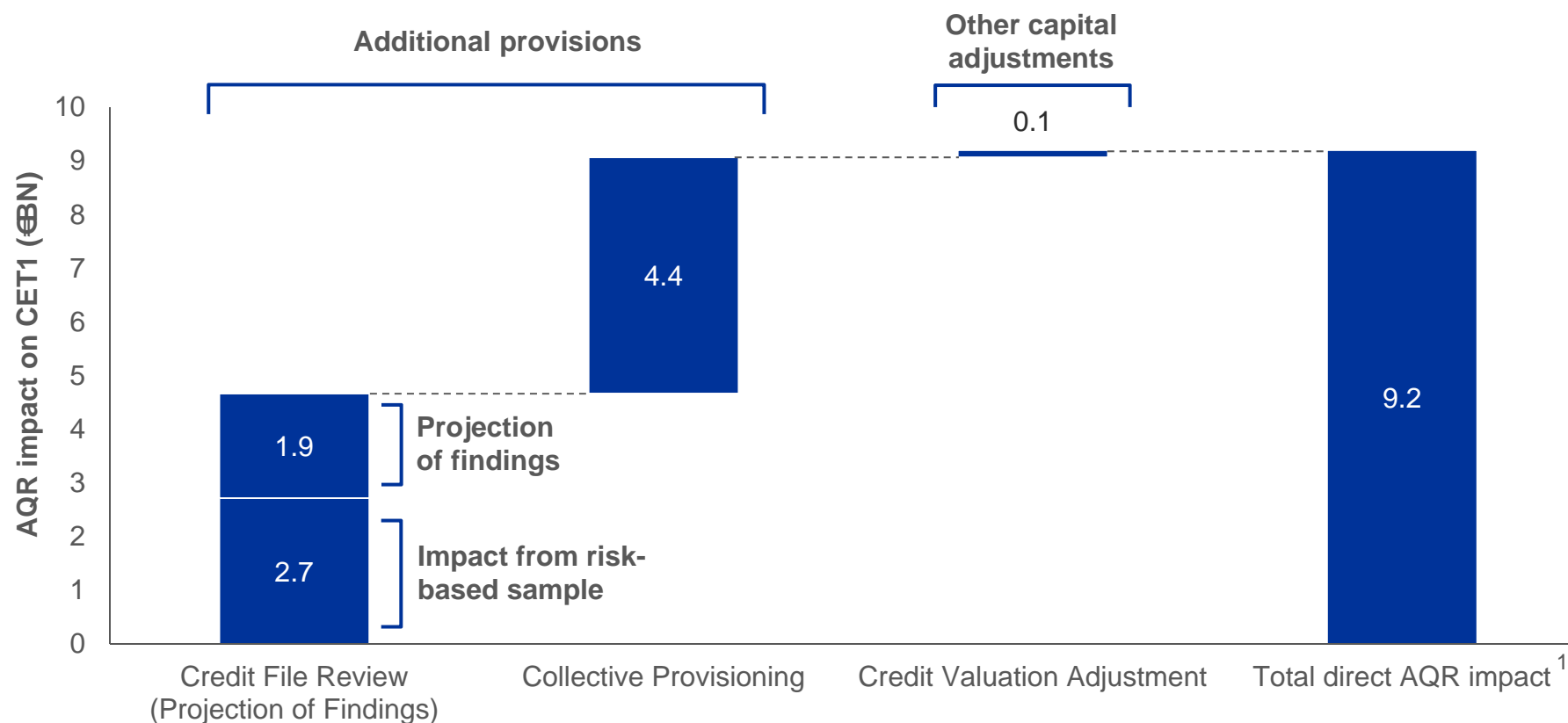
Asset Quality Review process: Overview

- The asset quality review was a **point-in-time assessment** of the accuracy of the carrying value of banks' assets as of 30 June 2015
- AQR outcomes provided a **starting point for the Stress Test**
- The **AQR** was undertaken centrally by the **ECB**, and was based on a uniform methodology and harmonised definitions.
- Field work has been conducted by **external auditors** (4 international firms) and **appraisals**.
- A **CPMO** was created with the support of an external consultant.
- The same **AQR methodology** as applied in the comprehensive assessment 2014 was followed
- Given the constrained timeline of the exercise, prioritisation of portfolios based on their size and materiality was required, while applying appropriate rigour to the wider process
- A **Quality Assurance** process led by the ECB, with the involvement of BoG, has been performed
- Under the AQR, banks were required to have a **minimum CET1 ratio of 9.5%** to reflect the risk profile of the banks

2. Asset Quality Review

The total direct AQR impact on Common Equity Tier 1 (CET 1) is €9.2 BN

AQR impact by component
In €BN



1. Total adjustment before adjustments to Deferred Tax Assets (DTAs) and Internal Ratings Based (IRB) provisioning shortfall

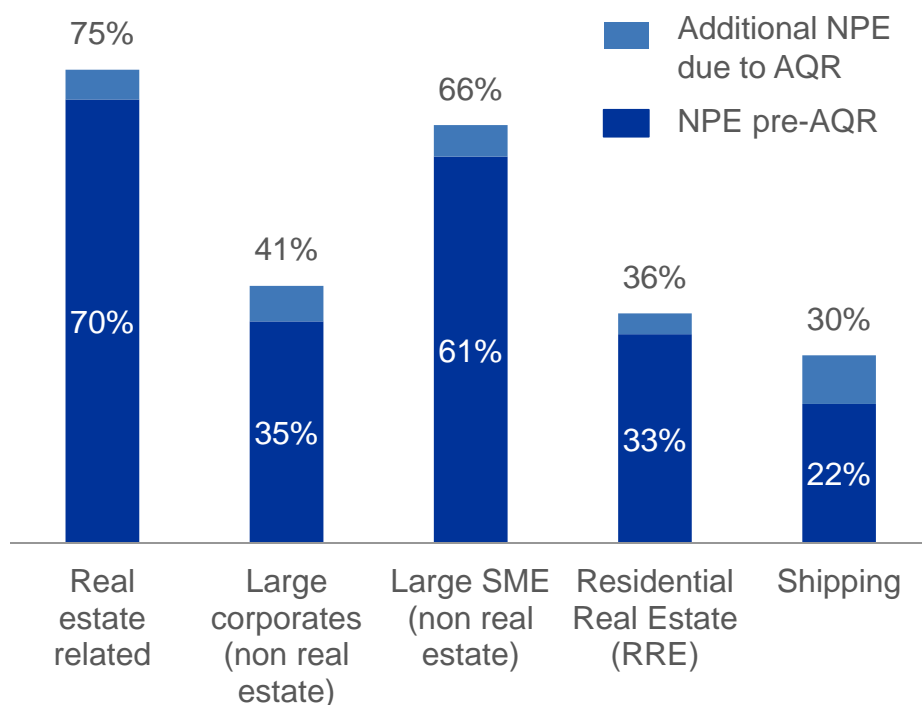
Note: Numbers may not add up exactly due to rounding

2. Asset Quality Review

The AQR identified €7.0 BN of additional non-performing exposure (NPE)

Credit File Review reclassification (including projection)¹

Ratio of NPE exposure at default (EAD) to total EAD by portfolio pre and post-AQR, in % (total across four banks)



- **Non-performing exposure increased by €7.0 BN**, representing a 11% total adjustment
- AQR reclassifications were largely driven by the deterioration of Greek macroeconomic conditions

Additional NPE EAD (€BN)

| | | | | | |
|---------------------|-----|-----|-----|-----|-----|
| Real estate related | 0.2 | 2.0 | 2.3 | 2.0 | 0.6 |
|---------------------|-----|-----|-----|-----|-----|

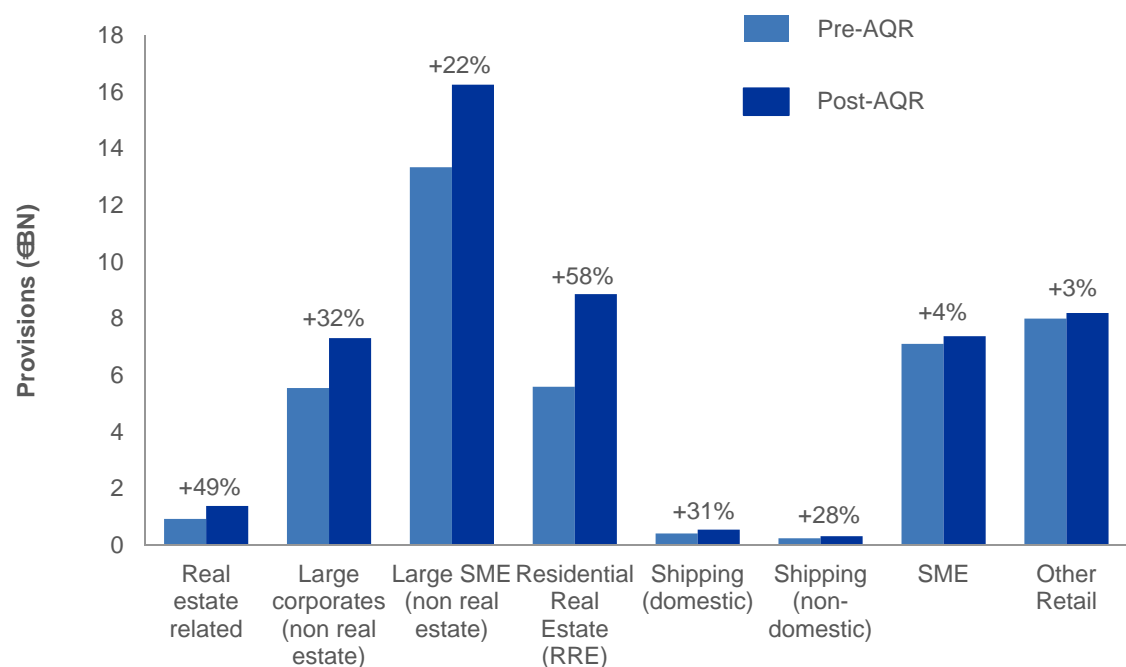
1. Figures shown for portfolios undergoing Credit File Review
Note: Numbers may not add up exactly due to rounding

2. Asset Quality Review

Provisioning increased by a total €9.1 BN across all asset segments reviewed

Change in provisions per portfolio

By asset segment across AQR workblocks¹, in €BN



- Total provisions increased by **€9.1 BN**, a 22% overall adjustment
- Provisions increased as a result of both the credit file review and collective provisioning workblocks
- RRE (58%), Real estate related (49%), and Large Corporates (32%) experienced largest relative increases

1. Includes provision impact only, excludes Credit Valuation Adjustment on Common Equity Tier 1

Note: An additional €0.1 BN of total direct AQR impact on Common Equity Tier 1 result from Credit Valuation Adjustment

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3. Stress Test

Stress Test process

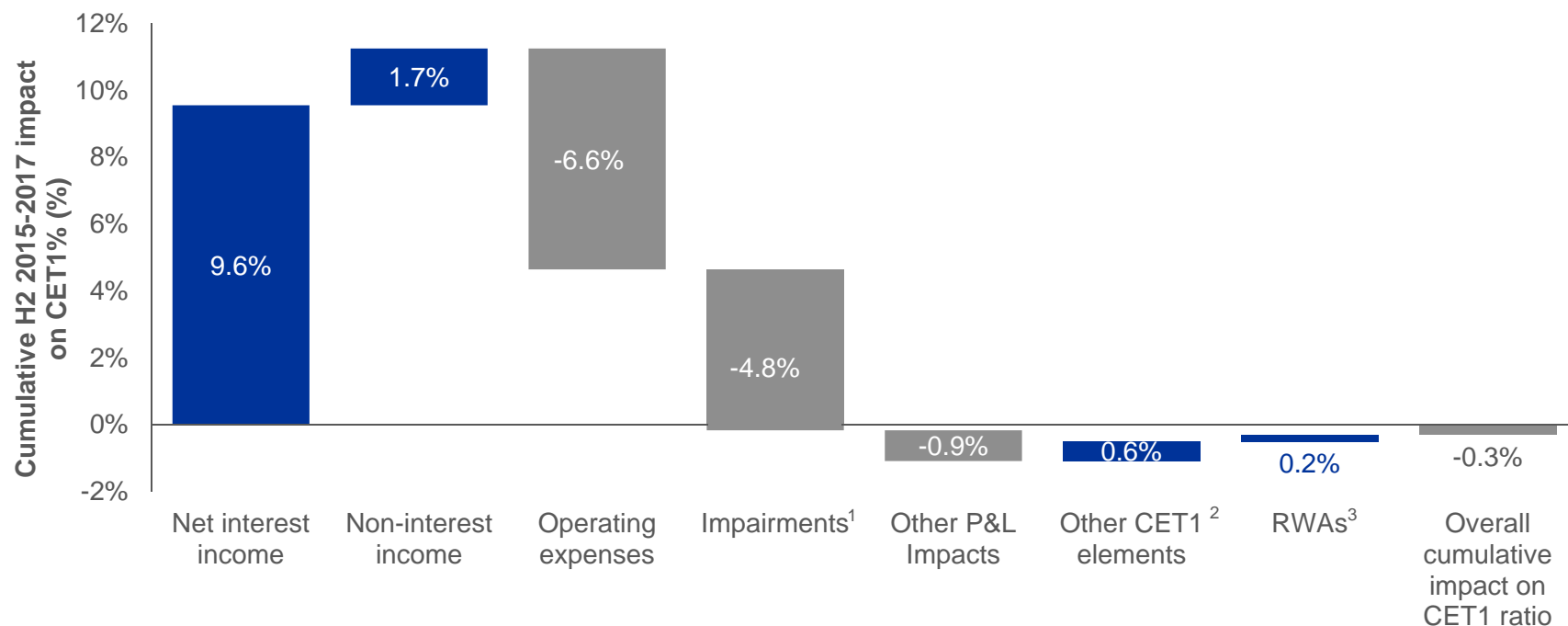
- The stress test provided a **forward-looking examination of the resilience of banks'** solvency to two hypothetical scenarios, also reflecting new information arising from the AQR
- In contrast to the 2014 exercise, this stress test was **undertaken centrally by the ECB** based on data templates and loan tapes provided by the four banks
- Under the baseline scenario, banks are required to maintain a minimum CET1 ratio of 9.5%; under the adverse scenario, they are required to maintain a minimum CET1 ratio of 8%
- The Stress Test methodology combined system-level and bank-specific parameters to project balance sheet, profit and loss, and solvency position in annual increments (6 months for 2015); it involved a **constrained dynamic balance sheet approach** – allowing for new lending, deposit evolution, asset sales included in the DG Comp restructuring plans etc.
- Banks were required to maintain a **minimum CET1 ratio of 9.5% in the baseline**; and a **minimum CET1 ratio of 8% in the adverse** scenario

3. Stress Test

System-wide CET1 ratio is projected to decrease by 0.3% in the baseline scenario

Aggregate Stress Test impact on CET1 ratio under the baseline scenario

Excluding AQR impact on starting point, by risk drivers, %



| | Net interest income | Non-interest income | Operating expenses | Impairments ¹ | Other P&L Impacts | Other CET1 elements ² | RWAs ³ | Overall cumulative impact on CET1 ratio |
|-------------------|---------------------|---------------------|--------------------|--------------------------|-------------------|----------------------------------|-------------------|---|
| Alpha Bank | 7.7% | 2.1% | -5.4% | -4.1% | -0.4% | -0.4% | 0.4% | -0.1% |
| NBG | 12.4% | 1.3% | -8.3% | -6.9% | -1.7% | 2.5% | -0.1% | -0.8% |
| Eurobank | 9.4% | 2.1% | -6.4% | -4.3% | -1.1% | 0.2% | 0.3% | 0.2% |
| Piraeus | 8.3% | 1.5% | -6.1% | -3.6% | -0.4% | -0.4% | 0.3% | -0.3% |

1. Impairments include financial as well as non-financial impairments

2. Other CET1 elements include the impact of capital actions as per existing commitments (restructuring plans)

3. RWA impact is negligible because CET1 ratios are close to zero or even negative

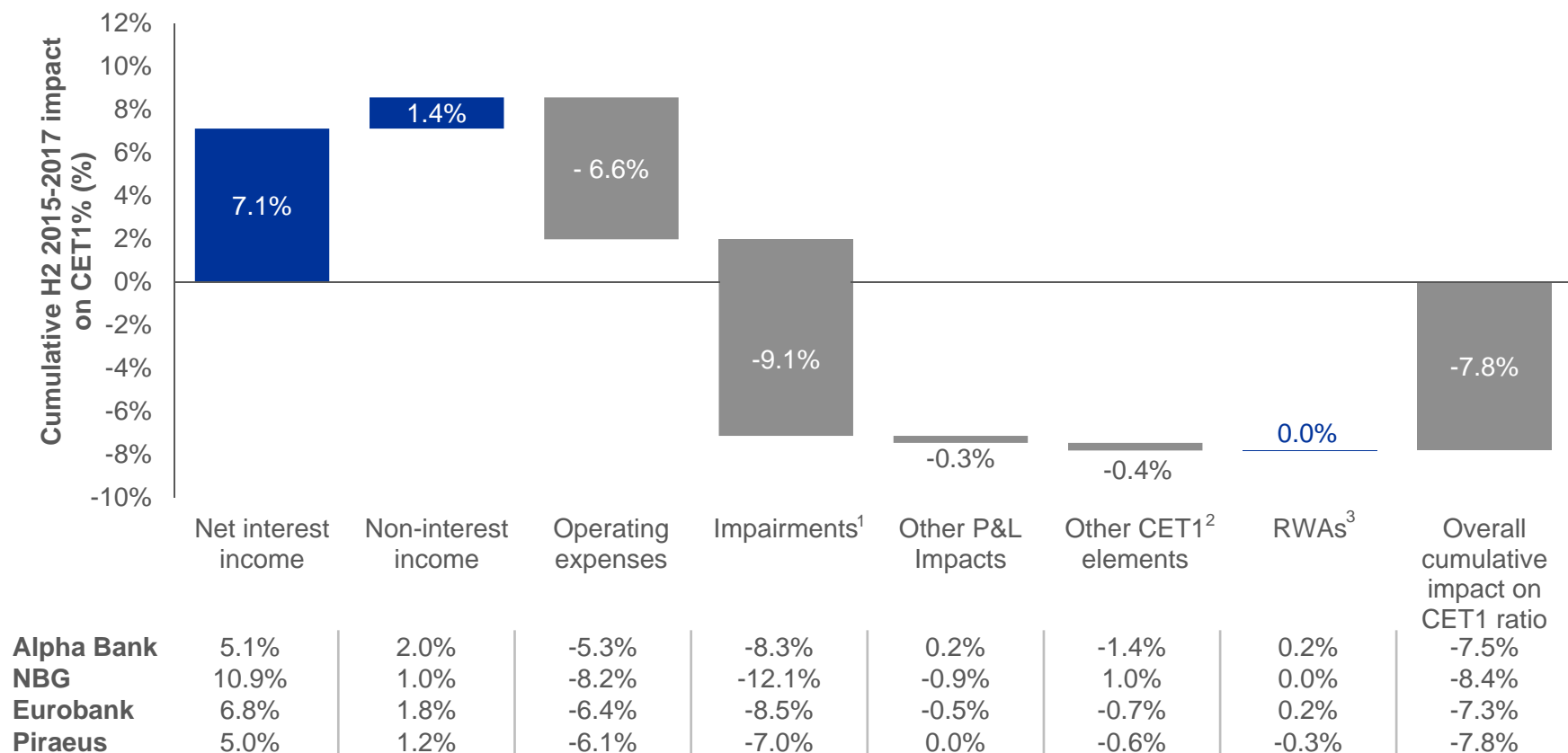
Note: This chart shows cumulative results as of the end of the projection period

3. Stress Test

Divergence from baseline to adverse is driven primarily by impairments and net interest income

Aggregate Stress Test impact on CET1 ratio under the adverse scenario

Excluding AQR impact on starting point, by risk drivers, %



1. Impairments include financial as well as non-financial impairments

2. Other CET1 elements include the impact of capital actions as per existing commitments (restructuring plans)

3. RWA impact is negligible because CET1 ratios are close to zero or even negative

Note: This chart shows cumulative results as of the end of the projection period

3. Stress Test

Additional background on Stress Test findings

- The **additional impact in the adverse vs. the baseline** mainly derives from:
 1. larger impairments driven by higher PDs and LGDs for the loan book, due to more conservative macroeconomic assumptions compared to the baseline, and haircuts to sovereign exposures, not applied in the baseline;
 2. lower interest income due to higher NPEs and stricter constraints for interest income stemming from NPEs
- Under the baseline scenario, it is worth noting that from 2016 onwards **the banks are at breakeven or above**, which can be seen as a sign of viability of the Greek banking system in the medium term, granting credibility to the ongoing recapitalization process
- Although the RoE would still be weak, so further measures, through the restructuring plan, to improve profitability and reduce the high NPEs are needed.

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4. Capital planning and next steps

Based on Comprehensive Assessment results, banks will perform a recapitalisation process

- Banks have to shortly present **capital plans** to cover the needs quantified in the Comprehensive Assessment
- The recapitalisation process will be **entirely finalised by the end of 2015**
- **Private investors'** contributions are expected to play a significant role in the capital raising process by means of taking common shares

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Asset Quality Review process: Comparison to 2014 Comprehensive Assessment

- **Significant AQR findings have been found** in this exercise, despite the already material AQR findings from 2014 being captured in banks accounts
- This has primarily been driven by the **deterioration in the macro-economic environment** in Greece which has led to material reductions in carrying values due to:
 - ✓ higher NPE volumes
 - ✓ lower collateral values
 - ✓ lower cash-flow valuations
- Furthermore, further **standardisation of the definition of key metrics** across the EU has led to additional NPE and impairment recognition in the AQR. As an example the full implementation of the EBA ITS on NPE has meant that forborne cases could be better identified and tested for impairment
- Finally, the fact that **tax offsets were not allowed** from the AQR has amplified the findings of the AQR vis a vis 2014

5. Appendix

NPE ratios increased from 45.1% to 48.6% across portfolios reviewed in the AQR

Change in NPE ratio (all AQR portfolios)

In %

| Bank name | Pre-AQR NPE Ratio <i>In %</i> | Post-AQR NPE Ratio <i>In %</i> | Change in NPE Ratio <i>In %</i> |
|------------------|--|---|--|
| Alpha Bank | 42.5% | 46.5% | 4.0% |
| Eurobank | 40.4% | 41.6% | 1.2% |
| NBG | 40.9% | 46.7% | 5.8% |
| Piraeus | 53.5% | 56.7% | 3.3% |
| Total | 45.1% | 48.6% | 3.5% |

5. Appendix

As a result of the AQR, overall coverage ratio across reviewed portfolios increased by 5.3 percentage points

Change in coverage ratio (all AQR portfolios)

In %

| Bank name | Pre-AQR Coverage Ratio <i>In %</i> | Post-AQR Coverage Ratio <i>In %</i> | Change in Coverage Ratio <i>In %</i> |
|------------------|---|--|---|
| Alpha Bank | 44.2% | 49.3% | 5.1% |
| Eurobank | 45.5% | 53.3% | 7.8% |
| NBG | 46.4% | 49.5% | 3.1% |
| Piraeus | 42.5% | 47.8% | 5.4% |
| Total | 44.3% | 49.6% | 5.3% |