FitchRatings

12 Jun 2020 | Upgrade

Fitch Upgrades Eurobank to 'B-'; Outlook Negative

Fitch Ratings-Barcelona-12 June 2020:

Fitch Ratings has upgraded Eurobank S.A.'s Long-Term Issuer Default Rating (IDR) to 'B-' from 'CCC+' and Viability Rating (VR) to 'b-' from 'ccc+'. The Outlook on the Long-Term IDR is Negative. A full list of rating actions, including upgrades of debt ratings, is below.

The upgrade follows the completion of Eurobank's securitisation of EUR7.5 billion of non-performing exposures (NPEs), resulting in a significantly lower NPE/gross loans ratio compared with domestic peers. The Negative Outlook reflects the risks from the economic and financial implications of the coronavirus outbreak.

Key Rating Drivers

IDR AND VR

Eurobank's ratings factors in its still weak asset quality and high capital encumbrance by unreserved NPEs by international standards, although following the completion of the securitisation both have significantly improved to more adequate levels ahead of the other Greek systemic banks. The ratings also reflect an improving funding structure and liquidity position, although the latter is still relatively weak. Eurobank's overall financial profile, like that of other European banks, is sensitive to the potential impact of the coronavirus outbreak on the bank's capitalisation and asset-quality.

On 5 June 2020, Eurobank announced the completion of the sale of an 80% stake of its fully owned servicer and on a partial sale of mezzanine and junior notes of the securitisation to doValue, an Italian loan management servicer. The key terms of the acquisition are broadly in line with the agreement announced in December 2019, with some improvements of portfolio servicing terms in order to mitigate the potential downside impacts for doValue derived from the current economic environment.

Eurobank will retain 5% of the mezzanine and junior notes, and 100% of senior notes that are guaranteed by the recently approved Hercules Asset Protection Scheme. The remainder of the mezzanine and junior notes will be distributed to Eurobank's shareholders as a dividend in kind in 3Q20, after the approval of the General Meeting. The bank will recognise the full financial impact of the deconsolidation of the securitisation in 2Q20 results.

Following the deconsolidation of the securitisation, Eurobank's group NPE ratio will be reduced to 15.6% from 28.9% at end-March 2020 (both ratios include the senior notes of the securitisations as Stage 1 loans). The group's NPE coverage will also improve to about 60%, up from 55% at end-March 2020.

Despite this improvement, pressure on asset quality will remain as the economic fallout from the pandemic will likely result in an increase in new NPEs. The introduction of the moratoria and the provision of state loan guarantees and other support measures will mitigate near-term asset-quality deterioration. However, large credit losses could eventually materialise if the economic fallout from the current crisis is long-lasting. At end-May 2020, the amount of applications for the loan moratoria by Eurobank's clients in Greece was EUR4.6 billion, representing 25% of the total eligible loans granted to corporates, households and small businesses.

The net impact on Eurobank's capital of the two transactions will be about 340bp and the transitional Common Equity Tier 1 (CET1) and total capital ratios will decline to 12.1% and 14.4%, respectively, down from 15.4% and 17.8% at end-March 2020. Despite the decrease in the capital ratios, we estimate that capital encumbrance from unreserved NPEs (88% of CET1 at end-March 2020) will materially improve, reducing the vulnerability of Eurobank's capital to asset quality deterioration.

We expect Eurobank's earnings to benefit from cost savings from the sale of its loan management servicer and from the asset quality clean-up. However, the bank's operating profitability will remain weak and is likely to be pressured by still high loan impairment charges and lower business volumes, particularly fees, in the current environment.

SENIOR PREFERRED DEBT

Eurobank's long-term senior preferred debt ratings, including those issued under debt programmes of its issuing vehicles that are guaranteed by the parent, are notched down twice from its Long-Term IDR, reflecting poor recovery prospects in the event of a default on senior preferred debt given still relatively weak asset quality, high levels of senior-ranking liabilities (comprising mainly insured retail and SME deposits) and high asset encumbrance. This is reflected in the 'RR6' Recovery Rating assigned to the notes.

SUPPORT RATING AND SUPPORT RATING FLOOR

The Support Rating of '5' and Support Rating Floor of 'No Floor' highlight our view that support from the state cannot be relied on. This is because of Greece's limited resources and the implementation of the Bank Recovery and Resolution Directive.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade: An upgrade of the bank's ratings is unlikely if economic activity in Greece does not strongly recover in 2H20-2021, and would require Eurobank to continue improving asset quality and capital encumbrance from unreserved problem assets. Earnings resilience in the current environment and improvements in the bank's liquidity position would also be rating positive. Factors that could, individually or collectively, lead to negative rating action/downgrade: Eurobank's ratings would likely be downgraded if the deterioration in the operating environment results in permanent damage of the bank's capital and asset quality, including a temporary break of capital buffers without a clear path for capital ratios to be restored within a reasonable timeframe. Pressure on the ratings could also arise if depositor and investor confidence weakens, compromising the bank's relatively weak liquidity profile. Support measures by authorities, including state loan guarantees, liquidity facilities or sector-wide NPL work-out schemes, could mitigate negative rating pressure on the bank. The ratings of senior preferred debt are sensitive to changes in the Long-Term IDR and to the level of asset encumbrance. A material reduction of asset encumbrance or improved asset-quality could result in lower notching from the Long-Term IDR. SUPPORT RATING AND SUPPORT RATING FLOOR Any upgrade of the Support Rating and upward revision of the Support Rating Floor would be contingent on a positive change in Greece's ability and propensity to support its banks. While not impossible, this is highly unlikely in Fitch's view.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ERB Hellas PLC
----Senior preferred; Long Term Rating; Upgrade; CCC
----Senior preferred; Short Term Rating; Upgrade; B
Eurobank S.A.; Long Term Issuer Default Rating; Upgrade; B-; RO:Neg
; Short Term Issuer Default Rating; Upgrade; B
; Viability Rating; Upgrade; b-
; Support Rating; Affirmed; 5
; Support Rating Floor; Affirmed; NF
----Senior preferred; Long Term Rating; Upgrade; CCC
----Senior preferred; Short Term Rating; Upgrade; B
ERB Hellas (Cayman Islands) Ltd.
----Senior preferred; Long Term Rating; Upgrade; CCC
----Senior preferred; Short Term Rating; Upgrade; B

Contacts:
Primary Rating Analyst
Pau Labro Vila,
Director
+34 93 494 3464
Fitch Ratings Espana. S.A.U.
Av. Diagonal 601
Barcelona 08028

Secondary Rating Analyst
Lukas Rollmann,
Associate Director
+33 1 44 29 91 22

Committee Chairperson
Christian Scarafia,
Senior Director
+44 20 3530 1012

Media Relations: Louisa Williams, London, Tel: +44 20 3530 2452, Email:
louisa.williams@thefitchgroup.com

Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Status

Endorsement Policy

issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

ENDORSEMENT POLICY - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.