Greek NPL momentum builds

TRENDS, ANALYSIS AND HORIZON SCANNING

Research methodology

We partnered with Debtwire to conduct research into the Greek non-performing loans (NPLs) market.

In September 2017, Debtwire sought and received input from 50 senior-level executives about their experiences and the outlook for the Greek NPL market, on the basis of a set of questions prepared by Ashurst. The research sample included all the major Greek financial institutions, Greek NPL servicers, buy-side investors and professional advisers active in the country (both financial and legal).

All participants confirmed that they were actively involved in NPLs and were either already operating in the Greek market or considering doing so.

The research was based on a combination of qualitative and quantitative questions and all interviews were conducted over the telephone by appointment. Statistical results were collated by Debtwire and analysed by specialists within Ashurst. All responses are anonymised and presented in aggregate.

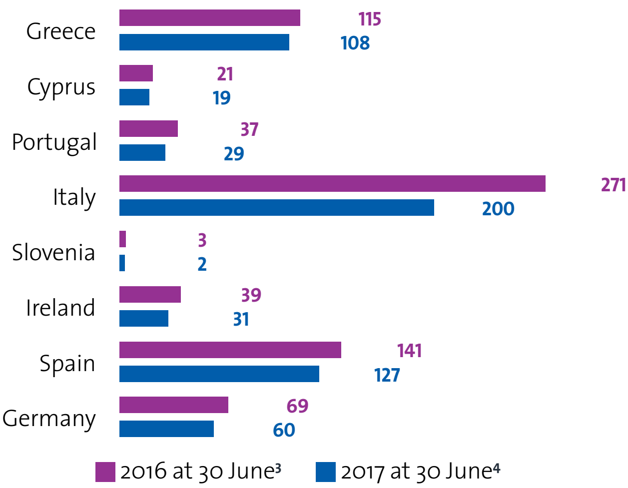
We would like to thank the 50 participants who contributed so willingly and diligently to this research.

Introduction

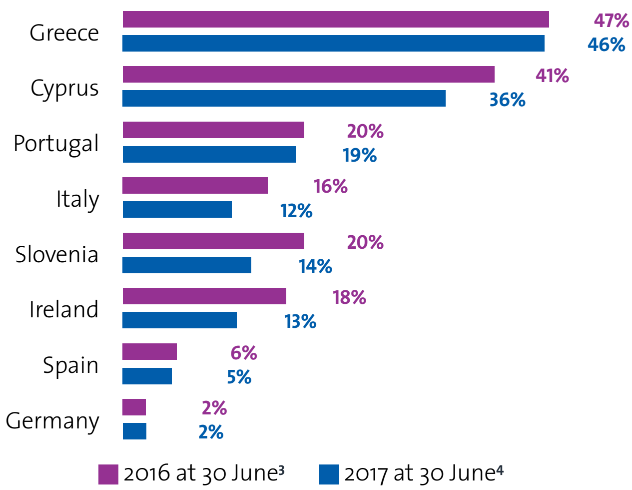
Despite some progress having been made, particularly in Italy, Spain and Ireland, the issue of non-performing loans (NPLs) remains a major economic challenge for the Eurozone with an estimated €800 billion of such loans remaining unresolved. A large stock of legacy NPLs in some Euro countries continues to restrict economic growth.

The problems are not evenly distributed and consequently the European Central Bank is putting banks in the seven "high NPL"[1] jurisdictions under intense pressure to make meaningful progress towards resolving the NPL crisis in their respective jurisdictions. Greece is a focal point of regulatory attention because with NPLs at €108bn it has the largest NPL ratio in the Euro area at **47%**. Italy, by contrast, has €200bn of NPLs and an NPL ratio of **12%**.[2]

VOLUME OF NON-PERFORMING LOANS (€ BN)



NON-PERFORMING LOANS RATIO



With European interest rates at sustained lows and deep pools of capital waiting to be deployed in the market, it is not surprising that investment opportunities with meaningful upside for special situations investors hunting for yield are currently scarce in Europe. The mature European investment markets appear close to saturation and the demand-supply imbalance created by deep pools of liquidity has often pushed prices beyond the levels at which distressed and special opportunities investors are customarily prepared to participate.

As a result, and in the search for yield, the focus of investors in NPLs and special situations opportunities has migrated south and east in recent years – Italy, Spain, Portugal, Greece and Cyprus are currently at the forefront of the investor community's attention. However, while some of these countries are developing a maturing market in NPL resolution, an active market in Greece has yet to establish itself.

There are signs, however, that autumn 2017 may have brought us to the cusp of tangible market activity commencing in Greece. In order to understand the drivers of the potential sellers and the motivation and priorities of the investor community, we have conducted detailed research into potential participant behaviour by interviewing a broad selection of key stakeholders: senior personnel within active buy-side investors, the Greek bank community, local independent servicers and legal and financial advisers known to be engaging in the Greek NPL market. The results have been insightful and we are pleased to present our findings and conclusions in this report.

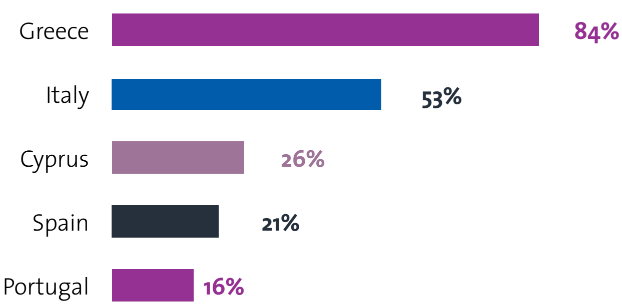
1 The "high NPL" jurisdictions as categorised by the ECB are Greece, Cyprus, Portugal, Slovenia, Ireland, Italy and Spain.
2 Source: ECB Supervisory Banking Statistics, Second Quarter 2017 published October 2017 – https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.supervisorybankingstatistics_second_quarter_2017_201710.en.pdf?2fe51c682677110741716ad2d61603bd
3 Source: https://www.bankingsupervision.europa.eu/ecb/pub/pdf/supervisorybankingstatistics_second_quarter_2016_201611.en.pdf
4 Source: https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.supervisorybankingstatistics_second_quarter_2017_201710.en.pdf?2fe51c682677110741716ad2d61603bd

Greece firmly at the top of the European investor agenda

The extent and scale of the NPL issue in the Greek economy has been well highlighted in recent years. Equally, the country's macro-economic challenges, political uncertainty and historical challenges around its legal framework and judicial infrastructure have long been cited by the investor community as deterrents to investing in the Greek market.

Perhaps one of the most unexpected findings of our research is that investors now not only appear to be viewing Greece in a different light but are actively monitoring that market with serious interest in the opportunities it may present. **84%** of the investors we consulted ranked Greece in their top two Southern European target investment countries for the next 12 months. Italy came second with **53%**, with Cyprus, Spain and Portugal coming in some way behind. Furthermore, investors reported that they were very (**55%**) or moderately (**35%**) likely to consider Greek NPL transaction opportunities coming to the market in the next 12 months.

INVESTORS: IN WHICH OF THESE SOUTHERN EUROPEAN COUNTRIES ARE YOU MOST LIKELY TO INVEST IN THE NEXT 12 MONTHS? (SELECT TOP TWO OPTIONS)



This level of interest is attributable to a number of factors. First, it is indicative of a growing view that the Greek economy has reached, or is close to reaching, the low point in the economic cycle. Generally our investors' responses demonstrate a widely held belief that the country's macro-economic situation will show steady improvement going forward, chiefly driven by the hospitality sector. However, notwithstanding this, political volatility and underlying endemic fiscal weaknesses remain significant challenges for the months and years ahead. Second, investors welcome the suite of recent reforms and believe that they will be conducive to creating an effective secondary debt market. While there remain some reservations across the industry on certain aspects of the new reforms, many respondents acknowledge these measures represent a significant step forward and cited them as evidence of the Greek banking sector now making a real commitment to resolving the country's NPL issue. Lastly, investors clearly see opportunity in the low valuations currently prevalent in the market but equally appear to understand the related fundamental risks. We analyse this further later in the report.

"The Greek NPL market is just opening up so the opportunities are unexplored and with low valuations."

CHIEF INVESTMENT OFFICER, INVESTMENT HOUSE

It's not a matter of if – it's a matter of when

With investor appetite in place and increasing, the questions then follow: who will sell, what will they sell and when will they sell it?

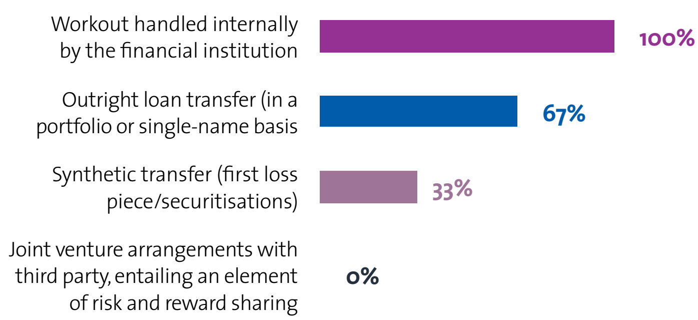
The findings of our research make promising reading for investors with **75%** of respondents from the Greek banks stating they believe it is very likely that their institution will bring an NPL book to market in the next 12 months and **25%** reporting that this is moderately likely.

The Greek systemic banks universally indicated that their preferred strategy for dealing with NPLs is internal workout. This is not surprising. Maintaining control of the workout process with the potential of sharing in any upside is always likely to be a preferable strategy in circumstances where loss provisioning is insufficient and where borrower businesses have sufficient turn-around potential in an improving economy. Similarly, Greece is a relatively small market in banking terms with the four systemic banks currently accounting for approximately **90%** of market share;[5] accordingly, relationship banking is a longstanding practice and maintaining customer relationships is important.

Against this, as we have seen across the European NPL markets, there are clearly limits on the volumes of loans that any institution can work out internally given the resources, expertise and time required. The difficulties of facilitating restructurings and workouts internally is compounded in Greece by certain local market features. An example of this is in the Greek large corporate credit sector where all or a majority of the systemic banks are likely to have exposures to the same large corporate borrowers. Unlike more standard market practice in the Western European markets, these exposures are not necessarily likely to have been originated on a structured, syndicated basis with a shared security package and regulation under an intercreditor agreement. Such unstructured, multi-creditor lending arrangements with piecemeal security in place over different assets makes the implementation of any consensual, comprehensive balance sheet restructuring yet more challenging and time-consuming.

Turning to the other options available to the Greek banks that have traditionally been used in other jurisdictions, sellers stated that outright sales of NPL books and synthetic transactions (such as securitisations or first-loss trades) came second and third, respectively, on their list of preferred resolution transactions.

SELLERS: WHAT IS YOUR ORGANISATION'S PRIMARY STRATEGY FOR NPL REDUCTION? (SELECT TOP TWO OPTIONS)



It is noteworthy that Greek sellers ranked loan sales in preference to securitisations. The country has recently implemented a number of changes to its laws designed to facilitate NPL transactions including a new law specifically governing the sale of loans which has been welcomed but remains largely untested. The country also has a mature securitisation law which has been the foundation for many past transactions. To date, there have only been two

5 European Central Bank, Aggregate Report on the Greek Comprehensive Assessment 2015, available at https://www.bankingsupervision.europa.eu/ecb/pub/pdf/aggregatereportonthecomprehensiveassessmentexsum201510.en.pdf; European Central Bank, EU structural financial indicators, available at http://sdw.ecb.europa.eu/reports.do?node=1000002869

publicly announced NPL portfolio transactions in Greece.[6] The preference for loan sales may in part reflect an appetite to implement a "clean break" from a proportion of credits and divest the burden of holding and servicing a proportion of NPLs. Our view is that, despite the views expressed in our research, securitisation may prove to be the most prevalent method of NPL resolution in Greece in practice – at least in the early formative years of the market given the established infrastructure for this type of transaction. That said, given the size of the NPL challenge in Greece, a mix of strategies and deal structures to cater for the requirements of particular asset classes and the preferences of different investor classes is likely to be the most probable outcome.

Interestingly, when our pool of investors was asked the same question the responses presented a different profile. Entering into joint venture arrangements with sellers featured prominently in the investors' responses when, conversely, there appeared to be little appetite for this type of transaction from our sell-side respondents. Investor appetite for joint ventures is likely to be driven in large part by the fact that the Greek banks are thought to know the market and their borrowers well – in the absence of having an established servicing capability on the ground, many investors may consider it challenging to emulate this level of knowledge and experience in the short term. The non-captive servicer market in Greece has been a very dynamic area which has been subject to significant activity and development over the last 12 months (and we analyse this further on page 12).

In correlation with the Greek banks' responses, investors also stated a preference for loan sales over synthetic transactions. This may reflect the views of those investors who do have access to licensed servicing arrangements wishing to roll over their acquisition strategy from other markets to Greece and look to realise value for themselves without the continuing involvement of the seller. Indeed, securitisation has historically not been used as prevalently in the more mature markets as more straightforward outright loan sales and, therefore, at least initially, there may be fewer investors lining up for securitisation investment opportunities.

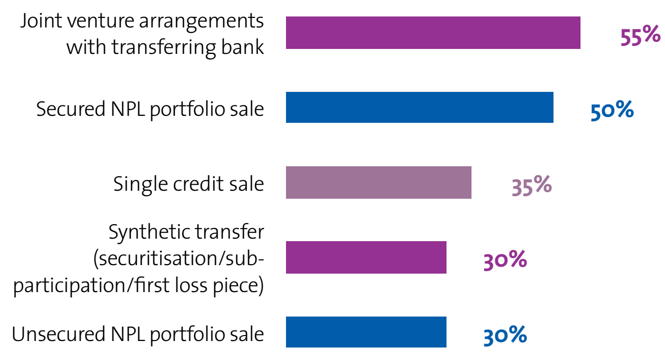
There are also other traits to the Greek market which will come into play in determining the types of transactions that one may expect to see in coming years. In particular, there is a very significant volume of granular SME assets within this market which present their own challenges. Typically, these types of loans are resource-intensive to prepare for transactions from a seller's perspective and require significant work from an investor's perspective in order to understand the issues, weaknesses and potential realisable value. These types of granular book lend themselves well to securitisation structures.

6 https://www.bloomberg.com/news/articles/2017-06-12/greek-bank-attica-leads-way-to-cut-bad-loans-and-bolster-capital; https://www.eurobank.gr/en/group/grafeio-tupou/etairiki-anakoinosi-15-11-17

Many investors are, however, keen to avoid granular SME assets and prefer a more diverse portfolio with a smaller number of trophy assets comprising a high proportion of the overall value of a portfolio. Historically, books of this composition have been more widely placed for outright sale in the wider European market. These types of credit are perhaps in shorter supply in the Greek market than elsewhere.

Interestingly, our results also demonstrate investor appetite for single asset trades which may provide some avenues of opportunity for many Greek banks to sell their exposures to some of the larger corporate unstructured credits, which are currently proving very difficult to restructure, to a single investor.

INVESTORS: WHAT TYPE OF GREEK NPL TRANSACTIONS WOULD MOST INTEREST YOU? (SELECT TOP TWO OPTIONS)



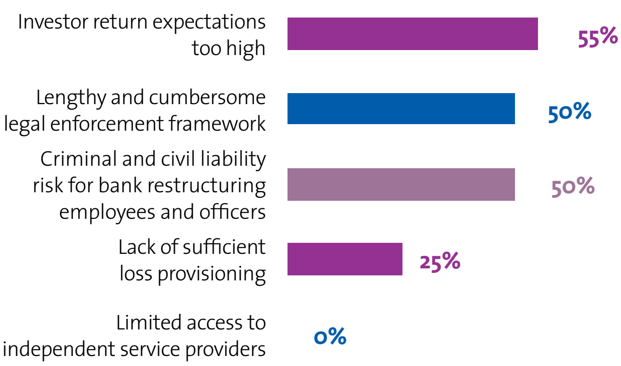
The remaining obstacles to an active market

With a number of major legal reforms now implemented, we were keen to understand from our interviewees what they felt remained the main impediments and obstacles to an active Greek NPL market.

The challenges identified by the Greek banks included, on a relatively consistent basis:

- a mismatch of pricing expectations between sellers and investors
- a lack of sufficient loss provisioning
- the cumbersome and lengthy Greek legal enforcement framework
- the potential criminal liability for bank officers approving consensual restructurings.

SELLERS: WHAT DO YOU CONSIDER HAVE BEEN THE MOST SIGNIFICANT IMPEDIMENTS IN EFFECTIVELY DEALING WITH THE GREEK NPL ISSUE SO FAR? (SELECT TOP TWO OPTIONS)



Most of these concerns have long been regarded as significant impediments to the establishment of an active Greek NPL market. In certain circumstances, steps have already been taken to mitigate these challenges or at least limit their deterrent effect. For example, the law imposing potential criminal liability on bank officers for approving debt write-offs and consensual restructurings has now been amended to provide significantly greater clarity on the parameters in which bank officers must operate to avoid the risk of prosecution and to provide a defence against prosecution where officers have acted in good faith.

Similarly, there have been significant changes to the security enforcement and restructuring legal framework over the course of recent months. It is important when considering this factor to appreciate how the Greek legal enforcement and insolvency regimes compare to those of other countries with more active and mature European NPL markets – effectively the jurisdictions with which Greece may need to compete for investor attention. This position is illustrated below (with the data for Greece representing the position prior to legislative changes being implemented):

Jurisdiction	ENFORCING CONTRACTS		INSOLVENCY PROCEEDINGS		
	TIME (days)	COST (% of claim)	RECOVERY RATE (cents in the dollar)	TIME (years)	COST (% of estate)
UK	437	45.7	85.2	1	6
Ireland	650	26.9	85.8	0.4	9
Germany	499	14.4	80.6	1.2	8
Italy	1120	23.1	64.6	1.8	22
Greece	**1580**	**14.4**	**33.6**	**3.5**	**9**

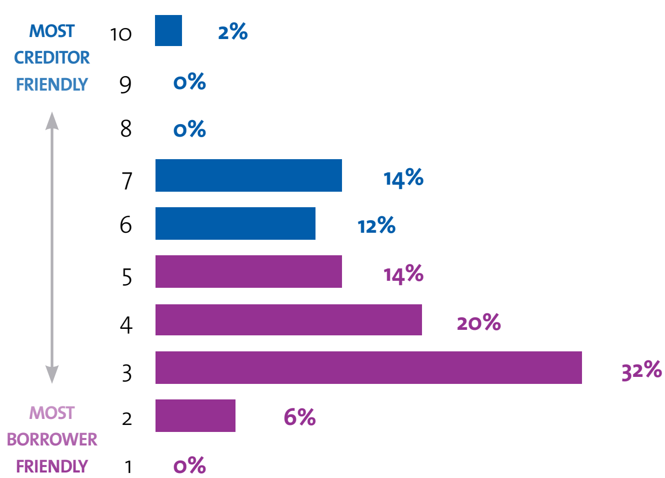
Source: The World Bank, http://www.doingbusiness.org/data – The most recent round of data collection was completed in June 2017.

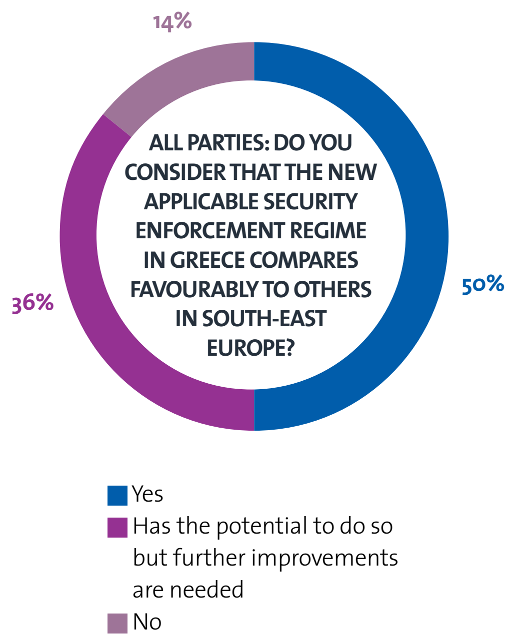
Against this background, it is important to appreciate that, while the recent legislative changes have on balance been welcomed in the market, the legislation obviously remains untried and untested in practice. The next 12 to 18 months will be critical in terms of establishing whether or not the new legislation has been a success on the basis of transactions that have actually been implemented. Clearly, having the right "legal tool kit" is only part of the equation; whether or not this new legal infrastructure works effectively in practice will quickly establish whether or not

> *"Investor expectations have been too high compared to the willingness of the banks to take further losses. There was therefore a mismatch. The lack of sufficient loss providing was due to the fact that the [Greek] banks had to be recapitalized repeatedly. They were therefore adding losses to their balance sheets gradually."*
>
> ADVISOR ON REAL ESTATE, GREEK FINANCIAL INSTITUTION

investors find confidence in the local Greek regime, which will allow them to price with greater certainty. While our interviewees generally acknowledged that the reforms had moved the dial in terms of taking the Greek regime to a more creditor-friendly position, when asked to rate the new restructuring and insolvency regime on a Creditor-Borrower friendliness scale, a clear majority of respondents viewed the regime as remaining strongly slanted in favour of borrowers. In particular, many sellers and advisers commented that they do not feel that the new regime went far enough to deal with one of the main endemic Greek issues of "strategic defaulters" who have the means to pay their debts but, to date, have taken advantage of the legal regime to avoid paying. Other residual concerns in the market largely centre around practical factors such as court delays and a lack of appropriately experienced court officials. There is also undoubtedly some scepticism on the merits of the very prescriptive and formulaic detailed procedure that the new out-of-court settlement initiative will achieve.

ALL PARTIES: HOW WOULD YOU RATE THE GREEK RESTRUCTURING AND INSOLVENCY LEGAL SYSTEM BASED ON YOUR EXPERIENCE OF OTHER LEGAL REGIMES AROUND EUROPE?





Trophy assets are always the hardest to give up

A further area in which the views of sellers and investors appear to diverge is the nature of the assets that the banking institutions wish to sell and investors wish to buy. Unsurprisingly, hospitality-related loans feature very prominently in the investors' focus.

The hospitality sector continues to perform very strongly in Greece with consecutive record years of growth buoyed by favourable, wider geopolitical reasons and strong macro fundamentals (predominantly security concerns fuelled by political instability in countries such as Turkey and Egypt).

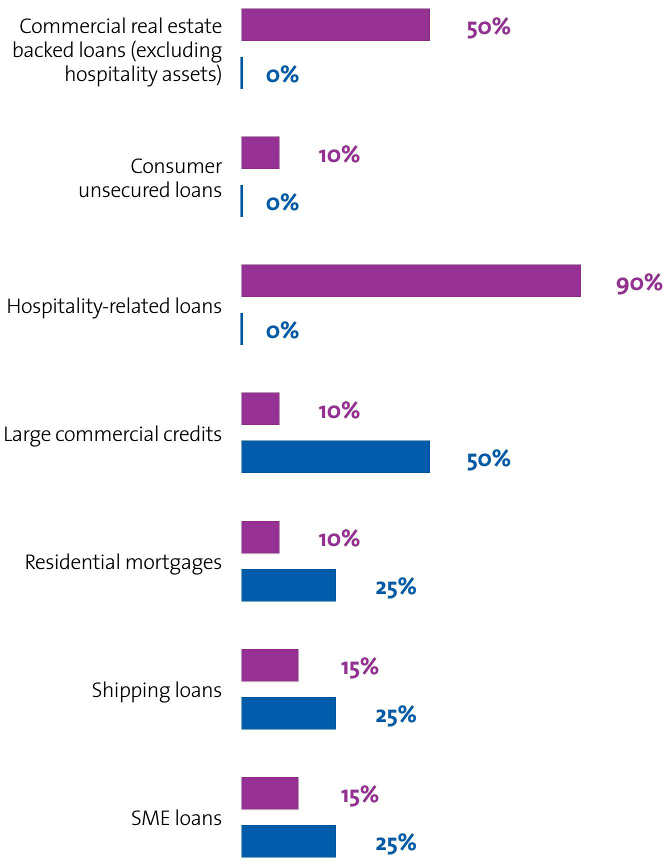
A relative internal devaluation has additionally positioned Greece as a more favourable value-for-money destination for tourists when compared to, for example, Italy or Spain. While the outlook for the tourism industry is definitely favourable, the sector is not without its challenges: increased fragmentation of the market, significant capital expenditure requirements, under-investment and excessive leverage have all been identified as systemic issues faced by a sizeable proportion of the domestic leisure industry market. It is precisely because of these types of factors that investors see turn-around and value-creation opportunities.

In the same vein, commercial real estate backed loans have also proven popular with investors – this reflects a wider trend which we have seen across the European NPL markets: investors having significant appetite for loans backed by "hard" assets which provide the much-needed confidence to enter into previously untested and riskier new markets. It also signifies a widely held belief (although this is by no means universal) that the Greek economy is now on an upward trend and that real estate will quickly capitalise on that growth trend and appreciate in value.

From the Greek banks' perspective, large commercial credits appear to be at the top of the worry list according to our research and by some significant margin. Shipping loans, SME loans and residential mortgages also feature on their list. This is not surprising given the widely-held market perception that the resolution of large corporate credit restructurings has not advanced significantly over the last 7 years since the beginning of the Greek crisis. The reasons for this are largely outside the control of the restructuring bankers handling those credits and relate to the historic difficulties in security enforcement, the inability to disenfranchise "out-of-the-money" shareholders and complex debt structures which have arisen on an ad hoc basis without appropriate intercreditor and common security package arrangements (see above). Furthermore, in respect of several large distressed corporates, ultimate shareholders are likely to also own other groups of businesses with their own exposures to Greek banks which need to be taken into consideration from a relationship perspective. All of these factors have created a minefield of complexity for this asset sector which will require significant time and resource on the part of the Greek banks and/or investors to fully resolve.

> *"Hospitality is a flourishing business and the best performing sector now. We don't have any second thoughts about the prospects of that industry."*
>
> **CHIEF INVESTMENT OFFICER, INVESTMENT HOUSE**

INVESTOR/SELLER COMPARISON



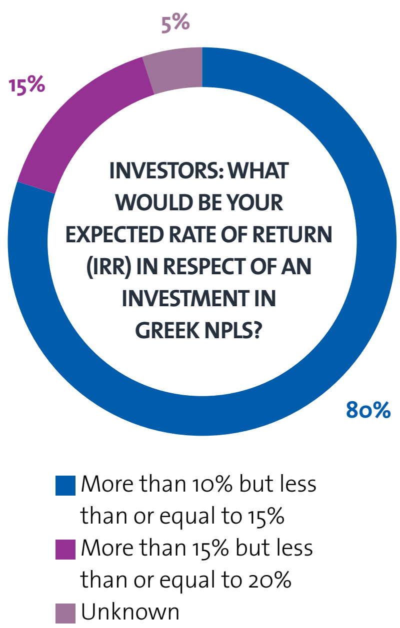
Investors: which asset classes would be of most interest to you in the Greek NPL market? (select top two options)

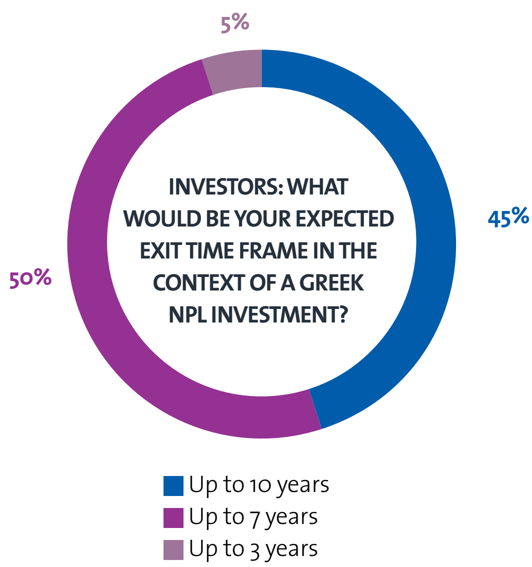
Sellers: in which sectors does your organisation face the biggest NPL challenge? (select top two options)

Are potential investors in Greece over-enthusiastic or realistic about their investment expectations?

With the significant lead time taken for the Greek market to reach this stage in its evolution and the nature of some of the challenges remaining, one could be forgiven for being sceptical about the level of investor enthusiasm that our research has demonstrated. However, this appetite does appear to be founded upon a sound understanding of the challenges that remain for investors in Greece.

In particular and crucially, there appears to be a significant degree of convergence in terms of investor expectations with the reality of these fundamental challenges: **95%** of investors view a realistic investment exit time frame as between **7 and 10 years**. Similarly, the prevailing expected rate of return expressed by investors is between **10%** and **15%** IRR. Investors are generally cognisant that, in order to maximise their chances of financial success in Greek investment, they will need to play a longer term game as compared to investing in other European NPL jurisdictions.





"What some would expect in relation to Greek NPLs would be around 10% [but given that improvements are expected in the Greek market] I would give a little more but not as high as 15% in the near future."

PARTNER, A POTENTIAL INVESTOR

"Less than 7 years is not feasible for the Greek NPL market. It will depend on many factors and to set every factor right to expect returns will certainly take around 7 years."

CHIEF EXECUTIVE OFFICER, A POTENTIAL BUYER

> *"The whole approach needs time for the economy to be again on its feet and recover. So, you must have the capital to invest in these securities and be able to sit on them for a pretty long time."*
>
> **HEAD OF INVESTMENT, A POTENTIAL INVESTOR**

A new servicing market in the making

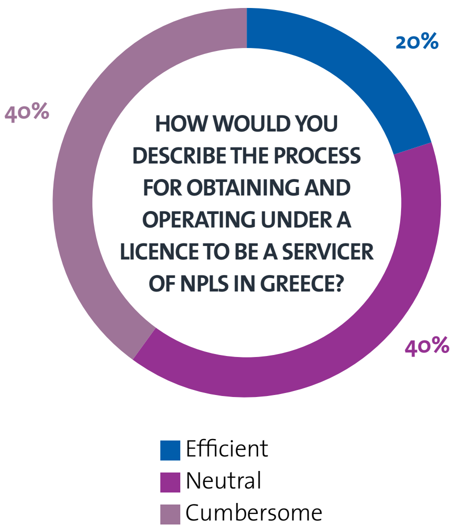
Loan servicing in Greece has traditionally been undertaken by the Greek banks themselves. Therefore, the newly created independent servicing market is an essential component of being able to establish an effective secondary debt market for NPL resolution. Broadly speaking, Greek loans are now required by law to be serviced by a licensed institution which is subject to regulatory oversight by the Bank of Greece. Presently eight servicers have been licensed by the Bank of Greece[7] with other applicants expecting licensing approval imminently.

While the original licensing process was widely viewed as complex, cumbersome and time-consuming, it is evident that the widely held market perception is that recent changes to the licensing legal framework have made the process significantly easier. That, combined with the accumulated experience gained in the granting of the first eight licences, provides many reasons to be positive about the future of the licensing regime. Ultimately, the set-up costs relating to building servicing platforms will need to be recouped at some stage in an investment life cycle and this will drive general deal and servicing costs higher, so the opportunity to reduce such costs is to be welcomed. However, there are some voices in the market advising caution against the risk of making it too easy to obtain an NPL servicing licence for fear of creating an over-supply of servicing capability in a market where there is only realistically room for a few quality outfits. Despite the relaxation in certain aspects of the applicable legislation, non-captive servicers still single out regulatory oversight demands as the biggest challenge they are presently facing.

In terms of pipeline, all servicers surveyed agreed that they see their business model split into two main categories in equal measure: (i) NPL buyers wishing to engage them to service their newly acquired NPL portfolios; and (ii) incumbent banks outsourcing the servicing of loans they currently hold to relieve the administrative and capital costs associated with maintaining those business functions on their balance sheet and to take advantage of external workout expertise (noting that certain of the Greek banks have already set up servicing companies in partnership with foreign investors).

2017 has been a formative year in the new Greek servicing market and one can only assume that competition in this area will continue to grow in the light of the recent legal framework changes.

7 http://www.bankofgreece.gr/Pages/en/Supervision/SupervisedInstitutions/default.aspx



“The big NPL investors are trying to [penetrate the servicing market]. There is huge movement from them and...they are trying to create their own wish list in terms of servicing in order to establish their presence in the market.”

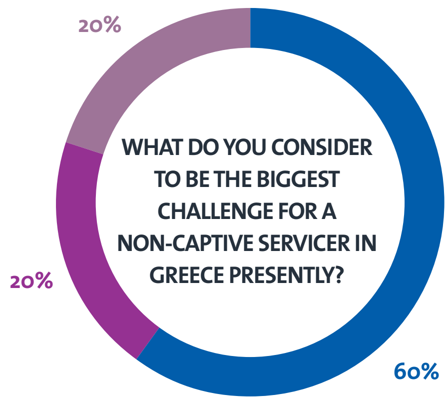
DIRECTOR OF SERVICING, GREEK NPL SERVICER

“[Banks] may have very good information about loans and borrowers but when it comes to the collaterals, the information inefficiency is huge and creates a lot of issues. Big remediation exercises are currently underway.”

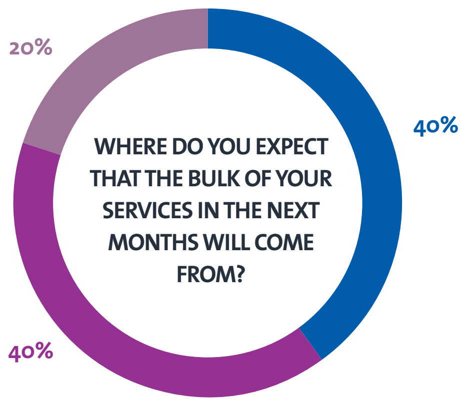
VICE-PRESIDENT, GREEK NPL SERVICER

“There are a lot of international players that want to enter the market. This is because the processes have been made a lot easier to obtain a licence, which we would like to be a little stricter. Secondly, the banks are opening up as they are running up against time. So there are more portfolios to be sold and serviced.”

CEO, GREEK NPL SERVICER



- Regulatory oversight demands
- Volume of transactions in the market
- Confidence created by someone to assign his/her portfolio to these servicing companies



- New entrants entering the NPL market through loan acquisitions
- Banks outsourcing their servicing functions
- Both depending on the situations

Horizon scanning: The time is nigh

How then should Greece look to capitalise upon the existing interest and potential momentum from investors and establish itself as an important NPL investment market? Many of the answers lie in looking at some of the success stories in other mature NPL markets.

1. SELLERS NEED TO ESTABLISH THEMSELVES AS TRUSTED TRANSACTION COUNTERPARTIES

- Despite the current availability of investor liquidity, it will be important for each of the Greek banks to demonstrate their credentials as a seller or counterparty that is an attractive proposition to investors. This is the same challenge that has faced banks in the more mature markets in the aftermath of the global financial crisis.

- Investors are generally always keen to avoid auction processes and gain the opportunity to escape the expense risk that a competitive process creates. However, if the banks do wish to use auction processes to exploit competitive tension to their best advantage, they will need to run processes which are of a commensurate standard to those being run in the more mature jurisdictions in order to bring certainty and discipline to the auction timetable and process.

- Process preparation for sellers is paramount, as is appointing the right advisers who have experience as to the expectations of investors. Most importantly, and somewhat self-evidently, equal treatment of bidders throughout the auction process is a concept that will be integral to gaining trusted seller status in the market.

2. DATA QUALITY NEEDS TO BE A PRIMARY FOCUS

- Data quality is a pervasive challenge across all NPL markets and the quality of a seller's data will feed directly into the first point above on a seller's ability to earn trusted counterparty status.

- Fundamentally data quality drives successful transactions and goes directly to price. Issues in data quality have been shown across other markets to inhibit investor interest from the very start of a process, to create pricing divergence between investors and sellers mid-diligence and to create delays thereby loosening a seller's control on its own transaction process.

- Data quality issues also create risk appreciation for investors which, most commonly, ultimately results in less favourable contractual terms for sellers (for example, a more onerous warranty and risk package) and a degradation in price.

- Experience in Western Europe has shown that a comprehensive and accurate data tape of the key commercial financial data together with a comprehensive, well-ordered and navigable vendor data room of the underlying legal documentation is key to driving bidder confidence in putting their best foot forward on pricing.

3. SELLERS NEED TO DEMONSTRATE A CLEAR ROUTE TO TRANSACTION EXECUTION

- A further way in which sellers can increase the chances of a successful transaction where they maintain the upper hand on bargaining power and control of the process is by demonstrating clearly to bidders or a prospective counterparty a clear and defined route through the transaction process to completion. In particular, a vendor will benefit from ensuring it has a good working knowledge of the NPL assets that are to be the subject of a prospective transaction and can set out to a counterparty how the interests in each asset will ultimately migrate to an investor.

- From a vendor's perspective, having a sound working knowledge of the issues or weaknesses in a portfolio is important in order to be able to formulate strategies to deal with issues when they are raised by investors. Examples of such issues and typical weaknesses include the existence of competing third party security on an asset, missing finance documentation or non-registered (and therefore potentially unenforceable) security interests.

- Experience dictates that sellers who invest the time and resources in remediating such issues prior to commencing a transaction process derive greater value than those who attempt to deal with such issues mid-transaction or as a post-completion deliverable. Furthermore, it can be equally frustrating from an investor's perspective to raise issues or flaws on a loan book or execution issues which have not been identified or considered in advance by sellers.

- In practice, there are likely to be a number of practical difficulties for sellers on this front: relationship managers may have long departed the bank, bank internal systems invariably present data in a form that needs significant processing and assimilation, and vendor due diligence can be a significant undertaking which has timing implications when balance sheet and regulatory requirement deadlines are tight.

4. CLOSE MANAGEMENT OF REGULATORY ISSUES AND LIAISON WITH REGULATORS WILL BE PARAMOUNT

- Sellers and their advisers need to have a clear understanding of regulatory approvals required for any given proposed transaction.
- Understanding the views of regulators and, most importantly, not making assumptions that a regulator will look favourably upon a particular transaction structure solely because it resolves an NPL problem will be of critical importance. While regulators are undoubtedly sympathetic to structured solutions to banks' legacy problems, they have to operate within the constraints imposed by EU legislation and regulation. Navigating these potential pitfalls is a "must" as part of any successful execution strategy.
- Experience shows that sellers also need to ensure investors have a clear, full picture as to the regulatory approvals required and the dynamics that attach to such approvals. This will be key to ensure there are no misunderstandings and that issues are identified and resolved early in the process.

5. INVESTORS THAT ARE UNFAMILIAR WITH GREECE WILL NEED GUIDANCE ON SOME VERY GREEK-SPECIFIC LEGAL CONSIDERATIONS

- There are a number of specific areas of Greek law which are likely to bring more difficult considerations to investors in certain areas than the laws of other jurisdictions. Prime examples of these arise in the (frankly mundane) areas of confidentiality and KYC (anti-money laundering). The relative tightness of the Greek laws governing these areas when compared to their counterparts in other jurisdictions can mean that some of the most basic considerations on a transaction structure become significantly more difficult to navigate. For example, the Greek laws on confidentiality and data protection do not contain some of the exceptions that sellers may rely upon in other jurisdictions to disclose customer data to prospective investors or purchasers – under headings such as where the bank has a "legitimate business interest" to disclose data. Indeed, the Greek data protection laws are so inflexible that disclosure remains prohibited even where a customer has given its express consent to disclosure (for example, under the terms of its finance documents or in standard terms and conditions).
- Breach of the Greek law of confidentiality carries with it criminal sanctions which, to date, has understandably led to vendors taking a very conservative approach to disclosure. This has hindered, in certain circumstances, the level of information that sellers are prepared to make available to investors as part of a transaction set up, auction process or even post-completion.
- More specifically, such issues have recently resulted in sellers not being prepared to disclose the identity of underlying borrowers to investors in synthetic transactions and sellers only being prepared to hand over original financing documentation or security documentation that has been redacted to remove or anonymise sensitive personal or financial data.
- Lastly, one should not lose sight of the fact that Greece was a step away from bankruptcy in 2015 and the scars from that adventure are still visible. Capital controls, for example, are still in place (albeit more relaxed than originally) and may hinder the ability of an investor to take money out of the country and the Greek banking system.

Conclusions

It is clear that Greece currently has the attention of the international NPL investor community. After years of discussion in the market, legal reform proposals, servicing applications, recapitalisations and bank preparation, there is currently a palpable expectation in the market that Greece is on the cusp of meaningful and tangible NPL resolution transactions being implemented.

Our view is that the Greek banks and their advisers now need to seize the opportunity to capitalise on that attention by demonstrating the successful execution of a series of formative transactions over the next 12 months. Demonstrating such a pipeline of early success will allow the Greek market to retain the attention of investors and give the investor community the confidence to commit further time and resource to the country. While some investors have already invested significant time and energy on the ground in Greece creating an infrastructure, platform and manpower in readiness for the opening of the market, many investors who have been active in other jurisdictions may beat a retreat back to more familiar investment markets in the absence of seeing meaningful and successful investment activity in Greece in short order.

The macro environment for investing in Europe currently plays well to Greece's advantage with a lack of investment opportunity elsewhere pushing certain investors to explore opportunities more widely than may otherwise be the case. It remains to be seen whether the ECB will adopt a more draconian policy in the Euro area going forward – but, in any event, further pressure on bank balance sheets as a consequence of factors such as Basel IV and IFRS 9 will only increase both in Greece and across Europe which is likely to drive further activity in markets with which Greece needs to compete.

Finally, resolution of the banks' legacy NPL issues can provide a welcome stimulus for Greek sovereign debt and facilitate wider access to the international capital markets. The summer of 2017 saw Greece return to the sovereign markets for the first time in three years. Further structural reform of the domestic economy – and continued positive news from international rating agencies – will only serve to free-up access to international capital markets for the country and its banks.

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