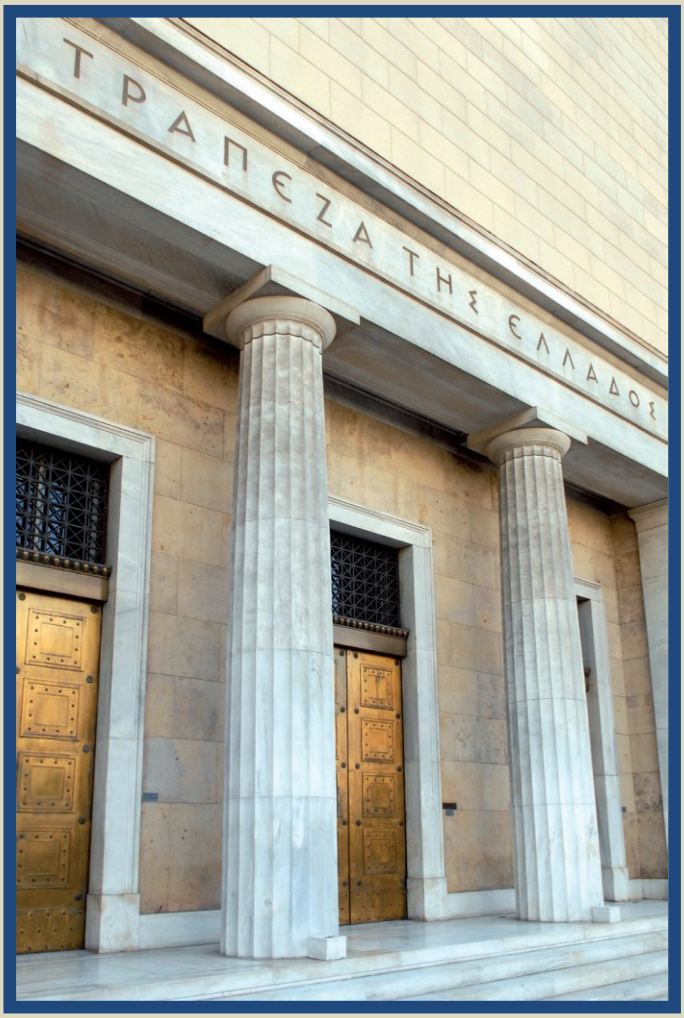
FINANCIAL STABILITY REVIEW

EXECUTIVE SUMMARY



October
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BANK OF GREECE
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I. EXECUTIVE SUMMARY

Risks to financial stability in Greece remain mostly exogenous. The EU-US agreement in July averted a trade war; nevertheless, uncertainty remains elevated and, compounded by US tariffs on EU imports, is expected to dent economic growth in the EU, also indirectly affecting the Greek economy. Moreover, the ongoing war in Ukraine and the upheaval in the Middle East, despite the recent ceasefire agreement, maintain geopolitical tensions and cybersecurity risks, while the risk of a sharp repricing of financial assets worldwide remains exceptionally high. If the above risks were to materialise, they could have an indirect impact on the Greek financial system by dampening investment and credit expansion, increasing funding costs and eroding the quality of the loan and investment portfolios.

The Greek economy continued to grow in the first half of 2025. Real gross domestic product (GDP) growth stood at 2.0% year-on-year in the first half of 2025, with private consumption, net exports and investment being the key drivers. A significant contribution came from private consumption growth, which, however, decelerated to 1.5% (from 2.1% in the first half of 2024), while public consumption increased marginally by 0.2%. The contribution of net exports was positive, as a result of a simultaneous increase in exports and decrease in imports, while investment, following a temporary drop in the first quarter of 2025, recovered in the second quarter. It should be noted that investment has been growing steadily since 2019 (+60% by the end of 2024), covering part of the large investment gap created during the debt crisis. Inflation is steadily declining but remains above the euro area average. In January-September 2025, inflation, as measured by the Harmonised Index of Consumer Prices (HICP), stood at 3.0%, as in 2024. Moreover, core inflation (which excludes food and energy) increased by 3.9% in the same period.

The robustness of the Greek banking sector rests upon solid fundamentals. The profitability and capital adequacy of Greek banking groups remained at satisfactory levels, while asset quality improved further. Additionally, bank liquidity remains high and, following successive upgrades of their credit ratings, Greek banks are within investment grade territory. The resilience of Greek banks is also confirmed by the results of the 2025 EU-wide stress tests published recently. The results suggest that, under the severe scenario, Greek banks would maintain capital levels comfortably above regulatory requirements, higher than the European average.

In the first half of 2025, Greek banking groups continued to benefit from favourable liquidity conditions, further tapping alternative sources of funding. The liquidity ratios of Greek banking groups remain well above supervisory requirements and the average for significant institutions in the Banking Union. Specifically, in June 2025, the Liquidity Coverage Ratio (LCR) stood at 212.3% and the Net Stable Funding Ratio (NSFR) at 136.4%. In addition, Greek banks' smooth access to the interbank market and global capital markets, following successive credit rating upgrades, as well as their low Asset Encumbrance Ratio, have helped boost banks' resilience to potential shocks.

The quality of credit institutions' loan portfolios improved. In June 2025, the stock of non-performing loans (NPLs) on a solo basis stood at EUR 5.8 billion, down by 2.4% from December 2024, mainly due to loan recoveries, sales and write-offs. The NPL ratio stood at 3.6% in June 2025 (from 3.8% in December 2024), as credit growth was accompanied by a decline in NPLs. This is the lowest level of the NPL ratio since Greece joined the euro area, having largely converged with the average for significant institutions in the Banking Union (June 2025: 2.2%). In addition, the less significant institutions' NPL ratio also dropped to 5.9% in June 2025.

Greek banking groups' profitability remained satisfactory. In the first half of 2025, Greek banking groups' profits after tax and discontinued operations amounted to EUR 2.5 billion, against profits of EUR 2.4 billion in the first half of 2024. Specifically, in the first half of 2025, the operating income of Greek banking groups increased by 1.6% year-on-year. Despite credit expansion, net interest income fell by 2.8%, as a result of the cuts in key ECB interest rates, which started in June 2024 and continued into the first half of 2025. By contrast, net fee and commission income increased by 14.3%, on the back of higher asset management fees and other fee and commission income. As a result, core operating income (i.e. net interest income and net fee and commission income) rose by 0.4%. Gains from financial transactions and other operating results also grew. Concurrently, operating costs increased by 12.6%, mainly owing to higher staff and administrative costs. Additionally, impairment charges rose by 12.1%. Banking groups' return on assets (RoA) and return on equity (RoE) stood at 1.4% and 13.0%, respectively.

The capital adequacy ratios of Greek banking groups remained high. In particular, the Common Equity Tier 1 (CET1) ratio on a consolidated basis fell marginally to 15.8% in June 2025, from 16% in December 2024, and the Total Capital Ratio (TCR) rose to 20.4% (TCR: 19.8% in December 2024). This divergence is mainly attributable to the issuance of capital instruments that qualify as prudential own funds but are not classified under CET1 capital. However, in June 2025, Deferred Tax Credits (DTCs) amounted to EUR 11.8 billion, accounting for 44.6% of CET1 capital, from 47.5% in December 2024.

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In the current macroeconomic and financial environment, implementing an appropriate macroprudential policy to avoid the build-up of systemic risks and to enhance the resilience of the banking sector is of utmost importance. The Bank of Greece conducts a quarterly assessment of the intensity of cyclical systemic risks and of the appropriateness of the Countercyclical Capital Buffer (CCyB) rate for Greece and sets or adjusts it, if necessary. The analysis of the indicators examined by the Bank of Greece confirms that, overall, there is no excessive credit growth; however, the analysis points to emerging cyclical systemic risks in certain areas, such as credit to non-financial corporations, residential real estate prices and the current account. Moreover, the macroeconomic environment in Greece, the further improvement of the banking sector's fundamentals and prudential ratios, as well as the restructuring of less significant institutions are still shaping favourable conditions for building adequate macroprudential space to safeguard financial stability over the medium term. In this context, the Bank of Greece decided to raise the

CCyB rate for Greece by 0.25%, setting it at 0.5%, i.e. at the Positive Neutral Countercyclical Capital Buffer (PN CCyB) target rate, applicable from 1 October 2026.

In addition, the Bank of Greece identified Other Systemically Important Institutions (O-SIIs) in Greece for the year 2025, applying the relevant European Banking Authority (EBA) guidelines, and set the O-SII buffer rate for 2026 at 1.25% for Eurobank Ergasias Services and Holdings S.A. on a consolidated basis and at 1.00% for all other O-SIIs.

Lastly, the Bank of Greece has put in place macroprudential borrower-based measures (BBMs) for loans and other credit to natural persons secured by residential real estate located in Greece, effective from 1 January 2025. In more detail, a cap was introduced on the loan-to-value ratio at origination (LTV-O) of 90% for first-time buyers and 80% for second and subsequent borrowers, as well as a cap on the debt service-to-income ratio at origination (DSTI-O) of 50% for first-time buyers and 40% for second and subsequent borrowers.

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Insurance undertakings maintained high capital adequacy levels, boosting their own funds. In the first half of 2025, insurance undertakings' own funds grew by 9% compared to December 2024, while in terms of quality, 93% of their eligible funds ranked in the highest quality class (Tier 1). It should be noted that efficient management of underlying and emerging risks confirms the resilience of the insurance industry in the volatile economic environment of recent years, highlighting the significant contribution of this sector to the economy and society as a whole.

The financial system infrastructures operated efficiently in the first half of 2025, thereby contributing to the safe and reliable operation of the financial system. Concerning the operation of the financial system infrastructures, i.e. payment, clearing and settlement systems, a notable development is the proposal submitted by Euronext N.V. for the acquisition of Hellenic Exchanges – Athens Stock Exchange S.A. (ATHEX), which was unanimously supported by the ATHEX Board of Directors. ATHEX is the parent company of ATHEXCLEAR (ATHEX's subsidiary clearing company) and ATHEXCSD (the Hellenic Central Securities Depository). The proposal includes certain commitments on the part of Euronext, among other things that ATHEX will maintain its legal, business and tax residence in Greece; Euronext will enhance the operational resilience of the Greek capital market; and will safeguard ATHEX's role as a national exchange and a regional hub. Transactions through electronic payment instruments remain high and are gradually expanding, now extending to low-value transactions. Moreover, the use of credit transfers also increased. Nevertheless, enhancing transaction security is a challenge, although in the first half of 2025 fraud-to-transaction ratios remained low, both in volume and value terms.

Credit servicers play a significant role in managing private debt in Greece. In June 2025, total exposures under management by credit servicers amounted to EUR 94.0 billion, 87% of which referred to exposures managed by credit servicers on behalf of credit acquirers and the remaining 13% to exposures managed on behalf of credit and financial institutions. NPLs account for the bulk (83%) of the overall portfolio of exposures under management in June 2025, with performing exposures representing only 17%.

The activity of Payment Institutions (PIs) and Electronic Money Institutions (EMIs) was affected by corporate actions. In the July 2024-June 2025 period, the total value of payment transactions carried out by PIs stood at EUR 63.9 billion, up by 2.6% year-on-year. By contrast, the total annual value of payment transactions carried out by EMIs stood at EUR 9.1 billion, down by 73.4% year-on-year. This drop is attributable to a merger by absorption of the largest EMI by the credit institution of the same group, resulting in payment services now being provided directly by the absorbing credit institution.

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The domestic macroeconomic environment is expected to remain favourable, but subject to downside risks. According to the latest projections by the Bank of Greece (September 2025), real GDP is expected to grow by 2.2% in 2025, i.e. almost double the euro area average rate, and inflation is estimated at 3.1% in 2025. Moreover, the achievement of high primary surpluses and a steady downward path of the public debt-to-GDP ratio, contribute to fiscal sustainability. Concurrently, the direct impact of the new tariffs – following the recent EU-US trade agreement – on the Greek economy is expected to be limited, as the United States is not a major trading partner of Greece. Risks are more likely to be indirect, as a slowdown of global trade and its impact on euro area growth could lower demand for Greek goods and services and dampen the growth outlook.

The outlook for the Greek banking sector and the domestic financial system is positive, despite uncertainty in the international environment. The domestic banking sector has solid fundamentals and is much better placed than in the past to withstand potential shocks. This is also reflected in the stock valuations of ATHEX-listed banks, as well as in the interest of strategic investors, a prominent example being the increase in Italian UniCredit’s stake in Alpha Bank to around 26%. Completing the Banking Union and promoting the Savings and Investments Union, would deepen financial integration, improving risk-sharing and mobilising savings to finance investment, in the context of both the green and digital transitions and the need for higher defence spending. However, a deterioration of international financial conditions and/or an abrupt adjustment of asset valuations could have adverse effects both on the global financial system and on the financial situation of domestic firms and households. Hence, Greek banks should apply prudent lending standards, step up their efforts to clean up the NPL stock and pursue a moderate dividend policy, with a view to strengthening their capital buffers.

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