## THE NATIONAL BANK EUROBANK MERGER FIASCO

## WHO IS TO BLAME?

### a. A long history of failures

On the 31rst of October 2001 the National Bank of Greece Governor suddenly announced that he had agreed with the management of Alpha Bank for the merger of the two institutions. "It creates a powerful group. Greece has need of champions ", said the governor of the National Bank Theodoros Karatzas, after the meeting of the Board of the bank which was exclusively on the adoption of the plan of merger with Alpha Bank[1]. Mr. Karatzas has also added that employees of the two banks would not 'have to worry at all".

The proposed merger of the two banking giants would have created a group with total assets of approximately 80 billion euros and market capitalization of around 10 billion euros.

The then Minister of National Economy, Mr. N. Christodoulakis[2], hailed the merger as a great achievement and insisted that there was no apparent problem with competition issues as barriers to entry were low! The fact also that a state controlled bank would take the upper hand in the merger and control the largest private bank of the country did not bother any policy maker. A small number of commentators expressed reservations about the rationale of the merger especially regarding systemic stability, competition and synergies but their views were dismissed as outdated and pessimistic. The euphoria lasted for a few weeks. The board of the National Bank announced the failure of the merger as there were insurmountable differences of opinion regarding the allocation of key managerial positions.

The collapse of the merger, which became in the process official government policy, has not led to any blood-letting. No one was responsible for this first

[1] As reported by in.gr 1/11/2001.

[2] He was one of the most ardent supporters of the idea of national champions together with a few other insiders like the banker Mr. N. Karamouzis who was one of the most aggressive managers at Eurobank with overexpansion of lending activities leading to a total collapse several years later.

fiasco. The top management of the National Bank continued as if nothing has happened for another 3 years.

**b. To commit the same sin twice [is] not [a sign] of a wise man**

The same deal was revived 10 years later with the management of the National Bank making on the 11th of February 2011, an unsolicited offer for the merger of the two banks through the exchange of shares. Subsequently, ALPHA signed a confidentiality agreement, which, among other things, provided for a deadline for completion of negotiations on the proposal, on February 18, 2011, and entered into exploratory talks with the NATIONAL, assisted by dedicated consultants.

National Bank sources at the time were adamant that the deal cannot be derailed due to details. The then Finance Minister G. Papaconstantinou, in a written statement claimed that "the discussions between the National Bank and Alpha Bank are in the right direction confirming that banks do not stay indifferent and uninvolved to the challenges they face".

Despite the pressures from different circles the Board of ALPHA, on the 18th February 2011 meeting unanimously decided to reject the proposal.

The leading figure on the side of National Bank was a Karatzas deputy from the days of the first attempt. Mr Tamvakakis started his career in state controlled banking in the mid-1990s when he joined the National Mortgage Bank top management. Later he was promoted to the position of deputy director of the National Bank and he remained there until 2004. During the New Democracy's government (2004-2009) has been sheltered at Lamda Development owned by Mr. S. Latsis. He returned as chief executive of the National Bank after PASOK won the 2009 elections.

The collapse of this second merger led to hostilities and heated arguments. But it seems this second failure has not taught a lesson to the small bunch of arrogant and ignorant "bankers" that have dominated Greek banking over the last 15 years. Their power was largely based on politicians of both governing parties and the control they exerted on the press through two channels. The first was the direct employment of journalists in their public relations departments. Scores of specialized journalists working in respected daily newspapers were also employed by banks or were paid in kind with lavish travelling arrangements to a number of attractive destinations. The second was the loans granted to media owners on very generous terms. About four or five bankers have accumulated an unprecedented power. There was no control from the regulators no criticism from the press and little oversight from parliament.

Greece is a unique case. Top bankers never lose their position whatever happens with their banks. They are recycled, they keep coming back and they never pay the price for their disastrous management.

### c. The current tragedy will not be the last

The creation of the coalition government in June 2012 has led, as always, to a change in the top management of the National Bank. Mr G. Zanias, former chief economic advisor at the Ministry of Finance under Mr. G. Papaconstantinou and Mr. V. Venizelos, has been appointed chairman of the board of directors and an insider Mr. A. Tourcolias has been appointed chief executive.  The former was part of the failed team that led Greece to its present predicament without any banking experience and with limited intellectual and managerial capabilities.  The latter had followed a banking career mainly in the National Bank based on shipping. As head of shipping he was involved in the disastrous merger attempt of MFD back in 1999/2000. His greatest asset to the day remains his friendship with the Prime Minister!

The forced restructuring of the banking system initiated in 2012 has found the National Bank totally unprepared. Their first move, to secure the well capitalized Commercial Bank has ended in failure. Alpha Bank managed to secure the deal. The management of National Bank decided to target Eurobank. The decision was not based on sound analysis. How two banks with negative net worth and without a strong and determined reference shareholder would have persuaded markets for their long term viability?   In effect the controlling shareholder of Eurobank offloaded his responsibilities to a third party!

The combined bank was too big to fail and too big to be saved under current public finance circumstances. The regulator, the Bank of Greece, remained unconcerned about these developments and many others dubious moves by local bankers.

An army of consultants were employed to elaborate the merger plan and carry out the restructuring. But the top management team failed to persuade private investors to participate in the recapitalization of the merged institution. Last week they notified the Hellenic Financial Stability Fund that they are unable to raise the 10% of the total required for recapitalization from private sources. As a result the Fund will take over and fully recapitalize both banks[3].

It was anticipated that Troika will ask for a separate solution for a number of reasons[4]. The more fundamental reason is the regulatory risk of the combined bank. A secondary but not unimportant factor is the lack of trust in a management team that has acted with such frivolity and ignorance of risk. Sources close to the bank are saying that when he met Troika and asked by them as to whether he had made any preliminary sounding of the market for the imminent capital increase he claimed that he has a good feeling of the market and there is no interest on the part of investors. Troika representatives were taken by surprise unable to believe what was really happening.

Mr. Tourcolias has less than ten days ago made a number of very optimistic statements. He said: "To this end the interest in the enlarged NBG Group by international investors in order to participate in the recapitalization process is real". What exactly happened over the last 10 days that has changed this

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[3] According to the Report on the Recapitalization and Restructuring of the Greek Banking Sector December 2012, the resulting capital needs for all Greek commercial banks were estimated in May 2012 at €40.5 billion, of which the €27.5 billion corresponded to the four "core banks". The Bank of Greece considers that, under reasonable levels of economic uncertainty, the amount of €50 billion earmarked in the Economic Adjustment Program is appropriate to cover the Greek banking sector's recapitalization and restructuring costs, including a capital buffer of 5 billion to cover emergencies.

[4] The Ministry of Finance admitted on Tuesday the 9th in a public release that: "The fact is that there is no formal correspondence between our partners and the competent Greek authorities, but there is an exchange of emails asking questions for clarification, but no objections to the merger of the two banks". Of course if Troika raises questions and they get the wrong answers the result is a botched merger!

positive assessment? And if the management was so prepared about the forthcoming capital increase why this Tuesday afternoon the board of directors of NBG interrupted their meeting for tomorrow in order to have updated information on the process and the green light from the Hellenic Financial Stability Fund? The management should have secured their agreement at an earlier date.

The Fund will now assess whether the two banks may actually achieve a concentration of 10% of the recapitalization in the little time they have at their disposal. National Bank is expected to be called upon to defend its case this Wednesday at 14:00 at the EFSF in the presence again of Troika proving its ability to raise capital of 950 million euros from private shareholders. In case of a negative assessment the National Bank will solely revert to the EFSF for raising capital and as it is expected in this case the change of top management must be a certainty[5]. Major complications of a regulatory legal nature arise from the possible cancellation of the merger. These complications have just become apparent as old Eurobank shareholders have exchanged their shares for NBG shares taking at face value the offering prospectus.

If a management fails to persuade investors and offers the bank to the state should resign. However, in Greece this is not the usual course of events: failure is an orphan. It seems that a failure to allocate correctly responsibilities for the botched process shifts the political cost to the shoulders of the Government and the regulatory authorities.

***S. Travlos 10/4/2013***

[5] Today's article in Vima.gr by the chief editor presents in diplomatic language the real dimensions of the failure.