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### **NPL INSIGHT: Investors weigh relative value of Greek NPL risk as delayed securitisations seek relaunch.**

Greece's systemic banks had been on course to dispose of around €30bn of NPLs in 2020 via large-scale securitisations, before COVID-19 put proceedings on hold. As pandemic-induced restrictions start to ease, institutions are keen to relaunch marketing efforts: Alpha Bank, for example, sees an opportunity in Q2 to start remarketing **Project Galaxy**. But with so much continued uncertainty around the pandemic's impact on the Greek economy, investors are taking a cautious stance.

"Unless already committed to a deal, investors may be hesitant to engage in new deals at present in the Greek NPL market," said Alok Gahrotra, Partner, Portfolio Lead Advisory Services at Deloitte. "Investors are trading cautiously, particularly as other more liquid assets offer better risk-adjusted returns elsewhere. Key indicators for investors will be the pandemic's impact on real estate prices and how quickly normality resumes, particularly in terms of tourism with its significant impact on the economy."

A handful of smaller deals that were live prior to the start of the pandemic are still progressing. National Bank of Greece's (NBG) **Project Icon** and **Project Marina** are both due to close shortly, with both portfolios understood to be going to Bain. Binding bids are meanwhile expected next month for Piraeus Bank's **Project Trinity** while non-binding bids for **Project Kastor** from Pancreta Bank were received within the past week.

"The bids for Project Trinity and Kastor should give a good indication of how investors perceive risk in the Greek market, even if the composition of the portfolios isn't necessarily reflective of the Greek market as a whole," said Mr. Gahrotra.

In order to commit to new investments in the current climate, investors are understood to be seeking hefty discounts, in some cases of up to 50%. At the same time, banks are in no hurry to cut prices, nor are they required to at present, with regulators taking a more lenient approach including to NPL reduction during the pandemic.

"The current conditions have led to a reduction in recoverability, by some accounts in the order of 20% for secured NPLs," said Tassos Kotzanastassis, Managing Director of 8G Capital Partners. "While the problem may subside, most expect the dent to persist. Added to this are the higher funding costs that will be incurred by purchasers and the fact that other opportunities in NPLs are increasing across the board."

### **Mega securitisations pushed back**

All four of Greece's systemic banks - Alpha Bank, Eurobank, Piraeus Bank and NBG - detailed plans last year for large-scale securitisations that would take advantage of the government guarantee scheme, known as the Hercules Asset Protection Scheme (HAPS). The scheme envisages a guarantee on the most senior publicly-rated tranche, with risk transfer achieved provided that the mezzanine and junior tranche are sold to third-party investors.

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First-mover Eurobank looks set to complete its €7.5bn **Project Cairo** transaction - which consists of three separate securitisations, Cairo I, Cairo II and Cairo III – within the coming weeks. The last of the three transactions applied to opt into the HAPS scheme earlier this month. Fortress-owned DoValue is the investor in the junior notes of the securitisations and will also take a majority stake in Eurobank's servicing arm, Financial Planning Services (FPS).

Work is meanwhile continuing on certain aspects of other banks' deals, but their timing and ultimate portfolio composition are uncertain.

In a statement released on Thursday (28 May), Alpha Bank said it remained focused on achieving its NPE deleveraging plan and was relaunching the marketing process of the Galaxy transaction in Q2 2020, on the back of "significant preparatory work achieved so far and continued investor interest in the project".

According to a source, the bank will start approaching potential investors next week with a smaller transaction size (€7.6bn-€10bn, versus the original €12bn) and the sale will also focus on mortgage loans and secured SMEs, using just two or three out of the original five SPVs envisaged in the transaction. The bank is aiming to close the deal by year-end.

"Progress on Alpha Bank's Galaxy securitisation has been pushed back," said Elefthenia Kyriakopoulou, Director in Portfolio Lead Advisory Services at Deloitte. "The progress of transactions such as this will depend on investor appetite for securitised risk, which currently remains uncertain. The impact of macro on ratings will also have an impact on capital stack and possibly make securitisation uneconomic."

NBG has a c.€7bn securitisation in the works (**Project Frontier**) and Piraeus Bank planned two securitisations, **Vega** and **Phoenix**, for a total of €7bn. The timing of these deals remain uncertain.

"Securitisation transactions may require adaptive structures or commercial renegotiations, but they are expected to continue," said Ilias Kyriakopoulos Chairman and CEO of EuPraxis FSI, an NPL management entity in Greece. "At the moment investments in NPLs provide a higher risk and the respective reward needs to come on the table, otherwise there are other less risky investment opportunities with better risk-reward ratios within the radar of the buy-side," he added. "Again the success of the HAPS will mainly depend on foreign investors' demand for securities, which is driven by the current stable political environment, anticipated improved economic conditions, and increased collateral valuations in Greece in 2021."

### **Bad bank proposals**

Recent research carried out by NPL Markets predicts that the COVID-19 max NPL ratio for Greece could reach 53% versus a historical max NPL ratio of 45.3%. This new wave of NPLs, which is expected to materialise in Q4 2020, could be added to planned transactions' portfolios or create a new set of transactions in 2021. It could also result in increased asset flow to strategic partnerships (for example to Eurobank's FPS or to Intrum via its Piraeus Bank partnership) along with further portfolio sales, sources suggested.

The Bank of Greece is meanwhile rumoured to be reading proposals for the creation of a Greek 'bad bank' to help tackle the new wave. Should this materialise, market participants do not expect it to replace the HAPS, but rather to complement the current scheme.

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"HAPS cannot be considered as a panacea; however, at the moment it is the only existing systemic solution that the market understands and has already received SSM approval under the presupposition that the state guarantee is in place," said Mr. Kyriakopoulos. "Of course, any other systemic solution adding value is more than welcome and would be complimentary towards the common goal of reducing NPLs in a tight deadline."

The market expects an official update on the bad bank proposal in the coming weeks.