CapitalStructure
A Fitch Solutions Service
Published: 11/09/2020 11:31
Source: CapitalStructure

CONFERENCE: Greek banking officials braced for c.€10bn new COVID-19 era NPLs.

Greek banking officials are expecting a significant new wave of non-performing loans as a result of the COVID-19 pandemic, but stressed that the country is in a much better position to deal with the problem than in the past, given the rapid evolution of the servicing industry over the past two years.

In a virtual conference hosted this week by IMN, Iannis Mourmouras, Deputy Govenor of the Bank of Greece, said that a new wave of NPLs is imminent, with an increase of c.€10bn on top of the country's current stock.

As of June 2020, Greece's banks held €54bn in NPLs while the overall NPL ratio stood at 33%, Mr. Mourmouras noted. At its peak in 2016, Greece's NPL ratio neared 50%. The Single Supervisory Mechanism (SSM) has set a target ratio of sub-20% by 2021, which panellists indicated may now be unrealistic.

The industry's objective, stressed Mr. Moumouras, must be to incentivise Greek NPL investors. "Time is short and it would be a superfluous luxury to waste it," he said in his opening remarks.

2020 is set to be a pivotal year for Greek NPLs, as systemic banks deleverage billions of loans through mega-securitisations supported by the government's 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.

Eurobank completed its €7.5bn **Project Cairo** securitisation earlier this year, taking its NPL ratio to 15.6%, while Piraeus Bank recently confirmed it has signed a binding agreement with Intrum, which will buy 30% of the mezzanine and junior notes of the c.€1.9bn residential NPL securitisation **Project Phoenix**. Alpha Bank has narrowed down its bidding process to four investors - PIMCO, Cerved, Davidson Kempner, and an Elliot consortium - for the €10.8bn **Project Galaxy**. Meanwhile National Bank of Greece's €6bn **Project Frontier** is expected to launch at the end of this month.

Investors in Greek NPLs typically have a broad European mandate and therefore Greece must ensure that its investment opportunities are not surpassed by other jurisdictions, panellists pointed out.

"Investors need to see that recoverability and resolution for assets is still there post-COVID," said Tassos Kotzanastassis, Managing Director, 8G Capital Partners Ltd. "I expect to see more contingent pricing for portfolios, linked to resolution and success which hinges on capacity, timeframes and of course the value and liquidity of the underlying assets."

The Bank of Greece is expected to release details of a National Bad Bank in the coming weeks. The Bad Bank will be complementary to the HAPS and is expected to address the issue of of Deferred Tax Credits (DTCs) and NPLs, with servicing outsourced to existing servicers in the Greek market. Mr. Mourmouras also indicated that the HAPS scheme could be increased further to address COVID-19 NPLs as well as legacy loans.

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