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An international perspective on Greece

- **Greek equities up or down?** Bond yields and ECB are key
- **How are international investors positioned?** Mostly underweight
- **Greece an EU leader?** Yes, in fiscal adjustment and structural reforms
- **Risks:** Low growth, high taxes and high NPL ratios
- **Brexit impact on Europe:** UK has more to lose than Europe

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Emerging Europe Equity Strategy

Greek equities up or down? Watch out for the yields

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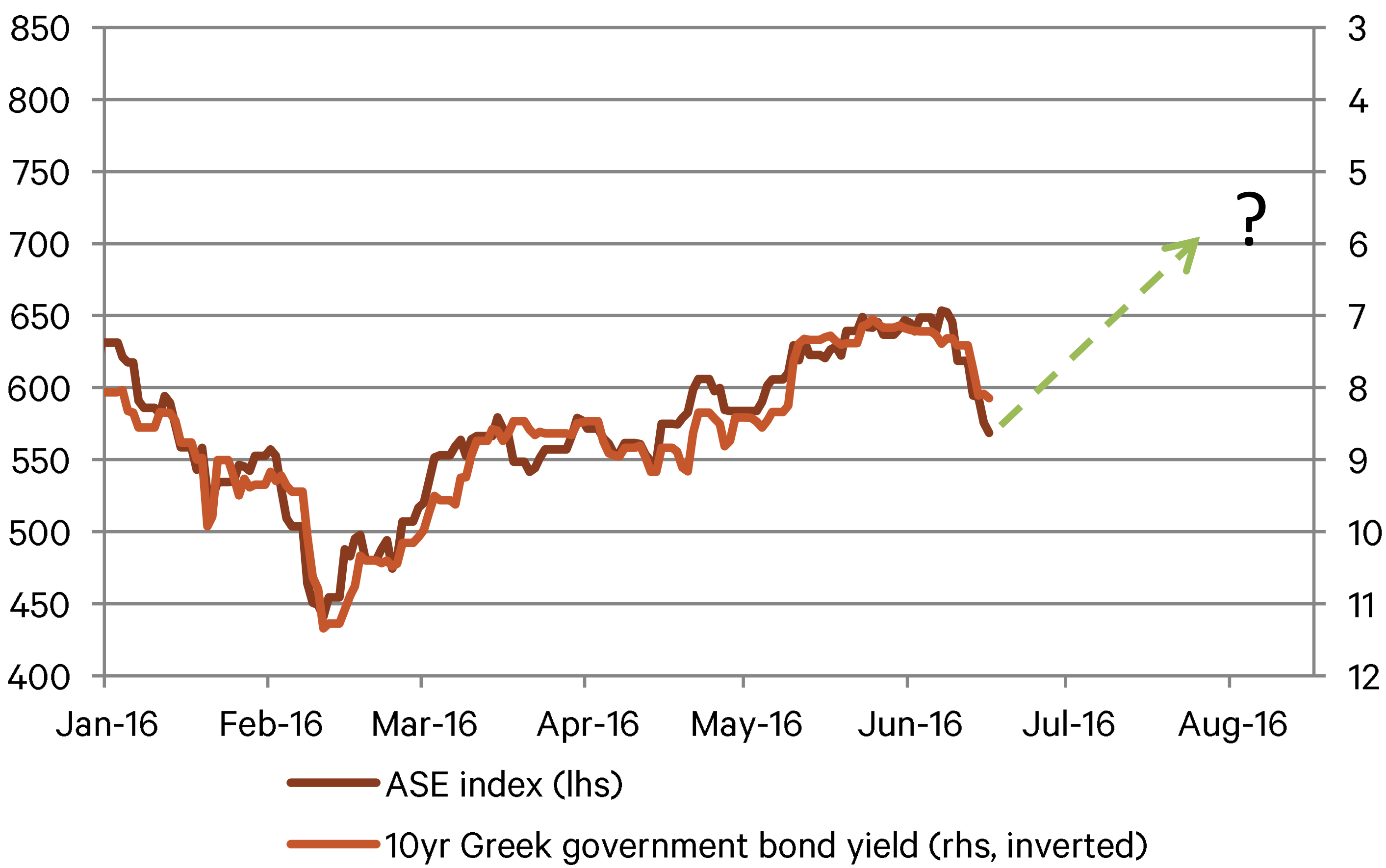
Greek ASE index vs 10 year government bond yields (inverted, in %)



- Greek equities and bond yields are highly correlated
- Greece will more likely that not be included into the ECB QE program one day
- In a positive scenario yields could decline significantly leading to a rally in Greek equities
- Risk: ECB can't buy Greek bonds during the bailout program review period, so relief rally could be volatile.
- Furthermore, it is not certain if Greece will pass the ECB DSA test
- Current 10yr government bond yields in Portugal are 3.5%, and 3.8% in Cyprus.

Source: Bloomberg, Berenberg Research

Closing the gap in the yield spread (part 1)

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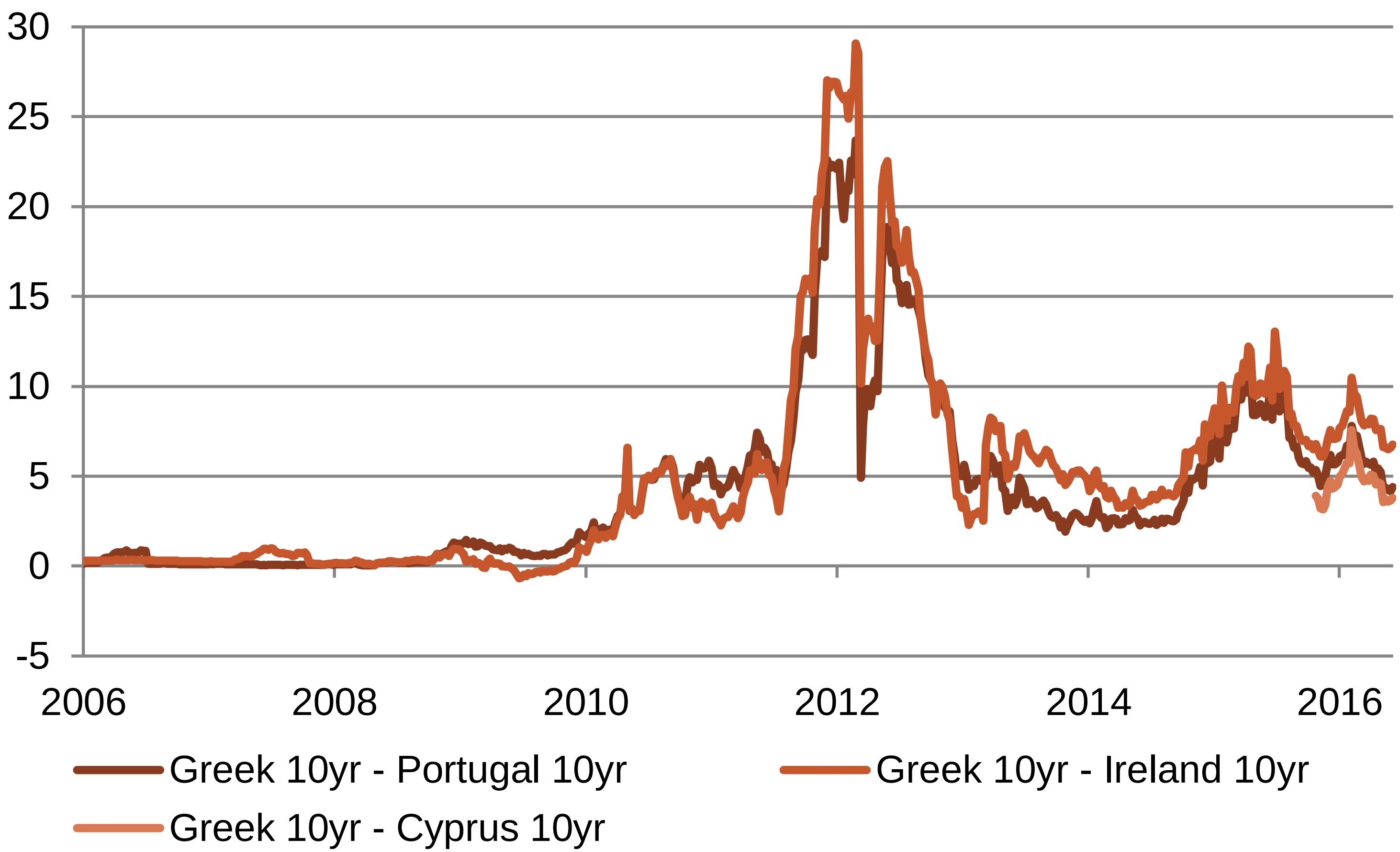
Greek 10 year bond yields are significantly above Cyprus, Ireland and Portugal



- In the lead up to the global financial crisis, the Greek government bond yields were in line with Portugal and Ireland
- Greek bond yields might close the gap with Cyprus, Ireland and Portugal if Greek bonds will be included into the ECB QE program
- Currently the bond spread with Ireland is 6.7ppts, with Portugal 4.4ppts and with Cyprus 3.8ppts

Source: Bloomberg, Berenberg Research, (in %)

Closing the gap in the yield spread (part 2)

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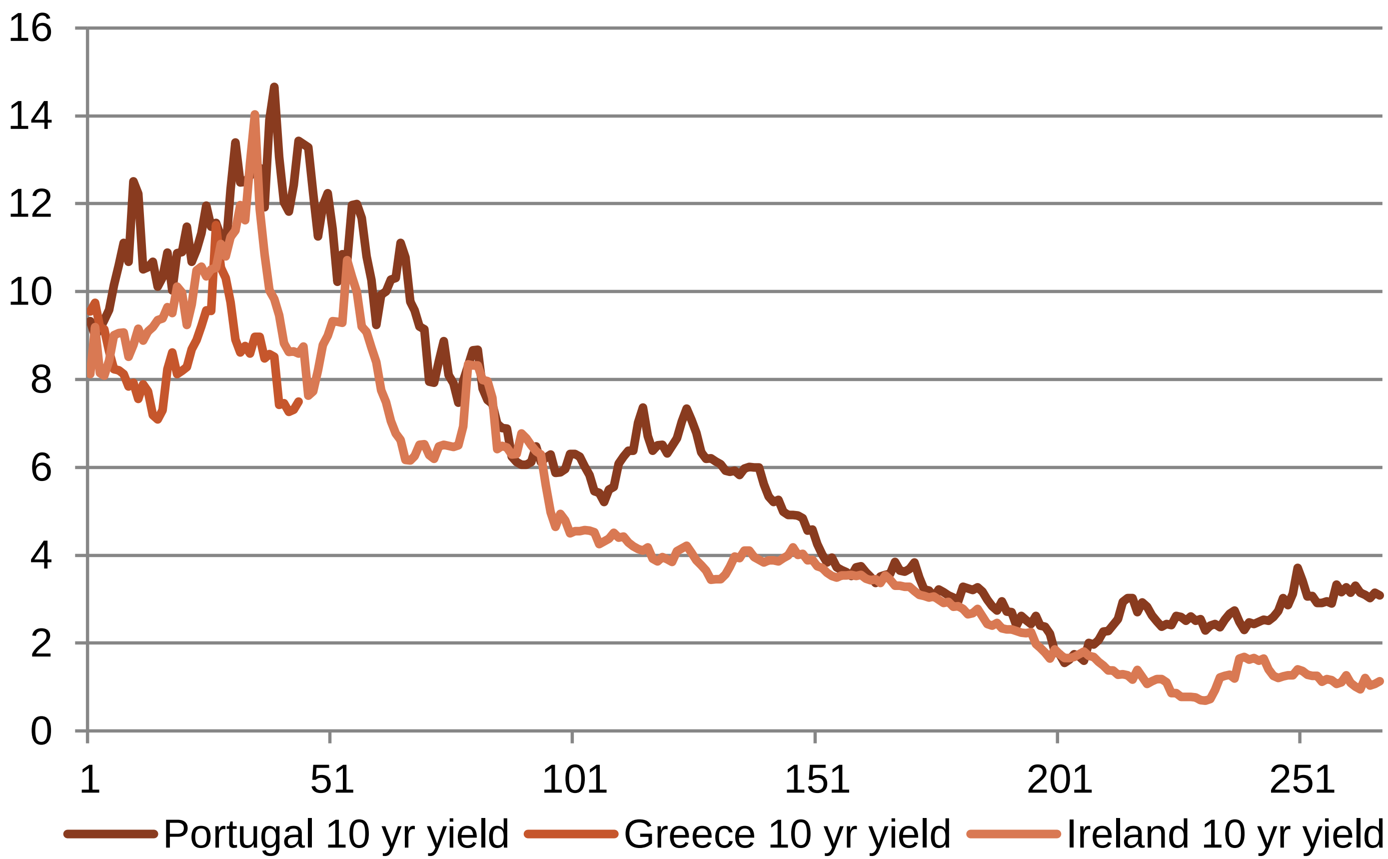
Government bond yields since bailout (weeks)



- Ireland received the bailout package in November 2010. In the first months following the bailout, bond yields rose, before they started to drop significantly
- Portugal received the approval for its bailout package in May 2011. The yields rose for another 9 months, but started to shrink afterwards
- One year after the latest bailout program Greek yields remain elevated
- Potentially the yields will drop over the coming years if they receive ECB support and follow in the footsteps of Portugal and Ireland

Source: Bloomberg, Berenberg Research (in %)

ECB could buy up to 11 months worth of daily trading volume

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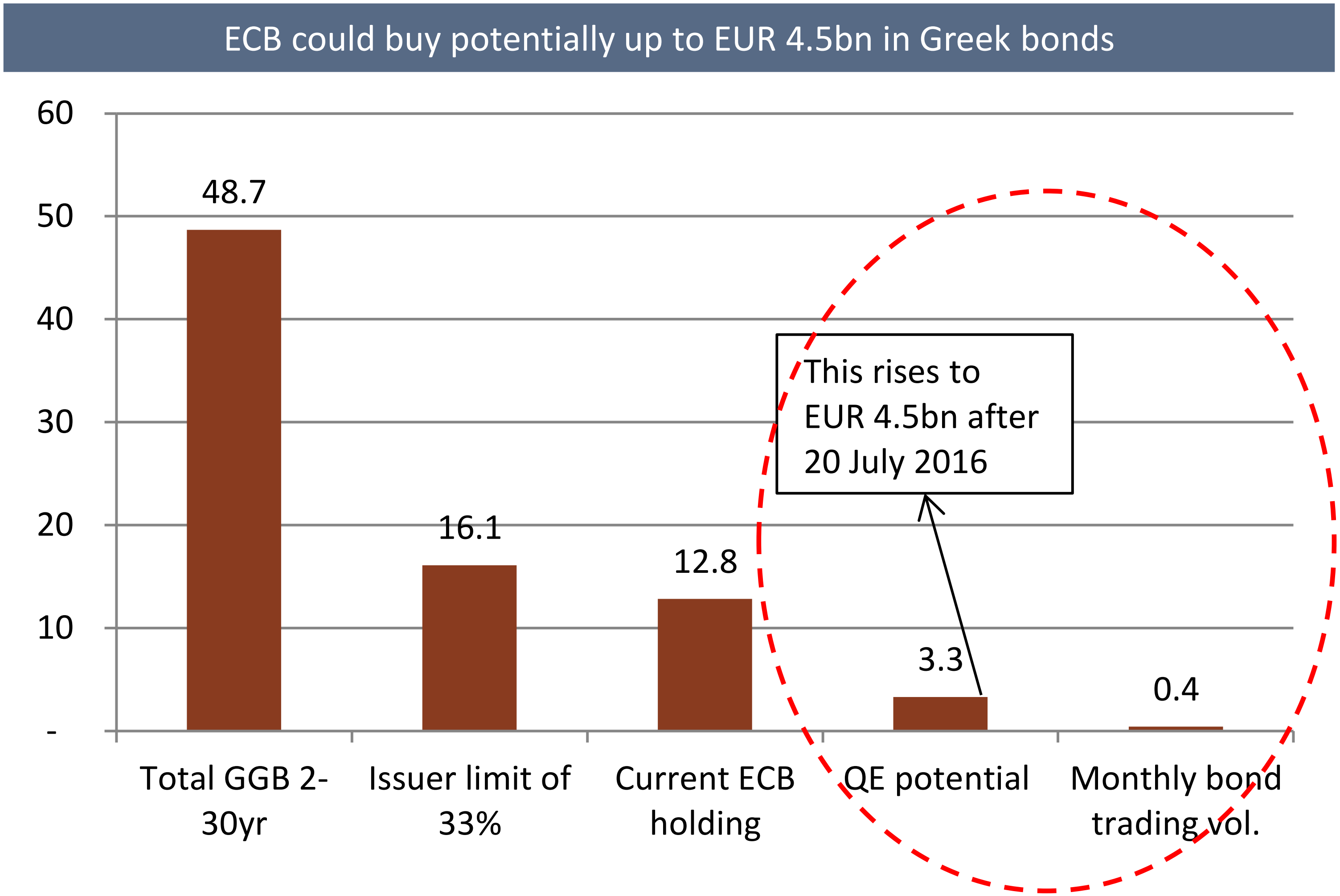

- Greece has EUR 48.7bn outstanding in sovereign bonds in the 2-30 year bracket which are eligible for the ECB QE program
- The ECB can buy max 33% of those bonds, equalling EUR 16.1bn (currently they hold EUR 12.8bn)
- This would leave the ECB with EUR 3.3bn to buy on the markets.
- This could rise to EUR 4.5bn from 20 July 2016 as some Greek bonds held by the ECB will expire
- This would reflect around one year of average daily trading volume of around EUR 20m

Source: Bloomberg, Berenberg Research (EUR billions)

Emerging market funds (GEM) are underweight Greece

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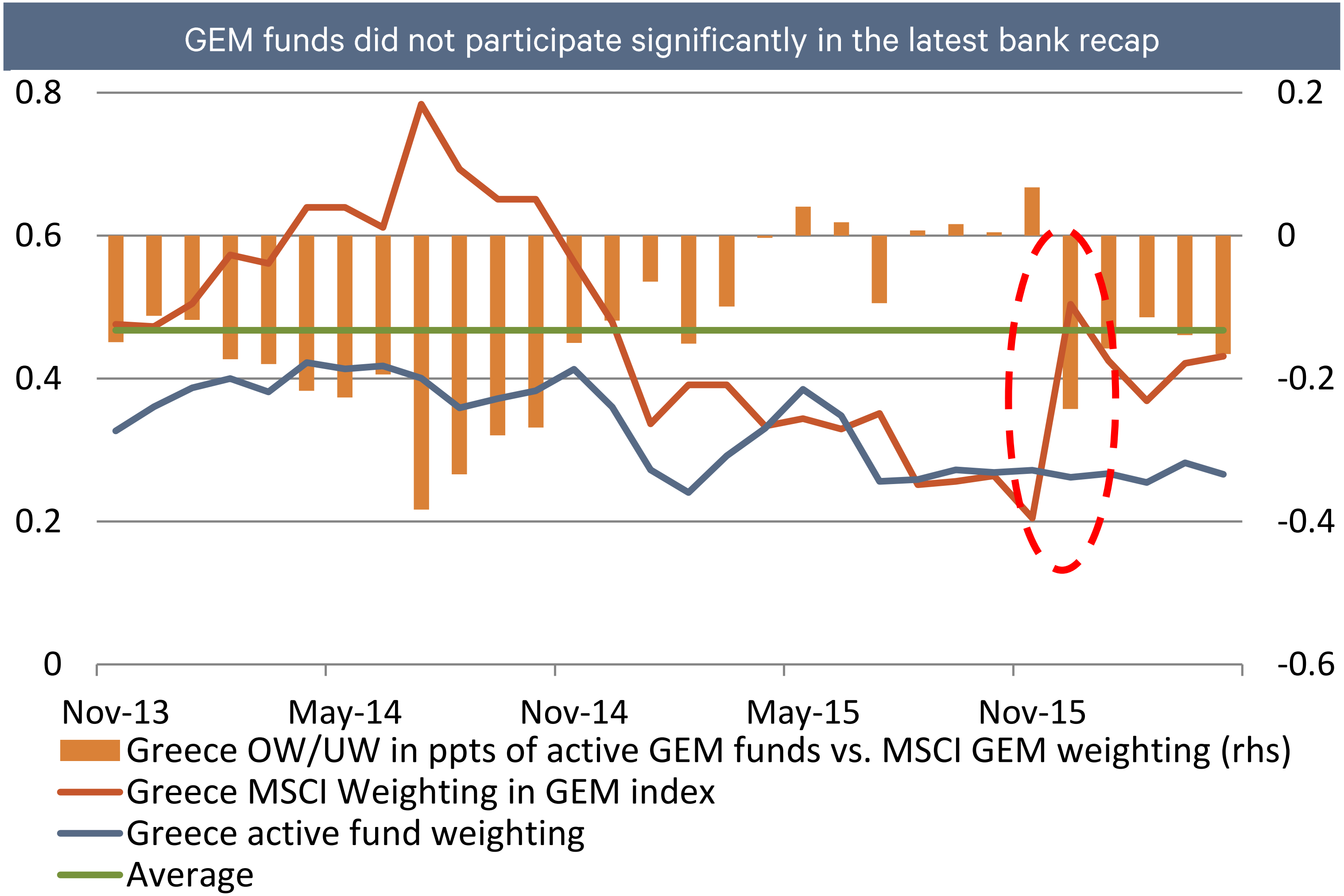
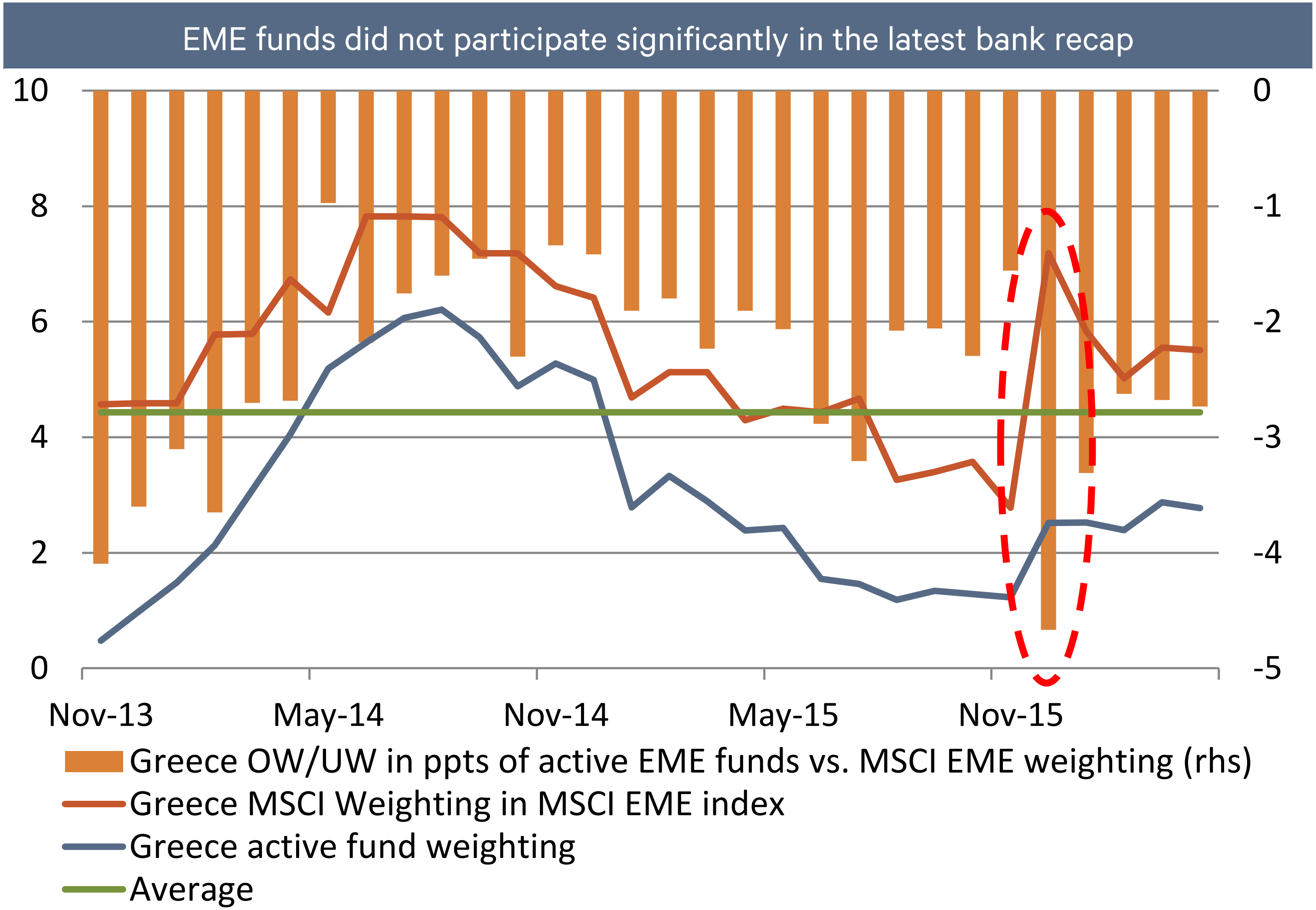


- Greece became part of the MSCI emerging market universe in November 2013
- GEM investors started to close some of the UW positions in 2014/2015 amid hopes for a recovery
- GEM investors did not participate significantly in the latest bank recap, leading again to a large UW of GEM investors compared to the MSCI Greece benchmark weighting
- Currently Greece equities roughly presents 0.45% of the MSCI EM index
- GEM funds hold only 0.25% weight in Greece

Source: Bloomberg, EPFR, MSCI, Berenberg Research, (in ppts)

Emerging European funds are also UW Greece



Source: Bloomberg, EPFR, MSCI, Berenberg Research, (in ppts)

- EME funds had almost no positioning in Greece when it became part of their benchmark
- They increased their weight significantly in 2014
- Interest faded in 2015 and UW rose
- UW rose to record highs after recap in December 2015, but have fallen afterwards again to an average level
- Currently Greek equities are around 5.5% of the MSCI EME index
- EME funds hold only 2.8% weight in Greece

Adjustment progress since 2009: Greece in the lead

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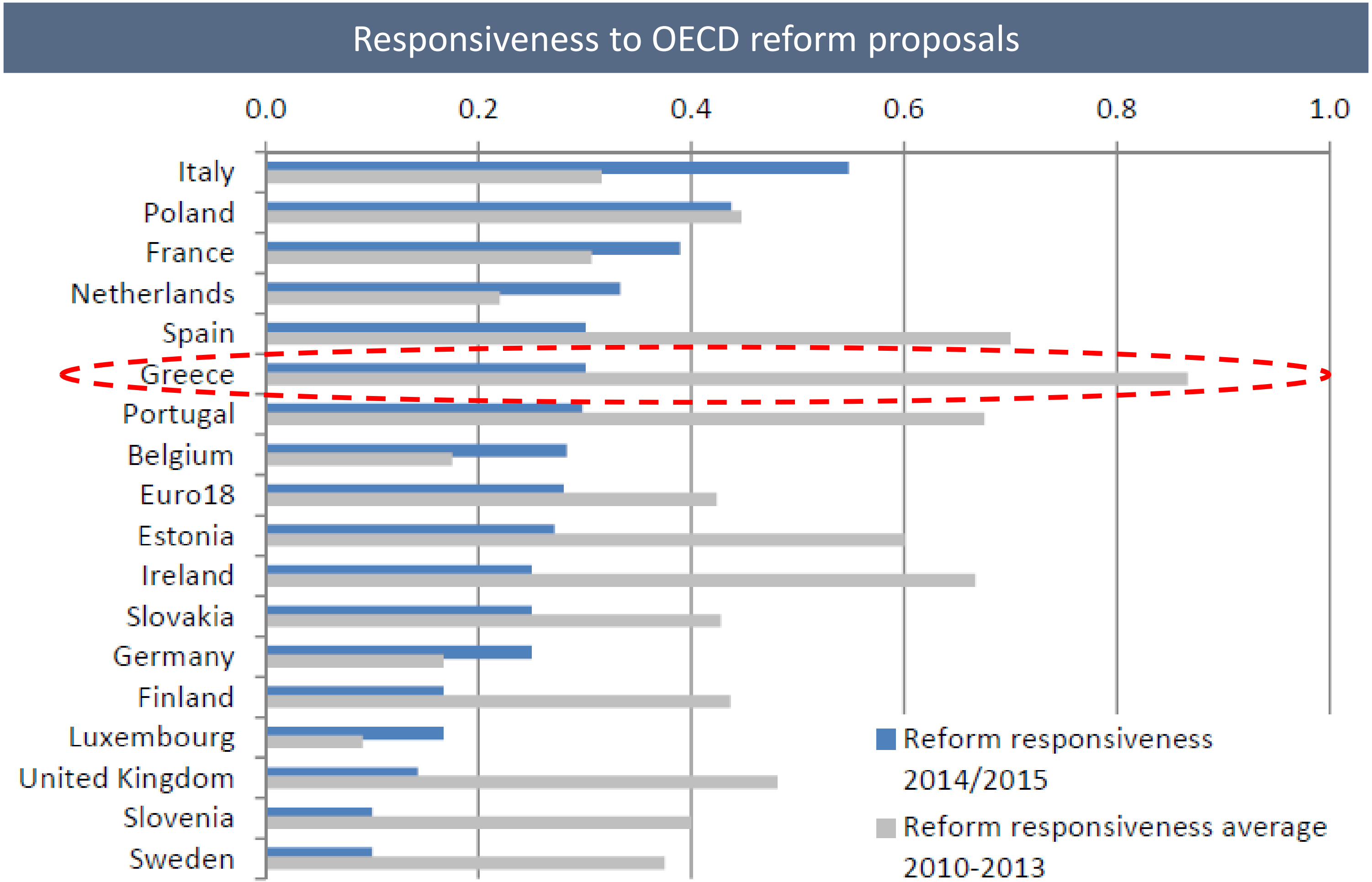
Cumulative adjustment progress since 2009

Rank		Country	Total Score			External adjustment			Fiscal adjustment			Labour cost adj.			Reform drive		
2015	2014		2015	*Change*	2014	2015	*Change*	2014	2015	*Change*	2014	2015	*Change*	2014	2015	*Change*	2014
1	1	Greece	7.7	*-1.0*	8.7	7.4	*0.0*	7.4	8.9	*-0.7*	9.5	7.6	*-0.3*	7.9	7.0	*-3.0*	10.0
2	2	Ireland	7.1	*-0.6*	7.7	7.0	*-0.3*	7.3	6.9	*-0.2*	7.2	9.3	*0.2*	9.1	5.1	*-2.3*	7.4
3	3	Spain	6.2	*-0.8*	7.0	7.0	*-0.2*	7.1	6.3	*-1.0*	7.2	5.8	*0.0*	5.7	5.6	*-2.2*	7.8
4	6	Cyprus	6.0	*-0.1*	6.1	4.0	*0.4*	3.6	7.6	*-0.9*	8.5	6.4	*0.2*	6.2	n.a.	*n.a.*	n.a.
5	5	Portugal	6.0	*-0.6*	6.5	6.0	*-0.1*	6.1	6.7	*-0.7*	7.4	5.8	*0.7*	5.1	5.4	*-2.1*	7.5
6	4	Latvia	5.8	*-0.8*	6.6	9.1	*-0.2*	9.4	3.6	*-0.2*	3.8	4.8	*-1.8*	6.6	n.a.	*n.a.*	n.a.
7	7	Estonia	4.9	*-0.8*	5.7	7.3	*-0.2*	7.5	2.5	*0.3*	2.1	4.9	*-1.5*	6.4	4.7	*-1.9*	6.5
8	8	Slovakia	4.7	*-0.4*	5.1	6.4	*0.2*	6.2	6.2	*-0.4*	6.7	2.9	*-0.4*	3.2	3.2	*-1.2*	4.3
9	9	Slovenia	4.5	*-0.4*	4.9	6.7	*0.1*	6.6	4.4	*-0.3*	4.6	4.8	*0.3*	4.4	2.1	*-1.8*	4.0
10	11	Poland	4.0	*0.0*	4.0	4.9	*0.3*	4.7	6.3	*0.1*	6.2	0.4	*-0.1*	0.5	4.3	*-0.3*	4.6
11	12	Italy	3.9	*0.1*	3.7	4.0	*-0.1*	4.1	4.3	*-0.3*	4.6	3.3	*0.0*	3.4	3.8	*0.9*	2.9
12	10	United Kingdom	3.5	*-0.5*	4.0	2.6	*-0.1*	2.7	5.0	*0.3*	4.8	3.4	*-0.2*	3.7	3.0	*-2.0*	5.0
		Euro 18	3.5	*-0.3*	3.8	4.2	*0.0*	4.1	4.2	*-0.3*	4.5	2.4	*0.0*	2.4	3.3	*-1.0*	4.3
13	13	Malta	3.4	*0.0*	3.4	5.3	*-0.9*	6.2	2.0	*-0.3*	2.2	2.9	*1.0*	1.9	n.a.	*n.a.*	n.a.
14	14	Netherlands	3.1	*0.1*	3.0	5.1	*0.2*	4.9	3.1	*-0.5*	3.6	2.3	*0.3*	1.9	1.9	*0.3*	1.7
15	15	Luxembourg	3.0	*0.1*	2.8	4.5	*0.5*	4.0	1.4	*-0.8*	2.2	5.9	*0.9*	5.0	0.0	*0.0*	0.0
16	16	France	2.8	*0.1*	2.7	2.6	*-0.1*	2.7	4.0	*0.1*	3.9	1.6	*0.0*	1.6	2.9	*0.1*	2.8
17	17	Austria	2.6	*-0.1*	2.7	3.2	*-0.2*	3.3	3.0	*0.7*	2.3	0.9	*-0.2*	1.1	3.2	*-0.8*	4.0
18	18	Germany	2.2	*-0.1*	2.3	3.3	*0.1*	3.3	3.8	*-0.2*	3.9	0.7	*-0.2*	0.9	1.1	*0.1*	1.0
19	20	Belgium	2.2	*0.3*	1.9	4.3	*0.6*	3.8	1.0	*-0.1*	1.1	2.2	*0.4*	1.8	1.3	*0.2*	1.1
20	19	Finland	1.5	*-0.5*	2.1	1.2	*-0.2*	1.3	0.0	*0.0*	0.0	2.2	*-0.2*	2.4	2.8	*-1.6*	4.4
21	21	Sweden	1.2	*-0.3*	1.6	2.2	*0.3*	2.0	0.0	*0.0*	0.0	0.8	*0.1*	0.7	1.9	*-1.7*	3.6

Source: Berenberg Research, Lisbon council, Euro Plus Monitor: Cumulative adjustment progress, scores from 10 (best possible) to 0 (worst) . The overall score is the average of 4 sub-scores for external adjustment, fiscal repair, labour cost adjustment and structural reforms

- Berenberg together with the Lisbon Council regularly track how 21 countries in the EU are adjusting on four separate criteria:
- External adjustment, fiscal repair, labour costs and structural reforms
- The results are aggregated into one indicator which sums up the cumulative adjustment progress since 2009 on a scale of 10 (best) to 0 (worst)
- Greece scores number 1 in fiscal repair and structural reforms and second in external adjustment and labour costs.
- The 5 countries that had to ask taxpayers of other countries to help top our league

Structural reforms: Greece was leading from 2010-2013

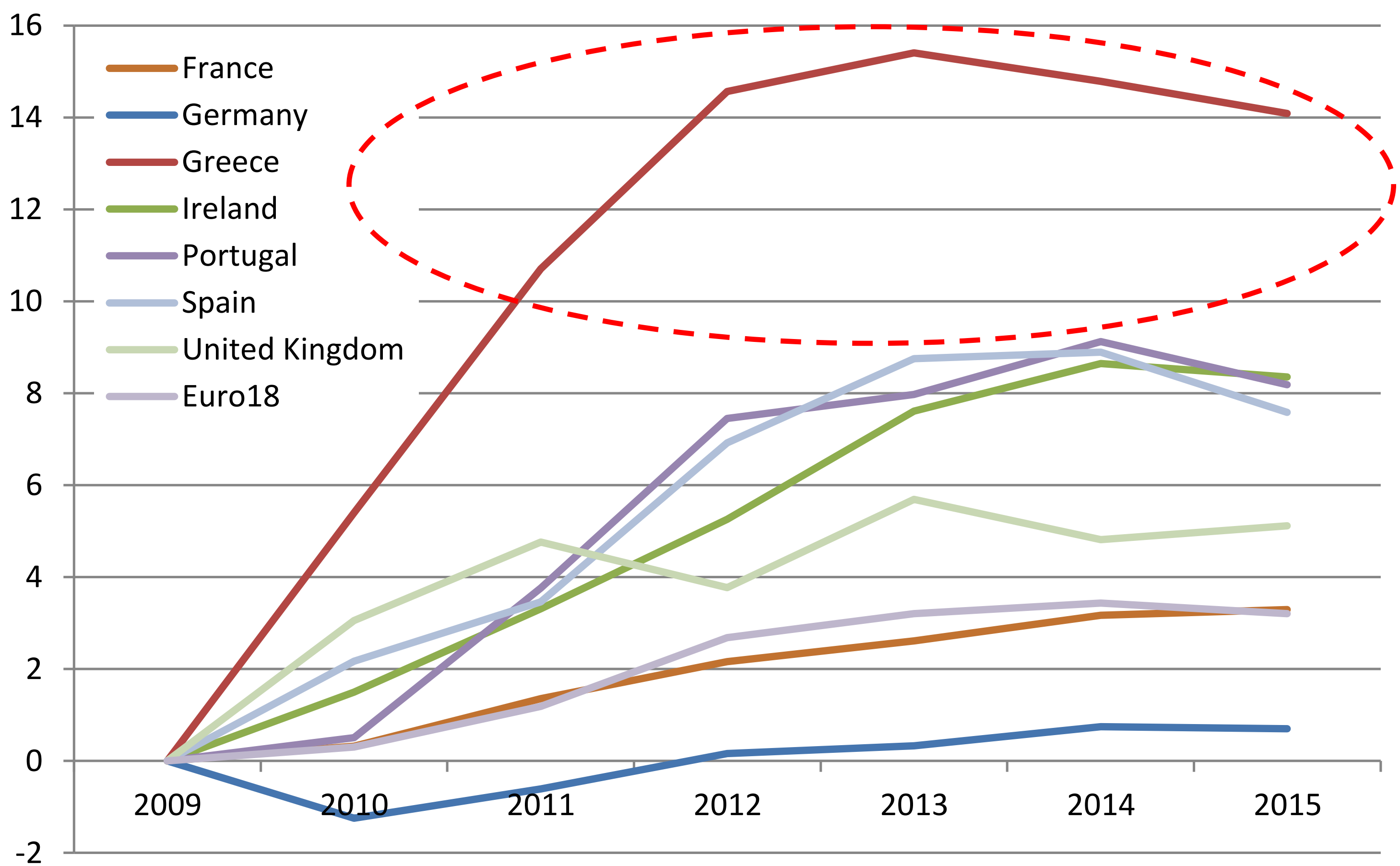


- Who is implementing pro-growth structural reforms?
- The OECD regularly makes detailed reform proposals
- Once a year the OECD checks wether countries are heeding such advice
- Under the pressure of crisis, the euro periphery including Greece reformed at a rapid pace
- The pace slackened in the 2014/15 period
- Greece was leading the pro-growth reforms in 2010-2013

Source: Berenberg Research, Lisbon council, Euro Plus Monitor, OECD: Responsiveness to OECD's Going for Growth reform recommendations.

Greece had the largest improvement in fiscal balances

Change in underlying fiscal balance since 2009 in % of GDP

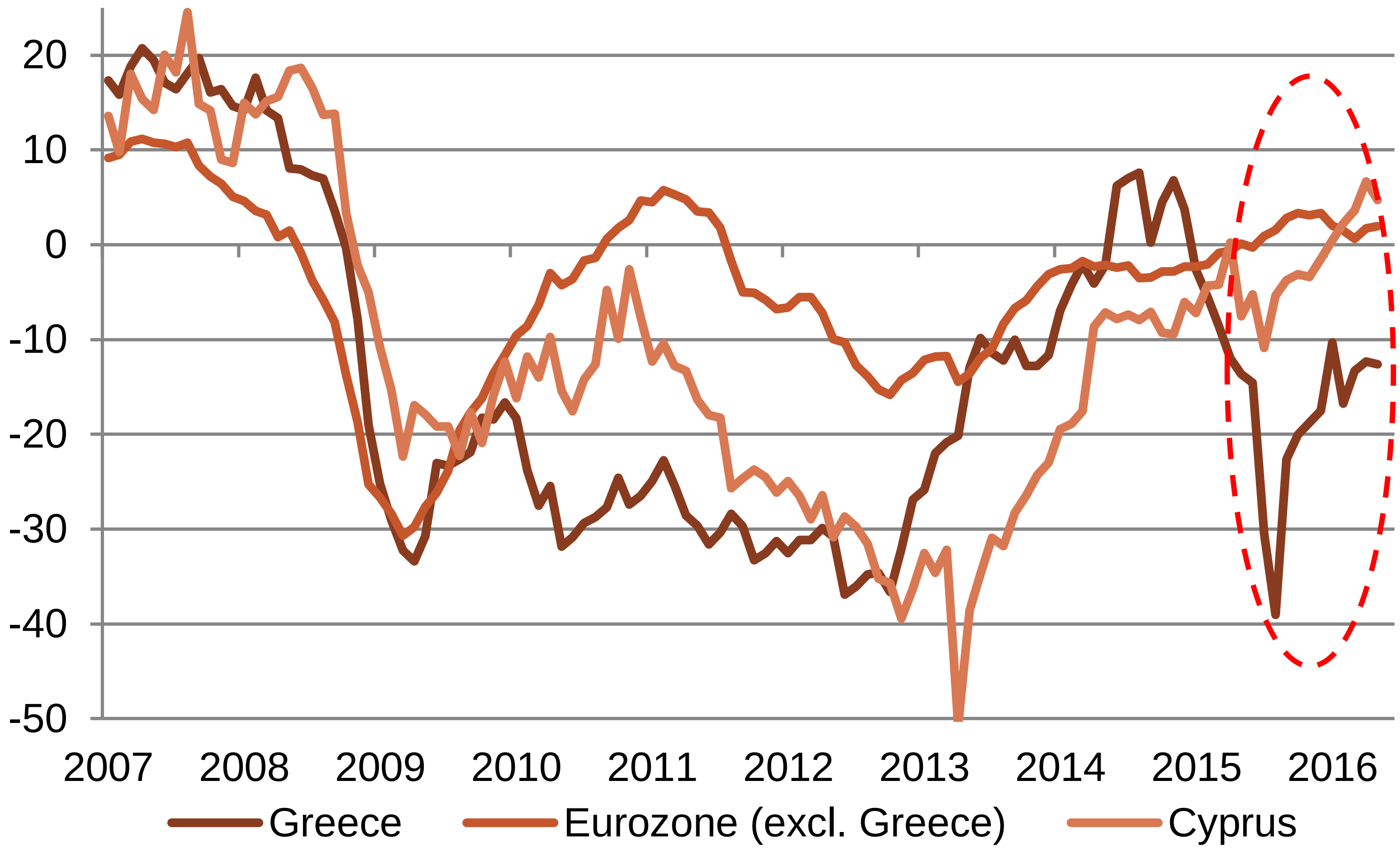


- The overall change in Greece's underlying fiscal position of 14.1% of GDP since 2009 exceeds that of any other country in the EU despite some slippage over the last two years
- Ireland, Portugal, and Spain improved their balances by around 8%, significantly less than Greece
- To avoid distortion, we used data that adjust the actual fiscal balance for the impact of the short-term business cycle, interest payments and some significant one-off factors such as a recapitalisation of banks.

Source: European Commission, Berenberg research

Risks: the Greek recovery is slow

Greek recovery thwarted in early 2015, rebound since autumn 2015

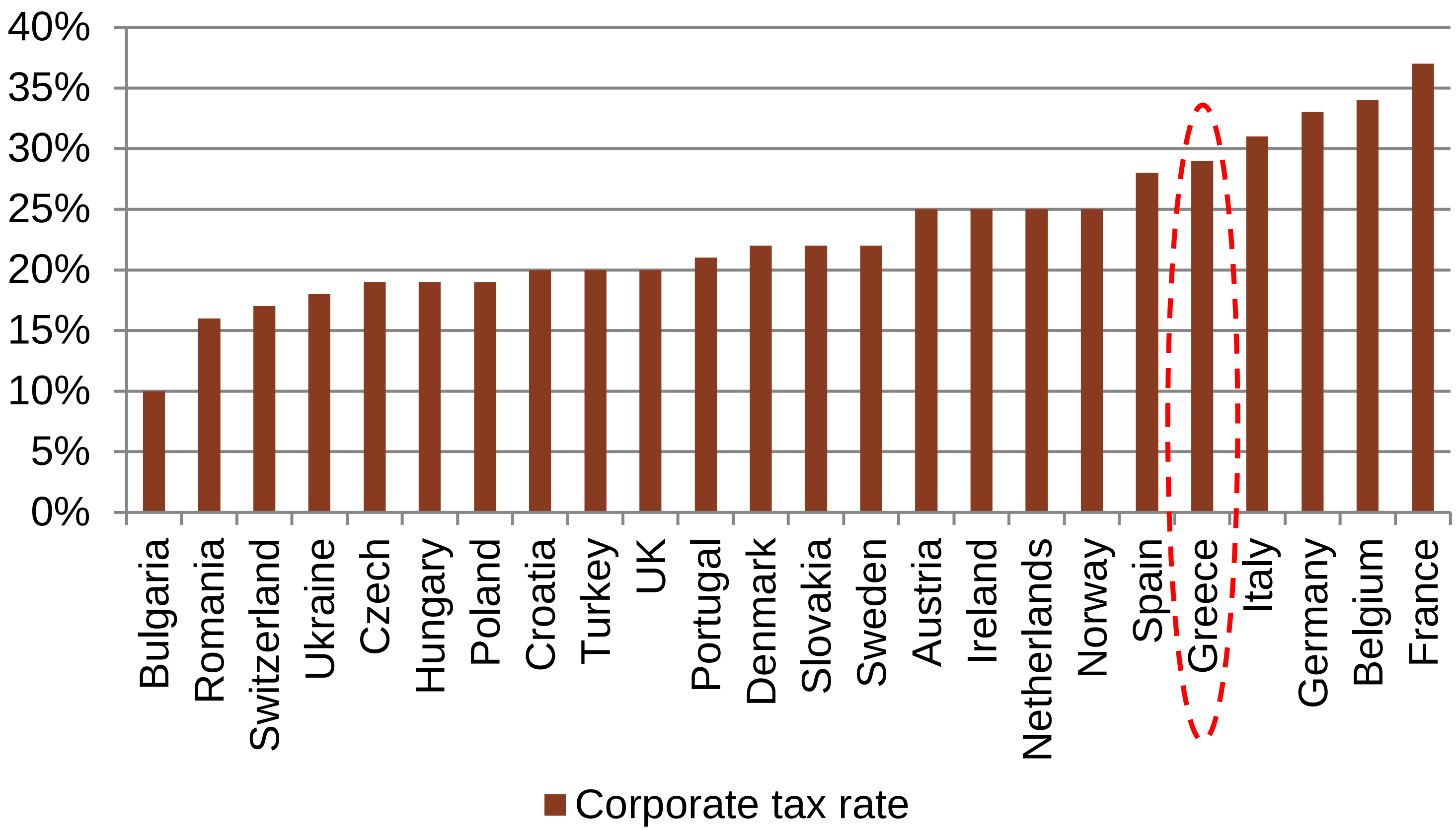


- Investors are concerned about the slow paced recovery in Greece
- Ireland, Spain and Cyprus show that with effective reforms, growth can accelerate fast
- There is no negative influence from the EU as its growth rate is modest but steady

Corporate confidence: average of industrial, services, retail and construction confidence.
Source: European Commission, Berenberg calculations

Risks: high taxes (part 1) - CIT

Greece has one of the highest corporate income taxes in Europe

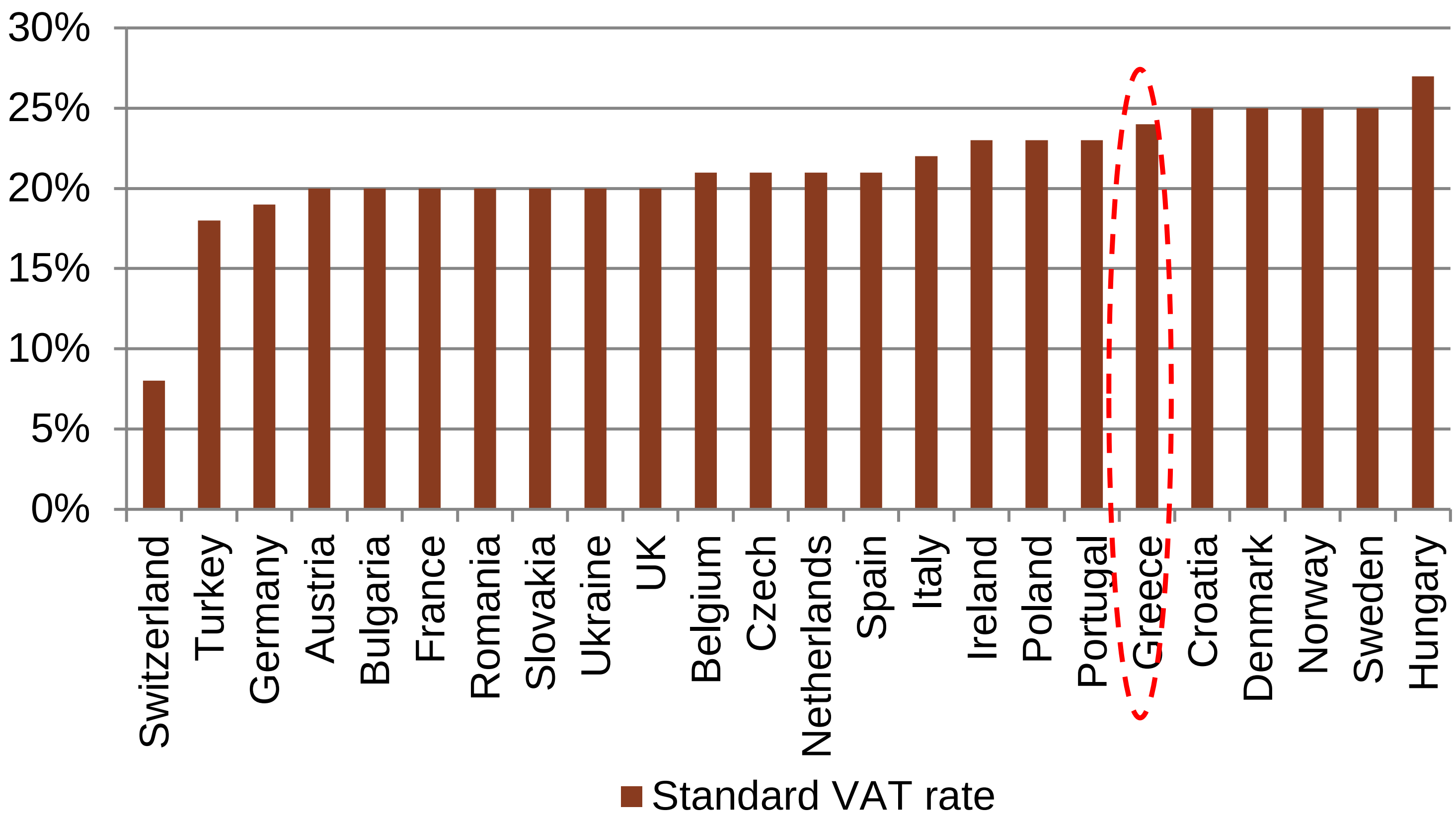


- Greece increased the CIT to 29% from 1 Jan 2015.
- It was only 20% in 2013
- This makes it one of the highest tax rates in Europe and might be a drag on investments in the future

Source: Wikipedia, Berenberg Research

Risks: high taxes (part 2) - VAT

Greece has one of the highest VAT rates in Europe

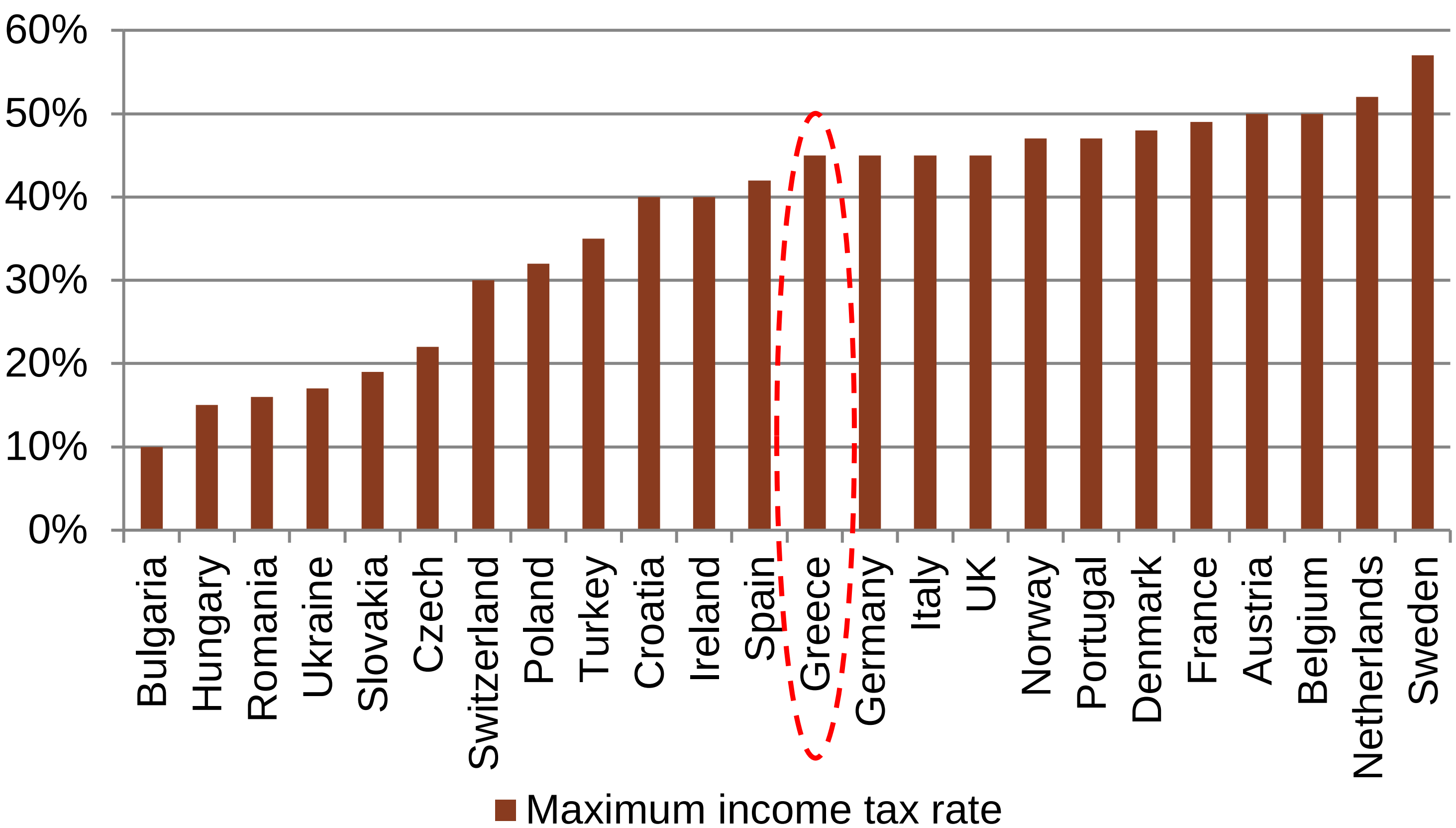


- Greece increased the VAT to 24% from 23% on 1 June 2016.
- Greece increased VAT on food and public transport from 13% to 23% in June 2015
- This may reduce private consumption
- An increase in cashless payments is a green shoot for budget income and reduces the size of the grey economy

Source: Wikipedia, Berenberg Research

Risks: high taxes (part 3) - PIT

Greece has a high personal income tax rates if solidarity levy is included

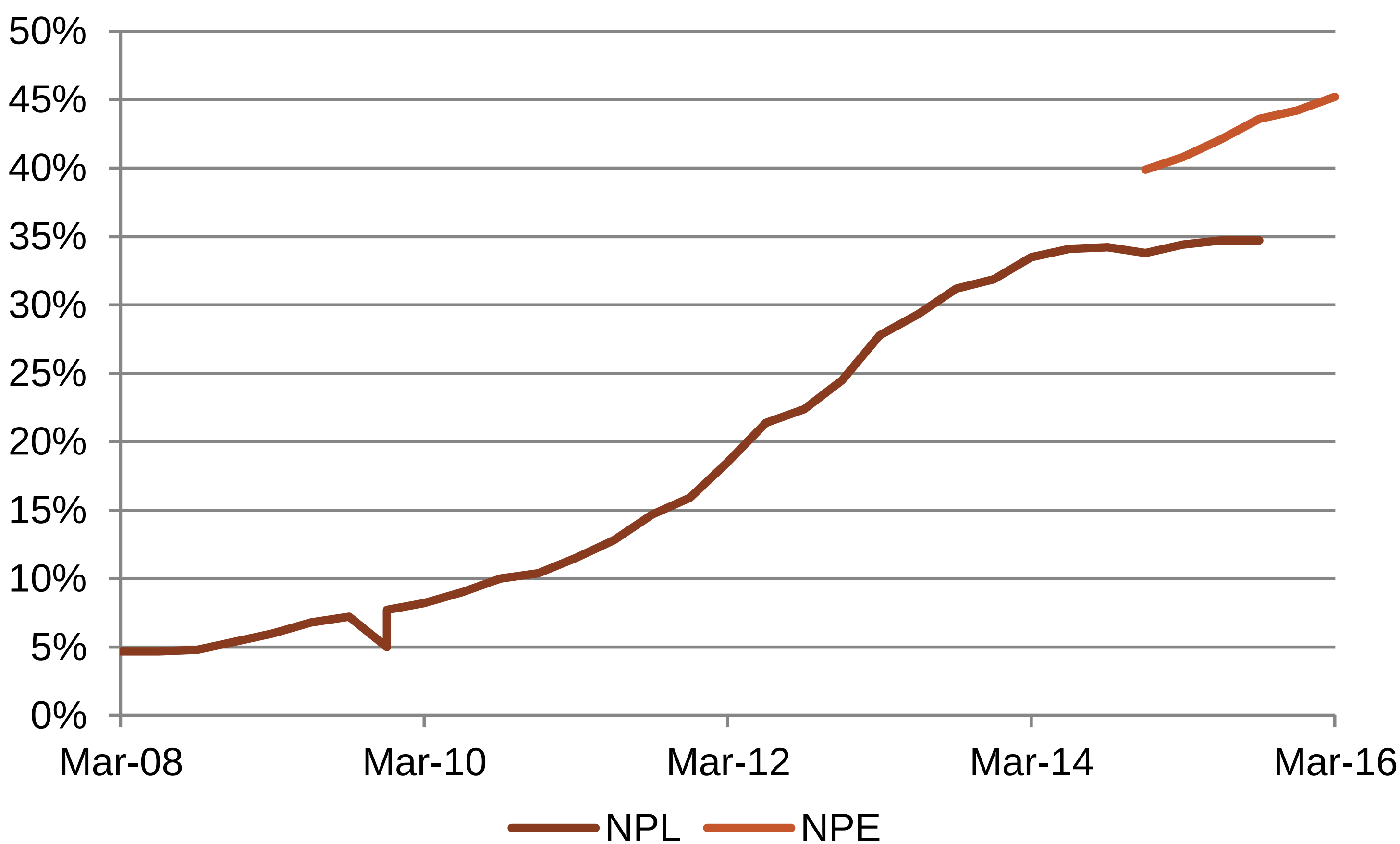


- Personal income tax has increased by 3% to 45%
- Furthermore, the government has lowered the income tax free threshold
- Additionally, the solidarity levy has been increased by up to 10% for incomes above 220k p.a., which hikes the top tax rate to 55%
- Combined this is among the highest income tax rates in Europe

Source: Wikipedia, Berenberg Research

Risks: high NPL ratios (part I)

Greece has very high ratio of non performing loans



- Non performing loans or non performing exposures (NPE) have been rising significantly since the crisis, standing now at around 45%.
- This is caused by a fall in house prices and the elevated unemployment rate
- The NPL/NPE ratio is expected to decline over the coming years as banks are motivated to sell NPLs to NPL collection specialists
- According to the Bank of Greece, 70% of restructured NPLs are defaulting again

Source: Bank of Greece, Berenberg Research

Risks: high NPL ratios (part II)

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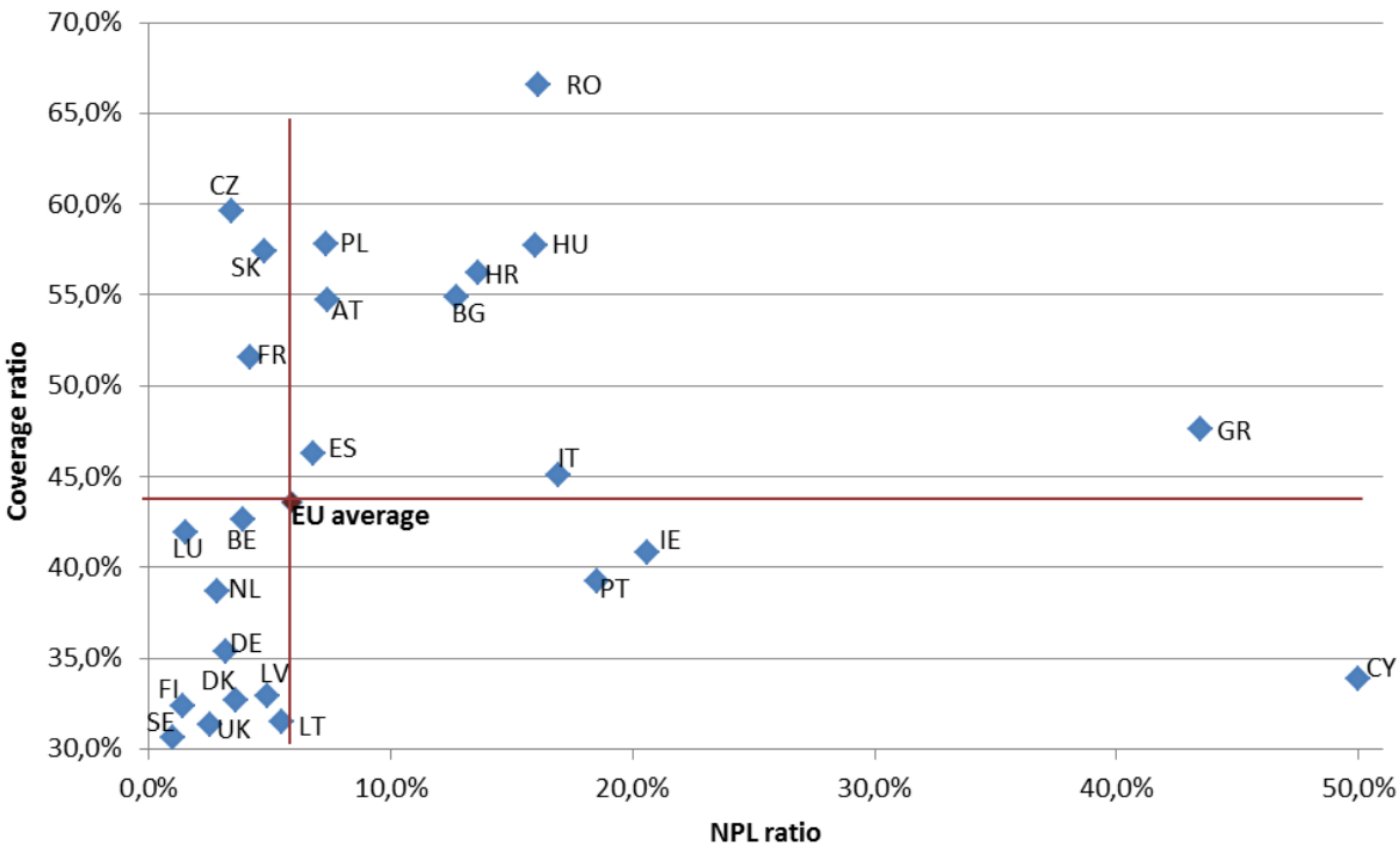
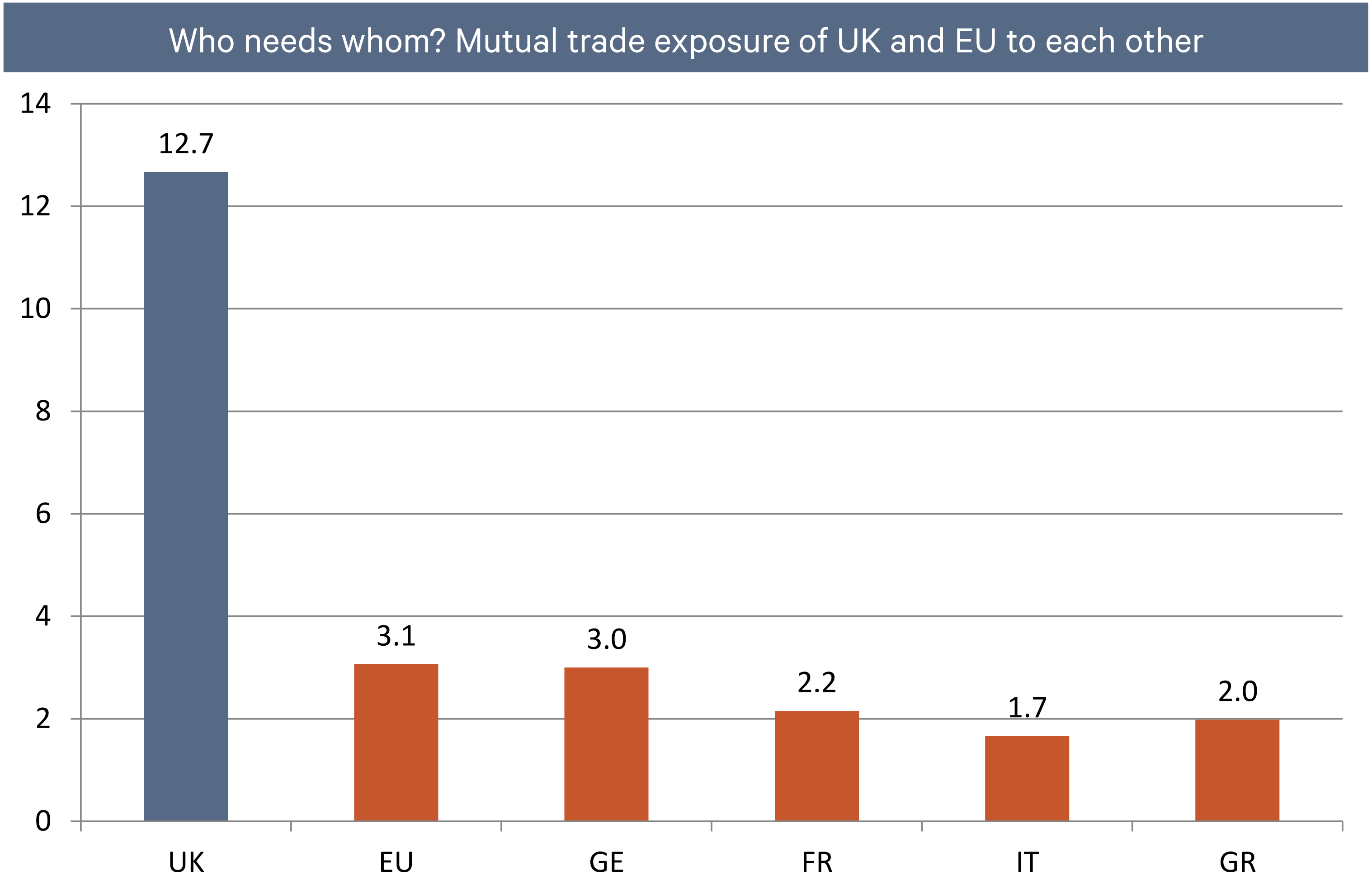
NPL ratio and coverage ratio in EU member states



- Greece has one of the highest NPL ratios in Europe
- On a positive note, the coverage ratio is above EU average levels
- Only Cyprus has a higher NPL ratio

Source: EBA Risk dashboard as of September 2015

Brexit impact: the UK has more to lose than Europe



Note: UK data shows exports of goods and services to EU 27 as % UK GDP. All other country data shows exports to UK as a % of GDP.

Source: ONS, Bank of England, Eurostat, Berenberg.

- The UK needs trade with the EU much more than vice versa. Whereas the UK earns 13% of its GDP through exports to the EU, the EU-27 earns 3% of its GDP through its exports to the UK
- The EU would likely suffer a significant short-term dent to growth. But as long as EU cohesion remains in tact, Brexit would not hurt trend growth
- Modest losses from less trade with a less dynamic UK would be offset by the relocation of some jobs from the UK into the EU

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