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Banks/Greece

Greek Banks and ECB Funding - Too Much of a Good Thing?

Rating Implications

While the major Greek banks' funding and liquidity profiles do not give rise to immediate concerns, the banks' reliance on ECB funding could become a negative rating driver in the medium term. Greek banks, particularly those with greater reliance on ECB funding, could come under downward rating pressure if they do not manage to substitute ECB funding by more traditional funding sources (eg increasing customer deposits, debt issuances or commercial interbank repos) and to improve their overall liquidity position. Unchanged liquidity and funding profiles could add to the banks' already existing challenges, such as worsening asset quality and deteriorating profitability.

On a positive note, systemically important banks benefit from sound domestic retail franchises, which support relatively large deposit bases, and from capacity to access wholesale markets when appetite for Greek bank debt returns to historical levels.

Key Concerns

A great deal of attention has centred on Greek banks' funding and liquidity profiles since the downgrade of Greece's sovereign rating to 'BBB+' by Fitch Ratings (see rating action commentary entitled "*Fitch Downgrades Greece to 'BBB+'; Outlook Negative*" published 8 December 2009 and available on www.fitchresearch.com) as well as by other rating agencies in late 2009. Difficult wholesale markets and fierce competition in deposit-taking, particularly in Q408 and Q109, led Greek banks to increase interbank borrowing nominally, mainly in European Central Bank (ECB) funding to 8.5% of total system assets at end-November 2009. The banks continue to be primarily funded by customer deposits (86% of gross loans on average for the five largest banks at end-Q309).

These developments do not markedly differ from those in other western European countries, and use of ECB funding by Greece's five largest banks has declined slightly since H109. However, Greek banks continue to rely more on this facility than their European peers do, making them more vulnerable to potential changes in ECB collateral rules later in 2010. It should be noted that the use of the ECB facility has not generally been aimed at funding loan growth or minimising liquidity risks. Arguably, Greek banks have primarily accessed ECB facilities to buy Greek government debt and subsequently benefit from the carry-trade between low-cost ECB funding and attractive spreads on Greek government securities.

The higher use of ECB funding can also be explained by the expansion of ECB's list of securities accepted as collateral for repo financing to include 'AAA' securitised bonds and 'BBB' government and corporate securities in October 2008. Despite the downgrade of Greece's sovereign rating, the amendment of the ECB eligibility criteria allows Greek banks to maintain eligible assets in the form of Greek government bonds (with government debt securities, most of them Greek sovereign, representing 7% of total system assets at end-November 2009). At the same time, banks stepped up their efforts to generate eligible assets through securitisations and covered bonds to raise funding from the ECB. In contrast to some other European countries, the use of the Greek government-guaranteed funding scheme introduced in late 2008 has been limited, although it has helped to ease deposit-gathering competition to some extent and normalise deposit spreads since Q209.

Fitch views with less concern the major Greek banks' funding and liquidity position in the short term, given limited wholesale maturities in 2010 (EUR5.7bn for the five major Greek banks, as shown in Table 2); significant slowdown in loan growth, which is being mostly funded by customer deposits; recent access of Greek banks to wholesale markets, with the largest Greek banks having issued senior debt in Q309; the presence of unencumbered ECB eligible assets (including outstanding own securitisation transactions); and the relatively moderate amount of unsecured interbank funding from foreign banks. In addition, funding gaps in Greek banks' foreign subsidiaries are being managed down by following a self-funded loan growth policy.

However, over the medium term Greek banks will find it challenging to manage increased pressure on their funding and liquidity position, should the ECB revert to its previous stricter collateral eligibility criteria during 2010. The latter would mean that only securities rated 'A–' and above would be eligible, thus currently excluding Greek government debt. Moreover, Fitch expects new structured finance transactions with collateral based in Greece to be capped at the 'AA' category (see rating action commentary "*Fitch Places all Greek Structured Finance Deals on Rating Watch Negative*" published 9 December 2009), which is below the minimum requirements set by the ECB of 'AAA' rating at issuance. Similarly, Fitch has placed three Greek covered bonds transactions on Rating Watch Negative (see rating action commentary "*Fitch Places 3 Greek Banks' Covered Bonds on Rating Watch Negative*" published 9 December 2009).

It remains to be seen if there is sufficient appetite in the market for Greek government debt, even though it could be deemed as liquid assets and repoed in the interbank market. In addition, securitisations and, to a lesser extent, covered bonds could become somewhat less attractive funding sources, making placements in the market difficult. This in turn will make it even more challenging for Greek banks to reduce their reliance on ECB funding. Moreover, retail deposits will become a doubly important funding source, increasing the risk of heightened deposit-pricing competition in 2010.

Table 1: ECB Funding and Commercial Interbank Funding of the Largest Greek Banks

	NBG		Alpha		Eurobank		Piraeus		ATEbank	
	End-Q309	End-2008	End-Q309	End-2008	End-Q309	End-2008	End-Q309	End-2008	End-H109	End-2008
Total ECB funding (EURbn)	9.5	6.6	9.0	4.7	6.0	12.0	3.8	9.0	5.2	4.9
ECB funding/total assets (%)	8.5	6.5	13.1	8.6	7.1	17.5	7.3	16.4	17.5	17.2
Net interbank funding/total assets (%)	6.6	4.3	-2.2	6.8	6.3	3.1	14.4	9.1	-6.7	-6.2
Fixed-income portfolio/total assets (%)	21.7	17.2	10.8	9.5	17.7[a]	17.8[a]	12.8[b]	10.0[b]	10.1	7.9

[a] Fixed-income portfolio = total "investment securities" i.e. including non-fixed-income instruments
[b] Fixed-income portfolio = bonds in trading book plus total available-for-sake and held-to-maturity books
Source: Banks' presentations and accounts

Table 2: Issued and Maturing Debt for the Largest Greek Banks

	NBG	Alpha	Eurobank	Piraeus	ATEbank
Senior unsecured non-state-guaranteed debt issuance in 2009 (EURbn)	0[a]	1.3	1.7[b]	1.0	0
Debt maturing in 2010 (EURbn)	0.4	1.7	1.9	1.7	0
Total outstanding debt (EURbn)	6.3	14.2	13.9	4.3	0.3
Debt maturing in 2010/total outstanding debt (%)	6.2	12.3	13.7	38.7	0
Total outstanding debt/total assets (%)	5.6	20.7	26.6	5.1	1.0
Debt maturing in 2010/total assets (%)	0.3	2.5	3.6	2.0	0

[a] Excluding NBG's EUR500m issuance of state-guaranteed floating-rate notes as well as EUR1.5bn of covered bonds.
[b] Excluding Eurobank's EUR500m February 2009 state-guaranteed bond issue which matured in November 2009
Source: Banks' presentations and accounts, Bloomberg

Table 3: Greek Bank Ratings

	Long- and Short-Term IDR a	Individual Rating	Support Rating	Support Rating Floor	Outlook (Long-Term IDR)
National Bank of Greece S.A. (NBG)	'BBB+'/'F2'	'B/C'	'2'	'BBB-'	Stable
EFG Eurobank Ergasias S.A. (Eurobank)	'BBB+'/'F2'	'B/C'	'3'	'BB+'	Negative
Alpha Bank	'BBB+'/'F2'	'B/C'	'3'	'BB+'	Negative
Piraeus Bank	'BBB+'/'F2'	'B/C'	'3'	'BB+'	Negative
Agricultural Bank of Greece (ATEbank)	'BBB-'/'F3'	'C/D'	'2'	'BBB-'	Negative
Marfin Egnatia Bank	'BBB+'/'F2'	'C'	'2'	n.a.	Stable
Aspis Bank	'B'/'B'	'E'	'5'	'No Floor'	RWN b

a IDR: Issuer Default Rating
b RWN: Rating Watch Negative
Source: Fitch

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