
**NON-PERFORMING LOANS EUROPE & ASIA SUMMIT
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**Greek Banking: How the Banks Have Dealt with
NPLs and the Way Ahead**

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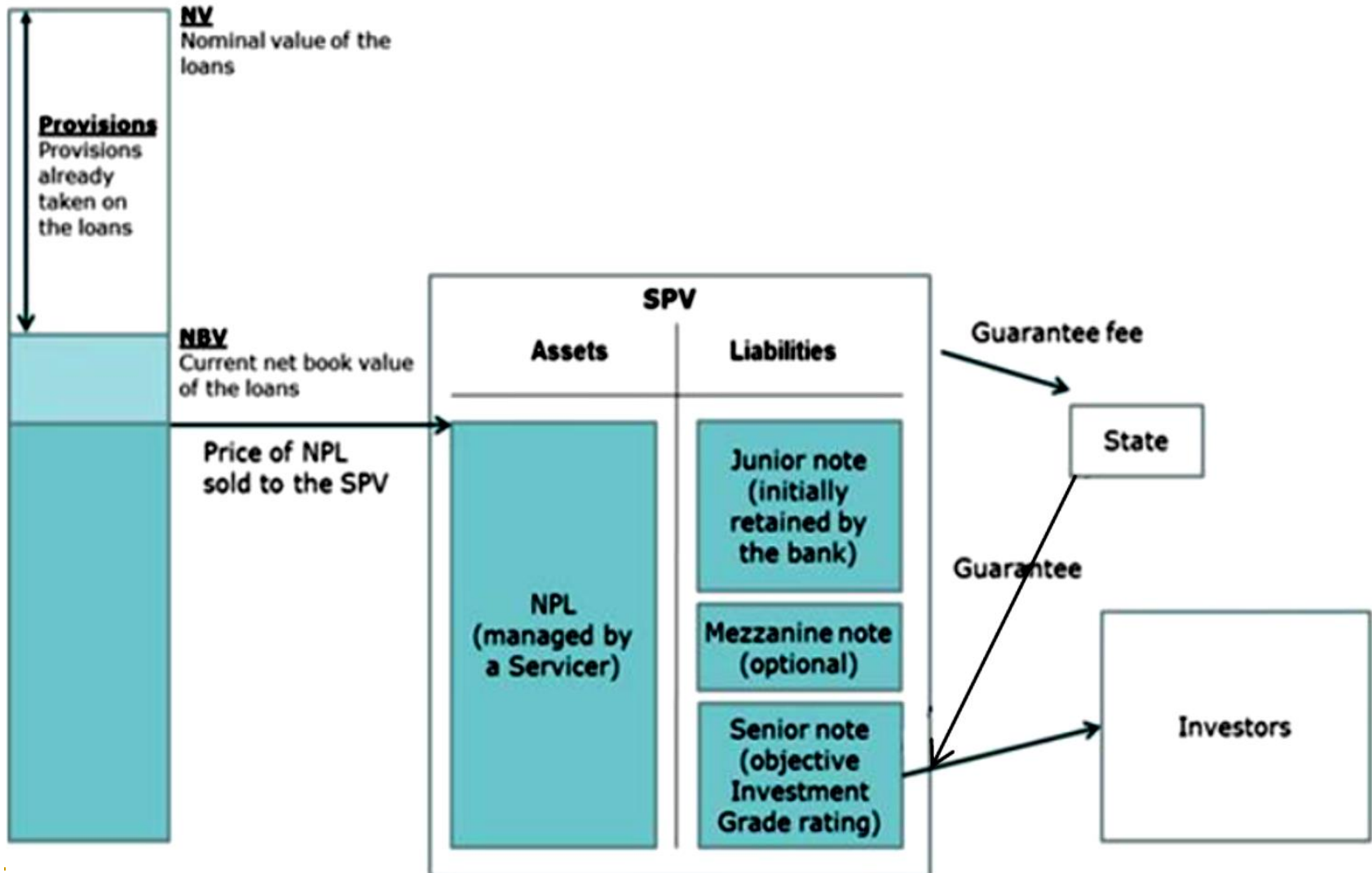
HFSF

Background notes

- *Mountain of debt* – 2019H1 43.6%: back to 2014 43.5% - European champion (EU 2018Q3, 3.3%)
- *2019 H1 Structure of NPLs* – Consumer loans, 10%; Residential loans, 33%; Business loans, 57%
- *2019H1 NPL ratios* - Consumer loans, 52%; Residential loans, 43%; Business loans, 43%
- *Factors* – legacy issues; lack of experience/inertia by regulators/bankers; strategic defaulters (a crisis phenomenon)
- *NPLs Reduction*: write-offs, sales, securitisations, recoveries
- *NPE ratio targets* – SSM/BoG: <20% by end-2021; HFSF: *aim* for single digit by end-2021; forthcoming stress tests increase pressure
- *NPL securitisation* – Not a new phenomenon; 2018 – Italy accounted for 82% of transactions volume in Europe, followed by Belgium (6%) and Ireland (5%). Residential loans ranked first among securitised asset classes (45%) followed by commercial loans (36%)

SECURITISATION TOOL with market conform state guarantee

Originating bank



NPL securitisation enabled by a market-conform State guarantee – The Italian case

- GACS – Set up on Feb 2016 for 18 months, prolonged in August 2017 for 12 months and in April 2019 for a further 24-36 months.
- Italian state gives guarantee on the senior funding tranche of a SPV to which the bank transfers (part of) its NPLs at a price not exceeding the loans' NBV; range of NPLs is wide
- *Requirements* - (i) ECB-approved credit rating agency must confirm investment-grade risk profile of the SPV's senior notes (i.e. rating before taking into account the granting of the State guarantee); (ii) at least half of the SPV's more risky junior and mezzanine notes must be sold to private investors before guarantee becomes effective
- Guarantee fee is based on a market benchmark. As the use of the scheme does not entail extraordinary public support, it does not fall under the BRRD or State aid compatibility requirements.
- **21 GACS transactions completed 2016-2019; overall gross volume Euro 62bn; NPE ratio fell from 17% 2015 to 9.5% 2018**

Outlook – Way ahead

- *GDP growth* - 1.9% 2018, expected to remain at around 2% 2019-2020
- *Gen Govt fiscal position* improved - Fiscal Surplus 1% GDP 2018; primary government balance in surplus 4.3%
- *Greece 10Y Bond Yield* at 1.46 % on 11/10/2019
- *Unemployment* 18.5% Feb 2019, lowest since Aug 2011
- *Capital controls*, eliminated
- *ELA* eliminated 2019 - Eurosystem exposure down - Deposits up
- *CET1 ratio* systemic banks 14.9% - *CAR*, 15.5% at end 2019Q1; profitability positive, but low/vulnerable
- ***A.Enria/ECB Supervision*** - *“the very first thing banks should do is engage early with borrowers in trouble; they need to identify those borrowers who can be sustainably restructured. These are their customers and they are their responsibility. The earlier banks contact borrowers, understand their financial situation and deal with the issues head on, the better. The problem will not go away if banks turn a blind eye to it, do not invest adequate resources in resolving it or fail to develop the frameworks needed to manage customers”*