ECB Banking Supervision

Comprehensive assessment of the four significant Greek banks

Transcript of the questions and answers

Question: So if the Greek Banks cover their shortfall of around €14.4 billion Euros, do you think that they will be in need of the total amount of €25 billion and what will this depend on?

Quintana: This exercise is embedded in the programme and it has to do with the recapitalisation of the Greek financial system. Capital plans are going to be requested and they are related to the shortfall in the exercise. So, this is €14.4 billion. And this figure is smaller than the €25 billion of total funds that the programme has.

Question: I wanted to ask if there is a reason why you haven't disclosed the CET1 and which way it equates under each case, I mean for the baseline scenario. If I remember correctly you did so last year for the comprehensive assessment. Was there a reason why you haven't done so this time?

Quintana: Well, we've disclosed in the template of each bank all the information from the exercise that is relevant, so the CET1 in the baseline in the assessment scenario plus the additional information provided in the report to the bank.

Question: Can you confirm that the total figure for non-performing loans is €70 billion at the end of the review? And the second question is about the adverse scenario, can you tell us a bit more about it? What does it involve and what it means specifically for the Greek economy?

Quintana: As I said in the presentation, the amount, the increase, of non-performing exposures is €7 billion and the initial figure for the four banks of non-performing exposures was around €100 billion. And regarding the adverse scenario, it is a harsher scenario so it includes a further contraction of the Greek economy. It deviates around 6% from GDP increase from the baseline so it's still considering an important decrease in 2015 and 2016, around 3% each year, and just making it flat in 2017. And the house prices also are also taken into account. The fact is that they've been declining already; the scenario envisages a further decline of around 10% to the baseline. And also embedded in the scenario is a headwind in the European and the international environment that also affects the Greek economy. So, it's a harsher scenario.

Question: Which of the two scenarios covers the Greek banks?

Quintana: In all these exercises the AQR is the starting point. We have two scenarios with different hurdles, a baseline and an adverse scenario with a lower hurdle. The figure that has to be covered in the exercise is the highest capital shortfall in both the base and the adverse in relation to the hurdles, and so this means that in this case the adverse impacts more so the final figure to cover is €14.4 billion.

Question: What is in your opinion needed from private investors to cover the capital shortfalls and what kind of mix do you expect between state funds and funds from private investors in order to cover the shortfall?

Quintana: We are now requesting capital plans from banks so we cannot foresee what we are going to receive. From our side at least, I could say that -in fact not from our side but from the programme's perspective- private investors are welcome in the sense that the shortfall should be considered or covered as much as possible with private means and we expect this to be reflected in the capital plans.

Question: The basic assumption in stress tests is that upon recovery of the economy, borrowers will be able to service easier their loans allowing banks to decrease their provisions and boost their capital. However in Greece contrary to other countries a large part of the population has suffered a permanent reduction in salaries and pensions which will not increase to previous levels upon recovery. So, this is what we have on top of 6 years of severe recession – we do not have a business model anymore to survive. Do you have in this stress test taken into account these specific factors. Why did the previous stress test fail to predict what was coming?

Quintana: Ok, the stress tests are basically driven by the macro scenarios so that then the projections are consistent with these macro scenarios. In the baseline, the scenarios are provided by the three institutions so the baseline scenario is very much consistent with the macro embedded in the programme, so that is important to consider. The second question is what went wrong: I would say that the key important factor is that since the third and fourth quarter of 2014 the Greek economy deviated from predictions and then there was also an important deviation from the situation that was predicted in the first half of 2015.

Question: Just to be absolutely clear is the figure for non-performing loans, in other words loans where nothing has been heard from the borrower for more than 90 days, €100 billion? And secondly, perhaps you could clarify the precise figure for GDP contraction under the adverse scenario. The baseline scenario I think predicts an increase of 0.3% in 2017. Maybe you could confirm the exact figure for the contraction that you foresee under the adverse scenario.

Quintana: I should have highlighted that this figure is the one reported to the supervisors based on the EBA definition, which, as you know, was harmonised last year across the European Union. And this non-performing exposure definition considers a very broad definition -including forbearance, which is important to take into account- and it's around €100 billion as I mentioned earlier. And now we are adding €7 billion. Regarding the second question; yes, there is a further deterioration in the adverse scenario that means a further decrease in GDP for the 2.5 years considered in the exercise of around an additional 6%. And in the price of houses there is also a very important deterioration of around 10%.

Question: Can you specify the exact contraction foreseen in GDP in 2017 under the adverse scenario? 6% versus what? Is it a 6% contraction is that what you envisage?

Quintana: That's the delta (the difference). So you have it in Page 57 of the report: the contraction of GDP for 2015 is minus 3.3% in the adverse versus 2.3% in the baseline. For 2016 it is 3.9% of contraction versus 1.3% in the baseline and for 2017 it's a slight increase of 0.3% compared to 2.7

increase in the base line. So the delta, the difference, when you have these numbers comparing the adverse with the baseline is this 6% that I mentioned before.

Question: On what does the success of this recapitalisation depend?

Quintana: When we're considering a forward looking approach, the scenarios are very important. So fulfilling these scenarios and not having a negative deviation is very important and also it's very important for the Greek banks to manage properly non-performing exposures. The memorandum of understanding has three main pillars regarding the banking system. The liquidity and the solvency position are important, but also non-performing exposures are equally important. And there is quite a number of recommendations in the programme to be fulfilled, so that is also going to be relevant for the Greek financial system.

Question: Just to be clear on the non-performing exposures. If I understood correctly, under EBA terms that it was €100 billion and then a further €7 billion where added in the exercise. So is it correct to add the two numbers and say that the total of non-performing exposures of the Greek banks is €107 billion?

Quintana: Yes, I think in the exercise we've taken for granted, obviously, and that's an obligation for all banks, not only the Greek banks, the definition that was agreed by the EBA as I said in late 2013. By the way, that was considered in a simplified version in the 2014 comprehensive assessment and banks must be reporting this figure. And as I said, the definition of non performing exposures is very comprehensive and includes the different figure that banks have to consider, among which everything related to forbearance is the most relevant. So, this has been factored into the exercise and when we mention that we have considered a further increase in the credit file review plus the projection, including the projection, of around €7 billion, it's according to this definition.

Question: I was wondering if the exercise took into account Deferred Taxes Assets. Do they play any role in that?

Quintana: Yes certainly. Deferred tax assets (DTAs) are as you know subject to the tax regime in Greece and this enables the Greek banks not to consider an important part of them, because they don't rely anymore on future profits in this way. What has been considered in the exercise is that for taking a conservative approach and considering the size of the existing DTA's, that it has not been allowed an increase of DTA's whether they are coming from the AQR adjustments or from the projections for further impairment and further losses stemming from the baseline and, in particular, the adverse scenario. So there is not any tax offset that will reduce the losses considered in the exercise.

Question: You have €107 billion Euros of non-performing loans. That's equivalent to half of the loans stock on many of the Greek banks' books and yet €14 billion Euros is the additional capital required to cover the scale of this disaster really. And I just wonder: is there any possibility that you may have to revise these figures again in the future or is this the final word on Greek Banks and there is no risk that perhaps the fallout will be greater than you said today?

Quintana: Well, through the AQR we have been obviously considering the current NPE levels. We've conducted a thorough analysis looking at firstly, the figuring of the non-performing exposures and this relates to the €7 billion that I mentioned as being incorporated to the current outstanding number of exposures. But we have also been looking into provisioning. So looking at collaterals, updating and reducing in some cases the value of the collateral, taking into consideration types of sales, additional haircuts when there is a final agreement with the client and monetising the collateral, cure rates etc. So, everything has been factored into the exercise.

Question: I have actually two questions. The first one is if in general you think you can say that the deterioration from last year was mostly a consequence of political instability? And again a question on DTA just to be sure: you have not allowed DTA to cover the extra exposure that came from this exercise. Did I get that correctly? Can you clarify this point thank you?

Quintana: As I said previously, the DTA's, we have considered in the exercise, we've taken the starting figures as of June 2015. Most of them relate to the fact that the tax regime in Greece enables to convert DTA into what we call DTC. Considering the already high amount to CET1, we have not allowed to further increase this figure, so any adjustment stemming from AQR or any further impairments considered and losses in the baseline and adverse are not offset with a tax increase.

Question: How do you explain the fact that the banks that were OK 12 months ago now have €14 billion of capital shortfall? Is there something that was maybe overly stated in the previous exercise?

Quintana: Well, in the previous exercise there was already also an AQR part and there was some adjustment that had to be made by the Greek Banks and in fact, most of them were recorded and explained in some way the important losses that the Greek Banks recorded in 2014. But again, when we are looking at the stress part, the forward looking part, the exercise is very much driven by the scenarios. So the scenarios in the base and the adverse case are the ones that conduct the key parameters that have to be considered, basically the evolution of income and the evolution of impairments and any deviation from these scenarios obviously becomes important and, means that reality can go beyond what is expected in the exercise. So that is why it is very important to avoid any deviation from the economic growth expected.

Question: Since there've been three bailouts any Government or bailout fund that would be needed if private investors cannot cover all the capital needs would come exactly from where?

Quintana: As I said the banks have to come up with the capital plans, so this is just something we still don't know. We or the programme encourage as much as possible private investment, although as I also said at the beginning and it was highlighted in the Euro Summit and by the Eurogroup there is a backstop of € 25 billion that exceeds the €14.4 billion shortfall in the exercise. So, from the supervisory perspective this means that the solvency requirement or the shortfalls coming from the exercise will be covered.