Commentary

Greek Banks: A Stronger Than Expected H1 Shapes Up Better Prospects For 2024

Morningstar DBRS
6 August 2024

Key Highlights

- Greek banks reported an aggregate net profit of EUR 2.3 billion in H1 2024, up 25% YOY.
- Higher NII and net fees have supported revenues in H1 2024, despite significantly lower trading profits and other non-recurring income. Cost control helped offset inflationary pressures and higher expenditures for digitalisation.
- Cost of risk reduced in H1 2024 when compared with previous years although remaining at higher levels than the European average. Risk profiles have strengthened further amidst continued de-risking and benign asset quality trends.
- The sector's liquidity remains underpinned by large, growing and sticky deposits as well as increasing market issuance activity, despite the ongoing repayments of central bank funding. Capital buffers have strengthened further; however, the quality of capital remains weak.

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Overview

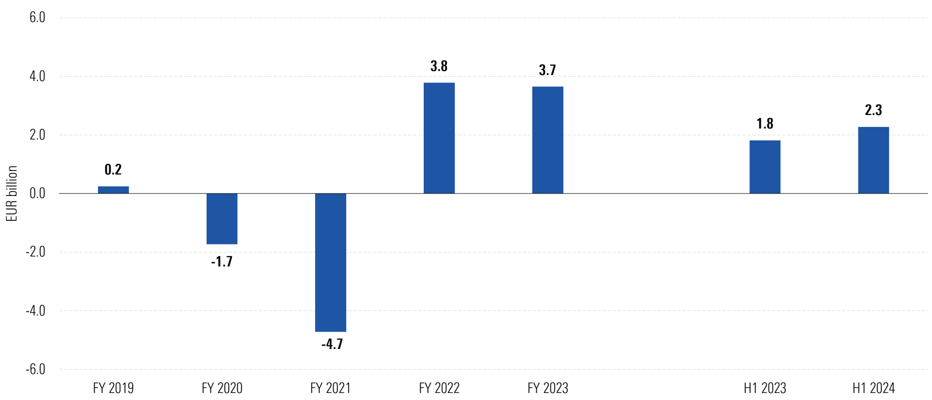
Large Greek banks (Alpha Bank S.A., Eurobank S.A., National Bank of Greece S.A., and Piraeus Bank S.A.) reported an aggregate net profit of EUR 2.3 billion in H1 2024 (Exhibit 1), up 25% Year-On-Year (YOY). Higher core revenues, cost discipline and lower loan loss provisions (LLPs) have driven higher profits in H1 2024. The average annualised Return on Equity (ROE) was around 14% in H1 2024, marginally better than in H1 2023.

Higher net interest income (NII) and net fee and commission income have supported revenues in H1 2024, despite significantly lower trading profits and other non-recurring income. NII and net interest margins (NIM) have proved to be more resilient than initial expectations, reflecting a slower lowering of interest rates as well as better deposit mix and pace of credit growth. Continued cost control helped offset inflationary pressures and higher expenditure for digitalisation. A stronger than expected H1 2024 prompted banks to revise upwards their guidance for profitability in 2024.

Cost of risk (CoR) reduced in H1 2024 when compared with previous years although remaining at higher levels than the European average, reflecting banks' prudent approach around future asset quality dynamics and envisaged additional loan clean-up efforts. Risk profiles have strengthened further in H1 2024 amidst continued de-risking and benign asset quality trends.

The sector's liquidity remains underpinned by large, growing and sticky deposits as well as increasing market issuance activity, despite the ongoing repayments of central bank funding. Capital buffers have strengthened further in H1 2024 despite resumed dividend distributions and significant pick-up in new loan volumes; however, the quality of capital remains weak.

Exhibit 1 Aggregate Net Income



Source: Morningstar DBRS, Company documents.

Higher Core Revenues and Cost Control Drive Higher Operating Profits

In H1 2024, total revenues were up 9% YOY (Exhibit 2), supported by core revenues (NII and net fees), and despite significantly lower trading profits and other non-recurring income. Core revenues were up 11% YOY in H1 2024.

In H1 2024, aggregate NII was up 10% YOY (Exhibit 3), driven by higher interest rates as well as higher loan and fixed income security volumes which have more than offset the increase in funding costs, the impact from the interest rate cap on performing domestic retail mortgages, and the cost to hedge against the expected lower interest rates. NII and net interest margins (NIM) have proved to be more resilient than initial expectations, reflecting a slower lowering of interest rates as well as better deposit mix and pace of credit growth.

In H1 2024, net fees were up 14% YOY, mainly supported by transactional and lending activities, as well as a good momentum in investment and bancassurance businesses. However, the contribution of net fee and commission income to banks' total revenues remained at a moderate 18% in H1 2024.

Operating costs were up just 2% YOY in H1 2024 despite inflationary pressures, higher investments for digitalisation, and collectively agreed increases in personnel's wages. Nonetheless, the average cost-to-income ratio remained at a strong 32% in H1 2024, down from 34% in H1 2023 as a result of significant efforts in cost control in recent times, and positive revenue dynamics. The aggregate income before provisions and taxes (IBPT) was up 13% YOY in H1 2024.

Exhibit 2 Aggregate Total Revenues and Core Revenues

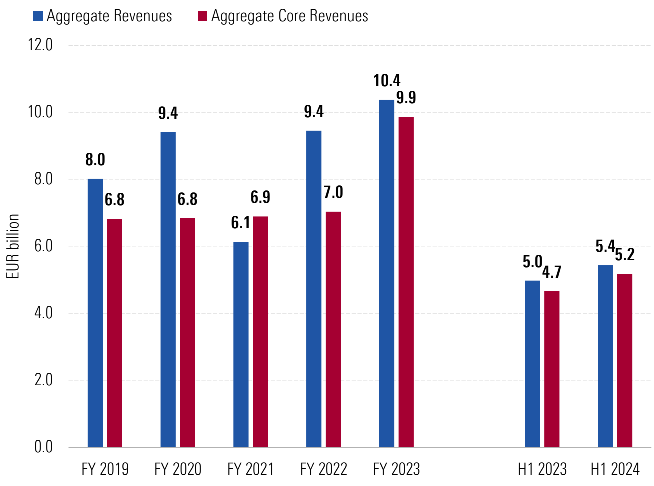
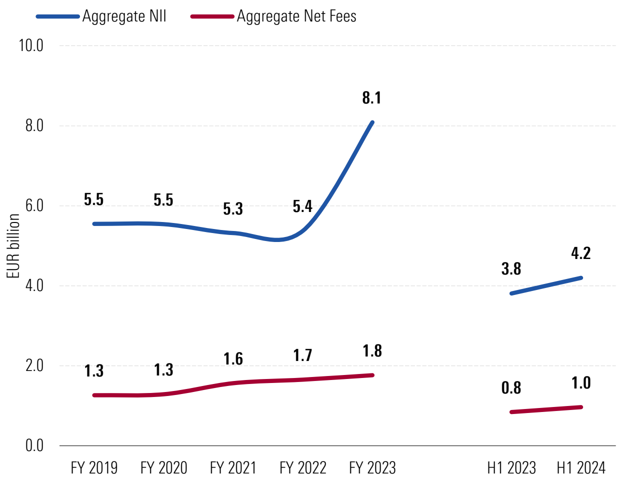


Exhibit 3 Aggregate NII and Net Fees



Source: Morningstar DBRS, Company documents. Note: core revenues include NII and net fees.

CoR Reduces but Remains High to Cope With Potential New Asset Quality Risks

In H1 2024, LLPs were down 31% YOY (Exhibit 4) as a result of improvements in risk profiles and new non-performing exposure (NPE) inflows remaining at low levels. Nonetheless, the average annualised CoR confirmed at a high 75 bps in H1 2024, albeit down from 107 bps in 2023 and significantly below the CoR levels reported in previous years (Exhibit 5). This mostly reflects banks' confirmed prudent approach around future asset quality dynamics given the potential high-for-longer interest rate environment and some contraction in GDP growth although Greece is expected to continue performing better than the European average. In addition, CoR levels also incorporate frontloaded provisions in anticipation of further de-risking.

Exhibit 4 Aggregate LLPs

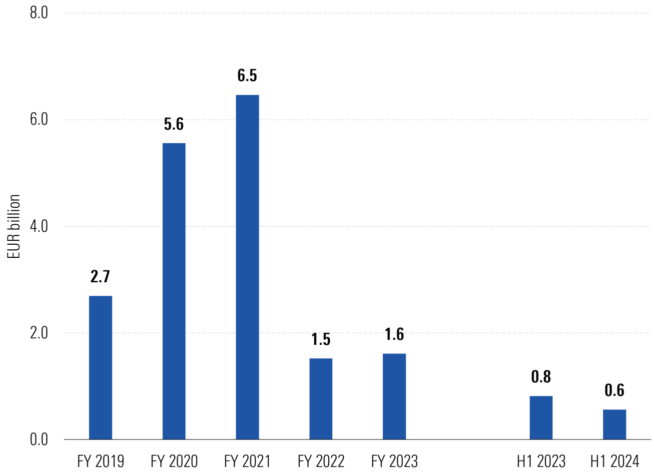
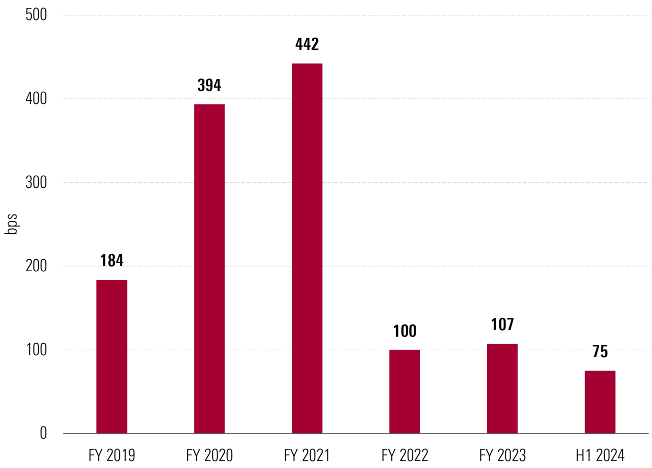


Exhibit 5 Average Annualised Cost of Risk



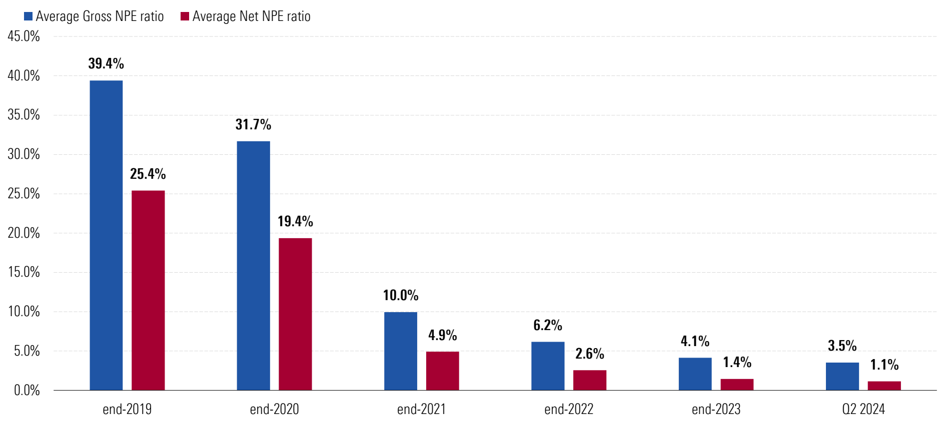
Source: Morningstar DBRS, Company documents.

Risk Profile Improves Amidst Continued De-Risking and Benign Asset Quality Trends

Greek banks' asset quality profiles continued to improve in H1 2024, driven by organic workout activity and disposals as well as contained new NPE inflows, and rebound in new loan production. As a result, the average gross and net NPE ratios fell to 3.5% and 1.1% respectively at end-June 2024 from 4.1% and 1.4% at end-2023 (Exhibit 6). The average NPE coverage level, based on total allowances, strengthened to around 68% from 66% in the same period. The cumulative reduction in the stock of gross NPEs from end-2019 to end-June 2024 reached a significant 92%, mainly achieved through disposals and securitisations under the Hellenic Asset Protection Scheme (HAPS).

According to the ECB, the annual contraction of loans to households in the Greek banking industry was 1% in June 2024 which compares with average growth of 0.3% in the Euro area (Exhibit 7). While Greece continues to perform worse than the Euro area in this segment, we note an increase in new mortgage origination in recent times also reflecting government support initiatives. In contrast, the corporate loan book was up 9.5% YOY in Greece in June 2024 vs average growth of 0.7% in the Euro area despite tightening lending standards, high interest rates, and high repayments (Exhibit 8). This further demonstrates the recent recovery in the Greek economy as well as the pick-up in investments. Some of the corporate loan growth was also related to disbursements connected with the development of the country and the EU Recovery and Resilience Facility (RRF) funds which are channelled via banks in Greece, a trend that we expect to continue.

Exhibit 6 Average Gross and Net NPE Ratios



Source: Morningstar DBRS, Company documents.

Exhibit 7 Household Loan Annual Growth (Greece vs Euro Area)

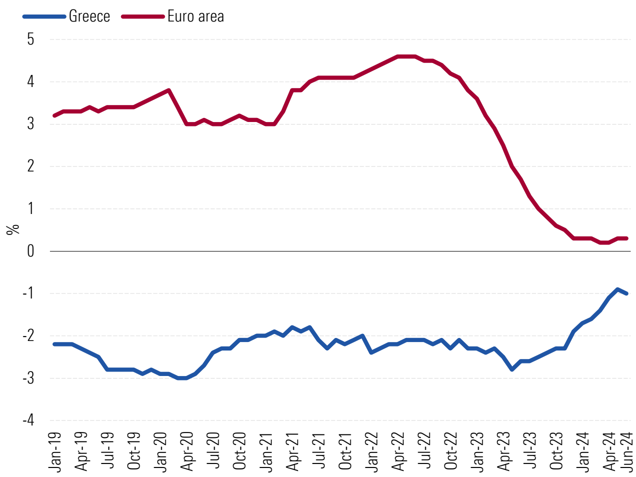
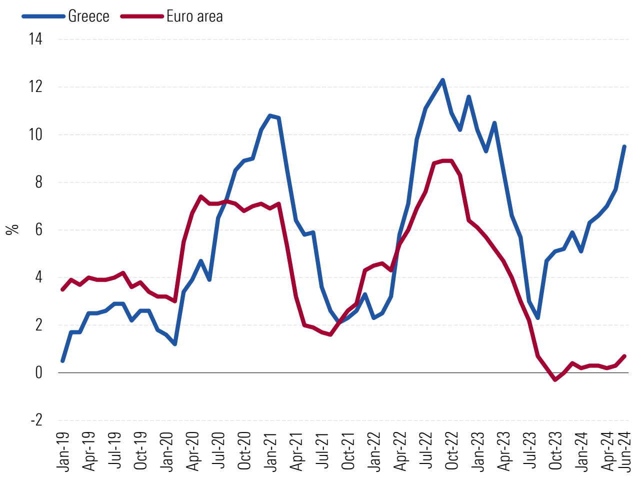


Exhibit 8 Corporate Loan Annual Growth (Greece vs Euro Area)



Source: ECB, Morningstar DBRS.

Large and Growing Deposits Coupled With Higher Debt Issuances Underpin Liquidity Profile

Greek banks are mostly funded via deposits, with customer deposits accounting for around 87% of total funding at end-June 2024, and mainly raised from granular and typically sticky retail clients. Notwithstanding the search for higher yielding products as well as significant loan repayments in a higher interest rate environment, deposits have increased in recent times and they were 27% higher at end-June 2024 than the level reported at end-2019 (Exhibit 9). Since the rise in interest rates customers have increasingly shifted their preference to time deposits given their embedded higher remuneration; however, this trend seems to have stabilised at levels below initial expectations (Exhibit 10).

Exhibit 9 Aggregate Customer Deposits

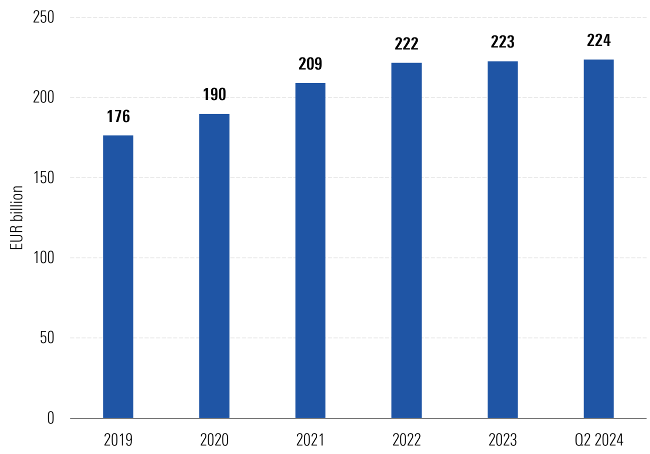
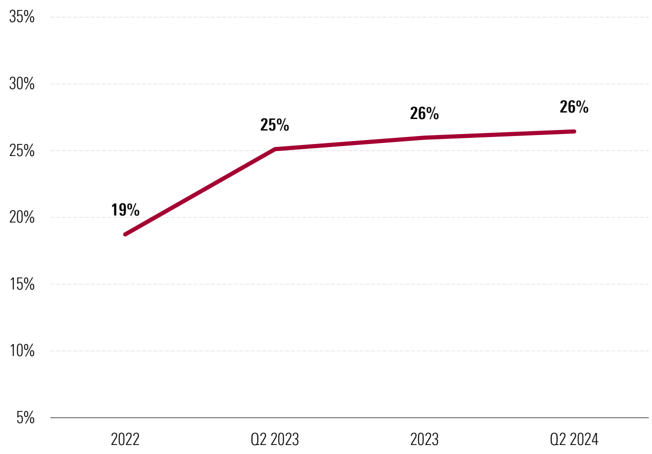


Exhibit 10 Time Deposits as % of Total Deposits



Source: Morningstar DBRS, Company documents.

The recourse to funding from central banks has reduced in recent times due to TLTRO III repayments, and it accounted for around 3% of total at end-June 2024. Greek banks had around EUR 8 billion of ECB funding as of end-June 2024, down 84% since early November 2022, and representing around 8% of the total Eurosystem (Exhibit 11). The outstanding ECB funding for Greek banks compares favourably with free deposit facilities held with the ECB exceeding EUR 22 billion.

Debt securities issued represented 6% of Greek banks' funding at end-June 2024, and this level has increased recently due to more frequent issuances required to meet the MREL final requirements by end-2025.

The sector's liquidity position remains sound with an average Liquidity Coverage Ratio (LCR) remaining above 200%, an average Net Stable Funding Ratio (NSFR) of around 135%, and an average Loan-to-Deposit ratio of 67% at end-June 2024 (Exhibit 12).

Exhibit 11 ECB Funding - Greece vs Total Eurosystem

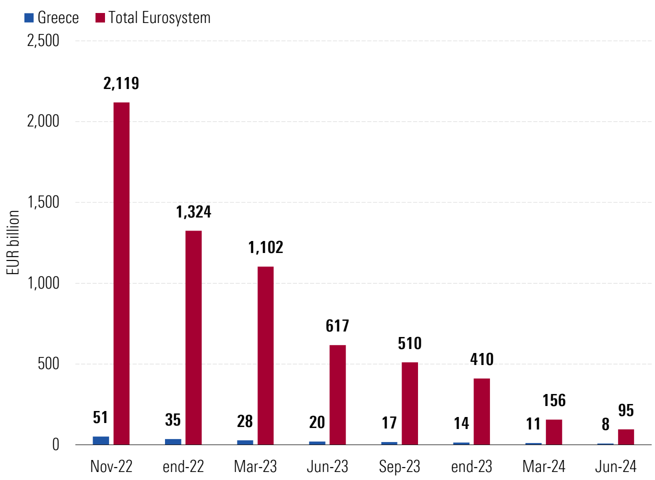
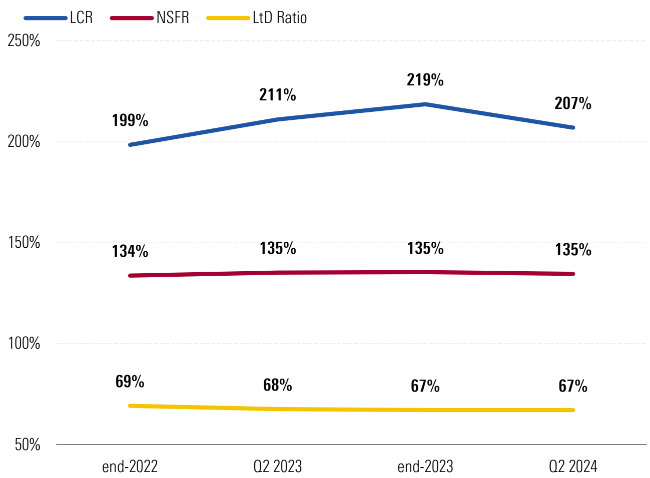


Exhibit 12 Average LCR, NSFR, LtD Ratio

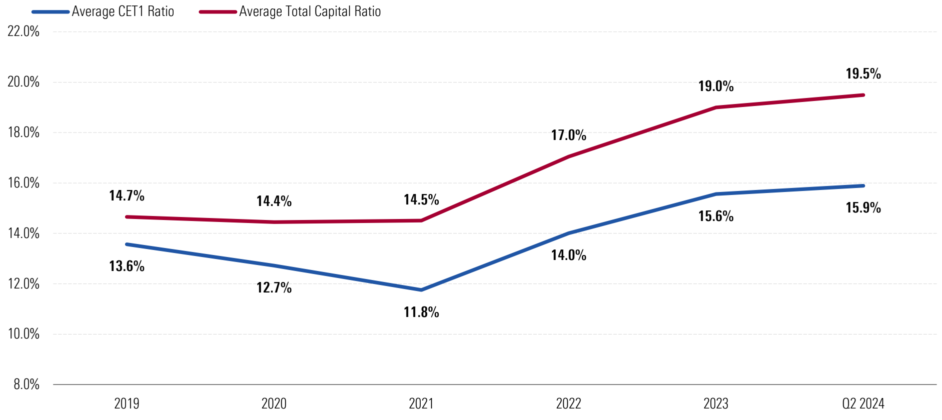


Source: ECB, Morningstar DBRS, Company documents.

Capitalisation Strengthens Further but Quality of Capital Remains Relatively Weak

Greek banks' capitalisation has strengthened further in H1 2024, supported by continued earnings generation, stronger balance sheets and capital management actions, despite resumed dividend distributions and significant pick-up in new loan volumes. At end-June 2024, the average fully loaded CET1 ratio was 15.9%, whereas the average fully loaded Total Capital ratio was 19.5%, up from 15.6% and 19%, respectively, at end-2023 (Exhibit 13). As a result, the average buffers over the minimum requirements stood at around 600 bps and 480 bps, respectively, for CET1 and Total Capital. Nonetheless, the quality of capital remains relatively weak with deferred tax credits (DTC) representing around 50% of CET1 capital at end-June 2024, albeit down from 56% at end-2023.

Exhibit 13 Average CET1 and Total Capital Ratios (Fully Loaded)



Source: Morningstar DBRS, Company documents.

Credit Ratings

Issuer	Obligation	Credit Rating	Trend
Eurobank S.A.	Long-Term Issuer Rating	BBB (low)	Stable
National Bank of Greece S.A.	Long-Term Issuer Rating	BBB (low)	Stable
Piraeus Bank S.A.	Long-Term Issuer Rating	BB	Stable

Related Research

- ECB Cyber Resilience Stress Test: Operational Framework Improvements Needed at European Banks (1 August 2024)
- CRD 6: Reinforced Supervision and Defined Requirements for Non-EU Bank Branches (25 July 2024)
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- Greek Banks: Robust Performance in 2023 Further Strengthens the Sector's Credit Profile for 2024 (14 March 2024)
- Morningstar DBRS Confirms the Hellenic Republic at BBB (low), Stable Trend (8 March 2024)
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- HFSF Divestment from Greek Banks Should Proceed Smoothly as Investment Flows Pick Up and Banks Are Stronger (6 October 2023)
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- DBRS Morningstar Upgrades the Hellenic Republic to BBB (low), Stable Trend (8 September 2023)

Notes:

All figures in Euros unless otherwise noted.

Sources: Company Documents, ECB. For Alpha Bank S.A., Eurobank S.A., and Piraeus Bank S.A., 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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