

Positive Rating Actions Taken On Eight Greek Banks On Resilience To Economic Cycles And Improving Funding Profile

July 4, 2024

- The Greek banking system's active balance sheet clean-up is coming to an end as it achieves full post-crisis recovery and starts to benefit from positive economic momentum in Greece.
- Enhanced market sentiment has also eased our concerns surrounding banks' funding profiles as Greek banks retained low funding cost thanks to a granular and stable deposit base and access to more affordable funding from debt markets abroad.
- Banks in Greece have also individually made significant progress toward improving their earnings generation and business model resilience.
- We therefore raised our long-term ratings on Alpha Bank and its holding Alpha Services and Holdings, Eurobank and its holding Eurobank Holdings, National Bank of Greece, Piraeus Bank and its holding Piraeus Financial Holdings, and kept the outlooks on these banks and holding companies positive.
- We also raised our long-term rating on Aegean Baltic Bank and assigned a stable outlook.

PARIS (S&P Global Ratings) July 04, 2024--S&P Global Ratings today took the following rating actions on eight Greek financial institutions:

- Aegean Baltic Bank S.A.: We raised our long-term issuer credit rating to 'BB-' from 'B+' and affirmed the 'B' short-term rating. The outlook is stable.
- Alpha Bank SA: We raised our long-term issuer credit rating to 'BB' from 'BB-' and affirmed the 'B' short-term rating. The outlook is positive. We also raised our long- and short-term resolution counterparty ratings (RCR) to 'BBB-/A-3' from 'BB+/B'.
- Alpha Services and Holdings Societe Anonyme: We raised our long-term issuer credit rating to 'B+' from 'B' and affirmed the 'B' short-term rating. The outlook is positive.
- Eurobank S.A: We raised our long-term issuer credit rating to 'BB+' from 'BB' and affirmed the 'B' short-term rating. The outlook is positive. We also raised our long- and short-term RCR to 'BBB/A-2' from 'BBB-/A-3'.
- Eurobank Holdings: We raised our long-term issuer credit rating to 'BB-' from 'B+' and affirmed the 'B' short-term rating. The outlook is positive.
- National Bank of Greece S.A.: We raised our long-term issuer credit rating to 'BB+' from 'BB' and affirmed the 'B' short-term rating. The outlook is positive. We also raised our long- and

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short-term RCR to 'BBB/A-2' from 'BBB-/A-3'.

- Piraeus Bank S.A.: We raised our long-term issuer credit rating to 'BB' from 'BB-' and affirmed the 'B' short-term rating. The outlook is positive. We also raised our long-term long- and short-term RCR to 'BBB-/A-3' from 'BB+/B'.
- Piraeus Financial Holdings S.A.: We raised our long-term issuer credit rating to 'B+' from 'B' and affirmed the 'B' short-term rating. The outlook is positive.

We also accordingly affirmed or raised our issue ratings on the senior and subordinated debt of these entities (see the ratings list for full details).

We see improved resilience in the Greek banking system. In 2023, domestic nonperforming assets dropped further on the back of greater sales and securitizations, but more importantly, the system didn't record any material new inflows of defaulted loans. Three of the four largest Greek banks already display nonperforming exposure (NPE) ratios of 3%-4% at the end of the first quarter 2024, and we expect to see further improvement by year-end 2026. A supporting factor of banks' improved risk profiles is the ongoing positive economic momentum in Greece. Despite subdued growth prospects in Europe, we expect the Greek economy to expand on average by 2.4% over 2024-2027, outperforming many countries in the eurozone. This reflects a tangible pick-up in investment activity driven by Next Generation EU projects, improved financial strength of corporates, and a catch-up effect given that Greece's economy is still about 22% smaller than its pre-2008 debt-crisis peak. The extension to 2024 of the Hercules Asset Protection Scheme (H-APS), under which Greece guarantees senior tranches of NPE securitization, will further support the ongoing transfer of bad assets from banks' balance sheets to distressed debt purchasers this year.

European Central Bank (ECB) approval for systemic Greek banks to resume paying dividends after 16 years of not distributing them highlights banks' improved underlying profitability and their enhanced capitalization. Although much of the improvement in profits over the past two years has been thanks to the rise in interest rates, we note that banks' streamlined operational structures, structurally lower credit losses, and cheap deposit bases have largely contributed to strengthening of their core profitability. Greek banks have managed to improve their cost-to-income ratios to below 40% through cost-efficiency measures and sales of noncore assets. On top of that, a pick-up in lending growth over the next three years to 5%-6% on average after years of deleveraging will also support banks' earnings generation at a time when declining interest rates might reduce their margins. Therefore, we anticipate banks will manage to retain solid profitability metrics with return on tangible equity in excess of 10% in 2024-2026 for the system, in spite of likely decrease of net interest income.

Greek Banks' funding and liquidity profiles continued to improve, despite repayment of most targeted longer-term refinancing operations funding from the ECB. Strong deposit growth and the massive contraction of the loan books since 2019 boosted banks' liquidity. In addition, decreasing macroeconomic risks--seen in Greece's achieving an investment-grade rating in October 2023--and banks' de-risking of their balance sheets have bolstered investors' confidence. Over the past three years, banks have become frequent issuers, especially of senior preferred instruments, to meet their minimum requirements for own funds and eligible liabilities, which we expect they will achieve. Despite rising rates, issuing costs have remained manageable for systemic banks. Greek banks have also gradually repaid their targeted longer-term refinancing operations borrowings while retaining ample liquidity buffers.

These positive systemic factors led us to revise our Banking Industry Country Risk Assessment (BICRA) for Greece. We revised up our anchor for Greek banks to 'bb+' from 'bb'. We revised our industry risk and economic risk scores for Greece's BICRA to '6' from '7'. We see stable trends for both industry risk and economic risk in Greece. We moved our assessment of Greece's BICRA into group 6, from group 7. Group 6 also includes Brazil, China, Colombia, Indonesia, and South Africa.

Aegean Baltic Bank S.A. (ABB)

Primary analyst: Pierre Hollegien

We raised our long- and short-term ratings on ABB to 'BB-/B' from 'B+/B', reflecting our improved view of economic and industry risks faced by Greek banks. Despite lending contraction due to early repayment, the bank achieved a return on equity (ROE) of 20.5% at year-end 2023 against 16% at year-end 2022. Consequently, our risk-adjusted capital (RAC) ratio stood above 15% at year-2023 but we expect it will fall below this threshold in the next two years as the bank is pursuing its strategy to grow rapidly. Thanks to the bank's proven expertise in the shipping industry, we expect asset quality to remain resilient with the NPE ratio standing at 1%-3%, from 0.8% at year-end 2023. The recent announced change in ownership will take time to materialize, and we understand that the strategy would remain vastly unchanged with the bank focusing on its key expertise: financing the shipping sector.

Outlook

The stable outlook over the next 12 months balances ABB's concentrated business model centered on the shipping sector and more confidence-sensitive funding than that of peers against solid earnings and strong asset quality track records, supporting its strong RAC profile.

Downside scenario: We could take a negative rating action if we conclude that:

- ABB's funding or liquidity profile is likely to deteriorate because of high asset-liability mismatches or outflows of deposits.
- ABB's asset quality deteriorates compared with historical levels.
- The bank proves unable to preserve its sound capitalization. Specifically, this could occur if the RAC ratio falls closer to or below 10% on a sustained basis, mostly due to rising credit losses or aggressive growth.

Upside scenario: We would consider raising our long-term issuer credit rating on ABB if we saw a significant improvement in the book's granularity, coupled with more diverse and stable funding sources.

Alpha Bank S.A. and Alpha Services and Holdings S.A.

Primary analyst: Gökseven Karagöz

We raised our long- and short-term ratings on the bank to 'BB/B' from 'BB-/B' and on its holding company to 'B+/B' from 'B-/B', reflecting improved economic and funding prospects in the operating environment. The upgrade also reflects our expectations that Alpha Bank will continue

performing strongly over the next couple of years, with ROE slightly over 10% at end-2025, and that the bank should be able to preserve its enhanced funding and improving asset quality with the NPE ratio trending down toward 4.0%-4.5% by end-2025.

Outlook

Our positive outlook on Alpha Bank over the next 12 months reflects the bank's improving capitalization. In our base-case scenario, we assume that the bank's operating performance will continue to strengthen, despite the deconsolidation of its Romanian subsidiary. Pick-up in lending growth, continuous cost optimization, and normalizing cost of risk toward 65 basis points (bps)-75bps through 2026 will support Alpha Bank's capital build-up.

The positive outlook on Alpha Services and Holdings over the next 12 months mirrors that on its operating entity.

Upside scenario: We could consider raising the ratings if Alpha Bank's capitalization improves with its forecast RAC ratio exceeding 7% on a sustained basis from 6.2% at year-end 2023. This could materialize if:

- The bank's organic capital generation remains strong despite declining interest rates; or
- The bank issues an additional Tier 1 instrument leading us to revise our forecast RAC ratio upward.

Additionally, we could take a positive rating action if the bank showed materially stronger operating performance than peers rated at the same rating level, even in the situation where our forecast RAC ratio remains below 7%.

Downside scenario: We could revise the outlook to stable if we no longer believe Alpha Bank's RAC ratio could improve sustainably over the 7% threshold.

In addition, we could lower the rating on Alpha Services and Holdings if we anticipate that its double leverage would significantly exceed 120%, in which case we could widen the notching difference between the operating and holding entities.

Eurobank S.A. And Eurobank Holdings

Primary analyst: Pierre Hollegien

We raised our long- and short-term ratings on the bank to 'BB+/B' from 'BB/B' and on its holding company to 'BB-/B' from 'B+/B', reflecting improved economic and funding prospects in the operating environment. Additionally, the improvement in organic capital generation through retained earnings and our view of easing Greek economic risks have fed into improvements in our assessments of capital and earnings. We now expect our RAC ratio to be 7.0%-7.5% in 2024-2025, despite the negative capital impact from share acquisitions to bring Eurobank's holding in Hellenic Bank above 50%. We now believe the 'bb+' stand-alone credit profile captures well the financial strengths of the bank, in particular with regard to international and domestic peers rated at the same level, therefore we have removed our positive comparable rating analysis adjustment.

Outlook

Our positive outlook on Eurobank over the next 12 months reflects our anticipation that Eurobank's business diversification will be enhanced by the deal with Hellenic Bank, while the bank's strong underlying performance will remain resilient to changes in monetary policy. We see important synergies from Eurobank and Hellenic Bank's complementary businesses, and manageable execution risks.

The positive outlook on Eurobank Holdings over the next 12 months mirrors that on its operating entity.

Upside scenario: We could raise the ratings on the bank over the next 12 months if we conclude that Eurobank has successfully completed the consolidation of its investment of Hellenic Bank in Cyprus, in which it now has a controlling stake, and its increasing diversified international banking franchise has finally resulted in an improvement in its overall risk profile. At the same time, if Eurobank continues to generate solid earnings over the next 12 months, while we see that interest rates have peaked and will start decreasing, we could raise the ratings.

Downside scenario: We could revise the outlook to stable over the next 12 months if, contrary to our expectations, the acquisition has unexpected negative effects on Eurobank's financial strength or if the bank's performance is materially worse than our current base case.

In addition, we could lower the rating on Eurobank Holdings if we anticipate that its double leverage would significantly exceed 120%, in which case we could widen the notching difference between the operating and holding entities.

National Bank of Greece S.A. (NBG)

Primary analyst: Pierre Hollegien

We raised our long- and short-term ratings on the bank to 'BB+/B' from 'BB/B', reflecting improved economic and funding prospects in the operating environment. NBG's NPE ratio stood at 3.7% as of March 31, 2024, with coverage reaching a high 85%. We expect the NPE ratio to further decrease to below 3% by year-end 2025. Consequently, the cost of risk is projected to decline to close to 50bps by year-end 2026 from 95bps as of Dec. 31, 2023. In a context of declining rates, lower cost of risk will support the bank's operating performance, along with a low cost-to-income ratio around 35% over the next two years, and a pick-up in lending origination.

Outlook

Our positive outlook on NBG over the next 12 months reflects the potential further improvement in operating performance partly driven by the bank's solid Greek franchise, which, if sustainably stronger than peers, could result in a positive rating action.

Upside scenario: We could raise the ratings on the bank if we conclude that, in addition to a sustained improvement in asset quality metrics, NBG's business positions improvements are sustainable, as evidenced by strong performance despite the decreasing interest rates environment, and robust balance sheet metrics.

Downside scenario: We could revise the outlook to stable if NBG's performance or the bank's funding franchise weakened.

Piraeus Bank S.A. And Piraeus Financial Holdings S.A.

Primary analyst: Göksenin Karagöz

We raised our long- and short-term ratings on the bank to 'BB/B' from 'BB-/B' and on its holding company to 'B+/B' from 'BB/B', reflecting improved economic and funding prospects in the operating environment. Piraeus has brought its NPE ratio down to 3.5% as of the end of the first quarter in 2024, from 6.6% in the first quarter of 2023, and has increased its coverage to 60.2%. Given the positive economic prospects, we expect asset quality to remain sound in the next two years. We anticipate that operating performance will support Piraeus' RAC ratio and anticipate it will stand at 5.6%-5.8% by year-end 2025 from 4.7% at year-end 2023.

Outlook

Our positive outlook on Piraeus Bank reflects the potential further improvement in operating performance, which, if sustainably stronger than peers rated at a similar level, could result in a positive rating action.

The positive outlook on Piraeus Financials Holdings over the next 12 months mirrors that on its operating entity.

Upside scenario: We could raise our rating on the bank if the bank shows sustained strong earnings performance and sound asset quality in line with higher rated peers.

Additionally, we could raise the rating on Piraeus if we saw the RAC ratio exceeding 7% on a sustained basis. This is not our base-case scenario though, as the bank has fully utilized its regulatory Tier-1 issuance quota and is expected to increase dividend payout in the next two years.

Downside scenario: We could revise the outlook to stable if Piraeus' performance is less resilient to declining rates environment than we initially anticipated.

In addition, we could lower the rating on Piraeus Financial Holdings if we anticipate that its double leverage would significantly exceed 120%, in which case we could widen the notching difference between the operating and holding entities.

Greece BICRA Score Snapshot

	To	From
BICRA group	6	7
Economic risk	6	7
Economic resilience	High risk	High risk
Economic imbalances	Intermediate risk	High risk
Credit risk in the economy	High risk	High risk
Trend	Stable	Positive
Industry risk	6	7

Greece BICRA Score Snapshot (cont.)

	To	From
Institutional framework	High risk	High risk
Competitive dynamics	High risk	High risk
Systemwide funding	Intermediate risk	High risk
Trend	Stable	Positive

Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores are on a scale from 1 (lowest risk) to 10 (highest risk). For more details on our BICRA scores on banking industries across the globe, please see "Banking Industry Country Risk Assessment Update," published monthly on RatingsDirect.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

***** Aegean Baltic Bank S.A. *****

Upgraded; Outlook Action; Ratings Affirmed

	To	From
Aegean Baltic Bank S.A.		
Issuer Credit Rating	BB-/Stable/B	B+/Positive/B

***** Alpha Services and Holdings Societe Anonyme *****

Upgraded

	To	From
Alpha Bank SA		
Resolution Counterparty Rating	BBB-/--/A-3	BB+/--/B

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Alpha Bank SA

Senior Unsecured	BB	BB-
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Alpha Services and Holdings Societe Anonyme

Subordinated	CCC+	CCC
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Upgraded; Ratings Affirmed

	To	From
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Alpha Bank SA

Issuer Credit Rating	BB/Positive/B	BB-/Positive/B
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Alpha Services and Holdings Societe Anonyme

Issuer Credit Rating	B+/Positive/B	B/Positive/B
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*****Eurobank Holdings*****

Upgraded

	To	From
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Eurobank S.A

Resolution Counterparty Rating	BBB/--/A-2	BBB/--/A-3
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Eurobank S.A

Senior Unsecured	BB+	BB
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Upgraded; Ratings Affirmed

	To	From
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Eurobank S.A

Issuer Credit Rating	BB+/Positive/B	BB/Positive/B
Subordinated	B+	B

Eurobank Holdings

Issuer Credit Rating	BB-/Positive/B	B+/Positive/B
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*****National Bank of Greece S.A.*****

Upgraded

	To	From
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National Bank of Greece S.A.

Resolution Counterparty Rating	BBB/--/A-2	BBB/--/A-3
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National Bank of Greece S.A.

Senior Unsecured	BB+	BB
Subordinated	B+	B

Upgraded; Ratings Affirmed

	To	From
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National Bank of Greece S.A.

Issuer Credit Rating	BB+/Positive/B	BB/Positive/B
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Positive Rating Actions Taken On Eight Greek Banks On Resilience To Economic Cycles And Improving Funding Profile

***** Piraeus Financial Holdings S.A. *****

Ratings Affirmed

Piraeus Financial Holdings S.A.

Junior Subordinated	CCC
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Upgraded

Piraeus Bank S.A.

	To	From
Resolution Counterparty Rating	BBB-/--/A-3	BB+/--/B

Piraeus Bank S.A.

Senior Unsecured	BB	BB-
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Piraeus Financial Holdings S.A.

Subordinated	CCC+	CCC
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Upgraded; Outlook Action; Ratings Affirmed

Piraeus Financial Holdings S.A.

	To	From
Issuer Credit Rating	B+/Stable/B	B/Positive/B

Upgraded; Ratings Affirmed

Piraeus Bank S.A.

Issuer Credit Rating	BB/Positive/B	BB-/Positive/B
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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