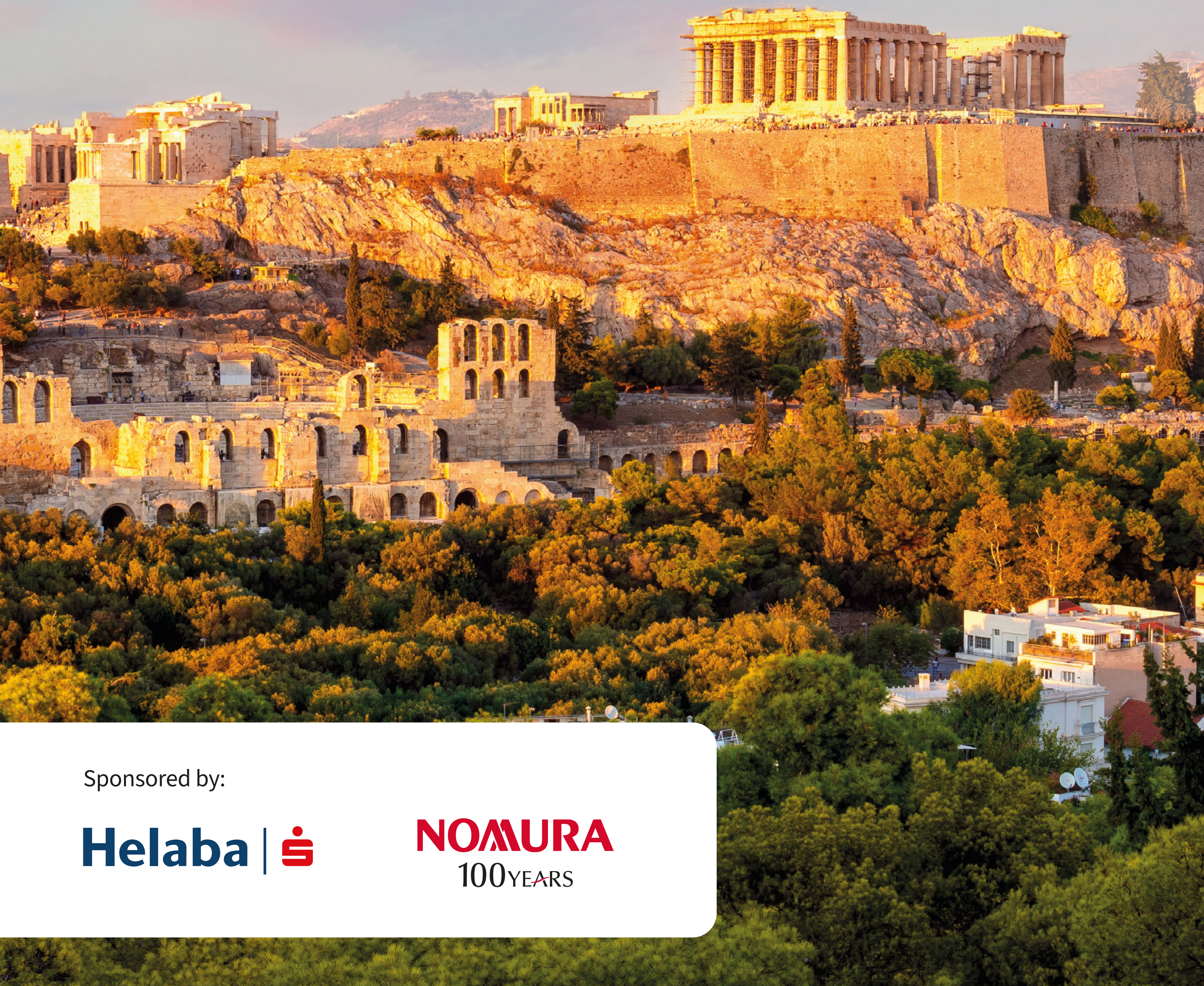
GlobalCapital

Greek Banks Roundtable

APRIL 2025



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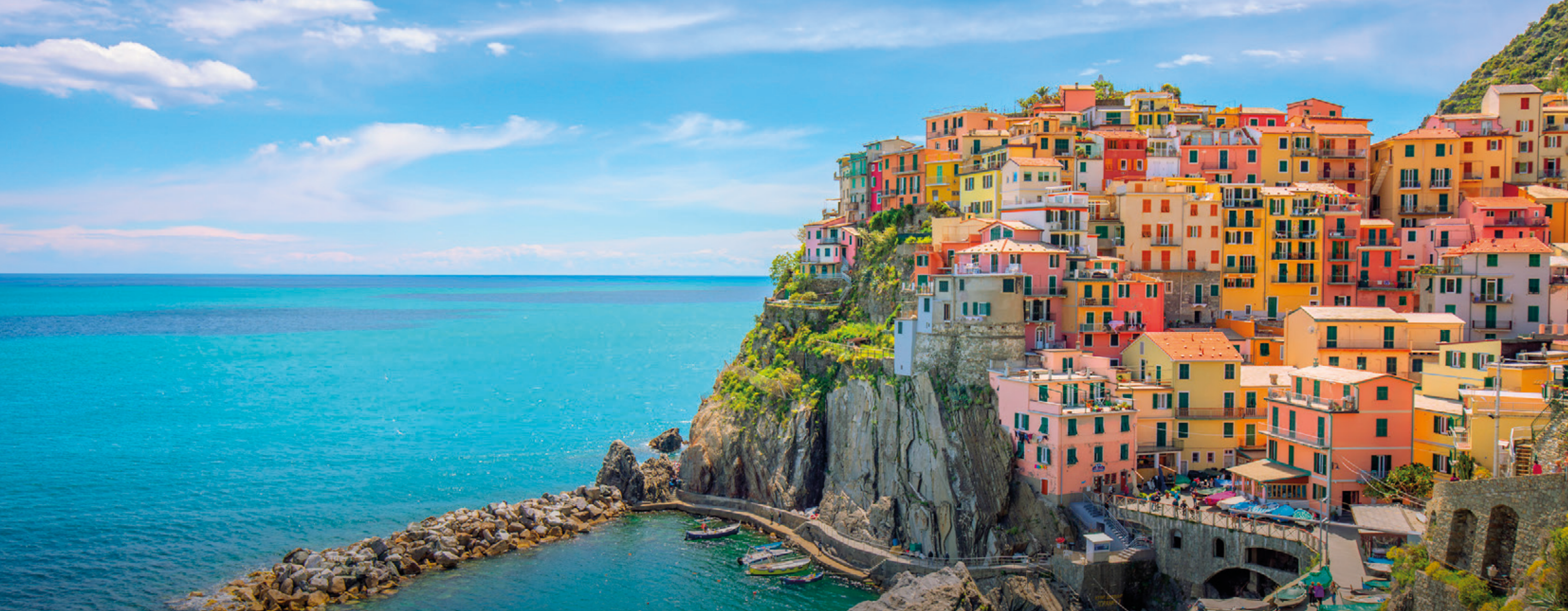

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CaixaBank	Santander	ABANCA	NATIONAL BANK OF GREECE
Joint Bookrunner	Joint Bookrunner	Joint Bookrunner	Joint Bookrunner
4.000% 12NC7 due Mar 2037 Tier 2 bond	3.500% due Feb 2035 Senior Non Preferred	3.250% 6NC5 due Feb 2031 Senior Preferred	3.500% 6NC5 due Nov 2030 Green Senior Preferred
€1,000,000,000 Feb 2025	€1,250,000,000 Feb 2025	€500,000,000 Feb 2025	€650,000,000 Nov 2024
Sabadell	EUROBANK	Piraeus	BANCO BPM
Joint Bookrunner	Joint Bookrunner	Joint Bookrunner	Joint Bookrunner
5.000% due Oct 2029 Senior Preferred	4.000% 6NC5 due Sep 2030 Green Senior Preferred	5.375% 11NC6 due Sep 2035 Tier 2	4.500% 12NC7 due Nov 2036 Tier 2
£450,000,000 Sep 2024	€850,000,000 Sep 2024	€650,000,000 Sept 2024	€500,000,000 Nov 2024

Source: Nomura as of 30th May 2025.
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Mapping the future for Greek bonds

Greek financial institutions only started issuing senior unsecured bonds again in 2019, after the country's almost decade-long debt crisis. Though mortgage lending has grown, affordability problems have meant the covered bond market has taken longer to come back. *GlobalCapital* assembled a panel of senior executives from leading financial institutions in Greece and overseas to discuss the aftermath of the crisis and how it affected how their organisations are returning to the bond market, the country's economic outlook and the impact regulations such as MREL requirements are having on their issuance strategies

Roundtable participants

Nikolaos Tsakpinis, origination officer, capital markets, Helaba Landesbank Hessen-Thüringen

Dimitris Spathakis, head of treasury, Piraeus Bank

Vassilis Kotsiras, corporate treasurer, head of funding and capital markets, National Bank of Greece

Andres Calzado, head of Southern Europe debt capital markets, Nomura International

Vanisha Baker, head of credit syndicate, Nomura International

Dimitris Psichogios, assistant general manager, group treasurer, Eurobank

Elena Koukoutsidi, treasury director, Alpha Bank

Thomas Cohrs, head of financial institutions, Helaba Landesbank Hessen-Thüringen

Moderator: **Frank Jackman**, covered bond editor, *GlobalCapital*

***GlobalCapital*: Let's start with a question for the treasurers: how do you feel about the health of the Greek economy? And how is your mortgage loan business developing?**

Dimitris Psichogios, Eurobank: As far as the economy is concerned, the trajectory is positive. On the fiscal side, the Greek economy has been recording a significant primary surplus in recent years, and it is also growing above the European average. Further, the head of the PDMA, Greece's Public Debt Management Agency, has successfully led the Greek sovereign bond issuance effort in the past few years, with spreads having compressed nicely, while the Greek sovereign has been upgraded to investment grade status by the rating agencies.

With respect to the Greek mortgage market in particular, we see mobility in that business segment and there is solid new mortgage loan production. However, on a net basis, after outstanding loan repayments, the mortgage portfolio is not growing at system level. To put the issue in perspective, in 2010 the total Greek banking system mortgage portfolio was roughly €80bn, and the latest figures point to about €25bn-€26bn outstanding.

So from that perspective, we would have to see the pace of mortgage origination improving to create a sustainable positive momentum and support net mortgage portfolio growth.

Vassilis Kotsiras, National Bank of Greece: Due to the prolonged crisis we had in Greece — and this is something that has been witnessed in other economies as well — the first signs of loan growth recovery came from corporates. And then after a delay of approximately three years, retail started to pick up. The problem in our case was in 2021, when Greek banks first started launching products with fixed-for-life mortgages, six months later rates started going up. And with rates going up to 4% people postponed their plans to apply for a mortgage. So, as a result, we had a pause in the generation of new mortgages because of the rates environment.

As Dimitris mentioned, the Greek banking sector has €25bn of

mortgages outstanding. However, there is an equivalent amount or even more at the recovery stage in the non-performing exposure platforms and servicers.

So theoretically, there is a big number of mortgages that when they are cleaned up, fully recovered and performing in three years' time, the Greek banks could start purchasing back. Hopefully in two or three years' time, there will be a new stream of mortgages coming from this restructure of loans. And this will assist the case for issuing more covered bonds.

Dimitris Spathakis, Piraeus Bank: It's interesting to remember that before 2010, the net credit expansion in the mortgage market was massive. In a single year, the Greek system produced net credit expansion of more than €20bn in total. During the years of the crisis, which of course was a liquidity-driven crisis, we had many years of net credit contraction in the system.

Before 2010, the majority of real estate transactions were funded by banks. I don't have the exact percentages, but more than three quarters were funded by banks. These days, people are reporting less than a quarter. This is on the back of foreign investments in the system, cash that is being used for transactions and, of course, the fact that interest rates have been going up. It is also a matter of affordability for the Greek retail audience to borrow.

Now with rates going down, borrowing is becoming more affordable. Because of the interest rate trajectory, coupled with increased supply in the system, we should expect to see a pick-up. We, as Piraeus Bank, currently have close to €6.1bn of retail mortgages and in our three year business plan, we expect this to rise to €6.5bn-€6.6bn, or growth of 2%-3% every year. And I guess this must be similar across the system.

Elena Koukoutsidi, Alpha Bank: For me, there are two interesting issues: how the Greek real estate market is progressing and how Greek mortgage lending is behaving. There's a decoupling between the two.

Following the crisis, we had a collapse in the real estate market up until 2017. But from then on, prices have rebounded and we reached pretty much record prices in the last quarter of 2024.

But that's pretty much where the problem lies, that is, house affordability. It's a major issue, not just in Greece, but across Europe — and all governments are trying to tackle it. Especially in Greece, housing affordability has to do with lack of supply, as Dimitris mentioned. Low construction activity during the crisis, strong external demand (thanks to the golden visa programme) and the expansion of the sharing economy have constrained supply, putting pressure on housing affordability for Greek households. We are short on supply and have excess demand, resulting in elevated house prices and increasing rents.

What we have seen so far is negative net credit supply for both 2023 and 2024. Trying to find some silver lining, high rental prices and declining base rates are expected to have a positive impact on home ownership via mortgage lending. Furthermore, Greece's economic recovery creates a climate of stability and confidence, which should be able to create demand for mortgage lending. Nevertheless, we expect loan growth to be pretty much flat for 2025, before turning positive in 2026.

Kotsiras, NBG: For us, it's the same. This is the first year that we've had net expansion in our mortgage book because up to now the amortisation pace was quicker than new origination.

There is also another parameter, which is how can we make mortgages more enticing for retail clients. Compared to before the crisis, the spread we charge is significantly higher and it's significantly higher versus our corporate lending. We've had some consumption, but it is much lower, and the mortgage product is being penalised because of previous years of negative performance and the crisis.

In 2007-2008, the base rate level was in the 4% area, and it was not an issue for people to [borrow] mortgages. However, the spread was in the area of 130bp and sometimes even lower. There is room to repeat what happened with corporate loans and gradually start decreasing the

"If there's one archetypal recovery market in Europe, it's probably Greece"

Thomas Cohrs, Helaba Landesbank Hessen-Thüringen

spread of lending. Hopefully the same will happen to mortgages and make it a more lucrative idea for retail consumers.

Psichogios, Eurobank: There have been efforts to support and revamp mortgage loan growth but, as my colleagues have suggested, we need a confluence of supporting factors, such as continued improvement of the overall economic environment and increasing mortgage loan demand. This should hopefully start to regenerate positive net mortgage loan portfolio growth over time.

GlobalCapital: Before we start thinking about covered bonds, let's think about a few years back when the Greek banks started to issue senior unsecured bonds again —in 2019 Piraeus issued the first Greek tier two, two years later we had the first Greek AT1 and then of course last September, we saw the largest-ever Greek unsecured deal. Why do you feel the Greek banks have returned to the FIG bond market in the way they did?

Vanisha Baker, Nomura: When it comes to investors, if they like a credit story, then they want the product that will give them the biggest spread, which is why capital worked very well to start with. Now as time went on, the Greek banks still needed to raise MREL [minimum requirement for own funds and eligible liabilities] and senior, as well as the rest of the capital structure.

I felt that at the beginning it was quite tough to get institutional investors to really participate in a meaningful way.

Andres Calzado, Nomura: I fully agree. It makes sense because to get rating upgrades and attract real money investors, it's important that you have a proper capital base.

It was very interesting, when we first started discussing with the issuers moving from marketing deals from a yield basis to a spread basis. That was when we started to realise that books looked a little bit different than they did at the beginning and we started to see more accounts than we had ever seen before.

We've been involved in this market for a couple of years and I can tell you that in these few years the participation that we've seen in deals has been amazing. A book for a deal today is different from the books that we had two or three years ago.

High yield and fast money investors were probably the first ones to come when they saw these deals with 7%, 8% or 9% coupons. And at the same time, the Greek banks were building up the required capital for rating upgrades, which opened the way for more real money investors to jump into the deals.

"If investors like a credit story, then they want the product that will give them the biggest spread, which is why I think capital worked very well to start with"

Vanisha Baker, Nomura International

Kotsiras, NBG: It's fair to say that after the bail-in experience of 2015, it was the common approach of all the banks to follow the Irish example from 2010 after the global financial crisis, which was to go out to the market with secure instruments. This is how we restarted the market and we established the access.

However, what's new is MREL. But that doesn't leave a lot of space for activity. We had €9bn of [unsecured] issuances last year. If you look at the tombstones that all of us now have in our offices, I don't think the NBG treasury has done as many transactions in a year compared to the 25 years before.

After 2007 and 2008, it was a market. But after that, covered bonds were dominated by the European Central Bank. But now for the first time in 15 years, we have both an active covered bond market and MREL requirements. It's very interesting to see how these two universes have developed. I would say the more immature segment is covered bonds versus MREL.

Thomas Cohrs, Helaba: If there's one archetypal recovery market in Europe, it's probably Greece.

But let's not forget one thing about the makeup of order books. We're talking here about credit markets and credit investors because of what we see in the FIG market where there's more spread offered. However, covereds are by and large a rates market, not a credit market. So we're talking about relatively different investor universes.

What has been on offer in recent years, thanks to the ECB, did not really appeal to that type of investor, whereas the FIG market has offered something they actually want to get their hands on. The fact is — unfortunately, in my view, but good for the issuers of course — that spreads in the credit market have come down significantly. Yet you still get these tremendous order books because there was nothing else to buy for a long, long time.

Recently supranational, sovereign and agency bond markets have gone up and you see a lot more leveraged money flowing into this than you do in FIG. And covereds at the moment seem to be on the sidelines. Covered spreads are not attractive enough for these leveraged or hot money investors. And they aren't attractive for issuers either.

We're in a bit of a no man's land in this respect. I can understand there has been a reluctance for recovery stories — and it's not just Greece, it's Portugal, it's Spain, it's Italy — to come back in force with the volumes [of issuance] they used to do in covereds.

On the other hand, there is a severe dearth of supply of apartments and buildings for residential use. That has to change at some stage and then I think we're going to see much more demand [to issue].

However, all the recovery markets are flush with deposits [right now], as is Germany. These are not guaranteed to stay there for life. The whole idea of course is to widen the arsenal available and prepare for when these deposits are not as easily there.

Psichogios, Eurobank: That is a fair point. And frankly speaking, we would all agree that covered bonds can be a lower cost liquidity/term funding instrument.

Regarding covered bond issuance, one market that has continued to function continuously has been the UK market. They regularly issue and it's apparently part of their funding business. In Europe, as Thomas said, there is a lot of liquidity. And in some cases, such as the Greek system for example, the excess liquidity is quite high. Liquidity indicators (LCR) are high as a Greek system average, and also the loan to deposit ratio is quite low. I believe it's actually the lowest, along with perhaps one or two other countries. It's in the mid-60s. It may take a while for liquidity conditions to change dramatically.

Thus, unless available deposit liquidity to fund the balance sheet starts becoming a risk consideration, it would be rather difficult to justify covered bond issuance when you don't really need this extra liquidity at this juncture. And additional issuance cost justification is a pertinent consideration, given that banks also have the mandatory MREL issuance costs to bear.

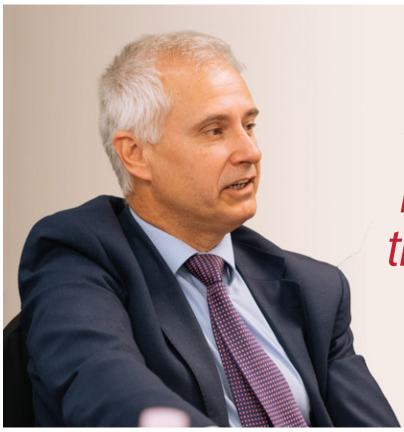
Kotsiras, NBG: As Dimitris says, we have other sources of liquidity untapped for now. For example, on the repo market, we are not as active as we have been in previous years. We have the lowest loan to GDP ratio across Europe, close to 65%.

Cohrs, Helaba: Dimitris, you mentioned the UK as an example — I would actually find it difficult to find a market less in need of covered bonds than the UK, especially after Brexit. The English banks also are flush with deposits and they had government programmes to support them. They still can get very cheap funding from other sources, yet a lot of them have kept issuing covered bonds. And they've done it for mostly strategic reasons. The UK banks like the idea of having access to the market for a rainy day, and that's access not just to UK investors but also international investors.

Psichogios, Eurobank: But they have mortgage growth.

Cohrs, Helaba: True, but not as much as they used to. Even with the lower attractiveness of UK bonds, especially to bank treasuries, because of a lack of a third-party equivalence regime, and the subsequent punishment for holding UK covered bonds vis-à-vis European continental covereds, yet UK issuers are still doing it. They have to pay up and there are still issues. They say: "Thomas, you know, we don't need this at all. Sometimes we just issue and put it away for a rainy day." And this is the thing management boards need to look at, because, gentlemen and ladies, you are in a fantastic situation right now.

Koukoutsidi, Alpha Bank: But we don't say "no" forever. What we're saying is that we're back to normality. We're back to being profitable and paying dividends. We are not doing transactions for liquidity and we will not be adding liabilities, if it's not needed. Bear in mind that we have MREL requirements and since we aim at expanding balance sheets, we will probably have more needs in the future. Consequently, it will be difficult for covered bonds to become relevant since funding needs, if any, are also covered by MREL. Diversifying funding sources is part of our mandate and covered bonds will become part of the discussion eventually. But what we're trying to say is that this is not the case for 2025.



"To get rating upgrades and attract real money investors, it's important that you have a proper capital base"

Andres Calzado, Nomura International

Nikolaos Tsakpinis, Helaba: Going back to the argument that the majority of the banks are using, although they are flooded with liquidity, look at Portugal when they reopened the market one or two years ago, they paid up in the beginning but still continued issuing and tightening their spreads.

Kotsiras, NBG: For the Italian banks TLTRO [targeted long-term refinancing operations] was a big constituent of their NSFR [net stable funding] ratios. Over the last 10 years, when there was talk of the TLTRO shutting down, the Italians came out with covered bonds, and when it was renewed, they were backing up again. The thing is that we have, for example, 150% NSFR and 206% LCR, whereas the Italians have a 90%-100% loan to deposit ratio, which is much more developed. For us, we're just trying to deal with this new phase where we had ELA [emergency liquidity assistance] and then after two years we suddenly found ourselves flooded with liquidity.

Tsakpinis, Helaba: It's understandable why it is really difficult to convince a board to issue a covered bond, despite the tight spreads. For many companies, the primary reason for [covered] issuance is diversification, simply to create a footprint for when things go south. Banks like major Portuguese banks don't need the liquidity of a covered bond — that's why they only do one every year. Nevertheless, there is a track record, the market opened two years ago, spreads have since tightened and discussions are now on the table as to whether Portuguese covered bonds should be traded tighter than govvies. It's not that they need the funding, most of them, but they put out the instrument and the line is now open if things go bad.

Kotsiras, NBG: Don't forget that no other jurisdiction has gone through three major bankruptcies. What that means is the quality and nature of our liabilities has been tested with a constant drain and what was left, as you mentioned, were sticky deposits. In a way that would correct for before the global financial crisis, but when we have been through one thing after the other in terms of bank runs, the deposits that are left are really sticky.

Don't forget that all of us have issued [covered bonds] after 2015 and we made an effort in 2009 as well. And definitely it's not a product that we are not looking at — all the programmes of the Greek banks have been constantly updated, amended, reinstated. Lately Eurobank and Alpha Bank have taken the Premium Covered Bond label. All the activity is there.

Cohrs, Helaba: You mentioned that your country has been through a series of bank runs, but I would think they were systemic rather than individual institutional problems. Let me give you an example from Germany. We had an issue over the last few years with commercial real estate. Some banks in Germany have been very much focused on that product — those guys were not in the position to access markets for an extended period of time, but they could and did issue covered bonds.

Psichogios, Eurobank: We don't disagree with you. That's why the first issues to have come out of Greece were covered bonds after the 2015 critical point.

Spathakis, Piraeus Bank: I think we all agree that the next step towards funding mix normality is the issuance of covered bonds. How soon is a different thing. But it is the correct way towards funding mix normality.

You mentioned 2019. 2019 was indeed a turning point with respect to the Greek debt capital market access. We at Piraeus started off with capital contributing issues, simply because capital was what we needed at the time. And so, we had to start off with tier 2 and additional tier 1 transactions. Then, after we started filling in the different capital contributing buckets, we had to address MREL. And again, to address MREL needs starting off with absolutely zero senior bonds outstanding. We had to catch up with the rest of Europe — and of course there was a premium to pay for that.

Covered bonds — I think we all have a smile hearing this, because it's a nice-to-have discussion now that the more challenging part is behind us. However, we should not forget that the different teams around this table have been super-busy with their covered bond programmes. We have been refreshing them, updating them, restructuring them, labelling them, changing rating agencies. And then we retained our covered bonds and used them for collateral with the ECB and in the repo market. We have been rather busy with our covered bond programmes, yet not that busy in placing them in the markets.

We all agree the same, it's a matter of when rather than if. And of course, finally we are now discussing double-A ratings for Greek covered bond programmes. This is a very significant turning point and something to make note of.

"I'm very passionate that this will be the first time covered bonds exist in parallel with MREL"

Vassilis Kotsiras, National Bank of Greece

***GlobalCapital*: Vanisha and Andres what was your experience like helping the banks build out their capital and MREL levels? Are there any lessons learnt from issuing capital and MREL bonds for the first time that might apply to covered bonds?**

Baker, Nomura: I totally agree with Thomas — it's very different to accessing senior unsecured or tier two or AT1. It's a different audience, but there's going to be a lot of overlap. I think the fact that you all have already done a lot of credible work with credit investors is going to put you on the front foot when you do finally want to access the covered bond market.

I think then you are looking at attracting the more treasury accounts — UK, German and, to a certain extent, the French. These are the kind of participants that you normally see in a lot of these Italian covered books. I think that's where some homework is probably needed before you do come with a covered bond deal. Ultimately, going back to the rating, the sovereign rating is a bit of a ceiling in terms of what you can achieve with a covered bond. It's the same with Italy as well, they have the same hurdle. I think maybe if you do let one or two years go by, the sovereign possibly rises another one or two notches and that possibly could push you into triple-A, like Portugal. I can see the desire to pause, not just because you don't need it right now but also because you could be issuing your first one with a triple-A rating rather than a double-A. From the investor side of things, obviously they want Greece to issue right now because it's going to come with a premium. If you ask them, of course they're going to want to see Greek covered bonds — I've had so many reverse enquiries, which I've discussed with all of you, because investors want to lock in that premium now.

Calzado, Nomura: Meeting credit investors and explaining the improvement in the credit was the most difficult part. Now, obviously the Greek banks need to meet with these new [covered bond] investors as Greece is not on the radar screen right now. Of course, you are not meeting them just yet because you don't know exactly when you are going to issue. But we have had discussions at covered bond conferences, and you have wanted to hold meetings.

Half the job is probably done, because many investors look at credit and rates and the analysts will already have approved lines for you. It will be more about getting in front of the portfolio managers and refreshing your mortgage portfolio, your strategy and how often you want to issue.

You've done the difficult part, issuing AT1s and tier twos. Right now, just continue the business you've been doing. As Vanisha said, maybe there is a need to approach a different investor base, say, more central banks. We see a lot of central bank money coming into covered bonds but in the senior bond market the orders are not as big.

Kotsiras, NBG: You mentioned something very critical: how often are we going to issue?

Calzado, Nomura: That's what everybody wants to know.

Kotsiras, NBG: For example, in 2009 we issued a covered bond and there we got lost in translation. From triple-A we were downgraded. US hedge funds made a fortune, while German investors [dropped] the bonds after the paper lost its investment grade rating. But the covered bonds managed to get though the bail-in and that was a very important key milestone for Greek covered bonds, showing that they have been proven to be exemplary for lending during a bail-in exercise.

Then all of us issued again after 2017 and then we stopped again. The problem is that you need to become a regular and frequent issuer. You need to have a duty of care to investors when it comes to repeating the sale. You cannot just go for fireworks with a single issue.

I'm very passionate that this will be the first time covered bonds exist in parallel with MREL. And for the Greek banks the amount of covered bonds issued will be much less proportionally to their MREL liabilities.

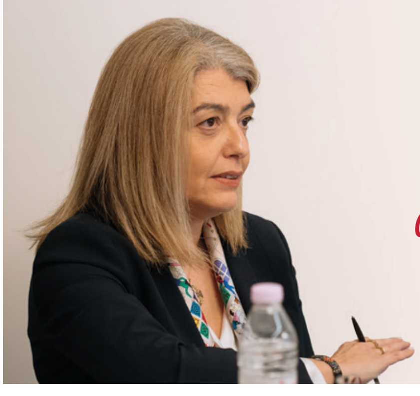
The other point here is that the periphery is the new core and the core the new periphery. What this means is the volatility being generated in Europe is coming from France and Germany, but they also happen to be the biggest issuers of covered bonds. For reasons not linked to the banking sector, covered bonds are experiencing volatility that is idiosyncratic because of rates and SSAs. However, covered bonds are a FIG instrument, no matter the quality. Covered bonds are one of the most sophisticated instruments. And that creates in some jurisdictions, Italy for example, that when SSAs started [moving], it started moving the covered bond market and then also senior bonds.

If we are to issue, we need to feel this is something that will not jeopardise the performance of the MREL stack and our continued access to those investors.

Spathakis, Piraeus Bank: When we all first started to place covered bonds, either in private placement format or publicly, what we came across were sophisticated investors who understood the instrument and were happy to invest in returns that were not necessarily aligned with the actual ratings at the time. When we first placed a covered bond private placement back in 2017, the investors were happy to buy even though this was rated below investment grade at the time but offered investment grade returns.

But this was also a sign of the times: ratings were very slow to adapt to the improving credit quality of Greek banks. Finally, they seem to be catching up. Still, we think more is to come.

Tsakpinis, Helaba: Vassilis, what you said when you spoke about frequency — frequency doesn't need to be twice a year. It just needs to be a fixed period of time. It can be once every two years, for instance. Just make sure to openly communicate it to investors. We're having the same discussions with Spanish issuers right now. They are not really active at the moment for similar reasons, like LCR and deposits. But there are some that issue a benchmark every one or two years. But this establishes an expectation and tackles the bigger problem of scarcity.



"We are not doing transactions for liquidity and we will not be adding liabilities if it's not needed"

Elena Koukoutsidi, Alpha Bank

Psichogios, Eurobank: And that's why it's important to do this at the right moment. If you communicate something along the lines of becoming a regular issuer, then you have to follow through. That's why all of us are essentially saying the same thing: we may well reach that situation at some point in time, maybe in a year or maybe two years or longer.

Spathakis, Piraeus Bank: We just met MREL. One step at a time.

Psichogios, Eurobank: Frankly speaking, the reopening of the market in 2017 was done by issuing covered bonds. Why? Because that was the only realistic option to issue at the time. And, from an investor point of view, these bonds, I think, were likely the best performing segment in this asset class the following year.

Baker, Nomura: I think it all makes sense. I can see why you're saying what you're saying and I think ultimately you can see why investors are demanding what they're demanding as well. If we think back to when you did access the market, one thing the Greek banks did very well was communicate that you were going to start with subordinated transactions and then build your MREL out.

But there were a lot of investors saying: "I'm going to keep my powder dry because I want to buy the subordinated bonds. I didn't get enough when they did the tier two or the AT1, so I'm just going to keep my powder dry. I've got lines for these names, but I want to buy them in subordinated format."

And you really had to say: "Look there isn't going to be any subordinated this year and maybe not in the first half of next year — the only issuance is going to be the senior". And communication is a real key part, as you mentioned, Dimitris. If and when you do decide to go, how frequently you're going to access the market is something that everyone is going to ask on that first deal, so keep it consistent.

Tsakpinis, Helaba: You said you'd been through a lot of troubles, and you've made it, sticky deposits are there and most likely will continue, LCR is high and NII [net interest income] remains stable because of the floating rates and the low passthrough — but what are the ideal conditions needed to really consider issuing covered bonds? The sort of conditions that look like a fantastic market for re-accessing covered bonds — either looking back at the last six months or the next six or 12. I understand it's tough to justify the costs, you get the funding through MREL, so what needs to be in place to give you the green light?

"For many companies, the primary reason for [covered] issuance is diversification, simply to create a footprint for when things go south"

Nikolaos Tsakpinis, Helaba Landesbank Hessen-Thüringen

Koukoutsidi, Alpha Bank: That's a difficult question, to be honest. Consistency plays a major role. When you come out with your first covered bond, you need to be able to say that in two years' time, for example, you will be back in the market, to provide an issuing path. But that has to do with the cover pool you have and how you see mortgage origination evolving. I think that's a very important factor.

Moreover, it may be the case that the balance sheet grows fast, and we need to do funding transactions in the future. Obviously, this is not expected currently.

Finally, it is also a matter of pricing, the relative value of covered bond credit spreads versus other funding alternatives, that is, NSFR repo trades or senior credit spreads. At the beginning of the year, we did see some dislocation between where covered bonds were trading versus senior bonds. I would say these are the three parameters that we need to keep in mind.

Kotsiras, NBG: I agree. Pricing will be the most important part because of the differentiation.

Over the last year, the difference between Italian senior and covered bonds has been less than 30bp and quite often bigger. Of course, using collateral with a covered bond has a price. And if you use a covered bond on the repo market, not for receiving liquidity but for downgrade collateral trades, it adds a lot of value. You may get paid 20bp, for example.

When you see transactions like Novo Banco price at 42bp when their senior is at 100bp or 110bp, it makes a lot of sense. And in some of those cases, it's OK if you pay a little bit more because you diversify away.

Psichogios, Eurobank: Yes, I would second that. I was actually looking recently at an Italian peer bank. Their covered bond trades in the low 50s, and the senior preferred is at about 100bp. So that's a good 50bp discount. From that perspective, as was said, CB issuance could be potentially considered, depending also on visibility on mortgage collateral growth outlook. Obviously, appropriate pricing and agreement from the board would be important.

If I'm not mistaken, when we issued covered bonds in the market, they were slightly through the [Greek] sovereign. Now where is the sovereign trading? It's trading through Italy by 20bp or so. But, still, if the sovereign is 20bp back of Italy, current indicative pricing for covered bonds looks dear [for issuers]. In summary, we would need to have visibility on our collateral outlook and be able to communicate a strategy regarding our issuance objectives with credibility, along with supportive underlying dynamics of the mortgage market, and appropriate pricing of the issuance.

Tsakpinis, Helaba: But this raises one question, overall, for investors. These are not senior preferred bonds where you need to analyse the bank and look at the history, it is a more philosophical or theoretical question as to whether they believe in the covered bond or not? Do they believe in the premium label and the overcollateralisation levels or loan-to-value restrictions? Or the health of the bonds and the 180 day liquidity guarantee, and the covered bond itself? So, theoretically, there should be zero differentiation between, say, Alpha Bank, NBG or Italian or Portuguese issuers and so on when it comes to covered bonds.

Kotsiras, NBG: You just mentioned all the merits of covered bonds, what makes them such a beautiful instrument. But because of the Germans' stickiness to hard bullets and stuff that's very dogmatic, we lost the essence of it. There are very few traditional covered bond investors that go into such detail. The investors that came in 2017 were the credit investors. This is the important thing, in my view.

Look at the Spanish market. The Spanish don't have a pool of home mortgages — it was written in the wind that the bond refers to the collateral or mortgage portfolio of a bank. But in the Greek market we have followed the German [covered bond] law and it was always very much to that upper end of being updated. That's where we encountered a lot of problems with passing the harmonisation [law] and [Covered Bond] directive and getting banks the premium label.

But this is what you need. You need investors to not just be the treasuries of other banks, where they buy yours and then you will buy theirs. The market is now developing, so we may have another audience. We have a much bigger FIG audience right now across Europe because of our MREL issuance. It is much easier for these investors to understand the [Greek covered] product versus the traditional ones who just care about their RWA consumption.

***GlobalCapital*: Theoretically, when the Greek banks do return to the market, how would you go about pricing such a deal? You just spoke about the differential between senior preferred and covered for some of your peers, but would you look at emulating that for the Greek banks? Or would you start with the sovereign curve?**

"If you communicate something along the lines of becoming a regular issuer, then you have to follow through"

Dimitris Psichogios, Eurobank

Baker, Nomura: I think for us, we're obviously going to look very closely at the Italian covered bond market. We'd go with the most recent deals there. For instance, if you were to ask me a question on pricing a UK covered bond right now, we would also look at the price of most recent deals.

I agree with you that one of the examples we use for Italian covereds is where they trade versus BTPs. We would have to at least do a sense check versus Greek government bonds as well and see where they're trading to that. And I think the relationship probably should be fairly similar to what you find in Italian covereds versus BTPs as well. But I think rating-wise, it's in line. I think that's probably what the investors would compare it to as well.

Tsakpinis, Helaba: Over the last year, when looking at pricing for [Greek] covered bonds, we've made very close comparisons to Portuguese covered bonds. They recently started issuing again and the economies are not that far away in terms of what they look like. And for that reason, there was a comparison, plus a spread showing the difference between Portuguese and Greek govvies, as well as the senior differentiation, that led to deriving guidance for a Greek covered bond.

Currently, the situation has changed a little bit because Portuguese bonds have gone massively tighter. They really are the market's favourite bonds. And now what we do is take the weaker rated Italians and we add a premium to that of 10bp-15bp points up to five years, and then around 15bp-20bp for longer tenors. But that might change in a six month period as well.

Spathakis, Piraeus Bank: Ratings have been a handicap in our recent history, but now we see a clear path towards rating upgrades. I would at least like to see ratings closer to triple-A before tapping the markets with a covered bond. Alongside all the different drivers that have already been mentioned, like pricing or credit expansion, we shouldn't forget that we still slightly deviate in terms of rating against the rest of the periphery. We're getting there, but we're not there yet.

Baker, Nomura: Exactly, it's going in the right direction.

Psichogios, Eurobank: I think the market liquidity of your peers should also be relevant. For example, Portugal is very nicely rated but it's a smaller economy and it has a much smaller flow of bonds. What I'm trying to say is that for benchmarking, one should compare like for like as far as possible. So we would need to consider markets with similar liquidity and with careful consideration regarding the choice of peers.

One also has to look at the bigger picture and ensure that it's a reasonably inclusive and representative peer group of issuers across countries that are considered when pricing. Again, at the levels that we're seeing, Greek CBs' indications are dear. And at this juncture, this could not be easily justified internally.

Kotsiras, NBG: I think it's key what Dimitris is saying. We hear all about the difference on pricing, where the sovereign is trading versus the covered bond — but this is really unfair for the product. The product is rated multiple notches higher than the sovereign and much more than senior and unsecured bonds. And that means that the RWA treatment is even much more credible. Covered bonds are the only product in Europe that has been tested during volatility that hasn't been bailed-in in any case. We have seen almost everything else, including a Greek sovereign bond haircut. But what we haven't seen is a covered bond defaulting.

So why do we keep bringing to the table where the sovereign is? This is a great opportunity for the [covered] product and market for us to reintroduce covered bonds to the investor base and return it to the position that it deserves as one of the most secure products.

Tsakpinis, Helaba: I'm fully with you. Not to play devil's advocate, because I would be very happy to issue a five year NBG, but a major factor is who buys covered bonds Europe-wide. We see a very strong participation of treasuries and there the RWA percentage plays a significant role. That is the major argument as to why SSAs tend to be tighter.

Kotsiras, NBG: I was in New York before Christmas meeting investors. They said they are stuck because everything has tightened so much — they don't know what to buy. We started discussing covered bonds, which is something they have never bought, although they are very active in securitization. I explained to them how you can utilise the [covered] asset. And for them, it was like a whole new world. If you put down the numbers showing a senior at 120bp and a covered bond at about 70bp, it's a no-brainer what you should buy. But a lot of people don't know it because for 15 years, the ECB dominated [the covered bond market] and pushed all eyes on to the MREL market.

Cohrs, Helaba: Before the ECB was buying covered bonds, when there was also a free market so to speak, you never really had order books with oversubscription rates of more than 50%. Whereas these days you get 200%-300%. People are realising this is where the value is.

Kotsiras, NBG: That's why we see spreads of 50bp for a covered bond versus 100bp for a senior. If you look back, the difference was much smaller. I think that that's why we're in the process of reintroducing the product.

Cohrs, Helaba: If you're an investor you should always buy the covered under these circumstances. But as an issuer of course, you should always wait. And this is where you get a bit of a problem.

Spathakis, Piraeus Bank: We collectively cherish covered bonds. For us as a bank, currently we have €2.5bn of retained covered bonds outstanding that we use for different purposes, out of a performing loan portfolio of more than €6bn. So there is more room. Again it's not a matter of if, it's a matter of when.

And there are not too many stars that need to align here. Ratings is one thing and pricing is another.

***GlobalCapital*: Lastly, you've done some very successful labelled deals, I'm just wondering how important is ESG to the Greek bank capital stack? You've done labelled senior debt, could we see labelled covered debt perhaps?**

Koukoutsidi, Alpha Bank: Perhaps I can take this one first since we're the only bank here that has not issued any labelled bonds so far. We are fully committed to our ESG path, but we decided to wait on the label issuing front. We thought it would make more sense to do so once an investment grade rating is achieved. At that point, labelling will add more to the size and quality of our order books.

Therefore, for us, priority remains to do our inaugural green senior MREL transaction. As to moving further down the capital structure and adding a green label, that is a remote possibility.

Psichogios, Eurobank: We were confident enough in the loan outlook to issue a green senior transaction. Given the dynamics of the transaction, we agreed to issue up to a size that we were comfortable with, regarding the visibility of loan production.

For future labelled deals, I would suspect they would be non-capital-related. Right now, I don't have the visibility to comment on a labelled covered bond.

Spathakis, Piraeus Bank: Our green senior bond last July was the first investment grade bond that we placed in the market, making it index-eligible. And it was massively well received by investors, more than six times oversubscribed. I think the success was a combination of the IG rating and the green label. But I don't know which is more important between the two. If I had to pick, I would say the IG rating rather than the green.

However, with respect to covered bonds, the only thing we've done so far is to make sure we included covered bonds as eligible instruments in our green bond framework. This is more for operational readiness rather than actual intent to use. But it's there.

Kotsiras, NBG: I think that both covered bonds and ESG should be treated not for publicity purposes, but rather with some kind of strategy. As Dimitris mentioned, if you look at our mortgage book, it's growing at a low pace. And the part that can be designated as green is a small amount. I would say that we would keep the green assets for senior funding and for the covered bonds we would really focus on the deposits per se.

Cohrs, Helaba: It's a very fair point you've made — issuing labelled debt shouldn't just be for publicity reasons but you should have a real interest. The biggest question we've had from issuers over last years was: Is it cheaper? Does this give me a greenium, as it is sometimes called? From everything I have seen so far, it doesn't. Because of that, the enthusiasm about that little extra item has waned a little bit.

Again, it still gives you more value, even though it's mainly just the bigger order books in terms of number of investors, if not better pricing. But the tiny improvement you might get pays off better if you start with a high price. In terms of spread, you will get more and more bang for your buck with a label on a senior or subordinated trade.

With covereds, the effects are so small that the extra effort to find and identify assets in your cover pool that qualify and maintain the follow-up reporting, it's pretty burdensome. And so far, the economics don't seem to work out to justify the increased effort to do that. If you look at the statistics, every time we look at numbers of covered bonds being issued and the percentage of green or ESG issues, it's a very disappointing number.

Baker, Nomura: I definitely concur when it comes to pricing. Even in senior it's the first discussion — "if we had green, would we get a better price?" To which I say, you won't get a better price, you'll get a better book and then better price optionality.

Spathakis, Piraeus Bank: Potentially some stickier investors.

Baker, Nomura: During the downturn we just had a few weeks ago, green bonds definitely held better than conventional. So there is an advantage and that's why investors want to hold them, because it's more stable in their portfolio.

Tsakpinis, Helaba: The hype for green covered bonds peaked around 2018 to 2020. But there to benefit from 1bp, 2bp or 3bp of saving, you had to be a really frequent issuer, meaning three to four times a year.

Kotsiras, NBG: When we did our first labelled deal in 2020, we found out just how difficult the reporting is. It took us six months to produce a good report according to the standards. I don't really want to think about how to deal with mortgages linked to efficiencies in CO_2 emissions. GC

"Ratings have been a handicap in our recent history, but now we see a clear path towards rating upgrades"

Dimitris Spathakis, Piraeus Bank

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