Greece’s Eurobank plots revival in $8bn bad-loan sale

Greece’s Eurobank Ergasias SA isn’t waiting around for a state rescue, with a plan to sell about €7bn ($8bn) of troubled loans and merge with a real estate fund. The shares soared, leading the country’s banking index higher. As part of the plan, the bank will merge with real estate fund Grivalia Properties REIC to create a new business named Eurobank, the two compa- nies said. It will then shift non-performing debt to a separate vehicle that will issue senior, mez- zanine and junior notes that the bank will initially retain. Some of the lower level notes would then be sold off to investors. Eurobank is seeking its own solution to a moun- tain of bad debt while Greece races to find a nationwide approach to accelerating the sale of soured loans. The government and central bank are weighing solutions that include providing state guarantees and easing payments for bor- rowers with modest means. “The merger is equivalent to a stealth recap for Eurobank, not in cash but in real estate,” Thanas- sis

Drogossis, head of equities at Athens-based Pantelakis Securities wrote in a note to clients. The deal, if approved by regulators, will result in “faster balance sheet healing,” he said. Under the plan, Eurobank will retain the most senior portion of the securitised non-performing exposures, while the first losses will be borne by Eurobank shareholders who will be allocated junior notes. Between those will be a mezzanine tranche, some of which will go to Eurobank shareholders with some sold to investors. The deal will see Eurobank’s non-performing exposures drop to about 15% of total loans by the end of 2019 from the current 39%, then into single digits by 2021, according to the statement. The deal will also strengthen the restructured lender’s capital ratio. Eurobank jumped by as much as 25%, the big- gest gain since February 2016. The shares later retreated and were up 7.7% as of 1:27pm. Grivalia gained as much as 15.2%, its largest increase since June 2012. The benchmark FTSE/Athex index climbed by 4%. The transaction values Grivalia shares at a 9% premium on their Friday close, the companies said. That sets the price of the acquisition at about €790mn. The deal reunites Eurobank with Grivalia, which was first listed in its real estate unit in 2006 under the name Eurobank Properties REIC. The name was changed to Grivalia in 2014 as Eu- robank cut its stake under regulatory pressure. Eurobank’s plan for bad loans is a positive step for Greek banking and it proves that there is a lot of resilience and value, Piraeus Bank chief execu- tive off icer Christos Megalou said in a Bloomberg TV interview. Fairfax Financial Holdings Ltd, which currently holds an 18% stake in Eurobank and a 51% stake in Grivalia, will become the largest shareholder in the new lender with 33%, according to the statement.