

news & insights

Issue No 03
Date: 30/09/16

Walking a Tightrope...

We can talk the talk but can we walk the walk?

Financial markets are preparing for an uncertain final quarter of the year as investors fret about Theresa May's more concrete Brexit timetable, the health of European banks, US interest rates and elections all over the world.

What about Greek Banks?

The Greek banking sector has experienced very strong pressure during the last 6 years (2010-2015). The main issues were the liquidity risk due to the lack of access to the international markets and the significant reduction of deposits. Specifically, the assets decreased by €114bln mainly due to a) the reduction of the balance of net loans by €122bln, which reflects their impairment due to provisioning, b) the transfer of assets of the "bad banks" that are under liquidation c) the disposal of the abroad affiliated companies (eg Finansbank, Polbank, etc.) d) the inclusion of Cypriot banks loans in the Greek banking system e) the PSI in 2011.

Liabilities decreased by €114bln, mainly due to the decrease of deposits by €105bln, the fiscal crisis in Greece, the uncertainty of depositors, the deleveraging. Following the initial hit from the PSI, NPL formation and subsequently the stress tests, led to 3 recapitalizations up to 2015.

At the same time there is a significant increase in borrowing by ELA to offset the outflow of deposits.

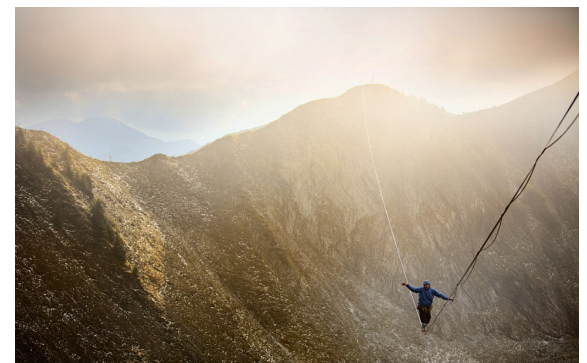
The impact of the above factors was the accumulation of €70bln loss in the last 6 years.

Structure Of Assets & Liabilities Of Greek Commercial Banks

Assets	2010 mm €	Share %	2015 mm €	Share %	Change 2010-2015
Loans	306,752	66.7%	185,094	53.5%	-121,658
Bonds & Shares	84,037	18.3%	72,262	20.9%	-11,775
Participations, fixed assets & others	25,803	5.6%	71,123	20.6%	45,320
Claims on credit institutions	22,011	4.8%	7,830	2.3%	-14,181
Cash and cash equivalent at BOG*	21,759	4.7%	9,460	2.7%	-12,299
Total	460,182	100%	345,769	100%	-114,413
Liabilities					
Customer Deposits	251,689	54.7%	147,073	42.5%	-104,616
Liabilities to credit institutions	132,629	28.8%	115,442	33.4%	-17,187
Equity Capital	31,939	6.9%	36,925	10.7%	4,986
Bank-issued bonds	23,687	5.1%	1,905	0.6%	-21,782
Others	20,238	4.4%	44,424	12.8%	24,186
Total	460,182	100%	345,769	100%	-114,413

*Bank of Greece

Source: Bank of Greece



Credit Risk

Credit risk and deterioration of the loans portfolio quality, because of the adverse macroeconomic conditions and capital controls, are the main causes of financial system instability and the basic inhibiting factor for providing loans to the real economy. The NPEs to total individual exposures ratio, increased up to 44.2% (€108bln) in 2015 vs 39.9% (€99bln) in 2014.

According to EBA the NPLs ratio for the Greek banks stands at a much higher level than the European average.

Liquidity Risk

The expected positive evaluation and the ECB's quantitative easing program will create the conditions for a gradual strengthening of confidence and improving banks' liquidity conditions. The ECB's decision for the waiver reinstatement of Greek bonds allows cheaper funding for Greek banks. The rate of deposits coming back to the banks is very slow.

Market Risk

The market risk impact was limited due to the "equity portfolio" small size of the banking system, the value of which at 2015 amounted to €1.96bln.

The Greek banking system faces low market risk and the overall loss mentioned above can easily be absorbed by the capital amounting to €35bln held by Greek banks.



Elections to Watch for Political Risk

Voters Will Determine the Destiny of Four Continents in Turmoil

Hungarian referendum on EU refugee quotas

A poor result of regional elections in Czech Rep. could revive internal attempts to oust Sobotka and replace him with a more euroskeptical Social Democrat

The Parliamentary election will be the most competitive in Georgia to date, will likely see 3 or more political parties pass the 5% threshold and will possibly require a coalition government to be formed

Cape Verdeans are voting to elect a president among three candidates including the incumbent President J. C. Fonseca

In light of the state's protection of corruption, the majority of Moroccans lost faith in the system and gave up on politics or elections as a process for a better change

Somalia which was plunged into civil war in the early 90s following the toppling of dictator Siad Barre, has not held elections for several decades

Mali's elections should have been held in 2014 but the country's instability and terrorist attacks had led the authorities to postpone the poll

President Kabila is constitutionally bound to step down after serving two terms, but opponents accuse him of deliberately delaying the poll to cling to power

Ghana's democratic credentials remain strong but economic slump and political issues have caused public dismay

Few weeks until USA Election Day, investors are starting to fear that the closeness of the two candidates could create volatility in capital markets

Colombians will decide whether to ratify a peace deal with the FARC members who will lay down their weapons, or to vote "No"

Difficulties for Nicaragua if the longest period of social stability since the 1979 Sandinista revolution comes to an end and the Venezuelan financial assistance declines further

The ruling Social Democrats in Lithuania are still ahead in polls, with the populists not far behind

Montenegro's parties are set to sign an agreement on organizing free elections, hopefully ending a prolonged political crisis

The first direct presidential elections since 1996 for Moldova

A new president and vice president will be elected in Bulgaria

Romania may hit an impasse if the party of disgraced former Prime

Minister V. Ponta fails to win a majority

Italian referendum for approving of amending the Italian Constitution to transform the Senate of the Republic into a "Senate of Regions" composed of 100 senators mainly made up of regional councillors and mayors. Prime Minister Matteo Renzi has pledged to resign in the case of a "No" vote

The Austrian presidential election re-run, could usher in the EU's first far-right head of state (after 1945)

Election Date	Country	GDP bln \$	GDP Annual Growth Rate	Unempl Rate until	Inflation Rate until	Interest Rate until	Gov. Debt to GDP	Corruption Rank	Terrorism Index	Population in mm
		2015	Dec 15	Aug 16*	Aug 16*	Aug 16*	Dec 15	Dec 15	Dec 15	Dec 15
2-Oct	Colombia	292,080	2.0%	9.0%	8.1%	7.75%	38.0%	83	6.66	48.23
2-Oct	Bosnia & Her	15,990	2.3%	41.6%	-1.2%	5.01%	30.9%	76	1.52	3.81
2-Oct	Hungary	120,687	2.6%	4.9%	-0.1%	0.90%	75.3%	50	1.19	9.84
2-Oct	Cape Verde	1,630	3.5%	12.4%	-1.8%	7.50%	123.0%	40	-	0.52
7-Oct	Morocco	100,360	1.0%	8.6%	1.6%	2.25%	63.9%	88	1.45	34.34
7-Oct	Czech Rep	181,811	2.6%	5.3%	0.6%	0.05%	41.1%	37	2.48	10.55
8-Oct	Georgia	13,965	3.0%	12.0%	0.9%	6.50%	43.1%	48	2.37	3.68
9-Oct	Lithuania	41,244	1.9%	7.5%	0.8%	0.00%	42.7%	32	0	2.91
9-Oct	Haiti	8,877	1.7%	6.8%	12.9%	20.00%	26.5%	158	0	10.71
15-Oct	Afghanistan	19,199	2.1%	40.0%	7.3%	15.00%	6.6%	166	9.23	32.53
16-Oct	Montenegro	3,993	2.7%	17.3%	-0.5%	-	61.4%	61	0.66	0.62
23-Oct	Somalia	5,953	2.6%	-	-4.0%	-	-	167	7.6	10.79
30-Oct	Ivory Coast	31,753	9.4%	5.3%	-0.4%	3.50%	36.4%	107	3.14	22.70
30-Oct	Moldova	6,551	1.8%	4.0%	3.6%	9.50%	27.5%	103	0.04	3.55
6-Nov	Nicaragua	12,693	4.1%	6.8%	3.8%	-	45.3%	130	2.93	6.08
6-Nov	Bulgaria	48,953	3.0%	8.0%	-0.3%	0.00%	29.3%	50	2.42	7.18
6-Nov	USA	17,947,000	1.3%	4.9%	1.1%	0.50%	104.0%	16	4.61	321.42
20-Nov	Mali	13,100	5.4%	8.2%	-3.7%	3.50%	-	95	5.87	17.60
27-Nov	Congo	35,238	7.7%	46.1%	5.5%	2.00%	19.7%	147	6.49	77.27
1-Dec	The Gambia	1	4.7%	29.8%	6.7%	23.00%	50.7%	123	0	1.99
4-Dec	Italy	1,815,000	0.8%	11.4%	0.1%	0.00%	133.0%	61	3.36	60.80
4-Dec	Austria	374,056	1.2%	8.3%	0.6%	0.00%	86.2%	16	2.09	8.61
4-Dec	Uzbekistan	66,733	7.8%	10.7%	5.6%	9.00%	11.0%	153	0	31.30
7-Dec	Ghana	37,864	2.5%	5.2%	16.9%	26.00%	67.6%	56	1.38	27.41
11-Dec	Romania	177,954	6.0%	6.0%	-0.2%	1.75%	38.4%	58	0	19.83
11-Dec	FYROM	10,086	2.2%	24.0%	-0.3%	4.00%	38.4%	66	2.25	2.08
Total		21,382,771								776.35
World		73,434,000	2.4%	5.9%	1.4%	-	-	-	-	7,347.00
Greece		195,212	-0.4%	23.4%	-0.9%	0.00%	177.0%	58	4.98	10.82

Sources for table and text: The World Bank, AfDB, OECD, UNDP, The African Economy Outlook, ILO, IMF, Transparency International, IFO & Peace, Eurostat,NDI. *Regions except Europe & USA, data by the end of 2015

Key indicator
When the 30% of the world GDP or the 10% of the world population are called to the polls



Negative Rates A “Black Hole” Dragging Down Yields Everywhere!

The unprecedented worldwide surge in the market for bonds that are certain to lose money if held to maturity regained strength last month. The total face value of negative-yielding corporate and sovereign debt in the Bloomberg Barclays Global Aggregate Index of investment-grade bonds jumped to \$11.6tn as of Sept. 30, up 6.1% from a month earlier. That sum had fallen for 2 months in a row from June's \$11.9tn peak.

Japan, where policy makers moved in last month to coax yields up, remains ground sub-zero with almost \$6tn, about half of the global total. Europe accounts for 47%, the bulk from France, Germany, the Netherlands, Spain



and Italy. Less than a seventh of the world's negative-yielding debt is owed by businesses. Finance companies issued the bulk of those corporate bonds, almost 80%, with original face values totaling \$1.3tn.

Source: Bloomberg

Negative-Yielding Debt

Area	Sep 2016 \$ tn	Share %
Japan	5.7	49.1
Germany	1.4	12.1
France	1.4	12.1
Rest of West Europe	2.7	23.3
Rest of World	0.5	4.3
Total	11.6	100

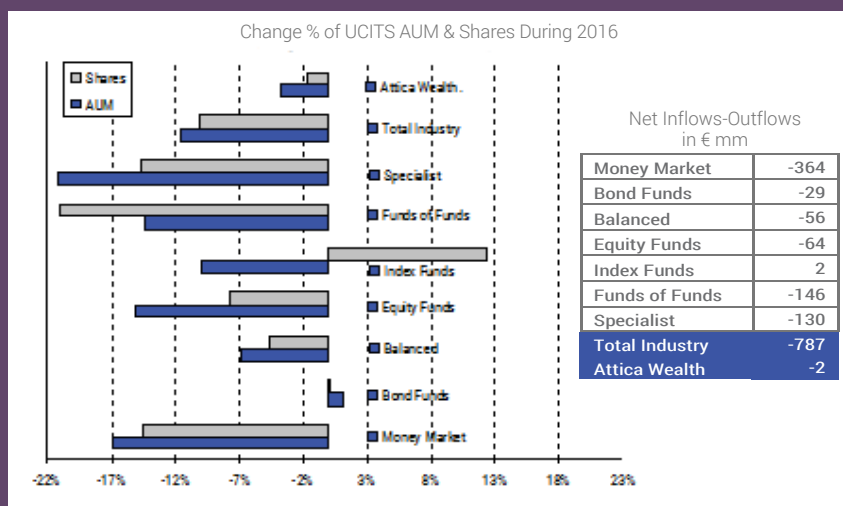
Source: Bloomberg

Greek Mutual Funds Industry Suffers

2016 so far has proved to be a year of assets "bleeding" for the Greek Mutual Funds (M/F) Industry. The total UCITS AUM amounted to €6.404bln at the end of Sep vs €7.238bln at the end of 2015 (-11.53%).

Unfortunately, the bulk of the losses came from redemptions (-10.09%). Observing the average rate of shares redemptions, one could risk the forecast that decrease of shares will stand between -13.30% to -12.80% by the end of the year.

The UCITS recorded net outflows of €787mm. This decrease resulted primarily from net outflows on Money Market M/Fs (€364mm), Fund of Funds (€146mm) and Specialist M/Fs (€130mm).



Source: Hellenic Fund & Asset Management Association

Investors' confidence in Attica Wealth Management remained intact. The net outflows amounted to €2mm (current AUM €57mm).

During the capital controls since 28 Jun 2015, the Greek Industry has suffered severe net outflows of €1.561bln.



2, Christou Lada str
GR10561
Athens, Greece

T: +30 210 3396 860
F: + 30 210 3238 697
E: info@atticawealth.gr
U: www.atticawealth.gr

Disclaimer

This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of 30 Sep 2016 and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by Attica Wealth Management to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by Attica Wealth Management, its officers, employees or agents. This material may contain "forward-looking" information that is not purely historical in nature. Such information may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.