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Greek Banking

**From the Pre-Euro Reforms to the
Financial Crisis and Beyond**

Fotios Pasiouras

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*To my wife Hara, my daughter Katerina, my parents
Kleanthis and Katerina, and my sister Eleftheria*

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Preface

Two main reasons lie behind the writing of this. First, over the last 20 years or so, the Greek banking sector has witnessed fundamental changes. These include technological improvements, mergers and acquisitions, internationalization, deregulation, entry into the eurozone and considerable growth. There is no question that these important developments merit a comprehensive discussion. Further to this, Greek banks have recently found themselves at the heart of the financial crisis and have made headlines around the globe. This brings us to the second reason for writing this book, which is the discussion of one of the most difficult and most challenging periods for the Greek banking sector. Following a period of growth and very high levels of profitability, Greek banks found themselves battling with a cut in Greek bonds, a considerable decrease in demand in the local market and a sharp increase in non-performing loans. Naturally, this generates a number of questions such as: what are the characteristics of the Greek banking system? Is it able to survive the crisis? What lies ahead? The present book answers such questions by providing a detailed discussion of the Greek banking system from the mid-1990s up to the end of 2011. The main features of the text are outlined below.

Chapter 1 provides an overview of the Greek banking sector, discussing issues such as its importance, its structure, the expansion of the branch network and the acquisition and internationalization activity of the last 15 years.

Banks do not operate in a vacuum. Therefore, before discussing their performance and the risks that they take, it is important to consider the environment in which they operate. This is accomplished in Chapters 2 to 5. Chapter 2 discusses the economic and institutional environment in Greece. The first sections of this chapter provide a discussion of basic macroeconomic indicators such as gross domestic product (GDP), inflation, unemployment and government debt in comparison to the EU since the mid-1990s. Then, the discussion moves to indicators of institutional development such as regulatory quality and corruption, as well as to the 'business' environment. Banks are not the only players in the financial sector. Chapter 3 provides a discussion of the non-banking financial institutions (e.g., insurance, mutual funds) and the money and capital markets (e.g., bonds, stock exchange). Chapter 4 begins

with a discussion of the two central banks that influence the operations of the Greek financial institutions, namely the Bank of Greece and the European Central Bank (ECB). Then, it discusses the policy responses of central banks and European governments to the financial crisis. These policy initiatives include, among others, the ECB's 'enhanced credit support' measures, the private sector involvement programme (PSI), the European stabilization mechanism, financial assistance from the eurozone and the IMF, etc. Chapter 5 provides a discussion of the supervisory framework, in terms of licensing, the activities of credit institutions, capital requirements, reporting and transparency, supervisory power, liquidity requirements, provision, money laundering and the financing of terrorism, and the deposit insurance scheme.

Chapter 6 focuses on retail banking. It starts with a discussion of the use of ATMs and point of sales, the relative importance of the various means of payment, and the financial card market. It then provides an overview of lending activity, while distinguishing between loans for consumer credit, loans for house purchasing, other household lending, and loans to non-financial corporations. The discussion is accompanied by numerous figures and tables that provide comparisons of the Greek banking sector with the European one. The chapter closes with a reference to the deposits market, as well as the loan and deposit interest rates.

The performance of banks is of paramount importance to bank managers, policy-makers and the general public. The first section of Chapter 7 discusses the main indicators of performance while comparing commercial banks in Greece with institutions operating in other EU countries, as well as in the USA. The second section provides a more detailed discussion of the figures of the commercial banks in Greece, by disaggregating the data, and by revealing the main developments on a yearly basis. The third and the fourth sections focus on cooperative banks. The fifth section discusses the findings of empirical studies on the efficiency and profitability of Greek banks.

Risk is an integral part of the banking sector that can be an important source of profitability and shareholder value. The first three sections of Chapter 8 cover the main types of risk discussed in Basel II, namely credit risk, market risk and operational risk. The fourth section discusses the capital adequacy of Greek banks – in other words, the funds that are required for covering the banking system's aforementioned types of risk. The fifth section discusses the liquidity risk of Greek banks. The importance of liquidity became apparent during the recent crisis, and it will be a major addition in the new regulatory framework, namely Basel III. While the first five sections cover developments in

the commercial banking sector, the last section focuses on cooperative banks in Greece.

Chapter 9 outlines various issues related to corporate governance in banking. The discussion starts with a reference to recommendations at an international level, such as the Walker report for the UK, the European Union's directives and the principles of the Basel Committee on Banking Supervision. The discussion that follows outlines the corporate governance framework and laws that are applicable in the case of Greek banks, along with an overview of the main governance characteristics of the major banks in Greece.

Finally, Chapter 10 discusses various developments during 2011, including the financial performance of banks, the results of stress testing, the resolution of credit institutions and credit rating downgrades. This chapter closes with a discussion of the future challenges for the Greek banking sector owing to the exposure of Greek banks to government bonds, the negative developments in the macroeconomic environment and the intention to adopt the new regulatory framework.

FOTIOS PASIOURAS

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FOTIOS PASIOURAS

List of Abbreviations

AC	Audit Committee
AML	Anti-Money Laundering
ASE	Athens Stock Exchange
ATEbank	Agricultural Bank of Greece
BCBS	Basel Committee on Banking Supervision
BCC	Banking and Credit Committee
BFSR	Bank Financial Strength Rating
BIR	Bank Individual Rating
BoE	Bank of England
BoG	Bank of Greece
CAR	Capital Adequacy Ratio
CEBS	Committee of European Banking Supervisors
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFT	Combating the Financing of Terrorism
CGQ	Corporate Governance Quotient
CONC5	Concentration of Five Largest Banks
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CU	Compliance Unit
DEA	Data Envelopment Analysis
DOPIS	Department of Private Insurance Supervision
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECOFIN	European Union's Economic and Financial Affairs Council
EDP	Excessive Deficit Procedure

EFG	EFG Eurobank Ergasias SA
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilization Mechanism
EQAS	Equity to Total Assets
ESCB	European System of Central Banks
ESRB	European Systemic Risk Board
ETBA	Hellenic Industrial Development Bank
ETEBA	National Investment Bank for Industrial Development
EU	European Union
FATF	Financial Action Task Force
FSA	Financial Services Authority
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
GGB	Greek Government Bond
GMM	Generalized Methods of Moments
HCMC	Hellenic Capital Markets Committee
HDAT	Electronic Secondary Securities Market
HDGF	Hellenic Deposit Guarantee Fund
HDIGF	Hellenic Deposit and Investment Guarantee Fund
HFSF	Hellenic Financial Stability Fund
HI	Herfindahl Index
HICP	Harmonized Index of Consumer Price
IAU	Internal Audit Unit
IEF	Index of Economic Freedom
IMF	International Monetary Fund
IT	Information Technology
LLP	Loan Loss Provisions
M&As	Mergers and Acquisitions
MFI	Monetary Financial Institution
MMQ	Manufacturing, Mining and Quarrying
NBG	National Bank of Greece

NCBs	European National Central Banks
NED	Non-executive Director
NPL	Non-performing Loans
NSFR	Net Stable Funding Ratio
OAED	Manpower Employment Agency
OECD	Organisation for Economic Co-operation and Development
PISC	Private Insurance Supervisory Committee
POS	Points of Sale
PSI	Private Sector Involvement
QIS	Quantitative Impact Study
RMC	Risk Management Committee
RMU	Risk Management Unit
ROA	Return on Assets
ROE	Return on Equity
SCP	Structure-Conduct-Performance
SEV	Hellenic Federation of Enterprises
SFA	Stochastic Frontier Analysis
SME	Small-medium Enterprise
SMP	Securities Markets Programme
TEMPTE	Credit Guarantee Fund for Small and Very Small Enterprises
TFP	Total Factor Productivity
VaR	Value at Risk
WGI	Worldwide Governance Indicators