



# The rise and fall of the Greek economy

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## Opportunities in Greece

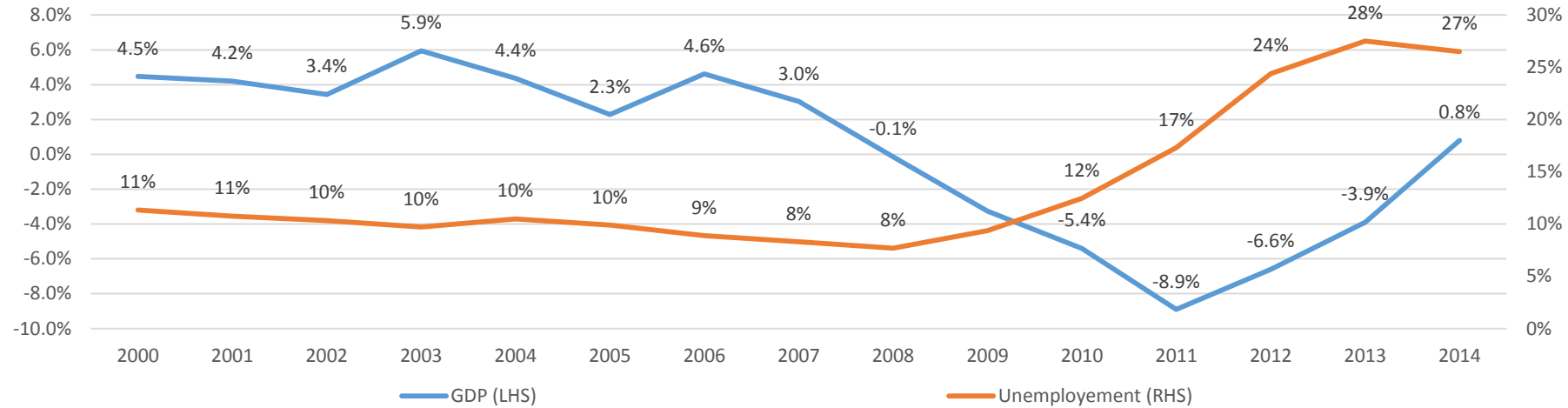
October 2015



Integrated Advisory Group  
International

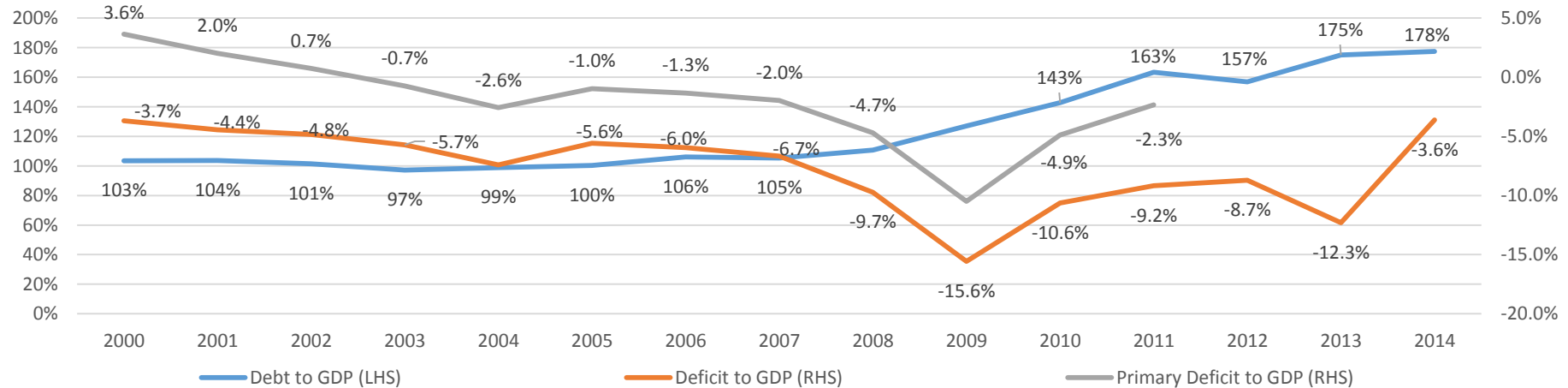
# Greece: Sovereign Distress

## The rise and fall



Source: ECB

## Deep in the red



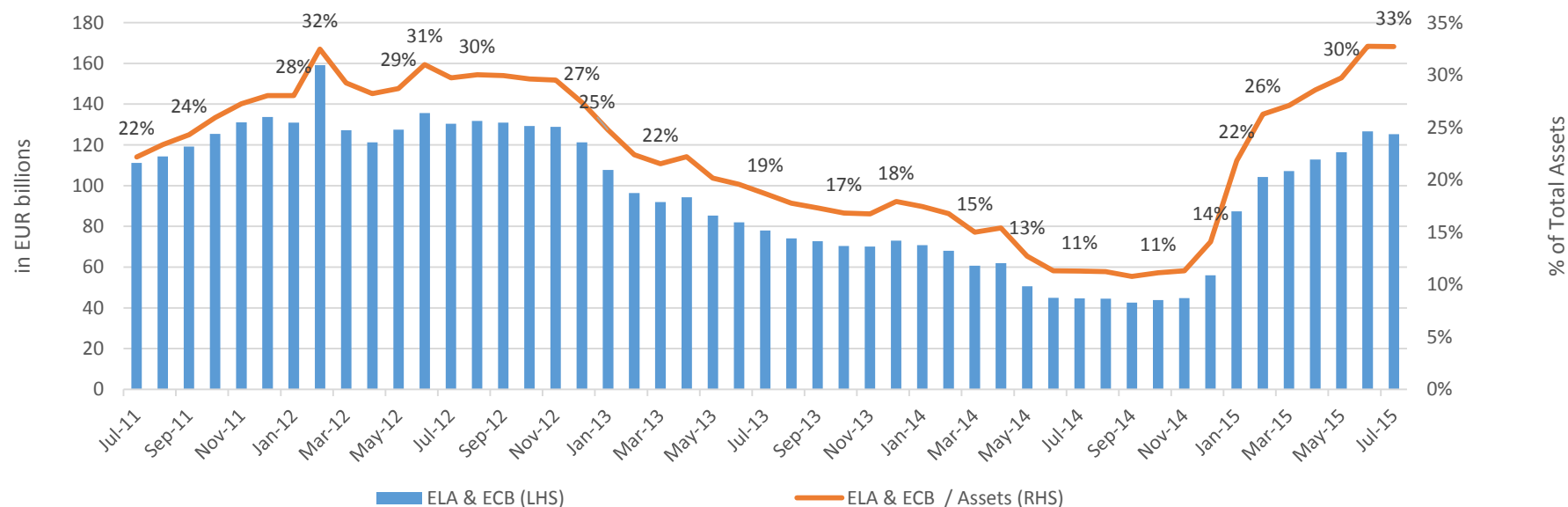
Source: ECB

# The vicious cycle: Greek banks in absolute credit freeze

**Zombie Banks:** Greek banks are undercapitalized and underfunded since 2011, despite two recapitalization rounds. A new recapitalization of €15-20bn (underwritten by €25bn buffer under the New Memorandum) will be concluded by FY15. Greek banks currently finance around 33%, or €125bn of their assets, through the Central Banks (ECB: €40bn and ELA: €85bn).

**Banking reforms:** The next steps in the Greek bank “saga” will be (1) the work-out/ sale of the massive NPL pile (€85bn, 32.5% of total) and (2) the gradual return to normality on the simplest credit products front (mortgages, retail lending, factoring, well secured financing to unlevered corporates) instead of more complex forms of lending.

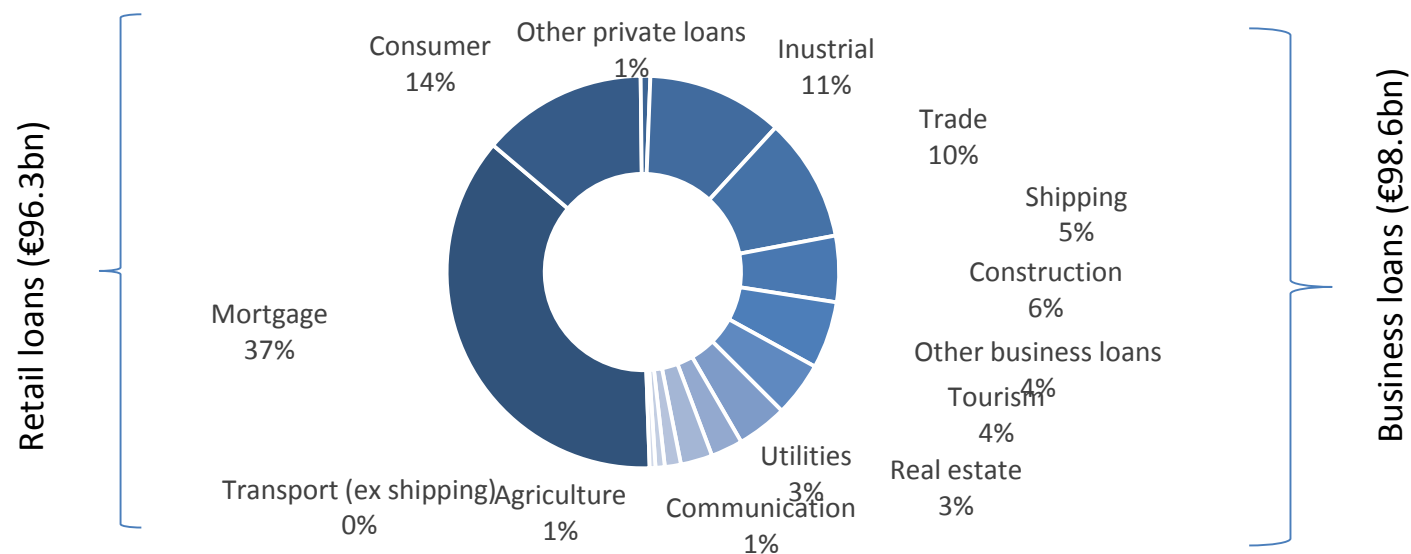
## ELA & ECB Funding versus Total Assets



## Creating a map for the banking portfolio in Greece

Loan balances in the Greek banking system amount to €195bn of which over 50% (€99bn) are business loans, while balances are decreasing slowly as banks are unable to provide new loans.

### Loan Portfolio Breakdown

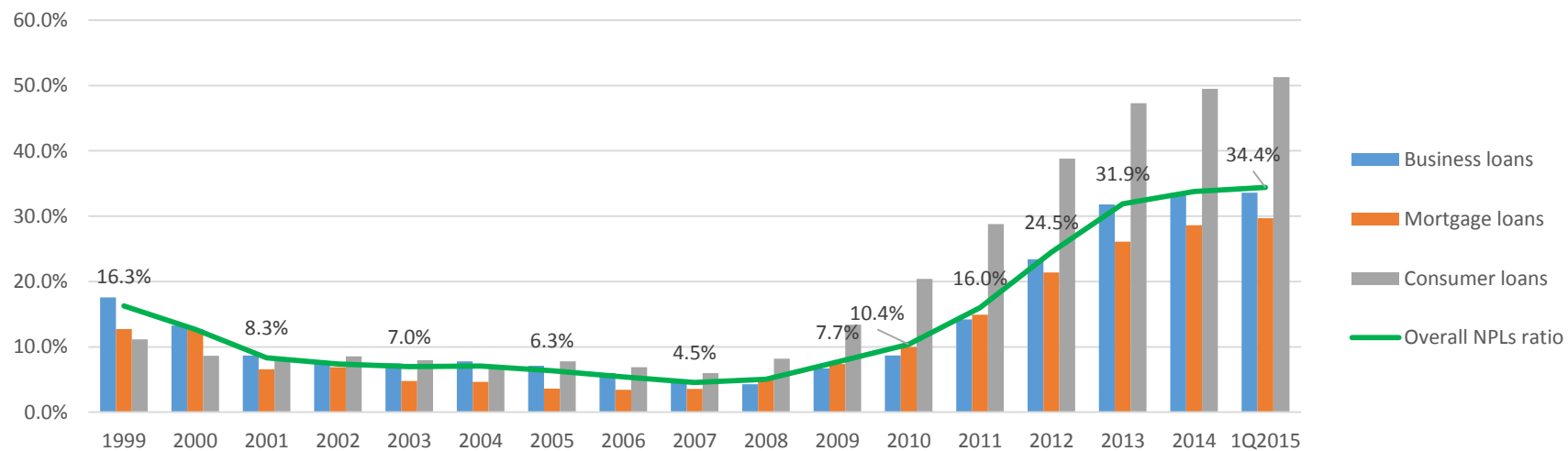


Source: BoG

## How bad is it? NPL's evolution

Greek NPL ratio stood at approximately 34.4% (€67bn in total) in March 2015 with a positive trend of around +1.1% per month. Consumer loans have been hit the most with NPL ratio standing at 50%. Official NPL numbers are understated as banks prefer to restructure NPLs instead of reporting them.

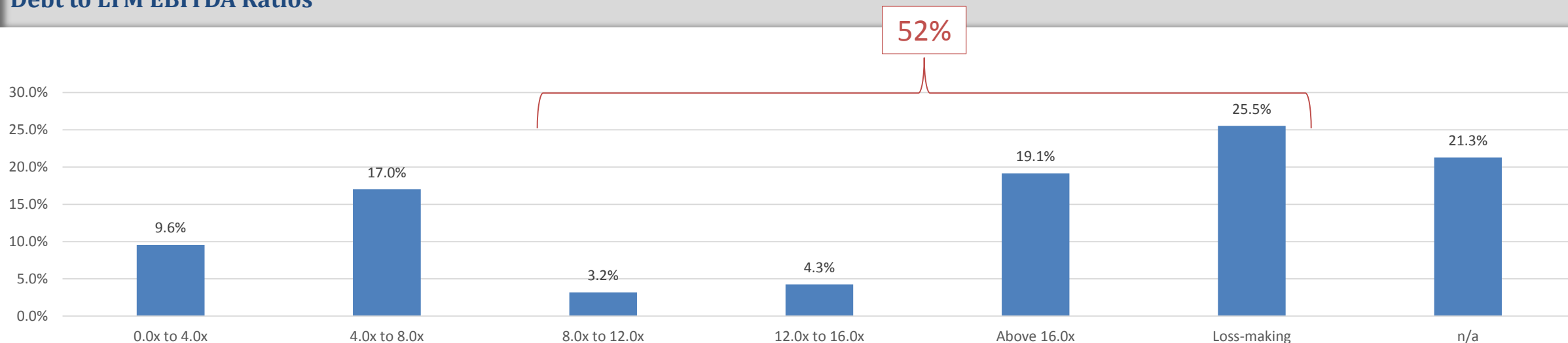
### NPL's evolution



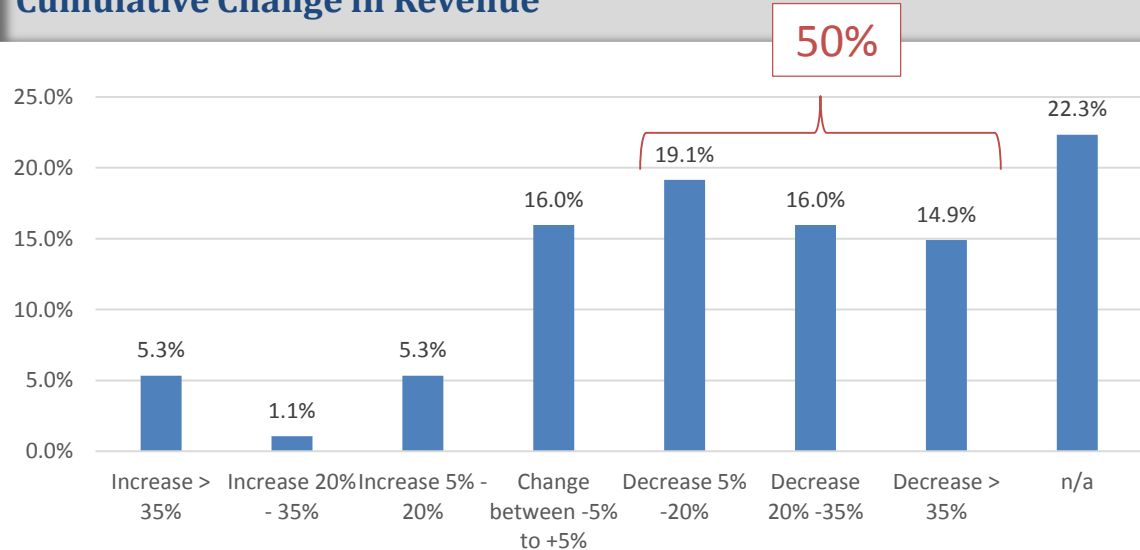
Source: BoG

# How bad is it? Large Corporates – BlackRock (June 2013)

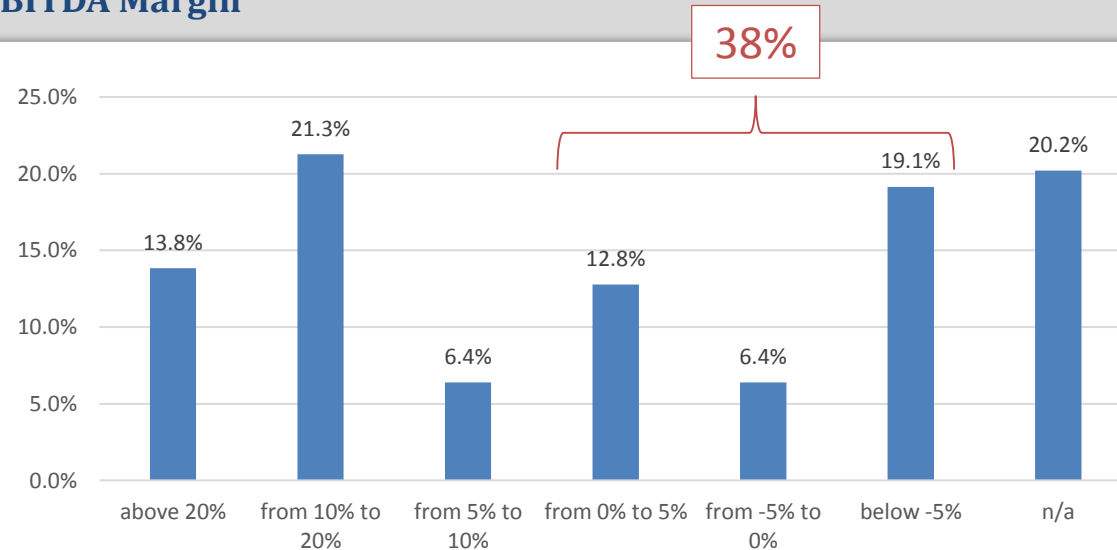
## Debt to LTM EBITDA Ratios



## Cumulative Change in Revenue



## EBITDA Margin



**Gradual macro stabilization:** Economic activity is expected to remain negative next year (due to carry-over effects from the H215), before returning into positive territory in 2017. Expected recovery in consumer and business confidence go a long way towards counterbalancing the recessionary impact of new austerity measures. Evolution of private consumption dynamics accounts for 70% of GDP.

### Greece: Baseline Macroeconomic Scenario

	Nominal GDP (EURbn)	Growth Rate	Real GDP (EURbn)	Growth Rate	Unemployment Rate	HICP Inflation
2014	179.1	-1.80%	186.5	0.80%	26.50%	-1.40%
2015	173.4	-3.20%	182.3	-2.30%	26.90%	-0.40%
2016	172.2	-0.70%	179.9	-1.30%	27.10%	1.50%
2017	178.1	3.40%	184.8	2.70%	25.70%	0.90%

Source: Chief Economists' consensus forecast paper 2015

## Projections or wishful thinking

**Negative credit growth:** Below are forecasts from the chief economists of the 4 systemic banks which support the case that banks won't be active lenders in the medium term. This is optimistic (especially on the development of property prices) given the banks' foreclosed properties backlog.

### Forecasts (by 4 systemic banks)

	2014	2015f	2016f	2017f
Deposits	-1.80%	-22.30%	6.30%	12.70%
Loans	-2.70%	-2.70%	-0.40%	2.70%
Residential property prices	-7.50%	-5.80%	-2.40%	1.60%
Commercial property prices	-3.30%	-3.60%	-0.50%	2.70%
<b>Capital Controls</b>				
Easing for firms			Dec-15	
Full lifting			Jun-16	

*Source: Chief Economists' consensus forecast paper 2015*



## Pathway to growth needs change

NPL resolution will be supported by improvements on the judicial framework for corporate and household insolvency matters, as well as amendment of the out-of-court workout law. These two key deliverables (among others) to be implemented by Nov '15 under the new Memorandum, should be supportive for alternative capital to participate in distressed situations.

### NPLs vs official capital need

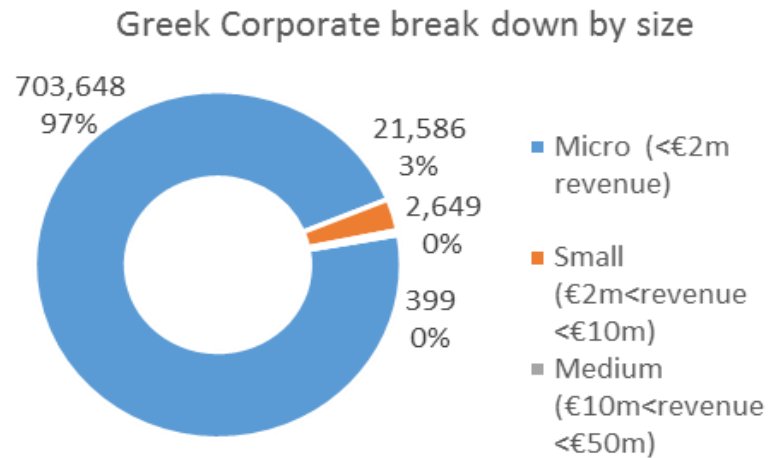
Bank	Net Loans	Group NPLs	Group NPL Coverage	Group NPE	Group NPE Coverage	Not Provisioned NPLS	Core Tier 1 Capital
NBG	62,964	24.30%	61.11%	32.00%	n/a	12,681	7,800
Eurobank	42,887	34.01%	55.62%	40.10%	42.50%	11,205	5,606
Alpha	49,717	33.75%	63.00%	47.00%	46.00%	16,266	7,197
Piraeus	55,682	38.90%	51.00%	50.00%	42.00%	19,992	6,723
<b>Total</b>	<b>211,250</b>	<b>32.53%</b>	<b>57.12%</b>	<b>42.18%</b>	<b>n/a</b>	<b>60,143</b>	<b>27,326</b>

Source: BoG & Banks Financial Statement 1Q15

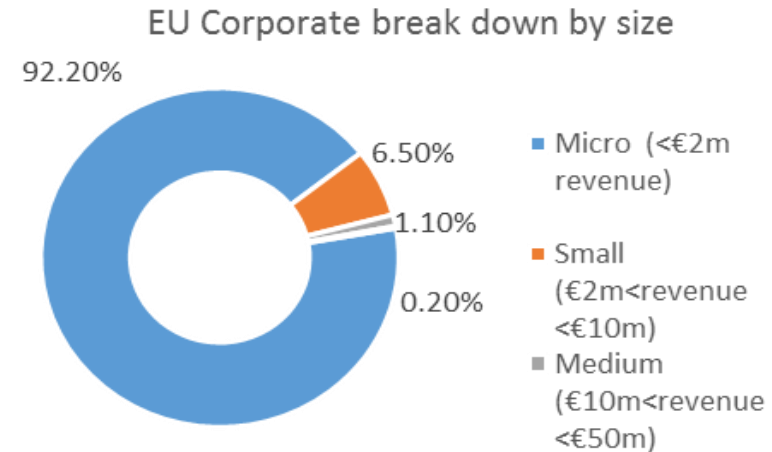
## The “sweet spot” of potential transactions in Greece

- ❑ SMEs in Greece are a vital component of the Greek business sector contributing €48bn in the economy and employing 85.2% of the labour force.
- ❑ More than 95% of the companies in Greece can be characterized as SME’s given that they have less than €50m turnover.

### Greek and European corporates by size



Source Europa



Source Europa

## The “sweet spot” of potential transactions in Greece

- ❑ Mid sized companies are in distress facing high leverage with loan to sales at 80%, inadequate access in bank financing and significant tightening of credit terms from their suppliers, making liquidity their main concern.
- ❑ For the first time during the crisis, more SMEs focus on growth (41%) compared to SMEs aiming on survival (34%). Surviving SMEs have undergone a series of operational restructurings making their companies healthier and competitive.
- ❑ The crisis has lead SMEs to become more extroverted in an effort to minimise their dependence in the Greek market.

### Scarcity of financing

