A man for all seasons

National Bank of Greece Chairman and Chief Executive Officer Takis Arapoglou is cautiously optimistic about prospects despite the global economic slowdown and the share price woes affecting the entire Greek banking sector

National Bank of Greece, the country's oldest and largest bank, is one of Greece's most respected companies with a proven track record. A canny strategy of prudent but dynamic growth at home has been complimented by successful investment in the broader region, which has already borne fruit. In an in-depth interview with *Business File's Harry Papachristou* and *Philip Pangalos* at the end of January 2009, NBG Chairman and Chief Executive Officer Takis Arapoglou analyses market conditions, along with NBG's plans at home and abroad during the current testing times, as well as prospects for the Greek economy and the broader region.

National Bank of Greece is one of the region's biggest and most influencial players. *Business File* asked NBG's Chairman and CEO about the group's overseas operations and economic conditions in the broader region.

Q. What are the macroeconomic prospects in southeast Europe and Turkey?

A. Macroeconomic conditions in Southeastern Europe and Turkey point towards a slowdown in these economies. They won't draw to a halt, they'll grow at anywhere between zero and 1.5% next year. That's a substantial slowdown, but contrary to what is going to happen in Western Europe and the US, there will be some growth. We've seen all the countries managing the stability of their currencies well. Turkey has a very stable, adequately capitalized banking system, the regulators are very strict, there's no liquidity crisis. In Romania and Bulgaria, most of the banking system is owned by foreign banks, which are being supportive, so you won't have a banking crisis there.

Q. How is the situation with bank lending growth in these countries?

A. It has declined in Turkey and southeastern Europe, as is to be expected. It's a combination of reduced demand and tightening of banks' credit criteria and pricing. As far as we're concerned, we're tightening credit criteria and to the extent that we can, we try to fund with local deposits. If there's an attractive transaction and you can't fund it with local deposits, of course we'll fund it out of the group's pool. In the past, we used to budget for a year and monitor it every quarter. Today, all these markets and all these businesses have to be monitored once a week. Having an effective management information system in almost real-time is much more important than before, monitoring how you grow your deposits and how your NPLs behave.

Q. What is your strategy in dealing with the slowdown outside Greece?

A. We continue to lend but we fund all additional lending growth with local currency. For historical reasons, our cross-border funding to Southeastern Europe is roughly four times more than in Turkey. The amount of liquidity that we had to inject in Turkey has been much lower than we budgeted because Finansbank has been very successful in raising local currency deposits. Local currency deposits in Turkey went up 70% in 2008. In Romania and Bulgaria, or in other former communist countries such as Russia and Ukraine, it has always been very difficult to collect local deposits because local money is still kept under the pillow.

Q. To what extent do you inject funding from Greece to finance your foreign operations then?

A. The total funding we provide to our foreign subsidiaries is about 4% of our total balance sheet. We have 105 billion euros of total assets, approximately, and we're probably lending abroad about 5 billion euros. That's absolutely manageable. The danger, of course, in countries like Romania, has been the tremendous expansion of unsecured consumer loan lending over the past two years, especially loans denominated in foreign currency. Many banks did that. We consciously stopped lending unsecured foreign-currency loans from February 2007. And, therefore, we feel that our exposure to that kind of lending in this country is well controlled.

Q. To what extent do you lend in foreign-denominated currency in countries like Romania?

A. If it's a mortgage, we'll consider it because it has collateral. Foreign-currency loans account for around 50% of the total, much less than the market, and mostly comprise lending to corporates with access to export revenues. We're much lower, simply because we stopped extending unsecured foreign-currency loans about two years ago.

Q. How do you cope with lower lending growth?

A. Lending is a demand-driven activity, and demand has slowed in view of the increased uncertainty. If there was to be more demand for lending, filtered of course through our lending criteria and procedures, we would have

Left-to-right: Philip Pangalos, Takis Arapoglou and Harry Papachristou

"Turkey has a very stable, adequately capitalized banking system, the regulators are very strict, there's no liquidity crisis"

no problem providing the loans. Every bank has an obligation to support its foreign subsidiaries, always under its credit criteria. If you're prudent in your lending criteria and prudent in your risk management, there's no reason why you shouldn't. After all, there are good companies out there, and the region will be among the fastest growing in Europe post crisis.

Q. How are we then to understand noises coming out of the Greek central bank and authorities, urging banks to reserve most of their lending for the Greek economy?

A. I take it as a general statement of caution by the central bank arising from credit concerns in certain countries. They are not meant as "beggar thy neighbour" policies, transferring liquidity meant for SEE to Greece. Indeed, as I mentioned earlier these countries are mostly self-funded, and will be even more so as loan demand slows. Turning to the domestic front, we have expanded our lending in Greece in the last quarter substantially. We have slowed down a little bit, but we still lent about 2 billion euros in the fourth quarter of 2008 in Greece and we continue to be the biggest provider of mortgage loans in the country.

Q. That means you're still getting money out of these countries?

A. We expect deposit growth in SE Europe to be something around 7-8%, which is roughly equal to the loan growth we expect in these countries. Even in Turkey, deposit growth next year is going to be in the low 10s, again in line with loan demand. So the implied dilemma is unlikely to even occur.

Q. So, in your opinion, the region doesn't need a rescue package?

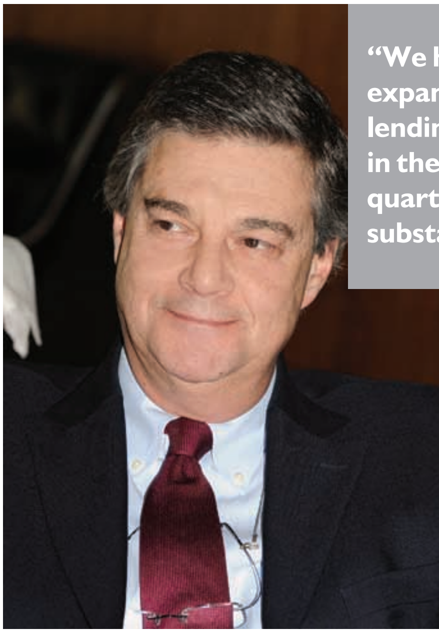
A. The liquidity pressure which many European banks that have invested in these markets face is enormous (in certain cases). Thus, they may be forced to hoard liquidity and are under pressure to restrict or even repatriate lending from their overseas operations. If the domestic government bank packages are not sufficient, then a regional one, though complex to design, could serve a useful purpose in mitigating the externalities of the liquidity crunch on the economies of the region. I want to underline that NBG is certainly not in the situation I described above.

Q. What is your advice for these countries?

A. They have a fine balancing act to maintain. Fiscal discipline has to sustain the confidence of markets, while there is pressure to prop up their slowing economies (as all industrial economies are doing). Luckily, they all have strong banking systems and good initial fiscal positions, so unless the world suffers a further major loss of confidence, they should be able to weather the storm in decent shape.

Q. What is your view on the Turkish economy?

A. The Turkish economy has learned to be very flexible in times of crisis, reducing staff and costs. Remember that in Turkey, like in the US, when 10,000 people lose their jobs, they'll probably get them back in six months time or a year's time. Moreover, one should not forget all the structural reforms undertaken during the past 6-7 years. The Turks now have a very competitive economy. They have opened up the energy and transportation sectors. They have very good regulators, and very effective banks. In the times of euphoria, Finansbank has been careful not to



"We have expanded our lending in Greece in the last quarter substantially"

overlend. I feel that Finansbank will continue to provide a very positive contribution to the overall group results in (2009, and) the years ahead.

Q. How has your expansion been outside urban centres in Turkey?
A. It has been mostly in the more developed parts of Turkey (western side and Ankara). In the beginning, when we got Finansbank, it had around 200 branches. Now, we have over 420 branches and we have now even grown in the eastern areas of Turkey where there is a lot of new SME business starting up. And we have also gone out there, because in these areas, we can easily attract deposits as other banks don't have a presence. In the past, the bank depended on wholesale borrowing, loan syndications, etc. We kept that but we also tried to inject in Turkey the culture we had at NBG in Greece, where we are the deposit collection machine.

"We expect deposit growth in SE Europe to be something around 7-8%, which is roughly equal to the loan growth we expect in these countries"

Q. How are things in Bulgaria? Are they the same?
A. Again, we see a slowdown in the economy but the economy won't stall and, like other economies of the region, it is quite competitive and dynamic. In contrast to its neighbours, the risks involved in terms of foreign currency are greatly mitigated by the currency board whose viability is not doubted by anyone. Outside Greece, Bulgaria is the second-largest country in terms of profitability for us after Turkey.

Q. How is the slowdown affecting your expansion plans in Romania?
A. We have nearly doubled the branches we had two years ago in Romania. It's a manageable situation, and, in many ways, we're lucky we aren't bigger. The time will come when we'll be able to start expanding again, but that depends on when market conditions normalise.

Q. Will you stop expanding in Egypt too?
A. No, the plan is to grow there by 10 more branches this year, up from six or seven currently. I think it's better if we grow organically in Egypt. Our business depends a lot on the middle class. The growth of the middle class in Egypt is much slower and much smaller than, say, in Turkey. Our key target segment currently is SMEs, for which we do not need a very large branch network.

Q. How about your very small markets: Albania, FYROM and to some extent Serbia? Are they suffering?
A. These markets have not been affected. They're very closed economies and all have been very profitable relative to our investment.

Domestic operations

On the domestic front, Mr. Arapoglou elaborates on Greece's economic growth prospects, NBG's expansion plans and the government's 28-billion-euro liquidity plan.

Q. What is your estimate for economic growth in Greece this year?
A. We see it at about 0.5%. I don't believe we have a crisis yet in Greece. The Greek economy is not very open and the labour (market) is structured in a way that few heads of households will become unemployed. If you look at NPLs, the companies that used to have a problem have bigger problems now. But there's no increase in the number of companies which have a problem yet. Clearly we will see higher NPLs, but these will be quite manageable.

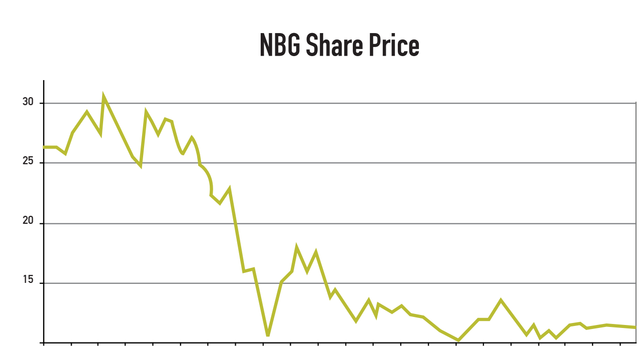
SHARE PRICE WOES

Like other banks, NBG has seen its share price slide. We asked Mr Arapoglou to comment.

Q. Looking at NBG's share price, do you think that stock market investors are unjust towards your company?
A. They're unjust towards every company. Greece is a more marginal market, so it suffers because of that.

Q. But surely, banks suffered more than other sectors…
A. Correct and again there has been very little differentiation. Moreover, visibility is still zero in the banking system. As long as real estate prices continue falling in the US, banks will have to mark-to-market their real estate portfolios, quarter after quarter, and this will maintain uncertainty.

Q. To ask the cliché question: do you sleep well at night with your current share price?
A. There's nothing I can do about the share price. The only thing I can do something about is the results and the profitability of the bank and the capital adequacy and liquidity. Share price is shaped by people's perceptions. Was the price at 50 euros reflecting reality? No. Does the price at the current level reflect reality? Probably not. Both have been at extremes.



Source: ATHEX

Q. What do you expect to support the economy?

A. As I mentioned earlier, the Greek economy is relatively closed. In addition, the two-year wage agreement will provide generous support to households in the form of wage increases of the order of 5.5% in nominal terms (3% in real terms) and the increase in unemployment, though unavoidable, will be limited. Importantly, interest rates will be much lower as the ECB has already cut rates from 4.25% to 2% and will surely reduce further, perhaps below 1%. For example, consider that Greece has 70 billion euros in mortgage loans, linked in about equal halves to the ECB benchmark rate and the Euribor. Both rates have declined by about 2.75 percentage points over the past months. That reduced households' debt service by 2 billion euros. Add about 100, 120 billion euros of corporate lending in the broader sense, where Euribor has gone down by another 2.75 percentage point, and that's at least another 3 billion euros. That means that the private sector will have more than 5 billion euros extra in its pockets from this year. This will go into savings, consumption and it's certainly a good safety net for society. Finally, banks will keep lending and a loan growth of 10% in 2009 will provide 25 billion euros of net funding to the economy (10% of GDP), probably more than it needs in view of the stockpiling of credit by corporates in 2008 (loan growth accelerated to 20% from 10% a year earlier) and the low economic growth (3% in nominal terms).

Q. Aren't you worried about rising deficits and debt?

A. It is far less a problem than the press makes out. First, the key issue is not so much Greece's level of debt but the fact that euro area sovereign issuance will top 1 trillion euros in 2009 (up by nearly 300% compared with 2008) squeezing the marginal players such as Greece, which will need to raise less than 50 billion euros. The fact that this paper can be repoed (discounted) at the ECB without limit eliminates any chance of it not being placed.

Q. Aren't you concerned that higher debt service costs might distract other funds required to stimulate growth?

A. The nominal interest rates at which the government is borrowing, even with the increased spread, are the same as last year – around 5.5% as spreads mainly reflect the fact that yields on German government bonds fell, reflecting the above point on liquidity on the marginal issues. Spreads of 200, 300 basis points between Greek and German bonds are an exaggeration, and will come down as uncertainty abates and liquidity returns.

Q. How do you judge the Greek banks' performance in the crisis?

"The Greek economy is not very open and the labor is structured in a way that few heads of households will become unemployed"

A. Greek banks have a very clean balance sheet. They were in high growth markets with high margins in the last two years so they had no incentive to invest in what ended up as toxic assets. Their only weakness, with the exception of NBG and Agricultural Bank, I think, are that they are overleveraged. But the quality of the balance sheet, the capital adequacy, and the government's package to insure liquidity and capital, will ensure that they won't suffer any damage as happened in Western Europe. You've seen huge banks collapsing. It's a very important signal of the strength and maturity of Greek banks that they have not had any casualties.

Q. To what extent did NBG benefit, as the bigger bank, from the brief bank scare we had in Greece in October?

A. There was an inflow of about 5 billion euros during October. Out of this we lost a couple of billion now that things stabilised and banks went into the government scheme that supported them. We were very pleased to be able to inspire so much confidence.

Q. Why did you decide to take part in the plan?

A. We decided that we need to show that we're prepared to support this initiative, so that its implementation will move forward quickly. We have enough liquidity and we're well capitalized, so we really didn't need to go into the scheme, but we believed that the whole banking system should support the situation of liquidity in a uniform way, so we participated. Our tier 1 is 10.5%, when the average of European banks is 6-7%.

Q. Will you be making use of all of the scheme's facilities?

A. Our intention is to use the facilities in full. Initially, we may come in and use the liquidity facility for a small amount. Having said that, we're going to use the liquidity part of the scheme in full only if we need to. We have excess liquidity of nearly 10 billion euros: we have 5 billion ready and another five potentially through securitizations and covered bonds. So, until we use this up, I think it's unfair to go and take liquidity that others could use. So, in principle, yes, we are, but we'll use it when we need it.

Q. Is it true that NBG wants to exit the government's liquidity scheme as early as possible in the summer?

A. That isn't an official position. We will continue our cooperative stance as long as the current situation persists. Clearly, when the environment begins to normalise, we shall have to start thinking about that eventually. But, it is clearly premature to discuss now.

Q. Do banks' current low stock market valuations offer an opportunity for mergers or acquisitions?

A. I don't think that consolidation is something one can talk about right now. In a merger or in an acquisition the absolute level of stock prices doesn't matter, it's the rate of exchange between the two that matters and this hasn't changed substantially. I believe that the time is probably not right for something like that.

Q. Why don't we see big banking mergers in Greece?

A. There are emotional reasons involved. Three out of the four large Greek banks are owned, controlled or run by their founders. These are very successful people and the personal element may come in and affect decisions. NBG has no owner per se. It's run by professionals who look at numbers and these numbers may or may not indicate that there should be a consolidation. I believe, at the moment, that there isn't any probability of anything happening.

Q. What about NBG's involvement in problematic sectors such as shipping and construction?

A. We have been very careful. We have reduced our exposure in tourism, shipping and construction over the last few years, in Greece and abroad. Let me add that no Greek bank is heavily exposed to either sector.

Q. What's your exposure to shipping, which does have problems?

A. Out of a total loan book of 80 billion euros, we have 1.9 billion euros in shipping. That's very manageable. We have lent to the top 25 traditional Greek families who have fifty years of experience and, if push comes to shove, will protect their names before they protect their wallet. Shipping involves a high degree of personal banking.

Q. Tourism is expected to suffer from the crisis…

A. Tourism is certainly a big question mark, and demand will certainly decline. In the past, tourism has not had a tremendous elasticity with recessions, perhaps reflecting our European dependency where vacations are not easily given up. We estimate a decline of 5-7%, but if the economy improves in H2:2009, late bookings could provide a positive surprise.

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Luckily, the tourist season is late in the year. Moreover, the feeling is that, as more expensive areas of resorts lose high-paying customers, some of these customers will come over to us.

Q. On that point… what do you see happening in the Greek property market? We have seen a large stock of unsold property lately. Are you concerned of a price fall following the economic slowdown?

A. The first comment here is that we had a greater number of unsold properties even before the crisis, reflecting the highly segmented nature of this sector. This isn't something that was created now. The second is that, in Greece, we never really had a real estate bubble. Prices went up by 4 or 5% a year on average since 2000. We haven't really seen a bubble in Greece, with house affordability and repayment capacity still quite good.

Q. We recall much more significant price increases in the run-up to the Olympics and later, of about 9 to 10 %.

A. Do not forget that the Greek real estate market was greatly and positively affected by entry into the EMU, which resulted in a large permanent drop in interest rates (by some 10 percentage points). This development led to a national increase in prices in the early years of this decade, assisted as well by the Olympic Games as you correctly pointed out. However, even ignoring this effect, house price increases in Greece have been nothing like Ireland, Spain or the UK. I believe that prices are going to be corrected a little bit, but it's not going to be anything dramatic. Real estate prices aren't a concern for me. Looking at non-performing loans in our Greek mortgage portfolio, it's behaving extremely well. I think we have a NPL ratio of about 2.5 percent, which is, by international standards, very acceptable. We have always been very prudent in the loan-to-value ratio. We never went higher than 80%.

Q. So, haven't you been tightening your lending standards at all over the past few months?

A. We have tightened them, of course. We use our point system. We approve about 75% of applications, that's 10 percentage points less than a year ago. At the moment, we approve about 200 mortgages a day. The target for the full year is going to be 3 billion euros of new mortgages in the Greek market compared with 3.5 billion euros last year.

Q. What do you think about the lending support schemes for small businesses announced by the government, such as TEMPME?

A. It's going very well. We have a target of 400 million euros to lend under the TEMPME scheme and as of last week (late January) we started disbursing money under the TEMPME scheme. If the government decides to improve the terms and conditions of the contract, especially as regards the guarantee element (which falls away if losses exceed a certain threshold), it would be a further positive.

Q. So, would you say that we've already seen the bottom of the credit slowdown in Greece?

A. I can tell you that we'll continue to lend. We have said that SME lending for us in 2009 will grow in the high teens, and we're going to grow our retail lending , including mortgages, by over 10%, albeit at a slower pace than last year. Where you'll see a decline in growth will be in consumer loans. We want to reduce that. We see less demand there and we don't want to take more exposure in consumer loans.

Q. Does Greece need a change in economic policy?

A. Of course we need a change in policy, but this isn't so easy to do. We need to free up the economy and make it more efficient and competitive and reduce government bureaucracy. But this is politics. I'm not a politician. For example, freeing up the closed professions would increase GDP by 1 percentage point. Look at the cost of transportation. If you're a truck driver and you go from Athens to Thessaloniki, you can't stop over in Lamia to on or off load because there's another truck driver who operates that route and there's nothing you can do about it. Reform is a one-way street and though the areas of reform are agreed by all, special interest groups continue to have the upper hand.

Q. How are your branch expansion plans in Greece?

A. Had we stayed in the period of economic expansion that we had a year ago, we had plans to increase branches by about 100 in new locations, outside Athens. But we're now putting that back on hold until we see that things are beginning to stabilise. We will continue only to relocate existing branches. ✖