

A photograph of a sailboat's mast and sail against a sunset sky over water. The sail is illuminated from below, creating a warm glow. The background shows a sunset over a body of water with some distant lights on the horizon.

# **Opportunity out of adversity: investing in the Greek non-performing loan market**

With an addendum on the  
Cypriot NPL market

February 2018

The EY logo, consisting of the letters 'EY' in a bold, white, sans-serif font, with a yellow diagonal line above the 'Y'.

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# Foreword

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Welcome to our review of the Greek non-performing loan (NPL) market. The recent liberalization of the economy has facilitated Greece's return to growth. Combined with the Greek Government's commitment to EU membership, we believe this has created an appealing market for international investment.

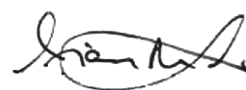
Despite improvements, Greek banks' ratios of bad loans remained in excess of 45% in 2017 – the highest in Europe.<sup>1</sup> The four systemic banks had combined non-performing exposures (NPEs) of €105b as at 30 September 2017 and must reduce this amount by €43b by 2019, in line with Bank of Greece targets.<sup>2</sup> The scale of these reductions necessitates that loan sales will be a significant part of the solution. We therefore expect a significant increase in the supply of portfolios coming to market.

In 2017, the economy is expected to return to gross domestic product (GDP) growth, with the International Monetary Fund (IMF) forecasting a rise of 2.2% and 2.7% in 2017 and 2018 respectively.<sup>3</sup> As the underlying quality of Greek loan portfolios has improved in line with the real economy, they have become increasingly attractive to investors. The gradual improvement in macro-economic conditions has already resulted in very significant investor demand in the first loan sales. We expect such demand to only increase as more portfolios come to market.

This is not to suggest that Greece does not face its own challenges – legal and regulatory hurdles do still exist. However, the Greek Government has consistently re-affirmed its commitment to remain within the single currency and consequently, to accept the reform program.

This document sets out the opportunities and challenges of investing in the Greek NPL market. In particular, we have provided an overview of the economic and political context before outlining the current evolution of Greek NPLs. We have then considered the regulatory and legal hurdles, as well as a specific look at the servicing landscape.

Finally, we have reviewed the emergent NPL market in Cyprus. The value of Cypriot NPLs is much smaller than those in Greece, with combined NPEs in the three largest banks of €18b.<sup>4</sup> However, improvements in the regulatory landscape and challenging NPE ratios make transactions likely.



**Ajay Rawal**  
Partner, EY Global Head of Bank Restructuring

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<sup>1</sup> EY analysis.

<sup>2</sup> EY analysis.

<sup>3</sup> "Greek Economy to Grow 2.2% in 2017 and 2.7% in 2018," *Greek Reporter*, 18 April 2017.

<sup>4</sup> EY analysis.

# Economic and political backdrop

## Crisis and reform

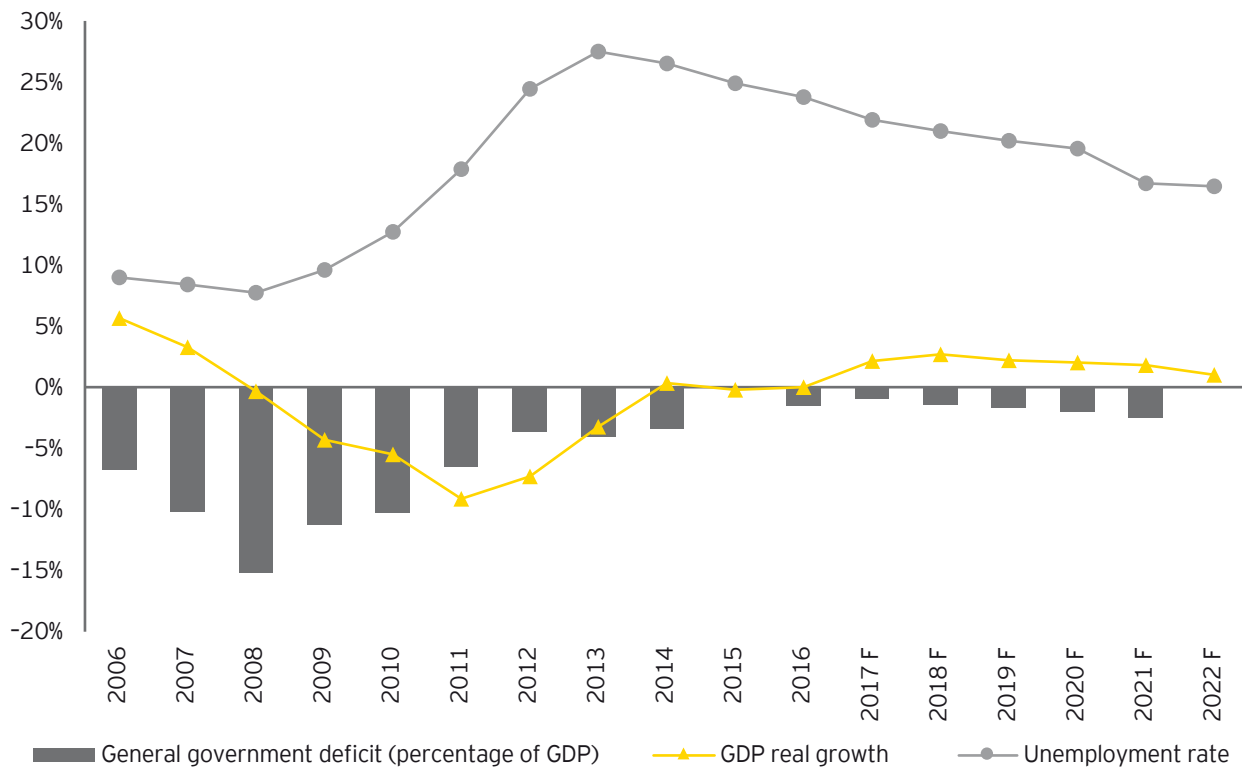
Greece suffered significantly in the 2008 global economic crisis. The country was quickly pushed into prolonged recession and de facto exclusion from international financial markets. Since 2009, with financial support from European partners and the IMF, Greece has been implementing a program of unprecedented fiscal and macro-economic adjustment that has seen output fall by more than 25% in real terms and unemployment reach more than 27% in recent years.<sup>5</sup>

In 2015, the latest Memorandum of Understanding (MoU) was signed under the European Stability Mechanism (ESM). This provided financial assistance of up to €86b in return for a three year reform program, scheduled for completion in August 2018.

These reforms had four key components:<sup>6</sup>

- ▶ **Restoring fiscal sustainability:** A medium-term primary surplus target of 3.5% of GDP to be achieved through fiscal reforms and combating tax evasion.
- ▶ **Safeguarding financial stability:** A reduction of the NPLs in the banking sector and bank recapitalization.
- ▶ **Implementing reforms conducive to growth and jobs:** Particularly focused on labour law reforms.
- ▶ **Modernizing the government sector:** Including a widescale privatization program.

## GDP growth, unemployment and general government deficit<sup>7</sup>



<sup>5</sup> EY study: Economic consequences of a Grexit.

<sup>6</sup> "Greece: the third economic adjustment programme," *European Council*, 10 November 2017.

<sup>7</sup> *IMF website*, [www.imf.org/external/datamapper/datasets/WEO](http://www.imf.org/external/datamapper/datasets/WEO).

## Looking ahead – an attractive investment opportunity

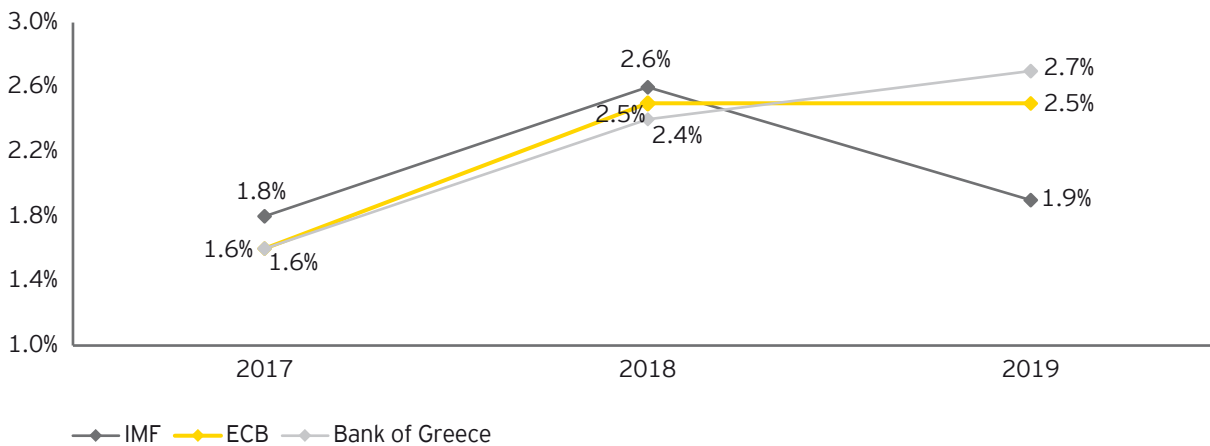
As the political consensus around remaining in the euro has hardened, opposition to the reform program put forward by Greece's creditors has faded. Consequently, Greece's commitment to the euro, economic liberalization and facilitating inward investment seems unlikely to change. As such, support for the EU and membership of the euro seems to have successfully weathered both the economic crisis and the subsequent political fallout.

Moreover, in 2018, Greece is on course to exit the memorandum of understanding (MoU) agreed with its main creditors. This would facilitate full access to international financial markets – a positive

signal to investors and one which is expected to enable increased investment and growth.

Off the back of these improvements, there is a growing consensus that the Greek economy will continue to expand over the next 24 months, improving the prospects of the country's currently non-performing borrowers. These growth projections, in combination with increasing political stability and a return to international financial markets, are likely to make Greece an attractive investment opportunity across all asset classes in 2018.

### GDP growth forecasts compared<sup>8, 9, 10</sup>



<sup>8</sup> "World Economic Outlook (October 2017)," *IMF website*, [www.imf.org](http://www.imf.org).

<sup>9</sup> "Economic forecast for Greece," *European Commission website*, [ec.europa.eu](http://ec.europa.eu).

<sup>10</sup> "Greece Economic & Financial Outlook," *Bank of Greece website*, [www.bankofgreece.gr](http://www.bankofgreece.gr), 27 June 2017.

# Progress in overcoming regulatory and legal barriers to investment

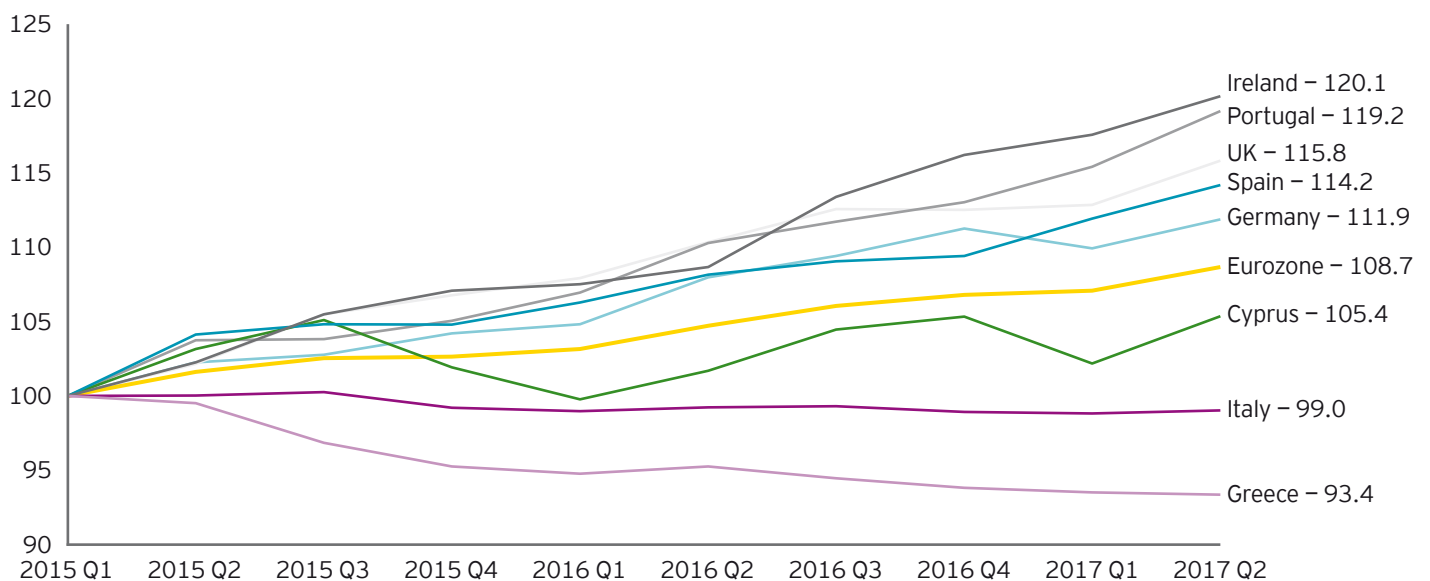
To date, it has been challenging for investors to exploit Greek opportunities. As part of the economic assistance program, several key gaps in the Greek legal framework were identified

as barriers to investment. Below we have outlined the most significant of these obstacles, as well as recent progress on each issue.

Challenge	Recent progress
<p><b>Capital controls</b></p> <p>Under emergency measures, the prohibition of transfers of capital or cash outside of the Greek banking system was established in 2015.</p> <p>New money, such as that from external investors, is exempt from capital controls. However, there was concern that existing capital controls could be extended to such new money.</p> <p>This anxiety ultimately led to a widespread capital flight that has left the banks short of liquidity and the real economy lacking sufficient investment.</p>	<p>There is an explicit exemption for credit institutions' liquidity management – including servicing of payments in connection with securities and securitizations.</p> <p>Consequently, with the suitable legal structures, we expect investment in NPL vehicles to be exempt from capital control restrictions.</p> <p>Moreover, the Ministry of Finance has published a road map for relaxation of capital controls. The momentum of this process continues to accelerate with key milestones achieved, such as the doubling of the permitted retail cash withdrawal allowance. Investors can therefore expect increasing liquidity in the wider Greek economy.</p>
<p><b>Transfer of exposures</b></p> <p>There has been some legal uncertainty around the ability of banks to transfer exposures to third parties.</p>	<p>The bedrock of legal transfers was established in 2003 with the Greek Securitization Law (articles 10 and 14 of Greek Law 3156). This was primarily designed for the securitization of performing exposures. Ultimately, this law did not fulfill the needs of banks facing increasingly tough de-recognition criteria.</p> <p>Following much debate, in 2015, the Greek Government implemented the NPL law (Greek Law 4354). This enhanced the framework for the sale of exposures originated by banks in Greece and the servicing of these exposures by licensed third parties.</p>
<p><b>Enforcement procedure</b></p> <p>The absence of an effective enforcement process for the repossession or realization of retail collateral has been a concern for investors.</p>	<p>Greece has avoided a western European repossession framework. Instead, some properties can be auctioned by the banks. We expect this process to be significantly accelerated by the electronic auctions established in November 2017.</p> <p>The banks' rankings in the distribution auction proceeds have also been substantially improved.</p>
<p><b>Bankruptcy laws</b></p> <p>The historical bankruptcy procedures were deemed slow, ineffective and unduly weighted toward the bankrupted individual.</p>	<p>A new process of bankruptcy for natural persons has been established, similar to Chapter 13 or Chapter 7 of the US Bankruptcy Code, albeit with greater protection for individuals.</p> <p>It is encouraging that these reforms have been enacted; however, it is likely to take some time for them to be embedded. Courts will need time to interpret and develop case law, and the operational infrastructure of practitioners and support professionals will also need to develop.</p>

# Real estate market

## Real estate prices (Q1 2015 indexed to 100)<sup>11</sup>



Greek real estate has the potential to be a particularly attractive opportunity for investors. Quantitative easing and demand-side measures have pushed up real estate prices across Europe since 2015. However, the Greek market has lagged behind its European counterparts and currently sits at around 7% below 2015 levels.<sup>11</sup>

This discrepancy is increasingly being exploited by investors and local businesses. In 2017, the rate of value erosion slowed for all property types, possibly signifying that the market is poised for growth. There was also a significant uptick in the volume and size of transactions. Four retail sites in the Athens metropolitan area were leased for 25 years, with a total consideration of around €71m. Indeed, in their fourth quarter report of 2017, JLL indicated that Athens office space is now slowly appreciating in value. It has also been interesting to see deals emerge outside of Athens, including another leasing by NBG Pangaea in Crete for €24m.<sup>13</sup>

Yields remain attractive by European standards. Grade A-B office space in the capital achieves rent of €9 to €20 per square meter per month, with gross yields in the region of 7.5% to 9.5%. Retail space can achieve as much as €160 per square meter per month, with the majority of prime high-street rents ranging between €50 and €100 per square meter per month, with a gross yield of between 7.0% and 9.0%.<sup>13</sup>

Residential property also seems to have turned a corner. While there is expected to be a net decline in 2017 prices, there is increasing interest in the market, with expectations of growth in 2018. The market has benefited from political instability in Turkey, with demand for prime properties extending across Europe, Russia, China and the Middle East.

<sup>11</sup> Eurostat statistical database, Q2 2017; *Trading Economics website*, [tradingeconomics.com/greece/housing-index](http://tradingeconomics.com/greece/housing-index), accessed 26 December 2017.

<sup>12</sup> *JLL Report*, April 2017.

<sup>13</sup> EY analysis.



# Non-performing loan evolution in Greece

NPLs provide an effective opportunity for investors to benefit from the Greek economic recovery. A variety of real estate-backed and unsecured portfolios have come and are coming to market, with the potential volume of trades likely to ensure that pricing remains attractive in 2018.

## The non-performing loan mountain and pressure to deleverage

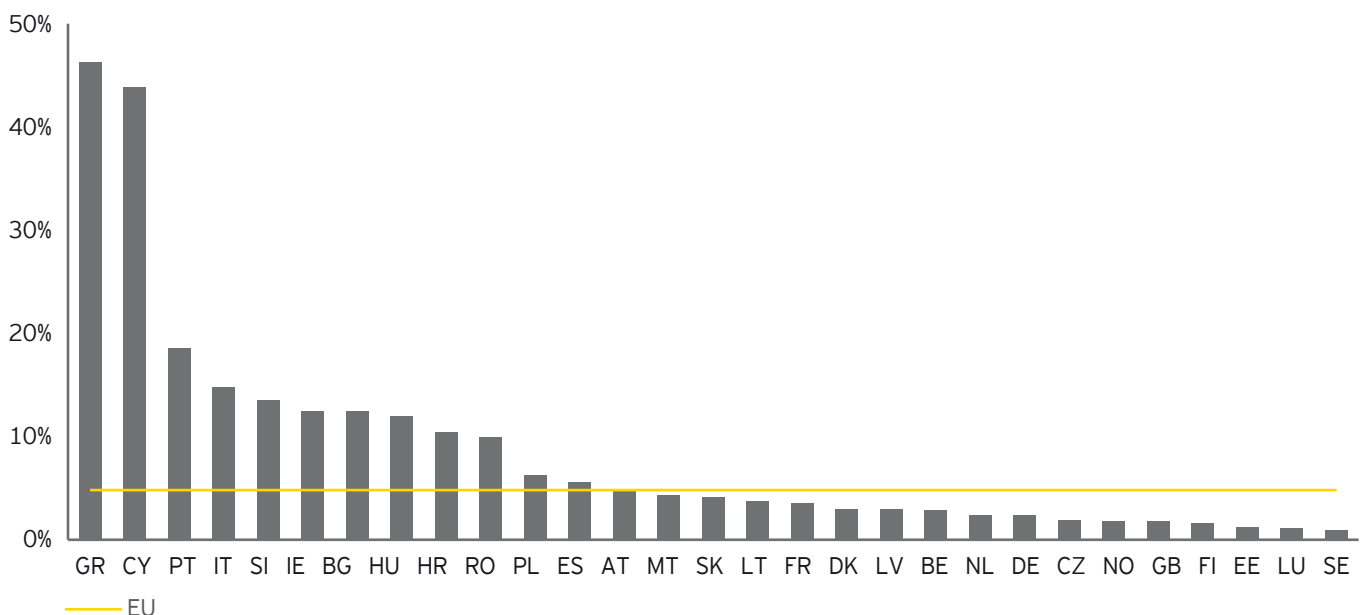
Having peaked in 2016 at 50.5% or €106.9b, NPL coverage ratios in Greece remain among the highest in the EU.<sup>14</sup> In the first quarter of 2017, Greece and Cyprus reported NPL ratios of 46% and 44% respectively.<sup>14</sup> While this is encouraging progress, there is an expectation that Greek banks will reduce their NPEs by €15b in 2018 and €16.6b in 2019.<sup>15</sup>

Pressure to resolve non-performing assets will only increase, with regulatory changes and the long-awaited transition from IAS 39 to

IFRS 9 in 2018. While the focus of IFRS 9 is performing and early arrears loans, it is likely that provisions will also rise for heavily provisioned loans.

When looking further ahead, the EBA's consultation paper – Draft Guidance to Banks on Non-Performing Loans (Sep 2016) – may provide a further impetus for sales by increasing provisioning on newly emerged NPLs.

### NPL coverage ratios across the EU (as at Q1 2017)<sup>16</sup>



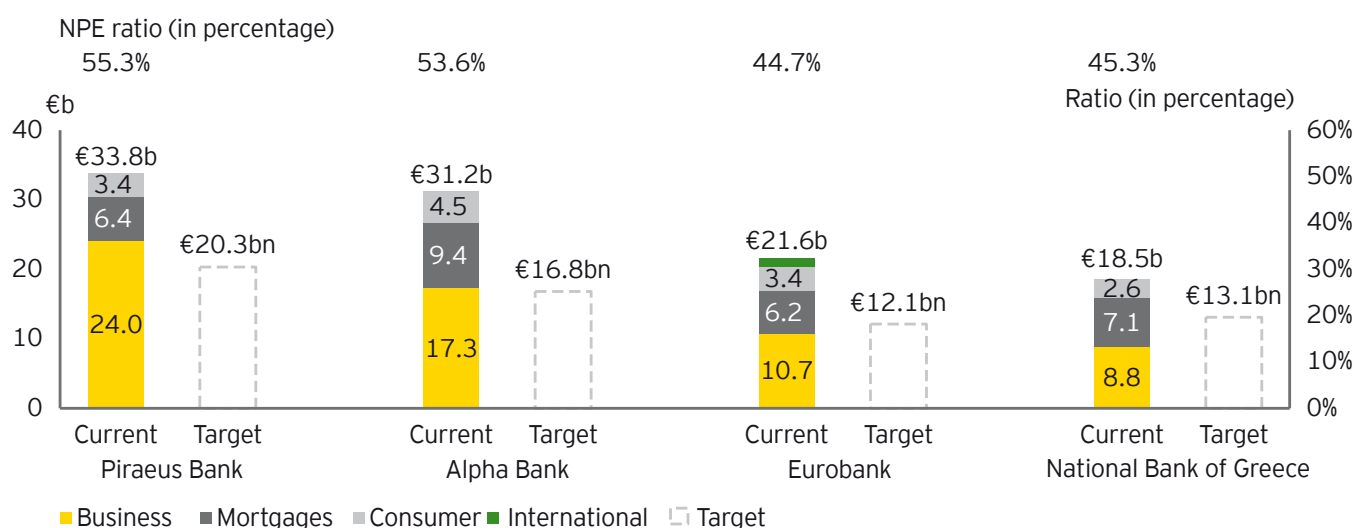
<sup>14</sup> "Greek banks beat target in push to shrink bad loan mountain," *Reuters*, 5 December 2017; "Report on Operational Targets for Non-Performing Exposures," *Bank of Greece*, 6 September 2017.

<sup>15</sup> EY analysis with data sourced from Bank of Greece report on NPEs and Bloomberg, October 2017.

<sup>16</sup> European Banking Authority.

**Note:** NPEs for Q4 2017 – €98.2b, NPEs for 2018 – €83.3b: a decline of approximately €15b as compared to 2017; NPEs for 2019 – €66.7b: a decline of €16.6b as compared with 2018.

## NPL evolution across banks<sup>17</sup>



## Transactions as part of the solution

To date, the majority of reductions have been achieved through write-offs, with workouts and restructuring being less successful than had been hoped. With Greece's four systemic banks trading at a fraction of their book values, it is evident that the market as well as the regulators are seeking action and therefore loan sales will need to be a significant part of the solution.

Greece's systemic banks have already re-entered the loan sale market, with Eurobank's disposal of a €1.5b portfolio of unsecured loans in 2017.<sup>18</sup> Similar transactions are underway at other banks, with two to three more deals rumored as being prepared for launch. While we expect a strong volume of sales in 2018 and beyond, investors should not expect a tsunami of opportunities

in the next 12 months. Once banks have initially disposed of their fully-provisioned portfolios, additional sales of part-provisioned loan books will result in write-offs. Such write-offs could in turn increase pressure on the banks to better provision their remaining stock.

Consequently, we expect these loan sales to increase in volume and diversity over time – with unsecured retail transactions being increasingly replaced by commercial real estate (CRE) and small and medium enterprise (SME) sales. Given the high concentration and volume of NPLs in CRE and SMEs, this transition may happen sooner rather than later.

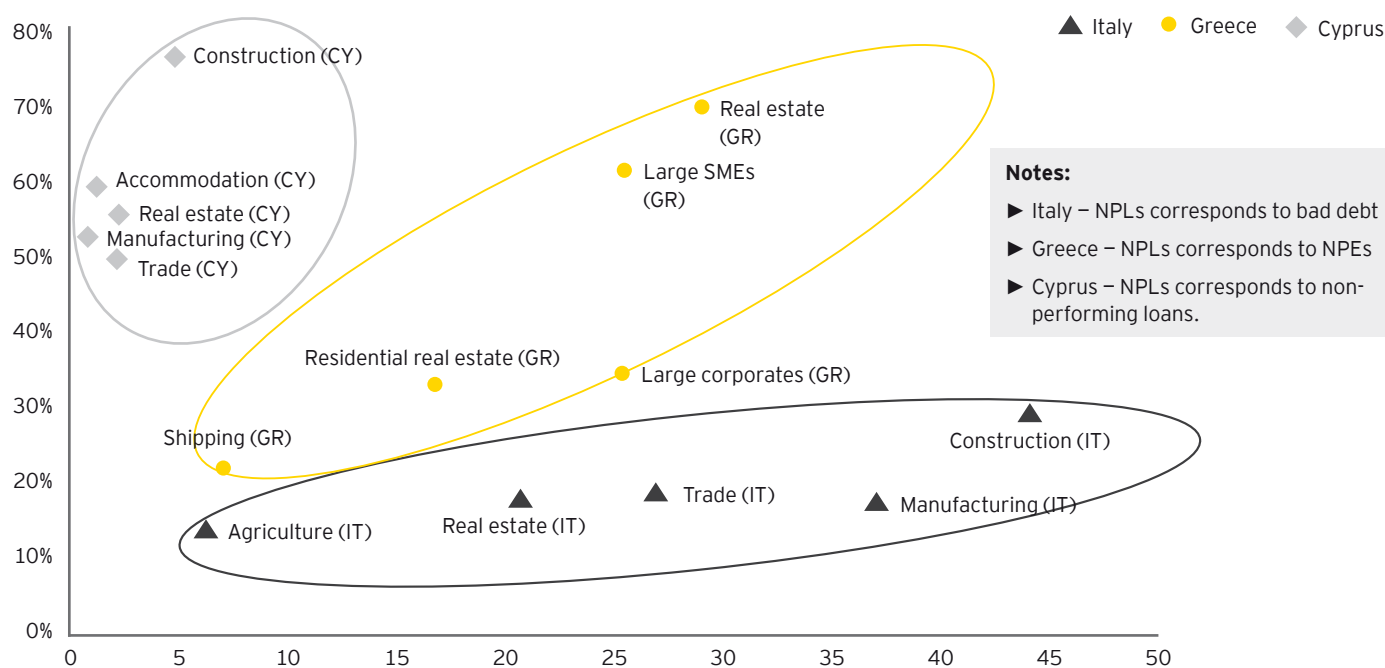
<sup>17</sup> Respective bank's regulatory filing for quarter ended 30 September 2017. Target NPE as at 31 December 2019.

<sup>18</sup> EY analysis.

## NPL deal pipeline

Bank	Transaction date	Portfolio	Value	Advisor
Alpha Bank <sup>19</sup>	7 December 2017	Cards, consumer loans and small corporate loans	€2.5b	KPMG
Confidential <sup>20, 22</sup>	Expected 2018	Unsecured consumer NPLs	In excess of €2.0b	EY
Confidential <sup>20</sup>	Expected 2018	SME loans	TBC	EY
National Bank of Greece <sup>21</sup>	Expected 2018	Unsecured consumer loans	€1.5b	PwC

## NPL coverage by sector<sup>23, 24, 25, 26, 27</sup>



<sup>19</sup> "Alpha to sell loan portfolio of 2.5b euros," *Kathimerini website*, [www.ekathimerini.com](http://www.ekathimerini.com), 7 December 2017.

<sup>20</sup> "Piraeus Bank set to sell NPL portfolio worth 3b euros," *Marketall website*, [www.marketall.eu](http://www.marketall.eu), 23 November 2017.

<sup>21</sup> "Greek banks plan record sale of bad loans as pressure mounts," *Reuters*, 19 October 2017.

<sup>22</sup> "Piraeus Bank prepares first big Greek property NPL sale," *Euro Property*, 22 September 2017.

<sup>23</sup> Data from Central Bank of Greece, Italy and Cyprus .

<sup>24</sup> Reuters, June 2017.

<sup>25</sup> Bank of Greece report on NPEs.

<sup>26</sup> Data for Q2 2016.

<sup>27</sup> EY analysis.

**Note:** Italy: NPLs stands for bad debt; Greece: NPLs correspond to NPEs; Cyprus: NPLs stands for non-performing loans.

## Servicing landscape

The emergence of a servicing sector is a pre-requisite for the development of a fully functioning NPL market. Without independent servicers, banks are required to offer investors access to their servicing capabilities- a move which adds complexity to a transaction and complicates the process of

de-recognition. Alternatively, the only transactions which complete are those which do not require traditional servicing platforms, such as large SME and corporate exposures. In contrast, a mature, competitive servicing market would decrease costs and increase investor returns.

Servicer	Owner	Business description
Financial Planning Services (FPS)	Eurobank <sup>28</sup>	FPS emphasizes the importance of the consolidation of the portfolios through innovative methods, advanced IT systems, specialized financial advisors and new products, in order to serve NPLs.
Cepal	Centerbridge/Alpha bank	Managers of guaranteed debt and real estate assets. Includes loan management services, real estate management and consulting on investment for financial institutions and international investors.
Goddess Artemis	Aldridge EDC Speciality Finance	An investment firm specializing in distressed assets.
Pillarstone	KKR <sup>30,31</sup>	Platform recently launched by KKR Credit to support banks in managing their exposures to non-core and underperforming assets by improving the performance and value of the businesses, which underpin the exposures.
Independent Portfolio Management	Alvarez & Marsal <sup>32</sup>	IPM is the first independent loan management company in Greece to offer integrated debt management solutions to small and mid-sized businesses.
Resolute Asset Management <sup>35</sup>	Resolute Asset Management	Independent specialist asset manager focused on advising owners and managers of distressed commercial real estate exposures.
UCI Greece Credit	Unión de Créditos Inmobiliarios <sup>34</sup>	Spanish-based lender and servicer focused on residential secured loans.
B2Kapital	B2Holding <sup>35</sup>	Pan-European debt servicer. The Group has full operations in 20 European countries and offices in 3 additional countries.
DV01 Asset Management	DV01 Asset Management	Services include portfolio acquisition support, onboarding or off-boarding support, and loans and credit management.
QQuant Master Servicer	Qualco <sup>37</sup>	Technology-focused and holistic international debt servicer.

<sup>28</sup> "Eurobank FPS to begin NPLs portfolio management," *Greek Observer*, 21 March 2017.

<sup>29</sup> "Greek Bank Attica Leads Way to Cut Bad Loans and Bolster Capital," *Bloomberg*, 12 June 2017.

<sup>30</sup> "KKR's Pillarstone granted license to manage bad loans in Greece," *Reuters*, 11 May 2017.

<sup>31</sup> "Alpha Bank, Eurobank and KKR reach agreement to support Greek companies," *Eurobank*, 17 May 2017.

<sup>32</sup> "Alvarez & Marsal announces Independent Portfolio Management, a wholly owned subsidiary, has been granted a loan servicing license by The Bank of Greece," *IPM Europe*, 24 July 2017.

<sup>33</sup> "Resolute Asset Management Greece S.A granted Non-Performing Loan Servicing Licence by the Bank of Greece," *Resolute Asset Management website*, [www.resoluteassetmanagement.com](http://www.resoluteassetmanagement.com), 21 July 2017.

## Evolution of the market

The Greek NPL servicing market is currently at a very early stage, presenting an opportunity for new players and investors in an underutilized market. However, despite the high ratios of NPLs in Greece, the absolute value of these bad loans remains more modest by international standards. Therefore, we expect to see the emergence of a small number of servicers who demonstrate credibility and then quickly scale-up.

## Legal status of servicers

All servicers must be licensed by the Bank of Greece. With this license, the servicer is then able to represent the ultimate beneficiary in all court proceedings, and to collect, negotiate, settle or restructure the claims on their behalf.

The NPE law similarly requires servicers to adhere to the same consumer standards as Greece's banks. Consequently, servicers are regulated by the same consumer protection legislation (including Law 3758/2009) and are required to follow the Banks' code of conduct.

Sector focus	Key Greek banking relationships	Operation commencement date	NPLs under management
-	Eurobank	March 2017 <sup>28</sup>	€14.0b <sup>28</sup>
Real estate	Alpha Bank	June 16	Initially €1.0b NPL assigned; €1.5b to be transferred later
-	Attica Bank	July 2017 <sup>29</sup>	€1.3b <sup>29</sup>
Corporate loans, real estate and shipping	Alpha Bank, Eurobank	May 2017 <sup>30</sup>	€1.2b <sup>30</sup>
-	Alpha Bank	July 2017 <sup>32</sup>	-
Commercial real estate		July 2017 <sup>33</sup>	-
Secured real estate		August 2017 <sup>34</sup>	-
		August 2017 <sup>35</sup>	-
SMEs/large corporates <sup>36</sup>		November 2017 <sup>36</sup>	-
	Eurobank, Alpha Bank, Bank of Greece, PQH, Attica Bank	November 2017 <sup>37</sup>	-

<sup>34</sup> "The Bank of Greece issues a servicing platform license to UCI – a total of 7 licenses in the Greek market," *Zepos & Yannopoulos website, zeya.com*, 8 August 2017.

<sup>35</sup> "B2Kapital acquires license to manage loan and credit claims," *B2Kapital*, 22 August 2017.

<sup>36</sup> "The Bank of Greece approved 2 more funds for red loans," *Greek Money*, 1 December 2017.

<sup>37</sup> "Big business of Tsakalotou with the red mortgage loans of 110 billion euros," *Mononews*, 9 December 2017.



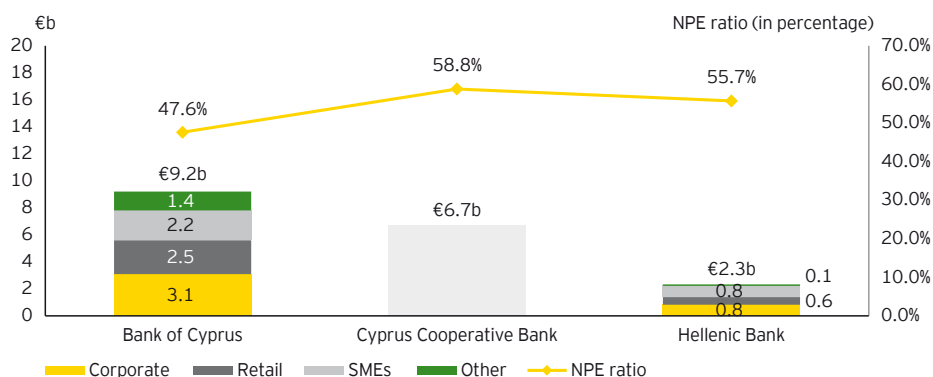
# A look to the future – the Cypriot NPL market

## Overview of Cypriot NPLs

The value of Cypriot NPLs is significantly smaller than those in Greece, with €18b of combined NPEs in the three largest banks compared with over €100b in the four systemic Greek banks.<sup>38</sup> However, the concentration of these bad loans in a few relatively small banks means that loan portfolio transactions are increasingly likely.

Moreover, an improving real estate market has limited additional provisioning on secured NPLs. In contrast to Greece, and in line with most EU Member States, the Cypriot real estate market has shown a marked improvement since 2015. Consequently, while there is a smaller volume of secured NPLs in Cyprus, they are potentially more likely to be recovered successfully and therefore more attractive to investors.

**NPL evolution across banks<sup>39</sup>**



## Tackling barriers to investment

The Cypriot Government has committed to enabling a functioning NPL market as part of the long-term solution to the banking crisis. The law on the sale of loans was passed by the Cypriot Parliament in November 2015 after overcoming political opposition. It was part of Cyprus's bailout terms and aims to help Cypriot banks

reduce their NPL stock, something which is considered key for economic recovery. While many mechanisms remain largely untested, significant progress has been made in establishing the infrastructure for a loan portfolio sales market.

Challenge	Recent progress
<b>Legal mechanism for transfer of NPLs</b>	
Historically, Cyprus lacked the legal infrastructure to implement loan sales.	<p>The Sale of Credit Facilities and Related Matters Law was introduced in 2015 to facilitate sales.<sup>40</sup> Companies interested in acquiring loan portfolios from Cypriot banks will have to be assessed before obtaining authorization from the supervisory authority.</p> <p>“The Authorization of Credit Acquiring Companies Directive of 2016” outlines the guidelines governing the sale of loans by Cypriot banks to third parties. It describes the requirements for acquiring parties and the notification procedures of borrowers and guarantors. It also stipulates that the sale of loans to third parties is governed by existing foreclosure-related legislation, which affords debtors several ways to challenge repossession proceedings.</p> <p>The new law gives debtors the right to bid to buy back their loan at a discount, after it has been deemed non-performing by the lender, but before it can be sold to third parties such as investment funds. Individual borrowers will be notified of the bank's intent to sell their loan and given 45 days to make the bank an offer to pay back their loan. Following notification, a borrower may make an offer only once.</p>

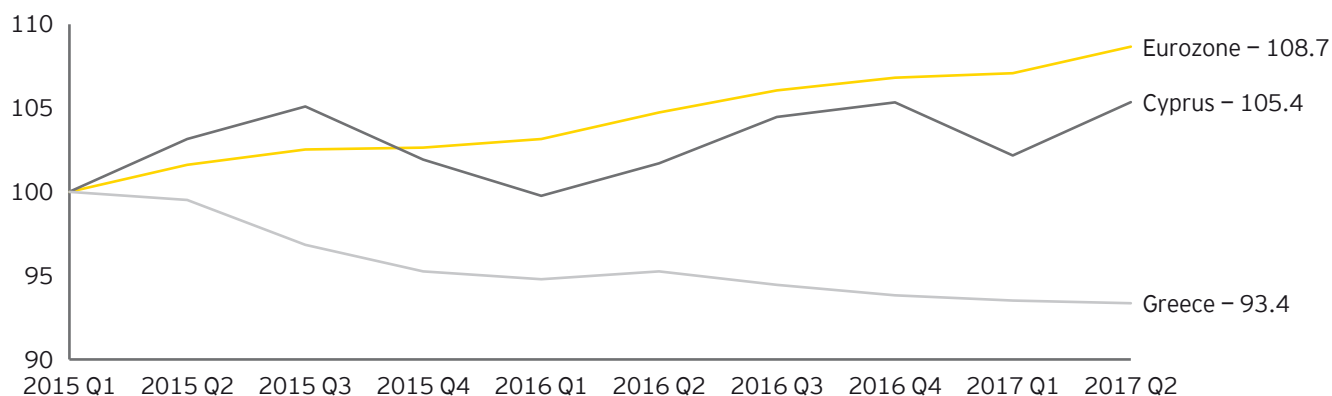
<sup>38</sup> EY analysis.

<sup>39</sup> NPE as at 30 September 2017. NPE breakdown by assets – class not available for Cyprus Cooperative Bank.

<sup>40</sup> Law regulating the sale of credit facilities and other related issues,” Greece Central Bank Report, 22 January 2016.

Challenge	Recent progress
<b>Judicial/extrajudicial mechanisms for restructurings and foreclosure</b>	
The previous foreclosure process required significant government involvement, slowing potential investors' time to cash. Liquidation court cases can take several years.	The Government has made significant efforts to facilitate faster restructuring and foreclosure processes. This has included new out-of-court settlements that include privately authorized auctions.  There continues to be a political commitment to opening up the NPL market. As such, there are attempts to establish pre-pack agreements and greater measures to empower creditors in an insolvency process. While the court process for repossession remains extended, additional reforms are in the pipeline.
<b>Undeveloped servicer market</b>	
Cyprus has been slower than other European countries in developing an independent servicer market, a pre-requisite for many investors.	Several banks with large NPE exposures (such as Bank of Cyprus and Alpha Bank) have not yet had any agreements with servicing firms (i.e., arrear management units or debt collection firms).  In 2017, the first significant servicing operations emerged in Cyprus, in particular: <ul style="list-style-type: none"> <li>▶ APS Debt Servicing Cyprus Ltd. entered the market in July 2017 with €2.3b of NPLs and €150m of real estate assets bought from Hellenic Bank. Fifty-one percent of the venture is owned by APS and 49% by the Bank.<sup>41</sup></li> <li>▶ Altamira Asset Management (Cyprus) Ltd., a partnership with Cyprus Cooperative Bank, to service €7.2b of NPLs and €400m of real estate property. Fifty-one percent of the venture is owned by Altamira and 49% by the Cyprus Cooperative Bank.<sup>42</sup></li> </ul>
<b>Bank level challenges</b>	
There are material bank level challenges that are in the process of being overcome. In particular, data quality is poor, especially for retail and SME portfolios, and there is some reluctance to sell loan portfolios at a heavy discount.	Extensive data remediation exercises are ongoing at the major banks. Additionally, reservations around discounts on sale will likely lead to an evolution of the Cypriot loan market – with more heavily provisioned portfolios initially disposed of to limit write-offs.

## An improving real estate market (Q1 2015 indexed to 100)<sup>43</sup>



<sup>41</sup> "Hellenic Bank sells non-performing loans," Cyprus Property, 3 July 2017.

<sup>42</sup> "Coop bank's bad loans to be managed by Altamira," *In-Cyprus website*, in-cyprus.com, 17 July 2017.

<sup>43</sup> Eurostat statistical database, Q2 2017; Trading Economics website, tradingeconomics.com/greece/housing-index, accessed 26 December 2017.

## Applying to become a credit acquiring company

- ▶ Under the new law, loans may be sold only to funds licensed and registered in Cyprus, and thus subject to all local laws. In addition, the Central Bank may forbid the transfer of debt to third parties for reasons of national security.
- ▶ Companies interested in acquiring loans from Cypriot banks will have to be assessed, before obtaining authorization from the supervisory authority. Companies need to provide information about their business plan, including budget for the first two financial years, evidence that they have the minimum capital required as provided by the law and a description of the governance framework plus internal checks and balances.
- ▶ In addition, acquiring companies will have to describe “procedures for the handling and monitoring of customers’ complaints,” as well as “the systems that will be implemented for the collection of statistical and supervisory data,” the Central Bank said.
- ▶ Acquiring companies will also have to describe their internal control mechanism with respect to anti-money laundering legislation and their unaudited financial statements of the current year, unless the company is newly formed. Also, audited financial statements of the parent company are to be submitted, when applicable.
- ▶ The Central Bank may consult other authorities in Cyprus and abroad in the context of its assessment procedure, which also includes the reputation, knowledge, skills, and experience of the shareholders and managers of acquiring companies.
- ▶ Loan acquiring companies will have to notify the Central Bank of their intention to outsource “any significant functions to third parties” to obtain approval. Also, they will have to comply with the provisions of its “code of conduct” concerning borrowers with financial difficulties.

## NPL deal pipeline

Cyprus materially re-entered the loan sale market with Hellenic Bank’s sale of 2,000 non-retail loans worth €145m to B2Kapital in January 2018. This transaction is an endorsement of the Government’s recent efforts to reshape and reinvigorate the portfolio market.

In contrast, the only other recent sale, Bank of Cyprus’s sale of construction loans to CDB, covered less than 20 borrowers. Other deals have focused on JVs to workout non-performing borrowers. Our expectation is that the volume of portfolio sales will materially increase in 2018 as confidence in the Cypriot legal and regulatory framework grows.

### NPL deal pipeline

Bank	Announced date	Portfolio	Value	Buyer	Status
Alpha Bank Cyprus and Alpha Bank Romania <sup>44</sup>	8 January 2018	Undisclosed NPL portfolio	€360m	Deutsche Bank, AnaCap and APS Investments	Ongoing
Hellenic Bank <sup>45</sup>	2 January 2018	Primarily non-retail loans	€145m	B2Kapital	Ongoing
Bank of Cyprus <sup>46</sup>	21 November 2017	Primarily corporate and SMEs	€450m	N/A	Anticipated
Cyprus Cooperative Bank <sup>47</sup>	17 July 2017	Set-up of JV to manage NPEs	€7.2b	Altamira	Completed
Hellenic Bank <sup>48</sup>	3 July 2017	NPL and real estate management business	€2.5b	APS Holding	Completed
Bank of Cyprus <sup>49</sup>	17 May 2017	Restructured NPLs of developers and construction companies	€20m	CDB Bank	Completed

## Case study – Hellenic Bank sale to B2Kapital

- ▶ Hellenic Bank has entered into an agreement to sell an NPL portfolio of predominantly non-retail secured and unsecured exposures to B2Kapital Cyprus Ltd, a wholly owned subsidiary of B2Holding ASA, a Norwegian corporation listed on the Oslo Stock Exchange. The transaction is part of the Bank's non-performing portfolio reduction program and the completion of the agreement is "at arm's length."
- ▶ According to an announcement issued by the Hellenic Bank, the gross outstanding balance of the assets that are being sold is €145m, comprising 1,158 borrowers and 1,977 facilities (in both cases as of September 2017). The transaction, which is not expected to have a material impact on the income statement and capital position of the Bank due to existing provisions taken against these assets, is a step towards reducing the Bank's exposure to non-performing assets. The transaction will reduce the level of the Hellenic Bank's NPLs by 6.2% based on NPEs as at 30 September 2017.
- ▶ This sale is consistent with the Bank's strategy of "fixing" the balance sheet and at the same time, it is in line with the European Central Bank and IMF guidelines on the management of NPLs. In addition to organic reduction of the problematic portfolio, the Bank remains focused on accelerating the de-risking of its NPEs through portfolio disposals and other transactions.
- ▶ The completion of the deal is subject to the required procedures under the relevant legislation, the obtaining of applicable approvals and clearances from the relevant regulatory authorities, and is targeted to be achieved by the end of the first quarter of 2018.

<sup>44</sup> Alpha Bank announcements, 5 January 2018.

<sup>45</sup> "Hellenic Bank announces sale of 2,000 non-performing loans worth €145 million," *Cyprus Times*, 2 January 2018.

<sup>46</sup> "Bank of Cyprus eyes a €0.45 billion loan sale," *Famagusta Gazette*, 21 November 2017.

<sup>47</sup> "Coop bank's bad loans to be managed by Altamira," *In-Cyprus website*, in-cyprus.com, 17 July 2017.

<sup>48</sup> "Hellenic Bank sells non-performing loans," *Cyprus Property*, 3 July 2017.

<sup>49</sup> "BoC to Sell NPLs to cdbbank," *Gold News*, 17 May 2017

**Note:** APS Cyprus will manage Hellenic Bank's NPLs and real estate assets.

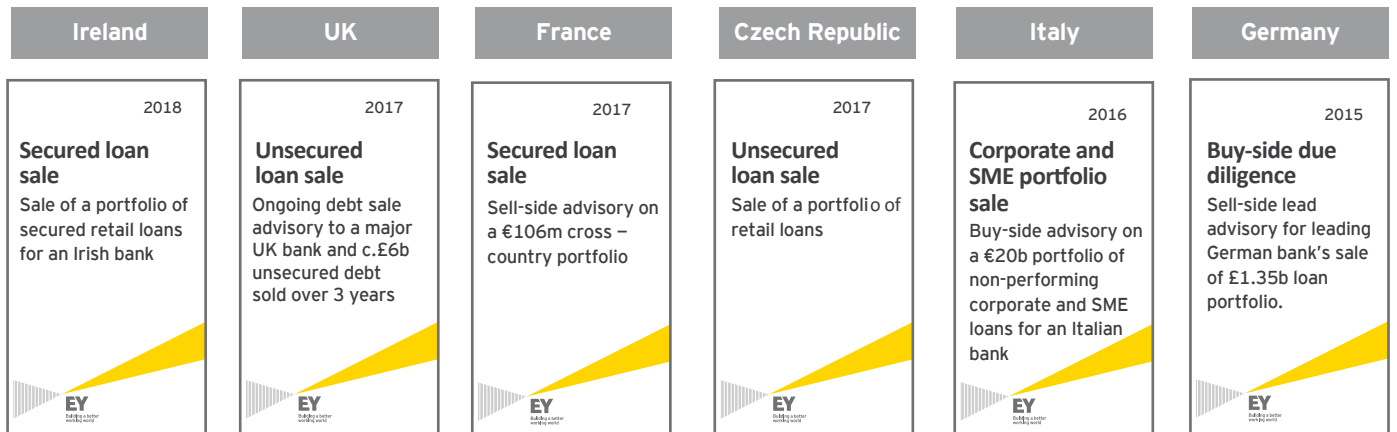
# Credentials

EY has significant exposure to the Greek loan sale market. This includes both buy-side and sell-side engagements, in addition to strategic and product reviews of various portfolios.

## Greece



Moreover, EY is a proven market leader across the European loan sales market, leading transactions across the continent.





# Further information

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