

Herculean Recovery

Banking on Greece*

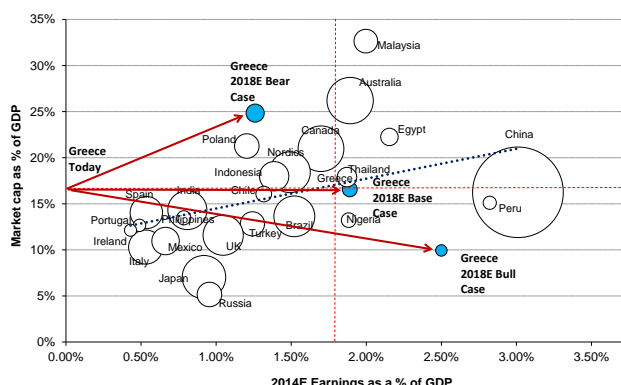
- **Oligopoly Benefits** — Greece is one of the most consolidated banking markets in Europe. The top four banks in Greece today have a 98% deposit market share. With only four players it should be easier for the banks to increase profitability. Greek banks' costs declined 6%-11% in 1Q14 on a year-on-year basis.
- **Deep Dive NPL Analysis** — Based on a detailed analysis of bank disclosure, EBA data and economic trends, we show that retail oriented bad debts in Greece have been very closely correlated with unemployment levels. The IMF forecasts Greek u/e to decrease to 14% by 2019 from the peak level of 27% in 2013.
- **Lower Rates, Funding Cost and COE** — Greek 10 year government bond yields have declined 490 basis points over the past year, but at 5.9% they remain above GIIPS peers. Term deposit rates could further decline in Greece (281bps, Apr 14) as they are high relative to Spain (185bps) or Italy (218bps).
- **Top-Down View** — On our base case, 2018E Greek bank domestic earnings are c1.9% of GDP and market capitalisation is c17% of GDP, in the middle of the pack. The implied P/E is c9x 2018E. The bull case, driven by higher profitability and also capital return (c40% of current market cap.) has an implied P/E of 4x.
- **Greek Bank Ratings** — We update our models and increase profit forecasts for Alpha, NBG and Piraeus, reflecting higher profits before provisions and lower loan losses. We upgrade Piraeus Bank to Buy (Target price: €2.00) as it is the most geared play to Greek banking recovery, both in terms of improved cost/income ratios and declining bad debts. We reiterate our Neutral ratings on Alpha and NBG.

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Figure 1. Banking Systems' Market Cap (% GDP) vs Earnings (illustrative 2018E for Greece)



Source: Central bank, Citi Research Estimates; Note: estimates based on domestically focused activities

*Correction: we have amended our Piraeus estimates and DDM on pages 5-6 and 29-31

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Data Summary

Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
Alpha Bank	ACBr.AT	2	2	-	-	€-0.06	€-0.01
Piraeus Bank	BOPr.AT	1	1	€2.00	€2.00	€-0.13	€-0.12
National Bank of Greece	NBGr.AT	2	2	-	-	€0.04	€0.07

Investment Overview

Investment Positives

Top 4 Greek banks have more than 90% loan market share

Oligopoly Benefits: Greece is one of the most consolidated banking markets in Europe. The top four banks in Greece today have a 94% of loan and 98% of deposit market share. Before the crisis, the top four banks only had 65%. The large number of banks in Greece pre crisis, as well as the presence of many banks with well-funded foreign parents with a strategic growth focus, kept the Greek market competitive. In today's market, with only four players in practice, it should be easier for the remaining banks to increase profitability via ongoing cost saves (branch and head count cuts), and to raise margins.

Restructuring will improve efficiency

Restructuring and Optimisation: The four Greek banks have all undertaken consolidation in the past few years. The bank sector M+A wave was led by Piraeus and their 6 Greek bank acquisitions since 2012. The costs reported by the four major Greek banks declined 6%-11% in 1Q14 on a year-on-year basis. The Greek bank system has seen a branch decline of 16% over the past year and 27% from the peak. Greek banks' 1Q14 cost-to-income ratios were 53%-64%; most banks aspire to achieve 40-45% cost-to-income targets medium term. The biggest delta from 1Q14 to 2017-18 CIRs, based on our forecasts, will be for Piraeus Bank.

...and cyclical NPL cycle is expected to peak

Recovering Bad Debt Cycle: Greek NPL ratios are likely to start reaching a peak during 2H14-1H15. We forecast NPL-to-Loan ratios to increase a further 1-3% to peak levels relative to 1Q14's 23%-38% published levels and thereafter to move to net recoveries and associated low P+L loan loss provisions. Greek bad debts are geared to mortgage and SME clients, a similar bad debt profile as in Spain but unlike corporate geared Italy. Our analysis in this report shows that Greece's NPL evolution has been very closely correlated with unemployment levels, more so than in Spain or Italy. The IMF forecasts Greek u/e to decrease to 14% by 2019 from the peak level of 27% in 2013. The IMF expects Greek GDP to expand in 2014 and GDP to grow 2.9%-3.7% in 2015-16, faster than most of the other GIIPS countries.

Lower deposit rate and funding cost will drive margin improvement

Lower Rates, Funding Cost and COE: Greece is an exemplar of the Euro periphery re-convergence story. Greek 10 year government bond yields have declined 490 basis points over the past year but at 5.9% they remain above the rest of the GIIPS countries that have 2.3%-3.6% 10 year yields. Our Economists forecast that Greek 10 year bonds will decline a further c1.5% by end 2017, from c6% currently. New term deposit rates can further decline in Greece (281bps, Apr 14) as they are high relative to Spain (185bps), Italy (218bps) or Portugal (241bps). Lower risk free rates would help Greek banks to reduce their funding costs. It would also lead to higher valuation multiples via lower cost of equity assumptions used by investors.

Investment Risks

...but declining asset margin may offset funding benefits

Asset Margins May Offset Funding Benefits: Term deposit costs are likely to improve in the coming 12 to 18 months. However, the benefit from lower deposit costs may be offset by declining asset yields. For example, a 100bps drop in Alpha Bank's Greek term deposit cost in 2015 yoy would add €216 million or 11% to its Group NII. But a 10bps decline yoy in its 2015 Greek loan yield would remove €40 million or 2% from its Group NII. In 1Q14, many Greek banks experienced a decline in loan spreads reflecting the improving environment. Alpha Bank's Greek loan spread declined 4bps qoq in 1Q14. Of course, declining NPLs is also likely in an improving Greek environment, and falling loan yields may be partly offset by lower NPL provisions and higher performing loans and loan NII.

AQR adds to balance sheet uncertainty

European AQR and Higher Provisions: Greek bank executives argue, similar to many Spanish peers, that (1) they have been subjected to several internationally run Stress Tests already and (2) they have raised capital already. In this report, we highlight that the EBA's "Transparency Exercise" (Dec 2013) reveals similar levels of bad debts as reported by the Greek banks' themselves. However, we would note that the Greek banks, as they measure credit risks on a "standardised" not IRB basis, reported their EBA bad debt numbers on a net not gross basis. NPL coverage ratios at the Greek banks range from 50%-56% at end 1Q14. Within the overall NPL coverage ratio, which is broadly in-line with European peers, the Greek banks may have exposures to specific countries or asset classes where a provision top-up may be needed. For example, the Greek banks' South East European NPL coverage ratios vary between 42%-54%. Romania and Cyprus are countries to watch.

New capital supply may weigh on near term performance

Digesting Capital Increases: All four major Greek banks have raised equity capital earlier this year (Alpha €1.2bn; Piraeus €1.75bn; NBG €2.5bn; Eurobank €2.86bn). A total of €8.3 billion of new equity was issued by these four banks, a large amount relative to their free-float market capitalisation of €10 billion (ex HFSF holding). This new supply may have weighed on share price performance during 2Q14. Our base case is that the three Greek banks covered in this report do not issue new equity in 2014. NBG will likely divest a minority stake in Finansbank during 2015, due to EU rules, and this would add to its capital ratios. Bank of Cyprus has been asked by the Central Bank of Cyprus to confirm by 4 July that it will conclude a capital issuance by 8 August "which will not be less than 1 billion euros" (Reuters, 2 July 2014). BoC NPLs had a coverage ratio of 35% at end 1Q14; raising the coverage ratio by 10ppt, all else equal, would imply a €1.4 billion raise.

Geopolitical risks could resurface

External Shocks: While recent macro-economic and political news-flow has been relatively benign, including the recent EU Parliamentary election result which was not as bad as some had feared for the New Democracy led Greek administration, macro-economic and political risks of course remain. Any pause or reversal of the broader EZ periphery rally would likely weigh on Greek funding costs and equity valuations. A re-negotiation of the officially-held Greek sovereign debt, likely focused on extension of maturities, is expected in due course by investors and market observers, and this may lead to market or political uncertainties.

Valuation Overview

NGB is the highest rated Greek bank on a P/B basis

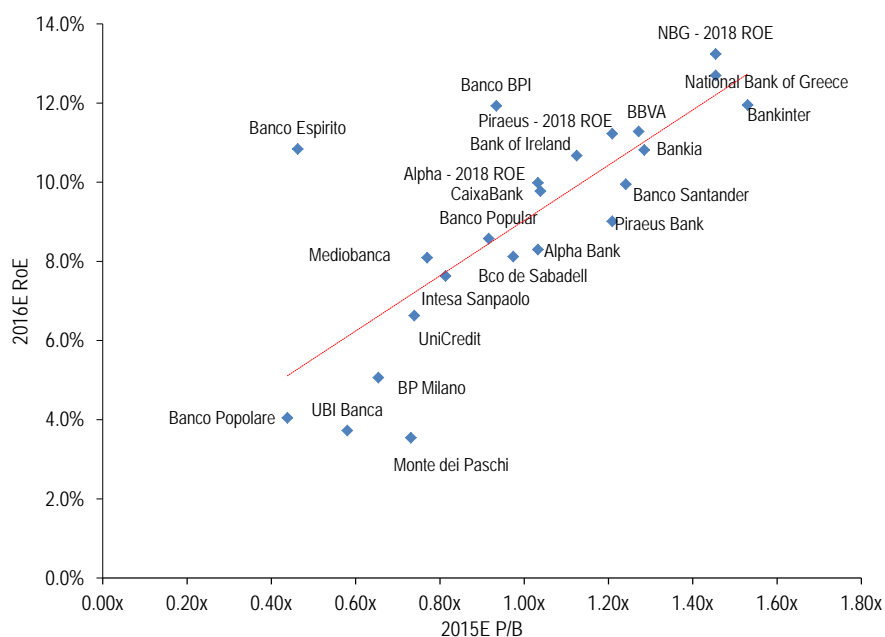
Greek banks trade in-line with GIIPS peers, based on a comparison of ROE and P/B (see Figure 2). On a price-to-book basis, NGB is the highest rated of the Greek banks and one of the highest among GIIPS banks. On our estimates, NGB trades at 1.6x 2014E book (2.3x tangible), albeit this should improve to 1.5x 2015E book (1.7x tangible) due to organic earnings growth and the benefit from a possible 40% stake sale in Finansbank (our estimate) included in our model.

Lower rated Piraeus offers the most upside

In the middle of the GIIPS peer group, we find the other two Greek banks that we discuss in this report: Alpha Bank trades at 1.1x 2014E book (1.1x tangible) and Piraeus trades at 1.5x 2014E book (1.6x tangible book). The lower multiples of these two banks have in the recent past been justified given NGB's higher profits due to (1) a profitable Turkish subsidiary and (2) lower Greek bad debts. However, if the recent recovery in the Greek environment is sustained, most notably cost cuts, improved funding and declining loan loss provisions, the lower P/B rated Greek banks may look more attractive to investors.

Greek banks look attractive on 2018 ROEs, less so on nearer term ROEs

Figure 2. GIIPS Banks – 2014E P/B vs 2016E RoE



Source: Citi Research

Figure 3. GIIPS Banks – Valuation Metrics

Bank	RIC	Rec	Now	Target	+/-%	P/E 2014E	P/E 2015E	P/E 2016E	P/B 14E	P/B 15E	ROE 14E	ROE 15E	ROE 16E	Div Yld 2014E	
Greece					+15%	nm	24.4x	11.8x	1.32x	1.24x	1.9%	6.6%	10.0%	0.0%	
Alpha Bank	ACBr.AT	Neutral	E	.71	na	<0	21.2x	11.9x	1.06x	1.03x	NM	4.9%	8.3%	0.0%	
National Bank of Greece	NBGr.AT	Neutral	E	2.82	na	24.4x	13.3x	10.5x	1.63x	1.45x	5.8%	11.5%	12.7%	0.0%	
Piraeus Bank	BOPr.AT	Buy	E	1.74	2.00	+15%	<0	47x	13x	1.4x	1.3x	NM	3.2%	10.8%	0.0%
Portugal					+81%	11.7x	6.6x	5.3x	0.70x	0.64x	4.1%	9.9%	11.2%	0.0%	
Banco BPI	BBPI.LS	Neutral	E	1.58	1.60	+2%	11.7x	8.9x	7.4x	1.04x	0.93x	9.3%	11.1%	11.9%	0.0%
Banco Espirito	BES.LS	Buy	E	.70	1.58	+128%	nm	5.2x	4.1x	0.50x	0.46x	1.0%	9.2%	10.8%	0.0%
Spain					-5%	20.0x	14.1x	11.6x	1.23x	1.21x	6.6%	8.7%	10.2%	4.5%	
Banco Popular	POP.MC	Sell	E	4.98	4.60	-8%	22.5x	12.8x	10.4x	0.93x	0.92x	4.0%	7.2%	8.6%	1.6%
Banco Santander	SAN.MC	Neutral	E	7.85	6.80	-13%	16.3x	13.9x	12.4x	1.24x	1.24x	7.7%	9.0%	9.9%	6.4%
Bankia	BKIA.MC	Buy	E	1.45	1.70	+17%	18.4x	13.5x	11.2x	1.42x	1.28x	8.0%	10.0%	10.8%	1.4%
Bankinter	BKT.MC	Neutral	E	5.95	5.75	-3%	18.6x	15.2x	12.5x	1.53x	1.53x	8.4%	10.4%	11.9%	1.3%
BBVA	BBVA.MC	Neutral	E	9.64	9.50	-1%	20.2x	14.3x	10.9x	1.31x	1.27x	6.5%	9.1%	11.3%	3.8%
Bco de Sabadell	SABE.MC	Sell	E	2.51	1.90	-24%	30.8x	16.9x	11.7x	1.01x	0.97x	3.3%	5.9%	8.1%	1.2%
CaixaBank	CABK.MC	Buy	E	4.68	5.10	+9%	28.5x	14.4x	10.4x	1.07x	1.04x	3.7%	7.3%	9.8%	4.3%
Italy					+8%	22.1x	13.6x	10.2x	0.76x	0.73x	3.1%	5.2%	6.4%	1.9%	
Banco Popolare	BAPO.MI	Neutral	E	12	na	23.0x	16.2x	11.5x	0.45x	0.44x	0.6%	3.1%	4.0%	0.2%	
BP Milano	PMII.MI	Sell	E	.68	.54	-20%	23.2x	18.1x	12.7x	0.68x	0.65x	3.2%	3.7%	5.1%	0.0%
Intesa Sanpaolo	ISP.MI	Neutral	E	2.35	2.50	+7%	17.6x	12.4x	10.1x	0.85x	0.81x	4.1%	6.4%	7.6%	2.8%
Mediobanca	MDBI.MI	Buy	E	7.49	8.00	+7%	11.1x	9.7x	9.0x	0.82x	0.77x	7.3%	8.0%	8.1%	2.2%
Monte dei Paschi	BMPS.MI	Neutral	E	1.54	1.50	-3%	<0	31.0x	17.0x	0.75x	0.73x	-4.1%	1.9%	3.5%	0.0%
UBI Banca	UBI.MI	Neutral	E	6.81	7.30	+7%	25.7x	18.9x	14.4x	0.59x	0.58x	1.5%	2.8%	3.7%	1.6%
UniCredit	CRDI.MI	Buy	E	6.39	7.30	+14%	20.3x	13.2x	9.1x	0.77x	0.74x	3.3%	5.2%	6.6%	1.9%
Ireland					-43%	25.1x	13.1x	10.0x	1.23x	1.12x	5.0%	9.0%	10.7%	0.0%	
Bank of Ireland	BKIR.I	Sell	E	.26	.15	-43%	25.1x	13.1x	10.0x	1.23x	1.12x	5.0%	9.0%	10.7%	0.0%
Europe Bank Sector					+12%	13.3x	9.8x	8.5x	0.96x	0.91x	6.1%	8.9%	10.2%	3.3%	

Source: Citi Research; Priced on 4th July 2014

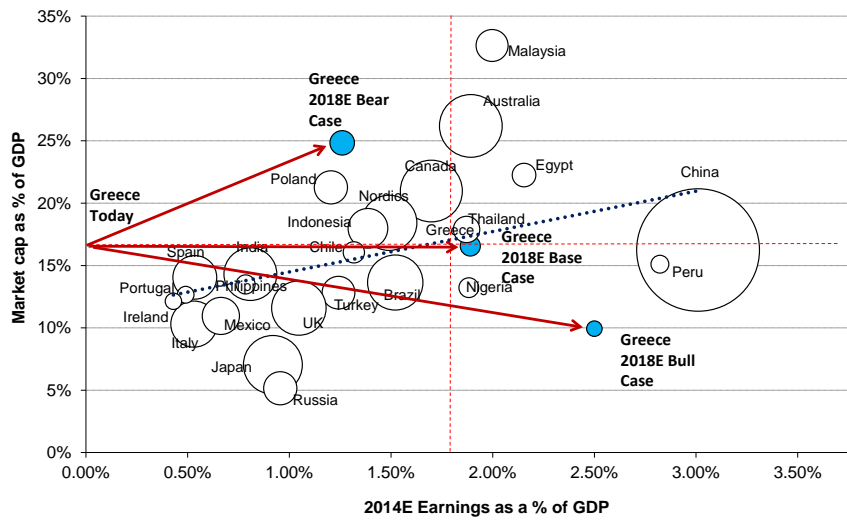
Valuation Relative to International Peers

From a top down perspective, based on bank earnings and market value relative to GDP, Greek domestic banking appears fairly valued. In our chart below, we illustrate the size of the domestic banking system for a selection of developed and emerging markets. Note that the system earnings and market value figures are a Citi estimate based on the domestic earnings and market shares of quoted banks we cover in each country.

- **Base case:** 2018E domestic earnings reach close to 1.9% of Greek GDP and market capitalisation is c17% of GDP. We do not assume any special capital return. This would place Greece in the valuation neighbourhood of Brazil and Indonesia, and pretty much in the middle of our global sample. The implied P/E is c9x normalised earnings (eg 2018).
- **Bull case:** Profitability reaches levels between other oligopolistic systems, such as Australia and Canada (at c2% of GDP) and Greece pre-crisis (above 3% of GDP). Additionally, surplus capital surplus of up to 40% of the current market cap is returned to shareholders (based on 2018E CET1 levels above 10%). The bull case implied P/E is 4x.
- **Bear case:** From the point of view of today's investor who needs to inject an equivalent of a further 0.5x of market capitalization (due to latent losses on loans): this would result in the equivalent of Greek bank earnings to GDP of c1.2%, similar to Turkey or Russia, but a market capitalisation to GDP of c25%, or similar to an Australia. The bear case implied P/E is 20x.

Based on bank earnings and market value relative to GDP, Greek domestic banking appears fairly valued; upside from capital return, downside if bad debts worse

Figure 4. Banking Systems' Market Cap (% GDP) vs Earnings (illustrative 2018E for Greece)



Source: Central bank, Citi Research Estimates; Note: estimates based on domestically focused activities;

What Does Greek Banking Look Like?

A New Oligopoly Emerges

New oligopoly already helping reduce opex and deposit costs

The Greek banking system has gone through significant consolidation during the last couple of years, with the top four banks' market shares growing from c60% pre crisis to over 90% today (Figure 5). This new oligopoly is already helping banks to reduce operating expenses and – along with the improvement in the environment for the Euro Area – should help to reduce future funding costs and maintain the high current loan spreads.

Figure 5. Market Share of Top 5 banks by Country

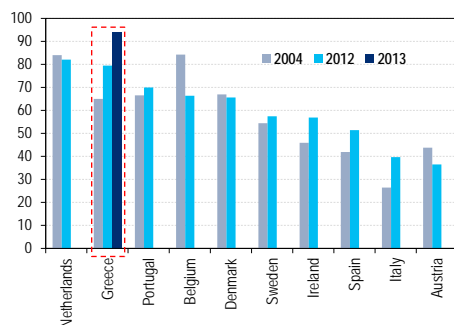


Figure 6. Greek Banks Loan Market Share FY13

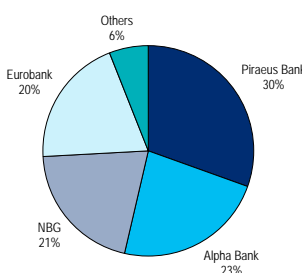
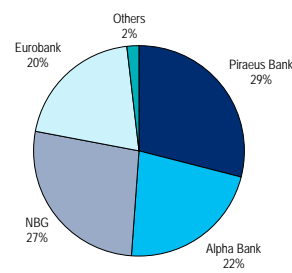


Figure 7. Greek Banks Deposit Market Share FY13



Source: Company Reports; Figure 5 based on ECB Data Top 5 banks assets% total except 2013 Greek market share is estimated based on loan market share of top 4 banks.

As in other countries that have recently experienced a crisis, such as Spain, Greece has experienced a wave of domestic consolidation as weak or failing banks have been merged, with the support of policy officials, with larger banks. Piraeus Bank has undertaken a large number of domestic acquisitions and this has allowed it to advance from the ranks of being a mid-tier player to the largest bank in Greece based on several metrics such as headcount and branch numbers.

Figure 8. Greek Banks M&A Transactions 2008- Today

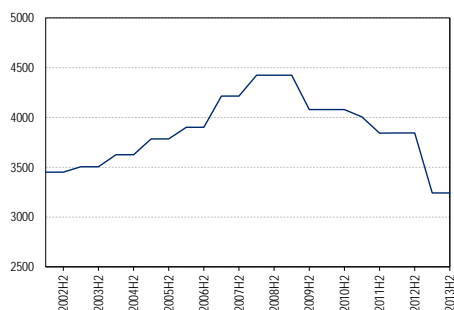
Announce Date	Deal Title	Transaction Value	Role
Alpha Bank			
31 Jul '12	Alpha Bank SA acquires Emporiki Bank SA from Credit Agricole SA	0	Buyer
27 Mar '08	Alpha Bank SA takes a majority stake in Astra Bank OJSC	14	Buyer
National Bank of Greece			
10 Feb '10	National Bank of Greece SA takes a majority stake in Millenium Bank AS from Banco Comercial Portugues SA	84.9	Buyer
20 Aug '08	National Bank of Greece SA takes a minority stake in Finansbank AS	725.0	Buyer
22 Apr '08	National Bank of Greece SA takes a minority stake in Greek Postal Savings Bank	154.8	Buyer
Piraeus Bank			
22 Apr '13	Piraeus Bank SA acquires Millennium Bank SA /Greece/ from Banco Comercial Portugues SA	1.3	Buyer
26 Mar '13	Piraeus Bank SA offers to acquire Bank of Cyprus Public Co. Ltd. /Greek Divisions/ from Bank of Cyprus Public Co. Ltd.	--	Buyer
26 Mar '13	Piraeus Bank SA offers to acquire Cyprus Popular Bank Public Co. Ltd. /Greek Divisions/ from Cyprus Popular Bank Public Co. Ltd.	--	Buyer
26 Mar '13	Piraeus Bank SA offers to acquire Hellenic Bank Ltd. /Greek Divisions/ from Hellenic Bank Ltd.	--	Buyer
03 Oct '12	Piraeus Bank SA takes a majority stake in GENIKI Bank SA from Societe Generale SA	1.3	Buyer
27 Jul '12	Piraeus Bank SA acquires Agricultural Bank of Greece SA /Operating Assets/ from Agricultural Bank of Greece SA	116.8	Buyer
14 Jun '12	Investors Bancorp, Inc. /Old/ acquires Marathon Banking Corp. from Piraeus Bank SA	135.0	Seller
Eurobank			
13 Jul '13	Eurobank Ergasias SA acquires TT Hellenic Postbank SA	--	Buyer
11 Jul '13	Eurobank Ergasias SA acquires Proton Bank SA	0.0	Buyer
20 Dec '12	Eurobank Ergasias SA acquires Erste Bank Ukraine JSC from Erste Group Bank AG	83.0	Buyer
09 Apr '12	Burgan Bank SAK takes a majority stake in Eurobank Tekfen AS from EFG Eurobank Ergasias SA	357.6	Seller
03 Feb '11	Raiffeisen Bank International AG takes a majority stake in Polbank EFG SA from EFG Eurobank Ergasias SA	676.6	Seller

Source: FactSet

Emergence of the new oligopoly in Greek banking has led to a sharp drop in the number of branches in the country.

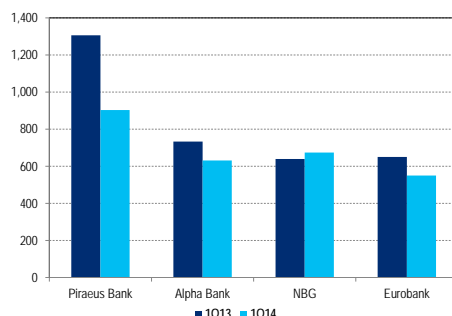
The emergence of the new oligopoly in Greek banking has led to a sharp drop in the number of branches in the country from close to 4500 to about 3200. At end 2013, Piraeus accounted for one-third of Greek branches and the other three major banks had about one fifth each of the system branches. Underlying costs have also fallen, typically by about 10% yoy for most of the banks at a group level (1Q14 yoy).

Figure 9. Greece System Bank Branches



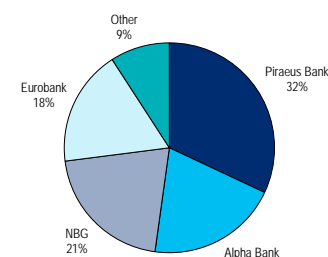
Source: Company Reports

Figure 10. Number of Branches in Greece



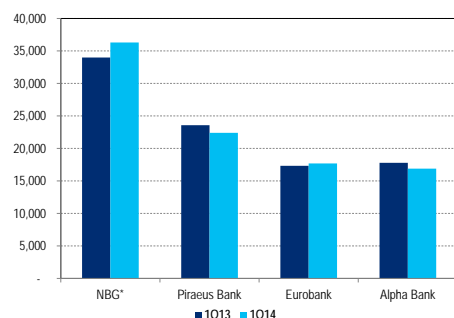
Source: Company Reports

Figure 11. Branch Market Share in Greece 4Q13



Source: Company Reports, ECB

Figure 12. Group Headcount



Source: Company Reports; * NBG FTE based on Average13 and Average 12 comparison

Figure 13. Greece Headcount

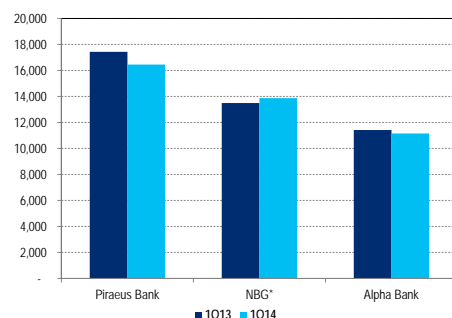
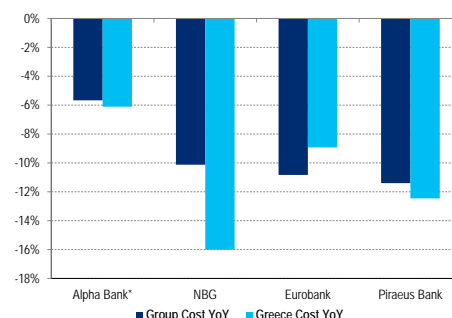


Figure 14. Change in Underlying Cost YoY



Source: Company Reports; *Alpha bank Greek Expenses estimated based on Group – SEE; All expenses exclude restructuring costs.

An Overview of Greek Banks' Balance Sheets

As well as being the largest of the banks in Greece, Piraeus also has the greatest gearing to the Greek banking market of its peers

As well as being the largest of the banks in Greece, Piraeus also has the greatest gearing to the Greek banking market as a percentage of its overall group: over 90% of the assets, deposits and NPLs of Piraeus are located in Greece and the rest are largely in neighbouring South East European markets. The most international of the Greek banks is NBG: only c60% of its group loans and c70% of group deposits are in Greece.

Greek banks' balance sheets are relatively simple in terms of structure. They are heavily geared towards loans (67% for Piraeus) and most of the funding is deposit based (62%). It is also notable that Greek banks receive a very low benefit from the carry trade on sovereign bonds, with a sharply reduced exposure to domestic government bonds compared to pre-crisis, in particular compared to GIIPS peers.

Figure 15. Piraeus Bank – Loan Split 1Q14

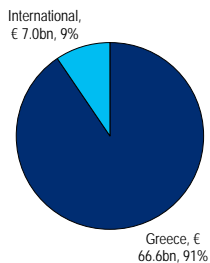


Figure 16. Piraeus Bank – Deposit Split 1Q14

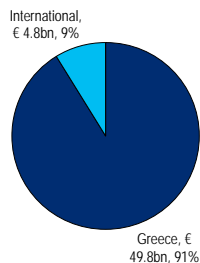


Figure 17. Piraeus Bank – NPL Split 1Q14

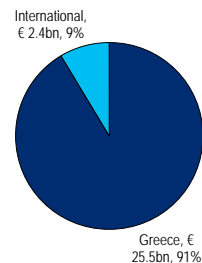


Figure 18. NBG – Loan Split 1Q14

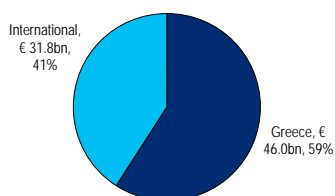


Figure 19. NBG – Deposit Split 1Q14

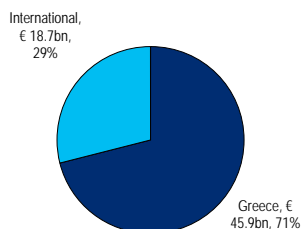


Figure 20. NBG – NPL Split 1Q14

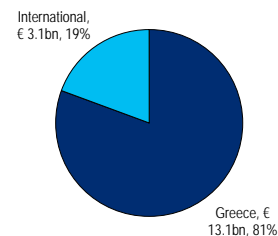


Figure 21. Alpha Bank – Loan Split 1Q14

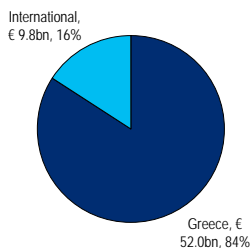


Figure 22. Alpha Bank – Deposit Split 1Q14

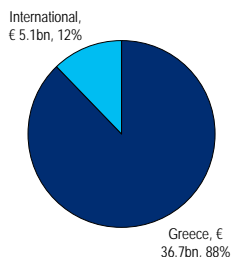


Figure 23. Alpha Bank – NPL Split 1Q14

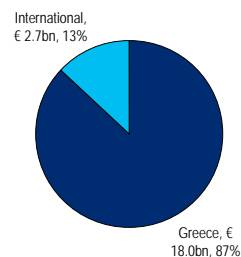


Figure 24. Eurobank – Loan Split 1Q14

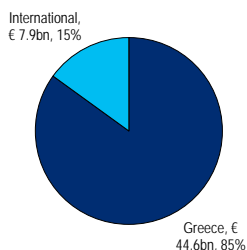


Figure 25. Eurobank – Deposit Split 1Q14

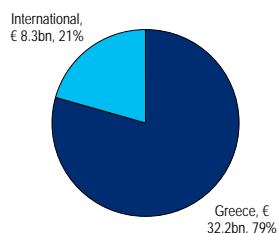
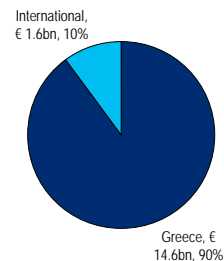


Figure 26. Eurobank – NPL Split 1Q14



Source: Company Reports

Figure 27. NBG – Assets, 1Q14

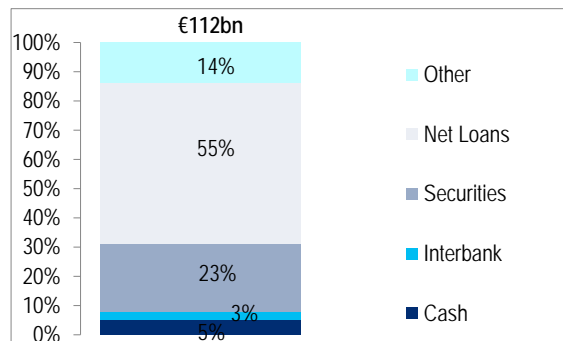


Figure 28. NBG – Liabilities, 1Q14

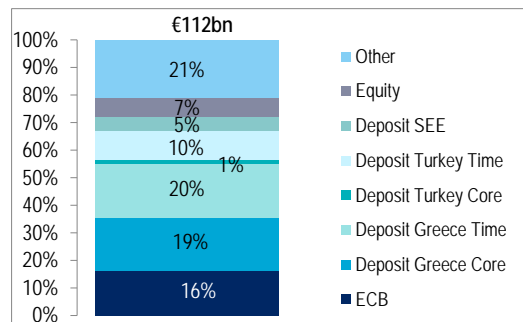


Figure 29. Piraeus – Assets, 1Q14

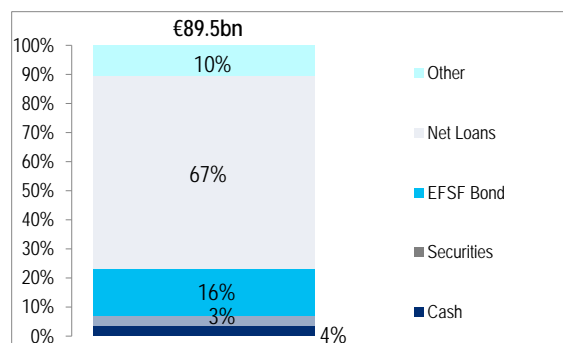


Figure 30. Piraeus – Liabilities, 1Q14

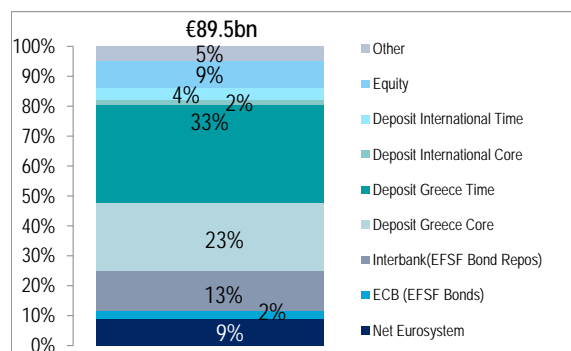


Figure 31. Alpha – Assets, 1Q14

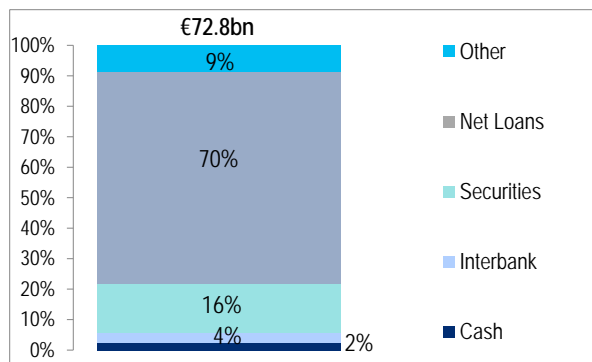


Figure 32. Alpha – Liabilities, 1Q14

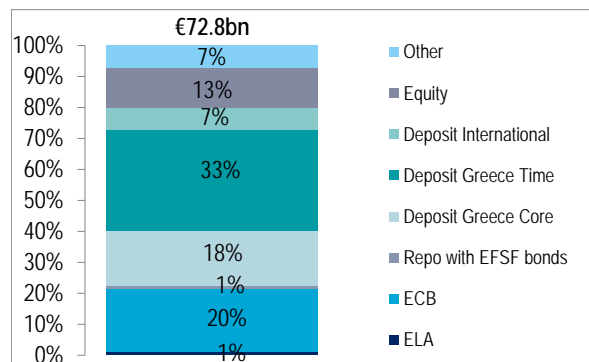


Figure 33. Eurobank – Assets, 1Q14

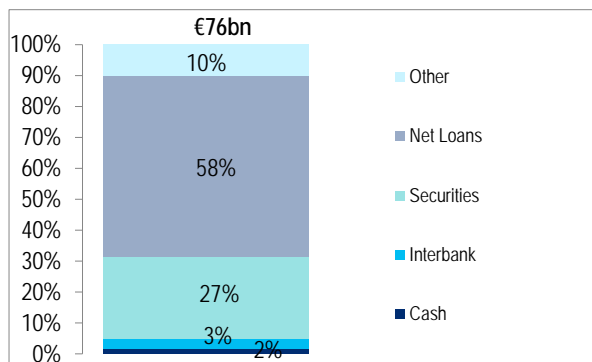
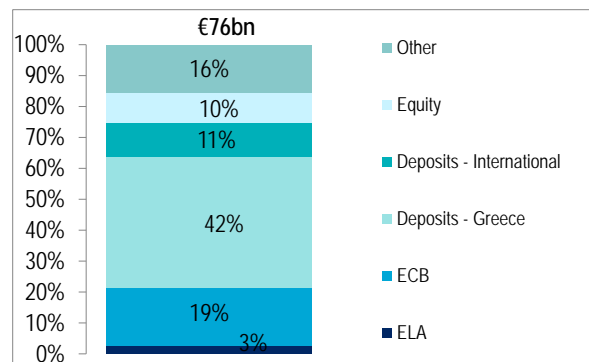


Figure 34. Eurobank – Liabilities, 1Q14



Source: Source for all charts: Company Reports & Citi Research

Where Are We in the Cycle?

Greek 10 year bond yields have gone from c30% to 6% and should decline further to 4.5%

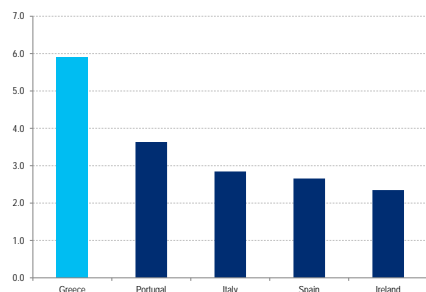
Greek sovereign bond yields were close to 30% at the peak of the Greek sovereign crisis in mid-2012. However, with recovery in the economy and improvement in investor confidence towards Greece, the 10 year bond yields have fallen to close to 6% at the end of June 2014 – and this is positive for Greek banks' funding costs and valuations (via lower cost of equity).

Interest Rates

The 10Yr yields for Greece have declined the most amongst the GIIPS markets, at c5%pt in the last 1 year, followed by Portugal and Spain. Italy has witnessed the lowest decline in 10Yr yields in the last year or so. Our economic team forecasts Greek sovereign yields to fall considerably during 2014-2017 to close to 4.5% by end-2017, while yields for the other peripheral markets could remain broadly unchanged or maybe decline very slightly over the same time.

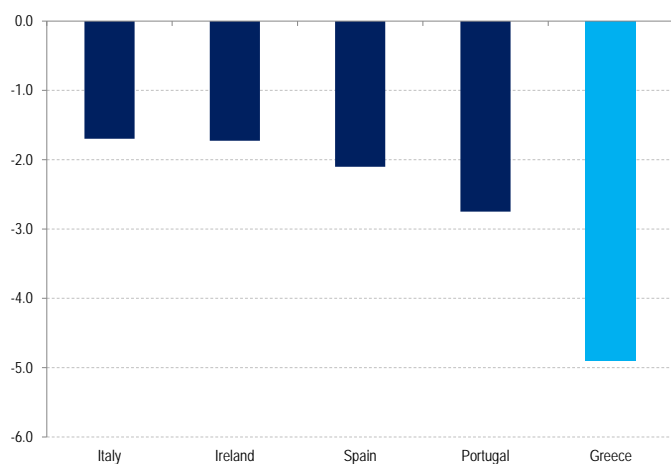
IMF forecasts Greek real GDP growth to pick-up from a negative 3.9% in 2013 to +0.6% in 2014 and a positive 2.9% in 2015 and 3.7% in 2016. Our internal Citi economist forecasts are not positive to that extent as they forecast a 1-1.5% real GDP growth rate in 2014-17, lower than IMF. For reference, the EBA had suggested an adverse case stress scenario of GDP growth of -1.6% in 2014 and -0.6% in 2015 followed by a +1.2% in 2016.

Figure 35. GIIPS – 10Yr Yield (July 2014, %)



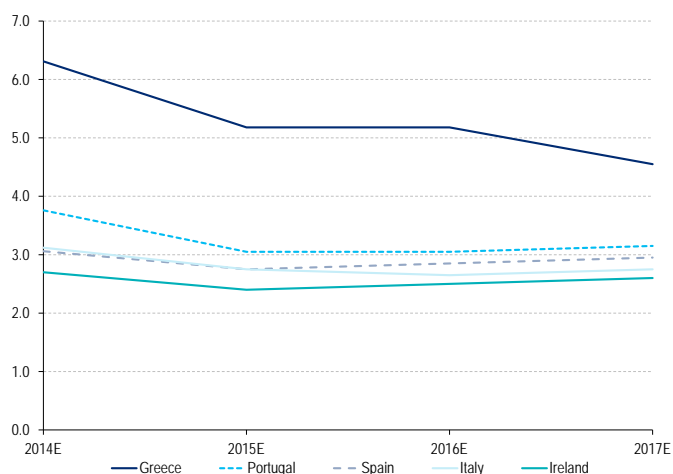
Source: Datastream, Citi Research

Figure 36. GIIPS – 1 Year Change in 10Yr Yield (July 2014, %pt)



Source: Datastream, Citi Research

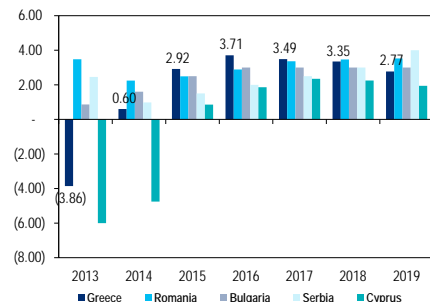
Figure 37. GIIPS – 10Yr Government Yield Forecasts (%)



Source: Citi Research; Based on data from Citi Economists from June GEOS

GDP Growth

Figure 38. Key Countries – Real GDP Gr Forecasts %

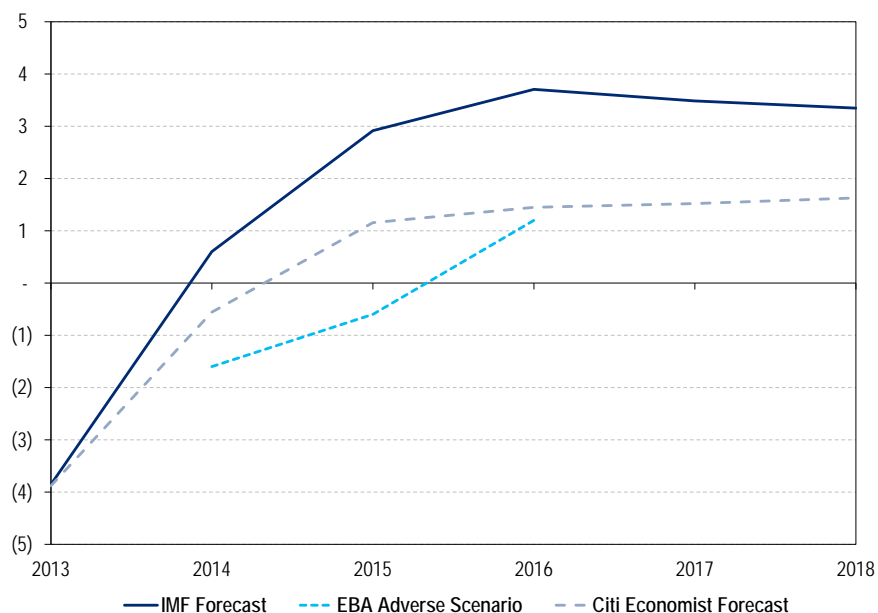


Source: IMF (June 2014)

Based on IMF estimates, Greek real GDP growth could be ahead of a number of major Eastern European peer markets in 2015-17, compared to the laggard position in 2014/15.

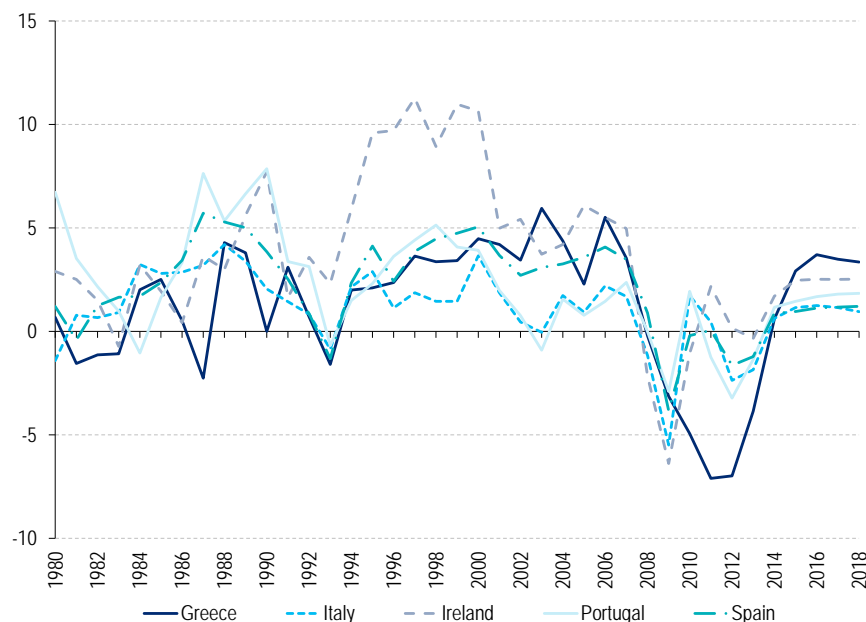
Amongst the GIIPS, we note that Greek real GDP growth had declined the most during the sovereign crisis, but is expected to lead all other GIIPS between 2015 and 2019.

Figure 39. Greece – Real GDP Growth Expectations



Source: IMF (June 2014), EBA and Citi Research Estimates (GEOS June 2014); Note: Adverse refers to the EBA stress test conditions GDP expectations

Figure 40. GIIPS Countries Real GDP (% YoY)



Source: IMF (June 2014)

In a Historical Context

Compared to other DM economic and financial crises, Greece is a real outlier. From peak levels, Greek GDP has declined c25% till date, while other historic DM crises experienced a GDP declined <10%. Similarly, the peak credit costs for Greece stood at c4-5% compared to 2-3% during crisis in other markets.

Figure 41. Benchmarking of Select Crises

	GDP Peak-to-through	Cost of risk peak	Cumulative loan losses	Loan contraction (cumulative)	NIM contraction from peak
Greece 2011-?	-25% to date	c4-5% (2011-13)	c15% to date	c16% to date	c1%
Sweden early 1990s	-4.5% (1991-93)	c6%	c16%	c25% (1992-95)	c1.5% (c3% peak 1994 to 1.5% to 1998)
Japan late 1990s	-5%	c3% (1998)	c10% in 1997-99	c35%	
Spain 2008-today	-6%			c24%	c1.7%
Italy 2008-today	-8.5%	c2.3%	7.7%	c6%	c0.7%
US early 1930s		c3%	c8.5% (1932-34)		

Source: Central banks, ECB, Citi Research Estimates (Greek data). Note: more details in our note Swedish models (23 February 2009); Note: Data for Italy based on our coverage; NIM contraction for Spain shows the decline in mortgage loan rates

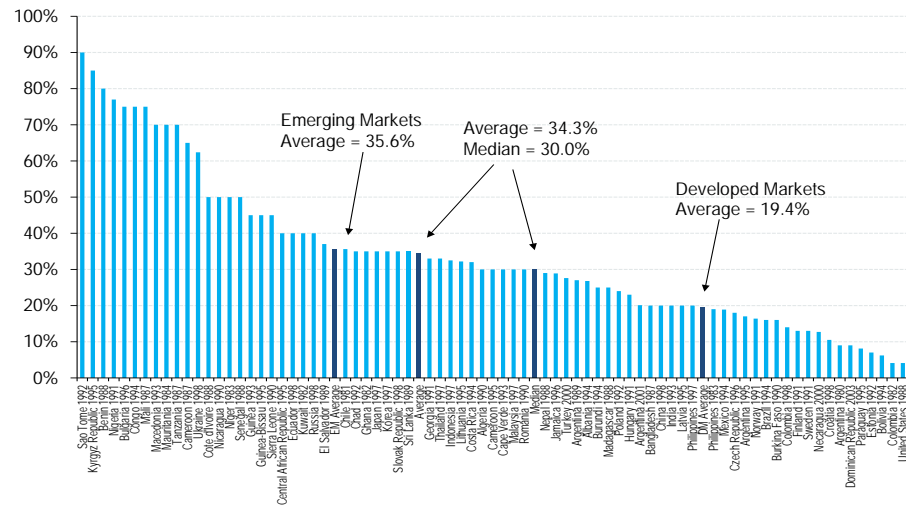
However, compared to EM crises, Greece's experience does not appear such an outlier. IMF research shows that NPLs have peaked for most markets in the developed world at c20% in previous crises (mean) while the same has peaked at c35% for emerging markets – this is similar to Greece today.

Figure 42. Peak NPL Ratios in Previous Banking/Sovereign Crisis – 1980-2003

Markets	Average	Median	Sample Size
Developed countries	19.4%	17.4%	6
Emerging countries	35.6%	31.0%	69
All	34.3%	30.0%	75

Source: Citi Research, IMF

Figure 43. Peak NPL Ratios in Previous Crisis Averaged 19.4% in the Developed World



Source: Citi Research, IMF

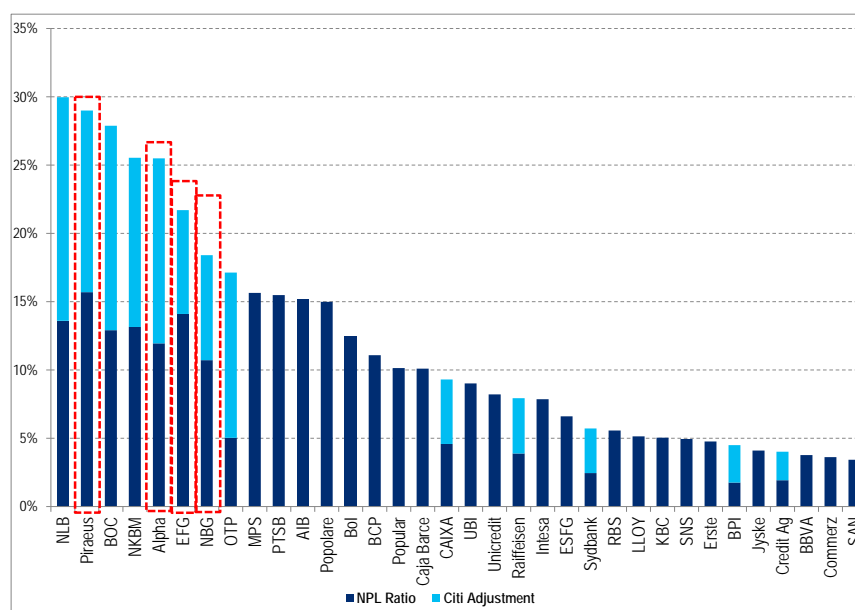
A Deep Dive Bad Debt Analysis

The Cyclical NPL Recovery

Greek banks have among the highest NPLs among European banks

Greek banks have the highest NPLs among the European banks that participated in the EBA transparency exercise (Figure 44). While NPL formation has been trending down, NPL ratio is still on an upward trend. When will NPL peak and how will that affect Greek banks' profitability? In this section, we perform in-depth analysis of Greek banks' NPLs, coverage ratios by region or by product. We believe Greek NPLs are cyclical rather than structural, like Spain, unlike Italy. NPL is highly sensitive to unemployment rate and lags GDP recovery by 2-3 years. We expect Greek banks' NPL to peak during 2H14-1H15. We forecast NPL-to-Loan ratios to increase a further 1-3% to peak levels relative to 1Q14's 23%-38% published levels.

Figure 44. EEA Banks – Defaulted Exposures as % Total Exposures Citi Adjusted, end-June 2013



Source: EBA Data, Citi Research Estimates

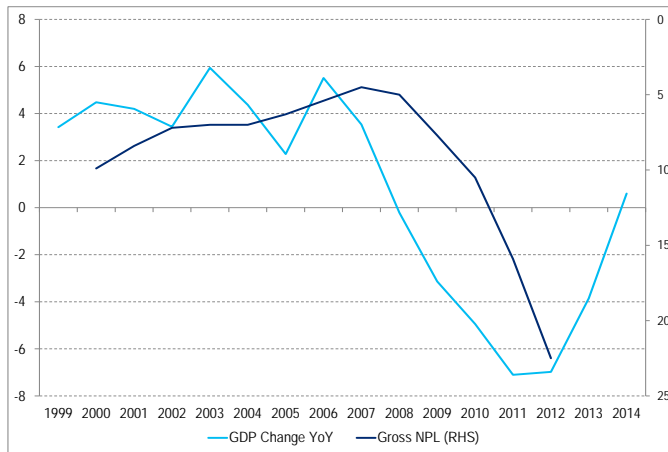
We demonstrate a very high correlation between Greek NPLs and unemployment levels, more so for Spain and especially Italy

Strong NPL Correlation with Unemployment and GDP

We have performed regression analysis of historical Gross NPL and GDP as well as unemployment. The correlation between Greek NPL to unemployment is as high as 99% and the correlation of GDP with NPL is 55%. This finding is similar to our study on Spanish banks, where we found the correlation between Spanish NPL and unemployment is as high as 92% and the correlation with GDP is 79%. There is, however, no significant correlation (R-Square 1%) between unemployment and NPL in Italy. The correlation of GDP and NPL is higher, with R Square at 25%. This supports our view that the Greek NPL is cyclical rather than structural, similar to Spain and unlike Italy. We expect NPL to recover as employment improves.

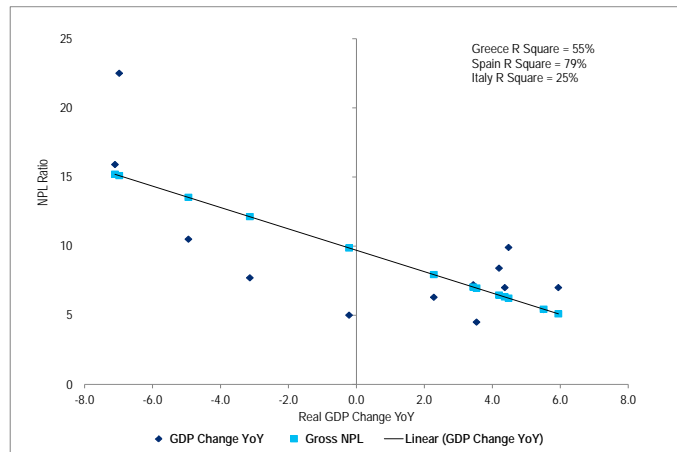
NPL Recovery Lags GDP by 2-3 years. Figure 45-Figure 46, show the correlation of Greek NPL with GDP. The correlation of NPL with GDP is 55% compared to 79% in Spain and 25% in Italy. We believe NPL recovery lags GDP by 2-3 years. Greece GDP bottomed in 2013, and IMF expects GDP to expand by 2014 and to grow 2.9%-3.7% in 2015-2016, faster than most of the other GIIPS countries. Figure 49-Figure 50 shows the close relationship between the NPL ratio and the unemployment rate in Greece. The R-Square is as high as 98% and we see a close fit of NPL Ratio and unemployment rate. IMF forecast unemployment to decrease to 14% by 2019 from the peak level of 27% in 2013.

Figure 45. Historical NPL Ratio vs GDP Growth Rate Greece



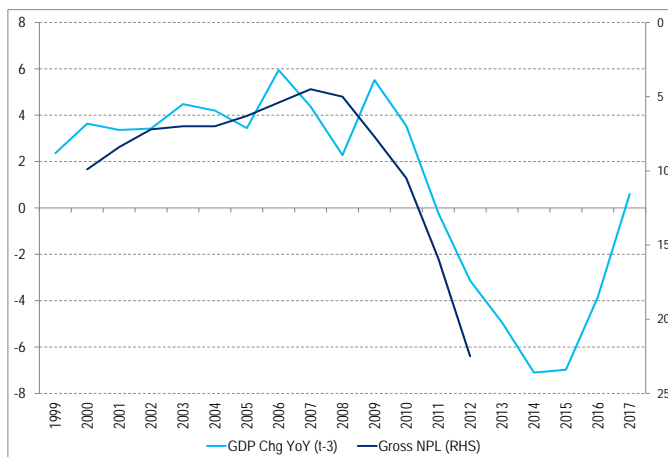
Source: Citi Research, Bank of Greece, IMF

Figure 46. ...Linear Fit of Changes Greece, $R^2=55\%$



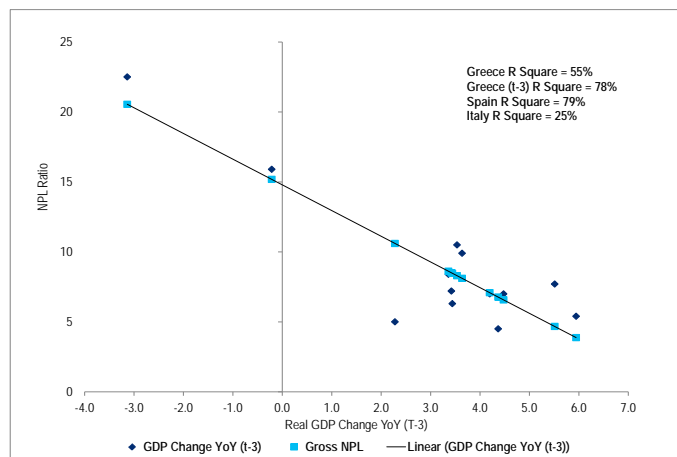
Source: Citi Research, Bank of Greece, IMF; Spain regression from 1997-2013; Italy regression from 1995-2013

Figure 47. Historical NPL Ratio vs 3 Year Lagged GDP Growth Rate Greece



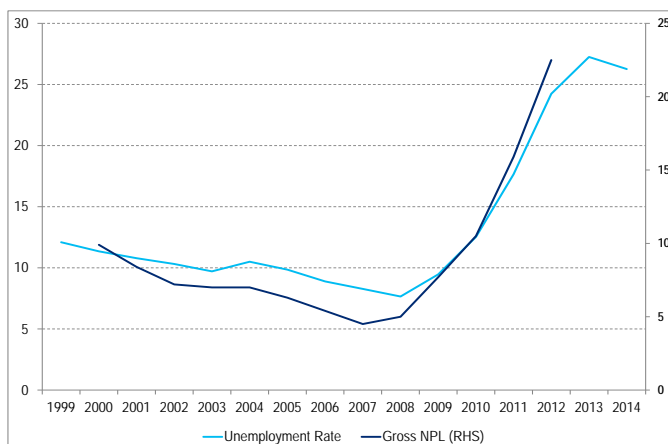
Source: Citi Research, Bank of Greece, IMF

Figure 48. ...Linear Fit of Changes Greece, $R^2=78\%$



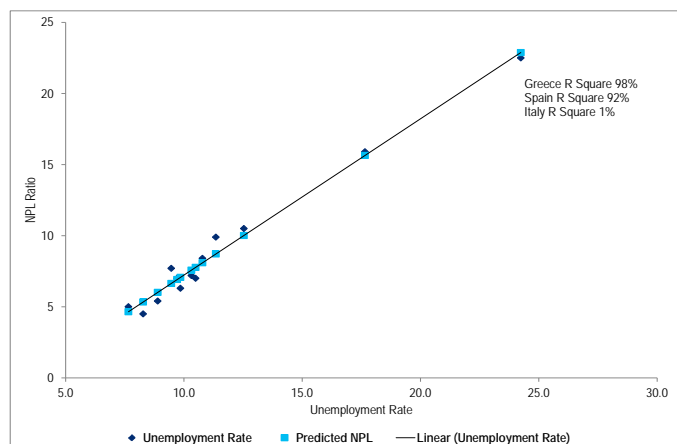
Source: Citi Research, Bank of Greece, IMF; Spain regression from 1997-2013; Italy regression from 1995-2013

Figure 49. Historical NPL Ratio vs Unemployment Rate Greece



Source: Citi Research, Bank of Greece, IMF

Figure 50. ...Linear Fit of Changes Greece, $R^2=98\%$



Source: Citi Research, Bank of Greece, IMF; Spain regression from 1996-2013; Italy regression from 1995-2013

EBA data is a helpful source for cross-checking bank specific bad debt disclosures

A Like for Like Comparison

Each company in our coverage reports the loan book, NPL and provisions slightly differently but the EBA transparency exercise conducted Dec 13 using 1H13 data allows us to compare the banks on a like for like basis. Figure 51 below shows the Greek banks' exposure at default (similar to total assets), defaulted exposures and provisions on the balance sheet. We reached a few conclusions from this analysis.

Firstly, in terms of exposure to different counterparties, Greek banks have higher retail lending than corporate lending with the exception of Piraeus Bank. Eurobank and NBG have the highest retail lending of 47% and 42% of total exposure respectively. NBG also have the highest mortgage lending of 35% of total asset. This means the loan performance is highly sensitive to factors such as unemployment ratio. This is consistent with our regression analysis of NPL ratio and unemployment ratio.

Secondly, Alpha has lowest NPL ratio defined as defaulted loans/total exposure of 27%. This is not very different from the 32% company reported NPL ratio in 2Q13. The biggest difference in NPL from the EBA disclosure and the reported number is NBG and Piraeus. For NBG, the EBA NPL ratio is as high as 28% while the reported NPL ratio is only 21% in 2Q13. This is because the exposure at default (EAD) reported by NBG to EBA is much lower than its total assets.

Piraeus's EBA NPL of 29% is lower than the reported 33%. Piraeus's perceived 'bad' asset quality is because of its SME loan book. Piraeus has the highest SME exposure of the four Greek banks. Business NPLs picked up rapidly in the last few quarters. As of 1Q14 business NPL is (70%) of group NPLs. The retail asset quality is in fact inline if not better than peers.

Figure 51. Greek Banks Greece Exposure Comparison Based on EBA 1H13

	Eurobank			NBG			Alpha Bank			Piraeus Bank		
	EAD	Defaulted	Provision	EAD	Defaulted	Provision	EAD	Defaulted	Provision	EAD	Defaulted	Provision
Total	49,013	15,094	4,979	58,611	16,244	6,489	63,479	17,216	9,111	84,437	24,529	11,131
Central banks and central governments	5,022	0	0	13,508	112	101	12,377	0	0	6,145	15	1
Institutions	160	0	0	1,209	54	41	1,571	82	67	17,280	257	133
Corporates	15,132	5,347	1,351	14,684	5,407	2,268	21,004	5,228	3,170	28,987	12,617	5,303
Corporates - Specialised Lending	1,911	378	20	535	29	15	0	0	0	2,638	619	261
Corporates - SME	7,246	3,760	830	6,908	3,346	1,149	9,437	3,310	1,797	21,524	9,363	3,470
Retail	23,160	9,245	3,128	24,458	10,671	4,079	24,614	11,906	5,874	27,056	9,891	3,944
Retail - Secured on real estate property	16,079	4,297	744	20,251	7,359	1,896	18,320	6,770	2,126	19,529	5,179	1,223
- Of Which: SME	4,116	2,170	393	3,350	2,528	853	3,175	2,524	1,135	3,521	1,544	381
- non-SME (Residential RE)	11,963	2,128	351	16,901	4,831	1,043	15,145	4,245	990	16,008	3,635	842
Retail - Qualifying Revolving	3,131	1,788	700	1,510	705	607	710	181	160	1,530	1,368	805
Retail - Other Retail	3,950	3,160	1,684	2,697	2,607	1,576	5,584	4,955	3,588	5,997	3,345	1,916
- Of Which: SME	2,350	1,760	693	21	0	0	1,592	1,927	1,214	3,154	1,513	697
- Of Which: non-SME	1,600	1,400	991	2,676	2,607	1,576	3,992	3,028	2,374	2,843	1,832	1,219
Equity	97	0	0	329	0	0	207	0	0	637	0	0
Securitisations	44	0	0	0	0	0	0	0	0	0	0	0
Others	5,397	0	0	4,423	0	0	3,706	0	0	4,332	0	0
	Eurobank			NBG			Alpha Bank			Piraeus Bank		
	EAD	Defaulted	Provision	EAD	Defaulted	Provision	EAD	Defaulted	Provision	EAD	Defaulted	Provision
% of Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Central banks and central governments	10%	0%	0%	23%	1%	2%	19%	0%	0%	7%	0%	0%
Institutions	0%	0%	0%	2%	0%	1%	2%	0%	1%	20%	1%	1%
Corporates	31%	35%	27%	25%	33%	35%	33%	30%	35%	34%	51%	48%
Corporates - Specialised Lending	4%	3%	0%	1%	0%	0%	0%	0%	0%	3%	3%	2%
Corporates - SME	15%	25%	17%	12%	21%	18%	15%	19%	20%	25%	38%	31%
Retail	47%	61%	63%	42%	66%	63%	39%	69%	64%	32%	40%	35%
Retail - Secured on real estate property	33%	28%	15%	35%	45%	29%	29%	39%	23%	23%	21%	11%
- Of Which: SME	8%	14%	8%	6%	16%	13%	5%	15%	12%	4%	6%	3%
- non-SME (Residential RE)	24%	14%	7%	29%	30%	16%	24%	25%	11%	19%	15%	8%
Retail - Qualifying Revolving	6%	12%	14%	3%	4%	9%	1%	1%	2%	2%	6%	7%
Retail - Other Retail	8%	21%	34%	5%	16%	24%	9%	29%	39%	7%	14%	17%
- Of Which: SME	5%	12%	14%	0%	0%	0%	3%	11%	13%	4%	6%	6%
- Of Which: non-SME	3%	9%	20%	5%	16%	24%	6%	18%	26%	3%	7%	11%
Equity	0%	0%	0%	1%	0%	0%	0%	0%	0%	1%	0%	0%
Securitisations	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Others	11%	0%	0%	8%	0%	0%	6%	0%	0%	5%	0%	0%
	Eurobank			NBG			Alpha Bank			Piraeus Bank		
	NPL	Cov	LLR	NPL	Cov	LLR	NPL	Cov	LLR	NPL	Cov	LLR
Group	31%	33%	10%	28%	40%	11%	27%	53%	14%	29%	45%	13%
Central banks and central governments	0%			1%	90%	1%	0%			0%	9%	0%
Institutions	0%			4%	76%	3%	5%	82%	4%	1%	52%	1%
Corporates	35%	25%	9%	37%	42%	15%	25%	61%	15%	44%	42%	18%
Corporates - Specialised Lending	20%	5%	1%	5%	52%	3%				23%	42%	10%
Corporates - SME	52%	22%	11%	48%	34%	17%	35%	54%	19%	44%	37%	16%
Retail	40%	34%	14%	44%	38%	17%	48%	49%	24%	37%	40%	15%
Retail - Secured on real estate property	27%	17%	5%	36%	26%	9%	37%	31%	12%	27%	24%	6%
- Of Which: SME	53%	18%	10%	75%	34%	25%	79%	45%	36%	44%	25%	11%
- non-SME (Residential RE)	18%	16%	3%	29%	22%	6%	28%	23%	7%	23%	23%	5%
Retail - Qualifying Revolving	57%	39%	22%	47%	86%	40%	25%	88%	23%	89%	59%	53%
Retail - Other Retail	80%	53%	43%	97%	60%	58%	89%	72%	64%	56%	57%	32%
- Of Which: SME	75%	39%	29%	0%			121%	63%	76%	48%	46%	22%
- Of Which: non-SME	88%	71%	62%	97%	60%	59%	76%	78%	59%	64%	67%	43%
Equity	0%			0%			0%			0%		
Securitisations	0%											
Others	0%			0%			0%			0%		

Source: EBA Data and Citi Research. Cov stands for Coverage Ratio. Note Defaulted loans are on a net basis

Comparison of the balance sheet structure and our macro regression analysis, indicates that Greek NPLs are more like Spain than Italy

Greece is More Like Spain

So what level will NPL reach? We estimate that Greek NPL is likely to peak in 2015 and start to decrease thereafter. To reach this conclusion, we compared the banking system in Greece, Italy and Spain, which all have increased NPL ratios after the recent financial crisis. Spanish NPLs are now on a recovering trend while Italian NPLs remain at an elevated level. By comparing the balance sheet structure and regression analysis, we think that Greece NPL are more like Spanish NPL, which are cyclical rather than structural.

Figure 52 is based on the EBA transparency exercise and demonstrates two important points. Firstly, Like Spain, Greece has more lending to retail rather than corporate. Exposure to mortgages in Greece is 29% of total exposure, same as Spain, while mortgage loans are only 17% of total exposure in Italy. Secondly, at 32% the Greece mortgage NPL is much higher than that of Spain and Italy. We think as employment picks up in Greece and the economy starts to recover, and foreclosure moratoriums are eased, we shall see a recovery in NPLs, led by retail mortgages.

Figure 52. Comparison of Greek System NPL with Spanish and Italians 1H13

	EAD			Defaulted Loans			NPL Ratio		
	Spain	Greece	Italy	Spain	Greece	Italy	Spain	Greece	Italy
Large Corp	19%	14%	21%	27%	12%	21%	12%	25%	13%
SME	10%	18%	20%	34%	27%	43%	29%	44%	28%
Retail on Mortgages	29%	29%	17%	20%	32%	11%	6%	32%	8%
Retail other	6%	10%	13%	4%	25%	24%	5%	72%	24%
Central Bank	18%	14%	18%	0%	0%	0%	0%	0%	0%
Institutions	11%	8%	8%	1%	1%	1%	0%	2%	1%
Others	8%	8%	3%	15%	3%	0%	23%	0%	1%

Source: EBA Data and Citi Research; System NPL and EAD estimated by adding all banks' domestic reported numbers in EBA transparency exercise.

We also compared the Greek banks' 1Q14 NPL and coverage ratio with Spanish and Italian banks in our coverage. It's clear that the Greek banks have the highest balance sheet provisions for NPLs. Piraeus, in particular has a loan loss reserve (LLR) close to 20%. The coverage ratios of Greek banks have improved to 50-56%.

Figure 53. GIPS Banks' Group Loan Loss Reserve Ratios Composition 1Q14

	LLR	=	NPL Ratio	x	Coverage Ratio
Piraeus	19.2%		37.9%		50.7%
NBG	12.7%		23.0%		55.0%
Alpha	18.5%		33.0%		56.0%
Eurobank	15.5%		30.9%		50.3%
Banco BPI	3.4%		4.8%		72.3%
Banco Espirito	6.8%		10.6%		64.5%
Banco Popular	7.8%		19.5%		40.2%
Banco Santander	3.7%		6.0%		61.7%
Bankia	8.7%		16.2%		53.7%
Bankinter	2.2%		7.5%		29.6%
BBVA	4.4%		7.3%		60.4%
Bco de Sabadell	6.0%		12.8%		46.9%
CaixaBank	6.6%		18.4%		36.1%
Banco Popolare	6.0%		22.53%		26.53%
BP Milano	6.1%		17.02%		35.61%
Intesa Sanpaolo	8.0%		17.23%		46.66%
Mediobanca	3.4%		7.64%		45.00%
Monte dei Paschi	11.3%		27.46%		41.13%
UBI Banca	4.0%		14.53%		27.26%
UniCredit	8.9%		17.01%		52.36%

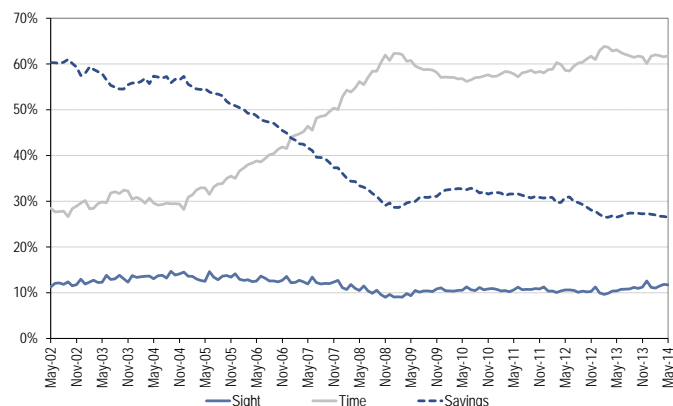
Source: Company Reports and Citi Research Estimates

Appendix: Economic & Rates Overview

Figure 54. Greece — Total Deposit Growth, May 02-May 14 (% yoy)



Figure 55. Greece — Deposit Mix, May 02-May 14 (% of Total Deposits)

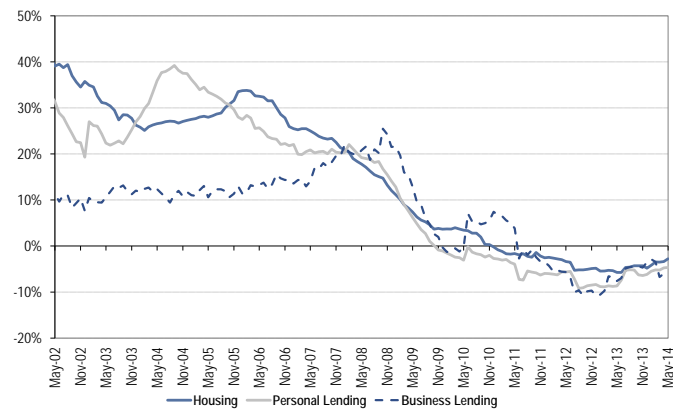


Source for all charts: Bank of Greece and Citi Research

Figure 56. Greece — Total Lending Growth, (% yoy) May 02-May 14



Figure 57. Greece — Lending Growth by Type (% yoy) May 02-May 14



Source for all charts: Bank of Greece and Citi Research

Figure 58. GIIPS + Germany – Outstanding Household TD Rates

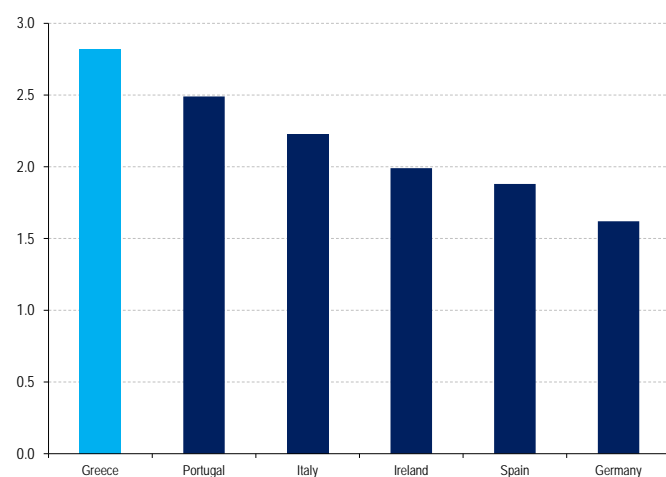
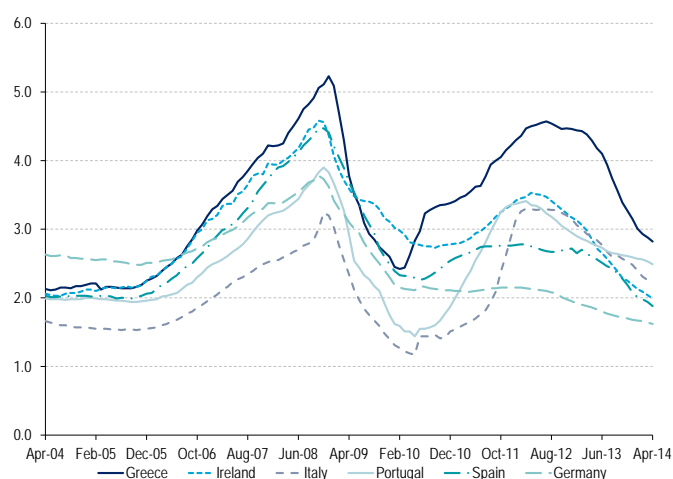


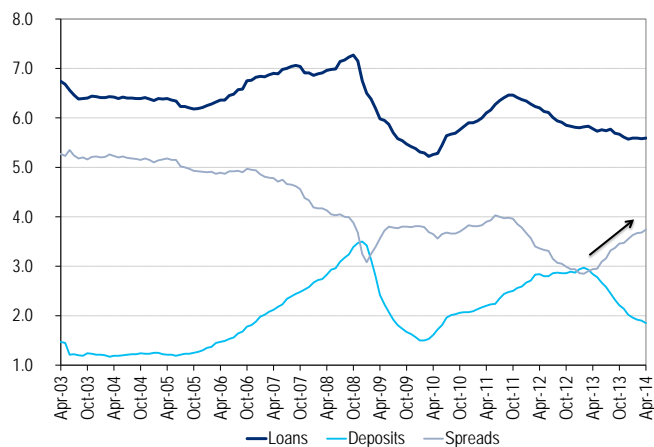
Figure 59. GIIPS + Germany – Outstanding Household TD Rates (Apr 04 – Apr 14)



Source: ECB

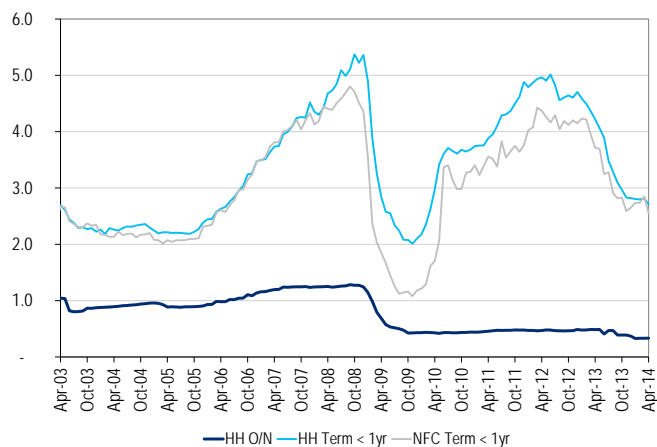
Source: ECB

Figure 60. Rates on Outstanding Term Deposits, Loans and Spreads (%)



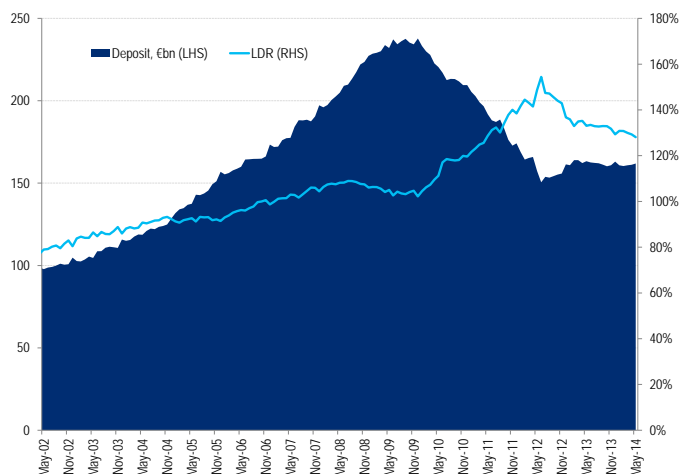
Source: Bank of Greece, Citi Research; Note: only €-denominated loans and deposits to euro area residents

Figure 61. Greece – New Deposit Rates



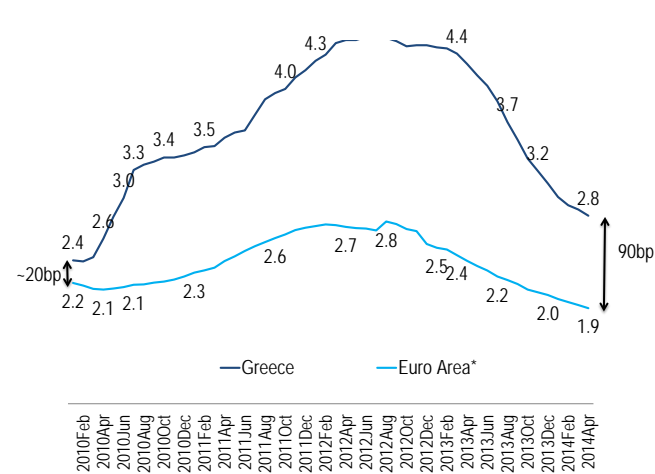
Source: Bank of Greece, Citi Research

Figure 62. Greece – Deposits & LDR



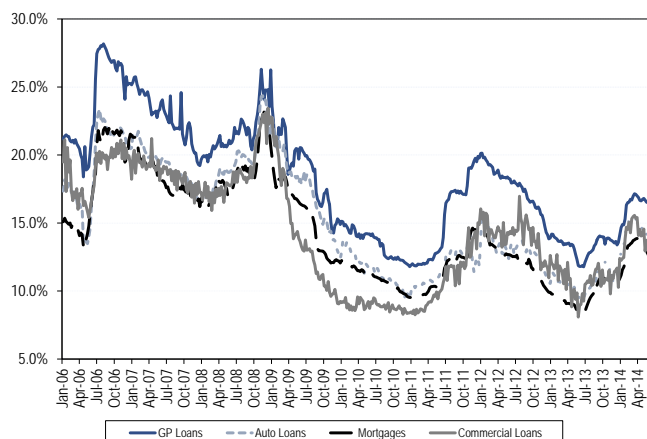
Source: Bank of Greece, Citi Research

Figure 63. Average Deposit Rates – Greece vs Euro Area



Source: ECB, Citi Research; Source: ECB, Note: * linear average, based on countries where data is available

Figure 64. Turkey – Loan Interest Rates %



Source: Central Bank of Turkey

Figure 65. Turkey – Deposit Interest Rates %



Source: Central Bank of Turkey

Appendix 2: Blackrock Stress Test 1&2

Figure 66. Comparison Blackrock 1 & 2

	Blackrock 1	Blackrock 2
Starting date	30-Jun-11	30-Jun-13
Horizon	3 years & lifetime	5 years on yearly basis & lifetime
Scenarios	Base & adverse (note: Adverse proved more optimistic than reality)	Base & Adverse (see GDP figure)
Min CET1R - Base	10%	Not public
Min CET1R - Adverse	7%	Not public
DTA treatment	max 10% of CET1R	(?)
Capital considerations		Capital enhancement measures taken or planned (LME, disposals)
Future earnings considerations		Consolidated system with synergies

Source: Company Reports and Citi Research Estimates

Figure 67. Select Results from 'Blackrock 1'

	PSI (% 2011 CET1)	PSI (% 2011 Assets)	Loss rate on Greek loans (adverse scenario)	Loss rate on foreign loans (adverse scenario)
Eurobank	165%	7.5%	21.6%	7.2%
Proton			19.4%	
Postbank			10.5%	
NBG	161%	11.0%	18.5%	12.0%
Alpha	106%	8.1%	24.5%	9.2%
Piraeus	226%	12.0%	18.4%	16.1%
System	171%	10.1%	21.4%	10.7%

Source: Company Reports and Citi Research Estimates

Figure 68. Blackrock 2 - Credit Loss Projections on a "when realised" basis on the loan portfolio per bank

Banks	Loan balance	Baseline Scenario				Adverse Scenario			
		3½- year CLPs	3½- year CLPs % of loan balances	Lifetime CLPs	Lifetime CLPs % of loan balances	3½- year CLPs	3½- year CLPs % of loan balances	Lifetime CLPs	Lifetime CLPs % of loan balances
Alpha	52,067	6,961	13.4	11,569	22.2	7,937	15.2	14,842	28.5
Eurobank	45,397	6,096	13.4	9,884	21.8	6,969	15.4	12,370	27.2
NBG	46,444	5,201	11.2	8,424	18.1	6,216	13.4	11,173	24.1
Piraeus	67,510	10,994	16.3	15,691	23.2	12,945	19.2	19,644	29.1
System	216,158	30,263	14.0	46,811	21.7	35,273	16.3	59,582	27.6

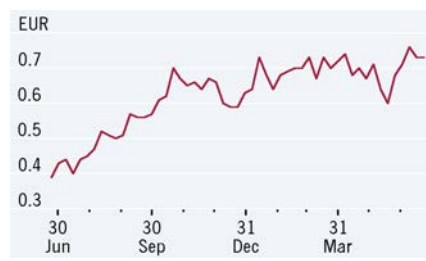
Source: BlackRock Solutions. Credit loss projections do not take into account loan loss reserves.

Company Focus

Alpha Bank A E (ACBr.AT) The Continuity Story

Neutral	2
Price (04 Jul 14)	€0.71
Target price	-
Expected share price return	-
Expected dividend yield	-
Expected total return	-
Market Cap	€9,002M US\$12,253M

Price Performance
(RIC: ACBr.AT, BB: ALPHA GA)



■ **Gearing To Falling Greek Bad Debts** — Alpha Bank has high gearing to the Greek banking market as a percentage of its overall over-all business: about 85% of the assets, deposits and NPLs of Alpha are located in Greece, and the rest are largely in neighbouring South East European markets. This is almost as high as Piraeus Bank's gearing to Greece. Alpha's group NPL ratio of 33% is not as high as Piraeus' 38% but is worse than NBG's 23%. While a potential risk in terms of higher loan loss provisions, this also provides upside from any decline in Greek NPLs later in 2014 or early 2015.

■ **Better Funding Costs Versus Lower Asset Yields** — Alpha Bank will benefit from the ongoing improvement in Greek term deposits costs. About two-thirds of Alpha Banks Greek deposits, and over half of its total group deposits, are high cost time deposits where interest rates are declining. However, asset spreads are also trending down, and this will offset part of the improvement in overall margins. While we forecast mid-teens NII growth in 2014E yoy, we currently model this slowing to mid-single digits in 2015 onwards as expect lower loan spreads to erode better funding costs.

■ **Capital Generation Potential** — As Alpha Bank moves from its current loss making status to profitability, we believe the group will generate a material amount of capital. We forecast core capital (B3 CET1) to increase from c12% at end 2014 to c16% in 2017E. This is after absorbing an increase in the currently relatively low NPL coverage ratio (51%, 1Q14) that we forecast increasing towards 70% by 2017E. We expect surplus capital to grow by about €750m per annum (or c8% of current market capitalization) from 2015E onwards.

■ **Rating** — We reiterate our existing Neutral rating on Alpha Bank and update our EPS estimates: 2014E -1c (-6c previously); 2015E: 3c (1c); 2016E: 6c (5c). This reflects higher revenue and lower loan loss forecasts versus previously.

Alpha Bank A E (EUR)

Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Net Income (€M)	-1,086.0	2,906.0	-110.4	429.7	774.8
Diluted EPS (€)	-2.03	0.51	-0.01	0.03	0.06
Diluted EPS (Old) (€)	-2.03	0.38	-0.06	0.01	0.05
PE (x)	-0.3	1.4	-76.2	21.4	12.0
P/BV (x)	-1.2	1.1	1.1	1.0	1.0
DPS (€)	0.00	0.00	0.00	0.00	0.00
Net Div Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	-1,444.1	82.5	-1.4	4.9	8.3

Alpha Financial Forecasts

Figure 69. Alpha Bank — Group Profit and Loss Account, 2013-18E (Euros in Millions)

	2013	% Chg	2014E	% Chg	2015E	% Chg	2016E	% Chg	2017E	% Chg	2018E	% Chg
Net Interest Income	1,658	19%	1,907	15%	2,026	6%	2,117	4%	2,218	5%	2,322	5%
Fees	370	36%	394	6%	413	5%	435	5%	457	5%	480	5%
Trading	257	-210%	98	-62%	98	0%	98	0%	99	1%	99	1%
Other	60	-8%	74	24%	66	-11%	66	0%	66	0%	66	0%
Total Revenues	2,344	56%	2,473	6%	2,603	5%	2,715	4%	2,840	5%	2,968	5%
Total Expenses	(1,426)	21%	(1,320)	-7%	(1,249)	-5%	(1,223)	-2%	(1,228)	0%	(1,240)	1%
Operating Income	918	184%	1,153	26%	1,354	17%	1,492	10%	1,612	8%	1,728	7%
Prov. Loan Losses (Net)	(1,923)	15%	(1,278)	-34%	(782)	-39%	(459)	-41%	(344)	-25%	(306)	-11%
PBT	2,205	-264%	(125)	-106%	573	-559%	1,033	80%	1,267	23%	1,422	12%
Taxes	701	171%	14	-98%	(143)	0%	(258)	0%	(317)	0%	(356)	0%
Net Income	2,906	-368%	(110)	-104%	430	-489%	775	80%	951	23%	1,067	12%
Minorities	(0)	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Hybrids / Other	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Attributable Profit	2,906	-368%	(110)	-104%	430	-489%	775	80%	951	23%	1,067	12%
Underlying Profit	(304)	0%	(111)	0%	430	0%	775	0%	951	0%	1,067	0%
Per Share Data (€)												
EPS	0.51	-125%	-0.01	-102%	0.03	-456%	0.06	78%	0.07	23%	0.08	12%
DPS	0.00	nm	0.00	nm	0.00	nm	0.00	nm	0.02	nm	0.04	nm
BVPS	0.7	-210%	0.7	-1%	0.7	2%	0.7	9%	0.8	7%	0.8	5%
Shares in millions (Period end)	10923	1944%	12769	17%	13110	3%	13110	0%	13110	0%	13110	0%
Operating Ratios												
NIM (NII / ATA)	2.28%		2.62%		2.77%		2.85%		2.91%		2.95%	
Fees as % of ATA	0.51%		0.54%		0.57%		0.59%		0.60%		0.61%	
Cost / Income	60.8%		53.4%		48.0%		45.1%		43.2%		41.8%	
NPL Ratio	33%		34%		34%		32%		29%		27%	
Coverage Ratio (ex collateral)	54%		59%		60%		64%		67%		72%	
ROA	NM		-0.15%		0.59%		1.04%		1.25%		1.36%	
Leverage (A/E)	NM		9		8		8		7		7	
ROE	NM		NM		5%		8%		9%		10%	
Underlying ROE	-9%		-1%		5%		8%		9%		10%	
Underlying ROE (ex excess capital)	0%		-2%		6%		11%		14%		16%	
Balance Sheet (€m)												
Total Assets	73,700	26%	72,788	-1%	73,461	1%	75,055	2%	77,388	3%	79,869	3%
Gross Customer Loans	62,800	39%	61,733	-2%	62,304	1%	63,655	2%	65,634	3%	67,738	3%
Customer Deposits	42,500	49%	42,204	-1%	42,829	1%	43,595	2%	44,416	2%	45,253	2%
Loan to deposit ratio	122%		117%		116%		117%		119%		121%	
Equity ex State Capital	7,372	NM	8,520	NM	8,949	5%	9,724	9%	10,412	7%	10,955	5%
Capital Ratios												
Core Tier 1 (B3 from 2014)	8,177	131%	6,488	-21%	7,060	9%	8,094	15%	9,099	12%	9,997	10%
Tier 1 Capital	10,132	85%	8,443	-17%	9,016	7%	10,049	11%	11,054	10%	11,952	8%
RWAs	50,900	22%	54,042	6%	54,580	1%	55,800	2%	57,467	3%	59,247	3%
Core Tier 1 Ratio (B3 from 2014)	16.1%		12.0%		12.9%		14.5%		15.8%		16.9%	
CET1 Ratio - B2 / B2.5 (incl pref)	16.1%		0.0%		0.0%		0.0%		0.0%		0.0%	
CET1 Ratio B3 (incl. prefs)	11.5%		12.0%		12.9%		14.5%		15.8%		16.9%	
CET1 Ratio B3 (ex prefs)	9.7%		12.0%		12.9%		14.5%		15.8%		16.9%	

Source: Company Reports and Citi Research Estimates

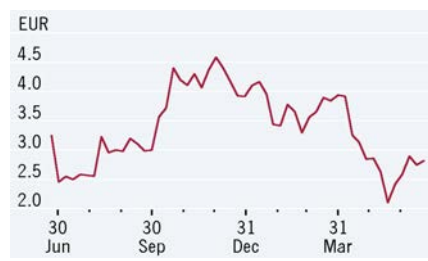
Company Focus

National Bank of Greece SA (NBGr.AT)

A Profitable Greek Bank, Premium Valuation

Neutral	2
Price (04 Jul 14)	€2.75
Target price	-
Expected share price return	-
Expected dividend yield	-
Expected total return	-
Market Cap	€9,716M US\$13,225M

Price Performance
(RIC: NBGr.AT, BB: ETE GA)



■ **Greece, Turkey and NBG's Valuation** – NBG shares, trading at 1.6x 2014E P/B on Citi estimates, are valued at a premium to both its core Greek and Turkish constituent parts. Domestically oriented Greeks such as Alpha Bank trade at 1.0x and Piraeus Bank at 1.1x 2014E P/B. Turkish banks also trade at a relatively low P/B of 1.1x 2014E, with Garanti (GARAN.IS; TL8.01; 1) at 1.4x. Higher risk premia in Turkey match the higher profits. We use a 15% discount rate for valuing Finansbank, broadly similar to local Turkish peers, and this is included in our weighted cost of equity for NBG Group.

■ **Lower Greek Recovery Upside** – NBG's 2014 profitability is likely to exceed other Greek banks. We forecast an ROA of c40bps in 2014E, rising to c90bps in 2015E. Turkey will account for about a half of pre-tax profits in 2014E and a third in 2015E pre any minority sale. A higher share of profits from overseas has supported NBG during the crisis year but also reduces gearing to any Greek recovery. Also in Greece, NBG has relatively lower NPLs versus peers: 28% at end 1Q14 versus Piraeus 38%, Alpha 35%. If expectations for Greek system NPL stabilisation are borne out in 2H14 or early 2015, peers will naturally have a greater gearing to recovering asset quality.

■ **Less Gearing To Falling Rates** – NBG has relatively inexpensive Greek funding as time deposits account for only about half its total Greek deposits compared to nearer two-thirds at Alpha Bank. The oligopolistic market structure in Greece today results in relatively similar prices offered by banks for term deposits. But NBG's mix of funding (more current accounts, less term deposits) will result in lower gearing to the benefit of falling term deposit costs over the next 12-18 months. In addition, the cost of equity benefit of falling sovereign bond yields is of greater valuation benefit for lower P/B rated Greek banks relative to NBG.

■ **Turkish Attractions** – NBG owns the 7th largest bank in Turkey, Finansbank. Since its first year of full consolidation in 2007, Finansbank has contributed a valuable earnings stream to NBG of on average half a billion euros of pre-tax profit. However, 2014 is likely to be the weakest year of profits for Finansbank since its acquisition due to the combination of margin pressure from higher interest rates (in 1H14) and continued high provisions from 2013. We expect a cyclical recovery in profits in 2015 driven by better NIM and NII.

■ **Earnings** – We have updated our EPS estimates: 2014E 7c (4c previously); 2015E: 21c (22c); 2016E: 27c (33c). This reflects higher pre-provision profit offset by the dilution from the recent equity issuance.

National Bank of Greece SA (EUR)

Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Net Income (€M)	-1,847.5	808.0	200.7	746.5	952.3
Diluted EPS (€)	-1.93	0.48	0.07	0.21	0.27
Diluted EPS (Old) (€)	-1.93	-0.06	0.04	0.22	0.33
PE (x)	-1.4	5.7	40.6	13.0	10.2
P/BV (x)	-0.7	1.1	1.6	1.4	1.2
DPS (€)	0.00	0.00	0.00	0.00	0.00
Net Div Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	-346.2	85.4	3.4	11.5	12.7

NBG Financial Forecasts

Figure 70. NBG — Group Profit and Loss Account, 2013-18E (Euros in Millions)

	2013	% Chg	2014E	% Chg	2015E	% Chg	2016E	% Chg	2017E	% Chg	2018E	% Chg
Net Interest Income	3,157	-6%	3,169	0%	3,571	13%	3,810	7%	4,002	5%	4,201	5%
Fees	529	7%	492	-7%	510	4%	533	4%	557	4%	582	4%
- Trading Income	(169)	-61%	55	-133%	55	0%	55	0%	55	0%	55	0%
- Other Operating Income	254	158%	22	-91%	156	608%	157	1%	157	1%	158	1%
Total Revenues	3,771	7%	3,868	3%	4,293	11%	4,555	6%	4,772	5%	4,996	5%
Total Expenses	(2,552)	9%	(2,130)	-17%	(2,191)	3%	(2,291)	5%	(2,386)	4%	(2,490)	4%
Operating Income	1,219	3%	1,738	43%	2,102	21%	2,264	8%	2,386	5%	2,507	5%
Prov. Loan Losses (Net)	(1,373)	-54%	(1,254)	-9%	(914)	-27%	(769)	-16%	(709)	-8%	(659)	-7%
Associates & Other	(5)	nm	0	nm	0	nm	0	nm	0	nm	0	nm
PBT	(159)	-91%	484	-404%	1,188	145%	1,495	26%	1,676	12%	1,848	10%
Taxes	986	-725%	(109)	-111%	(275)	151%	(349)	27%	(391)	12%	(431)	10%
Net Income	827	-143%	374	-55%	913	144%	1,146	26%	1,285	12%	1,417	10%
Minorities	2	-52%	(14)	-791%	(140)	916%	(168)	20%	(188)	12%	(209)	11%
Intangibles Amortisation / Other	(20)		(18)		(26)		(26)		(26)		(26)	
Hybrids/State prefs	55		0		0		0		0		0	
GGB impairments under PSI	0		0		0		0		0		0	
Attributable Profit	864	-143%	343	-60%	747	118%	952	28%	1,071	12%	1,182	10%
Underlying Profits	390		343		747		952		1,071		1,182	
Per Share Data (€)												
EPS	0.58	-130%	0.07	-88%	0.21	212%	0.27	28%	0.30	12%	0.33	10%
DPS	0.00	nm	0.00	nm	0.00	nm	0.00	nm	0.15	nm	0.20	nm
BVPS	2.40	-159%	1.73	-28%	1.94	12%	2.31	19%	2.46	7%	2.59	5%
TBVPS	1.69	-127%	1.24	-26%	1.68	35%	2.05	22%	2.20	7%	2.34	6%
Shares in Millions (Period end)	2,396.8	151%	3,533.2	47%	3,533.2	0%	3,533.2	0%	3,533.2	0%	3,533.2	0%
Operating Ratios												
NII as a % of ATA	2.93%		2.86%		3.17%		3.27%		3.30%		3.32%	
Cost / Income	67.7%		55.1%		51.0%		50.3%		50.0%		49.8%	
NPL Ratio	22.5%		24.4%		23.5%		22.6%		21.5%		20.4%	
Coverage	56%		58%		63%		67%		70%		74%	
LLP	2.21%		2.05%		1.47%		1.20%		1.06%		0.94%	
ROA	0.8%		0.3%		0.7%		0.8%		0.9%		0.9%	
ROE	14.2%		5.8%		11.5%		12.7%		12.7%		13.2%	
Balance Sheet (€m)												
Total Assets	110,930	6%	110,945	0%	114,568	3%	118,660	4%	123,746	4%	129,323	5%
Gross Loans	70,140	-1%	71,285	2%	73,952	4%	76,970	4%	80,783	5%	84,956	5%
Net Customer Loans	61,289	-3%	61,219	0%	63,063	3%	65,389	4%	68,565	5%	72,144	5%
Customer Deposits	62,876	7%	64,636	3%	65,442	1%	67,591	3%	69,543	3%	71,564	3%
Loan to Deposit Ratio	88%		85%		87%		88%		90%		92%	
Shareholders' Equity	5,761	-249%	6,104	6%	6,850	12%	8,151	19%	8,692	7%	9,168	5%
Capital Ratios												
RWAs	55,600	-14%	55,986	1%	58,546	5%	61,473	5%	65,162	6%	69,273	6%
RWA/TA	50%		50%		51%		52%		53%		54%	
Core Tier 1	5,727	NM	6,438	12%	8,374	30%	9,574	14%	10,390	9%	11,168	7%
Tier 1 Capital	9,586	NM	10,298	7%	11,044	7%	12,345	12%	12,886	4%	13,362	4%
Core Tier 1 Ratio	10.3%		11.5%		14.3%		15.6%		15.9%		16.1%	
State prefs	1,350		1,350		1,350		0		0		0	
CET1 Ratio ex State Prefs	7.9%		11.5%		14.3%		15.6%		15.9%		16.1%	
Excess / (Deficit) to 10% CET1 (ex pref)	(4,797)		(510)		1,170		3,426		3,874		4,241	

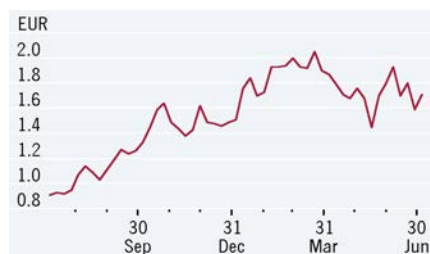
Source: Company Reports and Citi Research Estimates

Company Focus

Piraeus Bank (BOPr.AT) The Greatest Gearing to Greece

Buy	1
from Neutral	
Price (04 Jul 14)	€1.71
Target price	€2.00
from -	
Expected share price return	17.0%
Expected dividend yield	0.0%
Expected total return	17.0%
Market Cap	€10,434M
	US\$14,186M

Price Performance
(RIC: BOPr.AT, BB: TPEIR GA)



■ **Gearing To Falling Greek Bad Debts** — Piraeus has the greatest gearing, of the four large Greek banks, to the Greek banking market as a percentage of its overall business: over 90% of the assets, deposits and NPLs of Piraeus are located in Greece, and the rest are largely in neighbouring South East European markets. Reflecting its greater Greek gearing, Piraeus' group NPL ratio is also higher than peers at 38% (versus Alpha's 33% and NBG's 23%) – while a potential risk in terms of higher loan loss provisions, this also provides upside from any decline in Greek NPLs later in 2014 or early 2015.

■ **Benefit of Lower Funding Costs, Lower COE** — An improvement in Greek bank funding costs, especially term deposit costs, also benefits Piraeus more than most peers. About two-thirds of its Greek deposits, and over half of its total group deposits, are high cost time deposits where interest rates are declining. A lower Greek risk-free rate would also provide it with greater valuation upside: a 1ppt decline in 10 year Greek bond yields, all else equal, boosts our Piraeus valuation by 14% versus a smaller 7% for NBG.

■ **Cost Cutting Upside Significant** — Piraeus 1Q14 costs declined over 10% yoy on an underlying basis. The group's cost/income ratio was 64% in 1Q14 and we forecast 60% for FY14, declining to the low 40s in 2016-18E due to reductions in branch network, headcount and ongoing general rationalisation. Piraeus today is the product of 6 recent Greek bank acquisitions since 2012: reflecting this, its branch network has declined from about 1300 in 1Q13 to sub 900 in 1Q14, with further reductions underway.

■ **Capital Generation Potential** — As Piraeus moves from its current loss making status to profitability we believe the group will generate a material amount of capital. We forecast core capital (B3 CET1) to increase from c12% at end 2014 to c15% in 2017E. This is after absorbing an increase in the currently relatively low NPL coverage ratio (51%, 1Q14) that we forecast increasing towards 70% by 2017E. We expect surplus capital to grow by about €800m per annum (or c8% of current market capitalization) from 2015E onwards.

■ **Buy Rating** — We introduce a €2.0 target price based on our DDM valuation model (including valuing surplus capital at 1x book above 10% CET1). Our target price is equivalent to 1.7x 2015E book value, or 1.5x excluding surplus capital. With an ETR of 17% we upgrade from Neutral to Buy. We have also updated our EPS estimates: 2014E -12c (-19c previously); 2015E 4c (1c); 2016E 14c (12c). This reflects higher pre-provision profit and reduced loan loss forecasts.

Piraeus Bank (EUR)

Year to 31 Dec	2012A	2013A	2014E	2015E	2016E
Net Income (€M)	-500.6	2,568.6	-650.3	226.6	829.6
Diluted EPS (€)	-0.44	0.51	-0.12	0.04	0.14
Diluted EPS (Old) (€)	-0.44	0.65	-0.19	0.01	0.12
PE (x)	-3.9	3.4	-14.7	46.0	12.6
P/BV (x)	-0.6	1.1	1.5	1.4	1.3
DPS (€)	0.00	0.00	0.00	0.00	0.00
Net Div Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	na	31.6	-9.2	3.2	10.8

Piraeus Financial Forecasts

Figure 71. Piraeus — Group Profit and Loss Account, 2013-18E (Euros in Millions)

	2013	% Chg	2014E	% Chg	2015E	% Chg	2016E	% Chg	2017E	% Chg	2018E	% Chg
Net Interest Income	1,662	62%	1,977	19%	2,109	7%	2,249	7%	2,423	8%	2,594	7%
Fees	287	32%	341	19%	373	9%	404	8%	441	9%	460	4%
Trading	147		30		90	200%	110	22%	118	7%	125	6%
Other	40		39		30	-23%	40	33%	42	5%	45	7%
Total Revenues	2,135	-4%	2,387	12%	2,601	9%	2,803	8%	3,024	8%	3,224	7%
Staff Costs	-885	109%	-772	-13%	-695	-10%	-657	-5%	-670	2%	-682	2%
G&A	-626	65%	-555	-11%	-500	-10%	-472	-5%	-481	2%	-490	2%
Depreciation & Other	-127	19%	-115	-9%	-104	-10%	-98	-5%	-100	2%	-102	2%
Total Expenses	-1,637	80%	-1,442	-12%	-1,299	-10%	-1,228	-5%	-1,251	2%	-1,274	2%
Operating Income	498	-62%	945	90%	1,302	38%	1,575	21%	1,773	13%	1,950	10%
Provisions	-2,532	1%	-1,754	-31%	-992	-43%	-471	-53%	-375	-20%	-311	-17%
- Provisions on loans	-2,218	9%	-1,689	-24%	-972	-42%	-451	-54%	-355	-21%	-291	-18%
- PSI	0	-100%	0	0%	0	0%	0	0%	0	0%	0	0%
- Other provisions	-314	105%	-65	-79%	-20	-69%	-20	0%	-20	0%	-20	0%
Other Income	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
PBT	-2,058	71%	-833	-60%	310	-137%	1,104	256%	1,398	27%	1,639	17%
Taxes	775	17%	163	-79%	-84	-151%	-275	228%	-344	25%	-404	17%
Tax Rate	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Net Income	-1,283	139%	-670	-48%	227	-134%	830	266%	1,054	27%	1,235	17%
Minorities/State Prefs/Discontinued	3,827	NM	-5	-100%	0	0%	0	0%	0	0%	0	0%
Attributable Profit	2,544	-608%	-675	-127%	227	-134%	830	266%	1,054	27%	1,235	17%
One-offs (Citi calc)	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Underlying Profit	-1,283	0%	-670	0%	227	0%	830	0%	1,054	0%	1,235	0%
PER SHARE DATA (€)												
EPS	0.50		-0.12		0.04		0.14		0.17		0.20	
Underlying EPS	-0.25		-0.12		0.04		0.14		0.17		0.20	
DPS	0.00		0.00		0.00		0.00		0.05		0.12	
Payout Ratio	0%		0%		0%		0%		29%		59%	
BVPS	1.51		1.16		1.19		1.33		1.50		1.76	
TBVPs	1.45		1.11		1.15		1.28		1.46		1.71	
Shares in Millions (Period end)	5,073		6,102		6,102		6,102		6,102		6,102	
Shares in Millions (Average)	5,073		5,587		6,102		6,102		6,102		6,102	
OPERATING RATIOS												
NII as a % of Assets	1.8%		2.2%		2.4%		2.6%		2.9%		3.0%	
Fees as % of Assets	0.4%		0.4%		0.4%		0.5%		0.5%		0.5%	
Cost / Income	77%		60%		50%		44%		41%		40%	
Cost / ATA	2.0%		1.6%		1.5%		1.4%		1.5%		1.5%	
ROA	3.1%		-0.7%		0.3%		1.0%		1.3%		1.5%	
ROE	31%		-10%		3%		11%		12%		12%	
Underlying RoE	-16%		-9%		3%		11%		12%		12%	
Underlying ROE (10% B3 CET1)	-16%		-12%		4%		15%		19%		19%	
LOANS & DEPOSITS												
LLP on loans	3.5%		2.3%		1.3%		0.6%		0.5%		0.4%	
NPL Ratio	36%		41%		39%		33%		27%		23%	
Coverage	51%		52%		56%		66%		78%		92%	
Non Performing Loans	27,155	131%	29,355	8%	28,016	-5%	24,070	-14%	20,582	-14%	17,604	-14%
Gross Customer Loans	76,114	51%	72,451	-5%	72,451	0%	73,764	2%	75,103	2%	76,469	2%
Net Customer Loans	62,366		57,208		56,722		57,810		58,971		60,192	
Customer Deposits	54,279		54,537		55,035		56,088		57,675		59,309	
Loan to Deposit Ratio	115%		105%		103%		103%		102%		101%	
Provisions Balance	13,748		15,243		15,729		15,954		16,132		16,277	
BALANCE SHEET (€m)												
Total Assets	92,010	31%	88,048	-4%	88,048	0%	82,843	2%	84,347	2%	85,881	2%
Goodwill & Other intangibles	300		294		294		294		294		294	
State capital (Pref shares)	750		0		0		0		0		0	
Shareholders' Equity	7,680		7,065		7,292		8,121		9,175		10,716	
TBV	7,380		6,771		6,997		7,827		8,881		10,421	
REGULATORY CAPITAL												
RWAs	59,036		61,391		61,084		61,886		62,700		63,527	
CET1 Ratio	13.9%		12.2%		12.8%		14.4%		15.9%		17.2%	

Source: Company Reports and Citi Research Estimates

Figure 72. Piraeus – Dividend Discount Model

	2014E	2015E	2016E	2017E	2018E
DPS	0.00	0.00	0.00	0.05	0.12
PV	0.00	0.00	0.00	0.03	0.07
Total PV	0.11				
Terminal Value	RoE 18				
ROE	19.4%				
COE	11.0%				
G	3.0%		2018E RWA	63,527	
BVPS	1.19		2018E CET1	9,789	
TV	2.45		10% of RWA	6353	
PV of TV	1.53		Excess	3,436	
Surplus Capital / Sh	0.56		Adj BV	7,280	
PV of Surplus Capital	0.35				
Total PV	1.99				

Source: Citi Research

Alpha Bank A E

Company description

Alpha Bank AE attracts deposits and provides retail and commercial banking services. It offers lease financing, corporate banking, asset management, private banking, investment banking and securities brokerage, venture capital, portfolio management, payment systems, consulting and real estate management services. Alpha operates internationally.

Investment strategy

We have a Neutral rating on Alpha Bank. In Greece, the bank is a leading player in retail and corporate lending. While we believe the bank will turn profitable in 2015, the Greek macro-economic conditions remain weak, impacting asset quality and the potential for volume growth.

Valuation

This company has a Neutral rating. We have not assigned a target price and therefore no valuation methodology is applicable.

Risks

A number of risks could move Alpha's share price meaningfully away from current levels. We list some of these risks below:

1. Better or worse than expected revenue development trends, driven by margins, volume trends, ability to impose fees to clients.
2. Better or worse than expected asset quality.
3. Higher or lower than expected requirement for capital.

A meaningful part of the bank's activities are conducted in Greece, but also in Cyprus and in other countries in Southern Eastern Europe where we believe macro risks continue to be elevated. Such market concerns could affect the short-term and long-term performance of the shares.

National Bank of Greece SA

Company description

National Bank of Greece S.A. offers retail and corporate banking services. The Bank accepts deposits and offers loans, lease financing, mortgages, and investing and insurance services to industrial, commercial, and consumer clients. National Bank of Greece operates domestically and overseas.

Investment strategy

We rate NBG Neutral. In Greece, the group has the most under-leveraged balance sheet of the large Greek banks (loans-to-deposit ratio of c100%). In SEE, NBG group also has franchises in Bulgaria and Serbia, with further presence in Romania, among others. A large part of the bank's revenues derive from Greece, where we believe there are significant macro risks and elevated risks of an exit from the

Euro Area. Such elevated market concerns could affect the short-term and the long-term performance of the shares.

Valuation

This company has a Neutral rating. We have not assigned a target price and therefore no valuation methodology is applicable.

Risks

A number of risks could move NBG's share price meaningfully away from current levels. We list some of these risks below:

1. Better or worse than expected revenue development trends, driven by margins, volume trends, ability to impose fees to clients.
2. Better or worse than expected asset quality.
3. Higher or lower than expected requirement for capital.

A meaningful part of the bank's activities are conducted in Greece, but also in several countries in South Eastern Europe where changes in the macro or political environment could impact significantly NBG's share price.

Piraeus Bank

Company description

Piraeus Bank offers retail and corporate banking services in Greece and overseas (primarily in the South Eastern European region). The Bank accepts deposits and offers loans, and investing and insurance services to corporate and household clients.

Investment strategy

We have a Buy rating on Piraeus. In Greece, the group is the largest player by most metrics, with close to 30% market share of loans & deposits. A large part of the bank's revenues derive from Greece, where we see significant gearing to falling bad debt levels. An improvement in Greek bank funding costs, especially term deposit costs, also benefits Piraeus more than most peers. As Piraeus moves from its current loss making status to profitability we believe the group will also generate a material amount of capital.

Valuation

Our €2.0 target price is based on a DDM valuation model (including valuing surplus capital at 1x book above 10% CET1). The DDM is based on a CoE of 11.0% and assuming a long-term earnings growth of 3%.

Risks

A number of risks could prevent the shares achieving our target price:

1. Better or worse than expected margin & other revenue development trends, driven by the economy & regulation.
2. Better or worse than expected asset quality, leading to fewer or more loan losses.

3. A sharp change in the valuation of Greek government bonds.
4. Dilution from a further common equity injection, driven by one of the previous factors or by a change of regulation.

Additionally, a meaningful part of the bank's activities are conducted in Greece, but also in several countries in South Eastern Europe where changes in the macro or political environment could impact significantly Piraeus' share price.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Alpha Bank A E (ACBr.AT)

Ratings and Target Price History Fundamental Research

Analyst: Ronit Ghose

Covered since May 22 2014



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		

* Indicates change

	Date	Rating	Target Price	Closing Price
2	2-Apr-13	'2	-	0.23

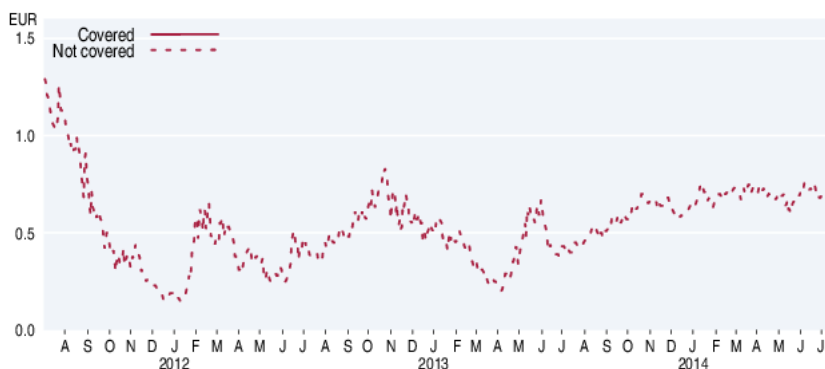
Rating/target price changes above reflect Eastern Standard Time

Alpha Bank A E (ACBr.AT)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Ronit Ghose

Covered since May 22 2014

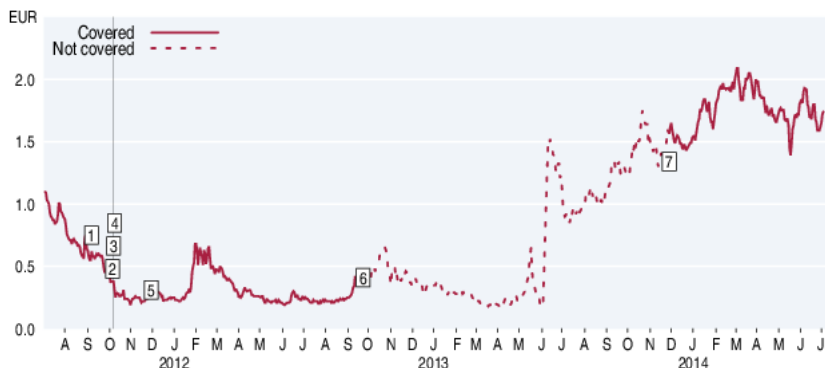


* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Piraeus Bank (BOPr.AT)
Ratings and Target Price History
Fundamental Research

Analyst: Ronit Ghose
Covered since May 22 2014



	Date	Rating	Target Price	Closing Price
1	7-Sep-11	3H	*0.45	0.62
2	6-Oct-11	*3S	*0.32	0.38
3	7-Oct-11	Stock rating system changed		

* Indicates change

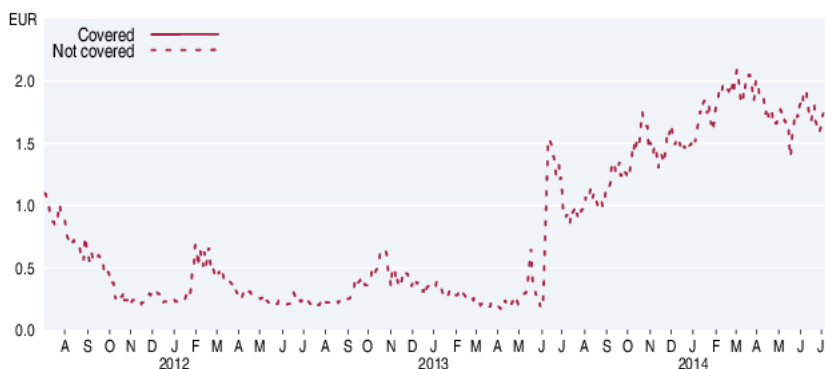
	Date	Rating	Target Price	Closing Price
4	8-Oct-11	*3H	0.32	0.38
5	30-Nov-11	*2	-	0.29
6	24-Sep-12	Coverage terminated		

	Date	Rating	Target Price	Closing Price
7	28-Nov-13	2	-	1.57

Rating/target price changes above reflect Eastern Standard Time

Piraeus Bank (BOPr.AT)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ronit Ghose
Covered since May 22 2014



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

National Bank of Greece SA (NBGr.AT)

Ratings and Target Price History Fundamental Research

Analyst: Ronit Ghose

Covered since May 22 2014



	Date	Rating	Target Price	Closing Price
1	7-Sep-11	2H	*17.58	16.97
2	6-Oct-11	*2S	*12.55	10.95

* Indicates change

	Date	Rating	Target Price	Closing Price
3	7-Oct-11	Stock rating system changed		
4	8-Oct-11	*2H	12.55	10.90

	Date	Rating	Target Price	Closing Price
5	20-Jun-12	*2	-	7.18

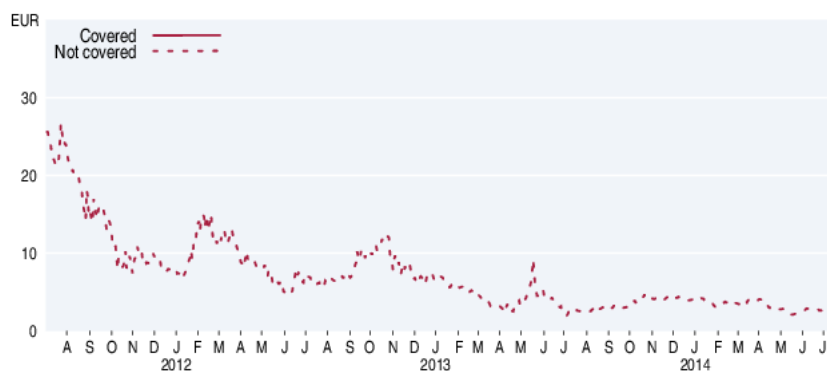
Rating/target price changes above reflect Eastern Standard Time

National Bank of Greece SA (NBGr.AT)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Ronit Ghose

Covered since May 22 2014



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Citigroup Global Markets Limited is currently mandated as Joint Bookrunner on National Bank of Greece's announced non pre-emptive capital increase.
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Data current as of 30 Jun 2014	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
Citi Research Global Fundamental Coverage	49%	40%	12%	0%	100%	0%
% of companies in each rating category that are investment banking clients	55%	53%	46%	0%	54%	0%

Guide to Citi Research Fundamental Research Investment Ratings:

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