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Greek Plan May Reward Some Bank Executives

By LANDON THOMAS Jr.

LONDON — Even as European taxpayers grimace at the escalating cost of bailing out Greece's banking system, the banks' top executives are poised to potentially strike it rich.

The plan developed by the Greek government and its international creditors to recapitalize the country's banks involves an unusual twist as stock offerings go: the new shares in the banks will give investors free and potentially lucrative warrants that will entitle them to buy many more shares in the future at a predetermined price.

Because many of the investors who are expected to participate in the stock program are the same executives who were running the banks at the time of their near collapse, critics see it as a case of bankers being rewarded despite their management missteps. And they say the Greek government is forgoing billions of euros in potential revenue with the way the stock offering is being handled.

"All you are doing is rewarding bad behavior," said Peter Dalianes, a financial consultant in Athens who for years has called for more public scrutiny of banks in Greece. "The crisis in Greece stemmed from a sudden financial breakdown due to risky lending, which then spilled over to, and exacerbated, sovereign debt tensions."

The cash-raising campaign, which began in late May and concludes next month, is meant to pump as much as 23 billion euros into Greece's three biggest banks. With the lure of the warrants serving as a powerful incentive, Piraeus Bank, National Bank of Greece and Alpha Bank have already succeeded in raising about 2.9 billion euros of this amount, thus ensuring that they will not be nationalized.

The rest of the money will be supplied by European taxpayers, funneled through the Hellenic Financial Stability Fund, the Greek body overseeing the program.

But financial experts contend that the inclusion of free warrants will not only reward well-connected insiders but will also deprive Greece's government of billions of euros in public revenue — money that might have been raised if the stock warrants were auctioned off, rather than simply given away.

"Who is going to pay for this?" asked Spyros Pagratis, a financial markets specialist at Athens University of Economics and Business, in a paper criticizing the recapitalization plan. "The Greek taxpayer, of course."

“We know the authorities wanted ownership of the Greek banks to move quickly to the private sector,” Mr. Pagratis added. “But the sweetener they have used — free warrants — is very expensive and will result in forgone income for the Greek state.”

For example, Michalis G. Sallas, the executive chairman of Piraeus, which has recently become Greece’s largest bank, raised about 11 million euros, or $14.45 million, by selling his old Piraeus stock. If he puts that money into the new offering, which he has said in public filings he will do, the stock warrants he receives for the shares will carry a value of around 2.5 million euros at current market prices.

If the stock of Piraeus increases 50 percent from its current low level, this pile of warrants would increase in value more than five times, reaching 14.8 million euros, according to research by Pagratis.

Mr. Sallas and Piraeus declined to comment.

Officials of the Hellenic Financial Stability Fund did not respond to questions about the warrant program. Nor did Greece’s international creditors — the European Commission, the European Central Bank and the International Monetary Fund — the so-called troika, which helped the stability fund devise the program.

To date, of the 206 billion euros, or $270 billion, that the troika has dispensed to bail out Greece, an estimated 58 billion euros — all of which comes from European taxpayers — has been spent propping up the country’s banks.

That is far more than international lenders have spent to salvage banks in Cyprus or Spain. And it barely trails the 61 billion euros Ireland has deployed to rescue its own banks, as part of that country’s 85 billion euro bailout.

In those other countries, though, senior bank executives were ousted and in some cases prosecuted for the lending decisions that helped topple their institutions.

In Greece, by contrast, the government has not demanded board and management shake-ups at its rescued banks — with the exception of the National Bank of Greece, where top management was changed for political reasons when the new government took power last year.

Big institutions and retail investors in Greece have also invested in the offering. But with the country still mired in a depression, such investors are relatively scarce. The potential beneficiaries appear largely to be bank insiders, whose personal wealth is often already tied up in the institutions.

Under the program, for each new share purchased, the buyer receives a warrant — an option to buy as many as seven additional shares at a fixed price. The deal allows warrant holders to cash in their chips every six months, with the first opportunity arriving on Dec. 10 this year.

Critics lament the money they say the government is losing by giving away the warrants, when

Athens is having trouble raising funds in other ways.

“The market value today of all the Greek bank warrants is 1.7 billion euros,” said Mr. Pagratis, the financial markets economist. That, he says, is more than four times what Greece received when it agreed to sell Desfa, its natural gas operator, to a state controlled company in Azerbaijan last week.

If the share price of the banks increased in value by 50 percent, Mr. Pagratis calculates, the value of the warrants would climb to 7.9 billion euros.

To some extent, Greek banks have been given the benefit of the doubt during the country’s bailout, on the assumption that it was the profligate borrowing and spending by Greece’s government that led to the country’s economic collapse. There is no doubt that when Greek government bonds became worthless and were restructured, the banks, which had loaded up on the bonds at the government’s urging, faced close to 40 billion euros in losses.

But over time, some financial experts have reconsidered this view of Greek banks as mainly innocent bystanders. One such rethinking was detailed in a paper published in 2011 by Mwanza Nkusu, an economist at the I.M.F.

Her research showed that even from 2000 to 2007, the boom years before the crisis in Europe hit, Greek banks had the highest ratio of bad loans among all countries tracked by the I.M.F.: 6 percent of overall loans.

According to the Bank of Greece, the country’s banks have accumulated 48 billion euros in losses from bad loans — much more than the 37 billion euros in losses they suffered last year when Greece restructured its debt.

Piraeus Bank, then only the fourth-largest Greek bank, entered the teeth of the financial crisis in 2009 with the highest ratio of delinquent and nonperforming loans among banks its size, and continued to lead the league by that measure through 2011, according to figures from SNL Financial, a financial data and news provider

And despite continuing questions about lending practices at Piraeus, neither Mr. Sallas, who ran the financial institution during that period and has since built it up by acquiring a range of failed or failing banks, nor his peers are being penalized for their banks’ poor loan performance.

This article has been revised to reflect the following correction:

Correction: June 25, 2013

Because of an editing error, an earlier version of this article misspelled Michalis G. Sallas’s surname as Salis.