



HFSF Operational Strategy

Mission / Purpose of the HFSF

As per L. 3864/2010 the HFSF's primary mission is to contribute to the maintenance of the stability of the Greek banking system, for the sake of public interest.

The mission perimeter consists of several parameters of systemic stability, including but not limited to:

- Assisting systemic Banks strengthen their Balance Sheets with adequate capital.
- Promoting & accelerating the resolution of the Banking Sector's massive NPL volumes, which is a critical requirement to restart economic activity in the country.
- Promoting banks' return to profitability, thus facilitating eventual return to fully private ownership.
- Improving Corporate Governance standards in Greek systemic Banks, which ensure that the weaknesses that generated today's problems are eliminated.

Key activities and tools of the Fund

In order to accomplish its mission, the HFSF has been set up with the requisite capabilities and authorities to fulfil the following responsibilities:

- Provide Capital Support to credit institutions, subject to the requisite approvals from State and official sector stakeholders.
- Define the framework for the design of Restructuring Plans for credit institutions under capital support and monitors their implementation.
- Ensure key principles are upheld by credit institutions by putting in place Relationship Framework Agreements.
- Participate in the Governance of said credit institutions via BoD representatives and exercise its voting rights in accordance with L.3864/2010.
- Exercise its veto rights if needed, in accordance with L.3864/2010.



Strategic objectives

With the recent recapitalization phase completed and the restructuring plans agreed, the HFSF is moving firmly into the stewardship phase of its mission.

The key imperatives of this phase are:

- Managing for value via asset management/stewardship activities.
- Overseeing the implementation of the Restructuring Plans.
- Promoting best practice in Troubled Asset Management for systemic banks.
- Enhancing Corporate Governance arrangements of banks which received capital support.

Diagram 1: HFSF strategy and key actions over the phases of its mission





Priorities for 2016

For the course of 2016, the Fund's strategic objectives (defined above) translate into a set of priorities and initiatives, the main of which are:

- Facilitate & assist the resolution of the volume of NPLs and the coordination of stakeholders.
- Drive improvements in Corporate Governance practices.
- Monitoring the Banks' implementation of and compliance with the RFAs (ongoing).
- Monitor Banks' performance and Restructuring Plans progress (ongoing).
- Oversee transactions & key corporate actions in line with managing for value principles (ongoing).
- Strengthening HFSF's human capital and infrastructure.

Diagram 2: HFSF strategic priorities for 2016

Stewardship Phase Strategic Priorities for 2016

Operations	1	Monitor the RFAs Implementation
	2	NPL resolution action plan to enhance coordination among banks & accelerate restructurings of large corporates <ul style="list-style-type: none">▪ Promote introduction of best practice in Troubled Asset Management (TAM) practices▪ Support the implementation of the TAM strategy (governance & monitoring)▪ Cooperate with BoG, ECB SSM & Hellenic Banking Association to facilitate speedy NPL resolution
	3	Monitor implementation of Restructuring Plans (RPs) <ul style="list-style-type: none">▪ Monitor performance and financial results across key dimensions (profitability, capital generation, efficiency, operational effectiveness, shareholder value)▪ Identify significant deviations if they occur and to agree corrective actions as necessary
	4	Oversee Divestments and other transactions <ul style="list-style-type: none">▪ Review key transactions aiming to protect the value of the HFSF's assets
Governance	5	Banks Corporate Governance Review <ul style="list-style-type: none">▪ Review current Governance arrangements including BoD composition and practices with the help of external independent consultant and produce recommendations
	6	Participate in Banks' Governance processes and exercise HFSF rights



The detailed strategic initiatives which underpin the above objectives are as follows:

1) Asset Management / Stewardship activities

The HFSF will manage the value of its holdings, respecting the constraints of the legal and regulatory environment, through the following activities:

- A. Exercising its voting rights for major decisions affecting the value of holdings, e.g. M&A activity, asset sales, divestment of subsidiaries, LMEs, issuance of equity dilutive instruments, revenue and cost initiatives.
- B. Reviewing material transactions, to confirm that transparent processes are adhered to and appropriate valuation methods applied, prior to approval.
- C. Analyze all other transactions which have a direct or indirect impact on the banks' equity, such as LMEs, issuance of equity dilutive instruments etc., prior to approval.
- D. Evaluate and approve strategy decisions which affect the long-term value of the assets, including (but not limited to): major outsourcing, partnership and JV decisions, business transformation & organizational restructuring initiatives and any major shifts in the strategic focus of the banks'.
- E. Approve and monitor the Restructuring Plan and the Risk & Capital Strategy for each bank.

Decisions on the above matters will be implemented at the appropriate governance level as defined by the RFA, i.e. via Request for Consent (RfC) for banks where the HFSF holds more than 15% of stock and via the vote of our BoD representative in banks where HFSF holds less than 15%.

2) Troubled Assets' Management

The HFSF's role in the banks' NPL management focuses on the following:

- A. Approving the Banks' Group Strategy, Policy and Governance for NPL management
- B. Monitoring the banks' performance against targets set for NPL resolution (e.g. by the BoG/SSM), as well as progress on key initiatives undertaken by



Banks to improve their NPL management and resolution operations. This will be carried out via:

- i. Regular (monthly and/or quarterly) meetings between the banks' management and the HFSF to review the banks' NPL strategy and objectives, as well as externally set operational targets (by the BoG)
- ii. A set of KPIs introduced in the revised RFA, to monitor the effectiveness and efficiency of the Bank's NPL management framework and NPL resolution.

As per the provisions of the MoU, the HFSF shall further undertake a number of initiatives to facilitate the resolution of NPLs. These initiatives include:

- A. Apply NPL resolution performance criteria to banks' management against operational targets agreed between banks and the Bank of Greece. In this context and in line with the MoU, the HFSF has appointed an Executive Board member (the CEO) and an internal team (Risk Management team headed by the CRO) dedicated to its new statutory objective of facilitating the banks' NPL management. In order to expedite the aforementioned initiatives, the HFSF has already included in the revised RFA a framework for the monitoring of the performance of NPL management.
- B. The HFSF is also responsible for another MoU deliverable, specifically to present and implement an NPL resolution action plan, which will enhance coordination among banks and accelerate the restructuring of large corporate loans. Additionally if needed, the HFSF and the banks will jointly tackle resolution plans for entire economic sectors. The HFSF, has already appointed a consultant to support this project, by delivering the following:
 - i. Based on existing work, (e.g. the HFSF's report on impediments to the creation of an NPL market in Greece), review, identify and prioritize the obstacles to restructuring large corporate debt by Greek banks (including inter-creditor and cross-border issues).
 - ii. Provide suggestions on how an appropriate framework for coordination between banks can be optimally introduced in Greece.
 - iii. Specify the key steps banks could undertake, to promote large corporate loans restructurings (taking into consideration,



international out-of-court workout standards such as the INSOL principles).

- iv. If needed, define in collaboration with the banks and other stakeholders, a perimeter of distressed companies utilizing the most recent debtors' data and work on this sample utilizing also the knowledge and outputs of relative previous work done by other stakeholders and consulting firms.
 - a) Through a review of various previous works, identify any potential need for sector-wide corporate restructuring and provide suggestions of how it can be implemented (including via the introduction of standard protocols for the assessment of corporate viability and any particular type of NPL restructuring platform).
 - b) Examine the adequacy of the banks' existing policies, reporting & analysis tools, as well as restructuring methodologies for large corporate NPLs and propose how current legislation/regulation could be amended to enhance coordinated solutions.
- v. Specify how the role of the capital markets could be expanded through joint ventures and SPVs (e.g. Corporate Restructurings Firms), providing details of how legislation should be changed, to enable attracting international distressed debt investment.

The project is expected to be delivered by the end of April 2016.

3) Monitoring the implementation of Restructuring Plans

The HFSF will closely monitor the execution of the banks' Restructuring Plans via regular performance updates and reports, as well as formal quarterly results vs. budget and RP estimates. Deviations will be noted and major ones will be discussed with the banks to agree if and what corrective actions are appropriate.

The HFSF will produce regular monitoring reports, based on the published financial results (usually on a quarterly basis).



4) Approval of Annual budgets and 3-year Business Plans

The HFSF will review and approve the 2016 budgets for all four systemic banks, ensuring they are in line with the Restructuring Plans to which the banks committed to in Q3 2015. In addition, budgets will need to show that they are aspirational and aggressive in order to maximize banks' profitability, without however violating the Restructuring Commitments undertaken (e.g. not using state aid to gain market share). At the same time, the assumptions and outputs of the budgets must be sensible and realistic in order to set appropriate expectations for shareholders.

Additionally, the HFSF will approve the banks' 3-Year Business Plans, which are expected to define the banks strategic initiatives and medium term action plans to achieve the high level financial objectives set out in the RPs.

Both the budgets and 3-Year Business Plans will be presented to the HFSF General Council by the banks' management and will be approved via the appropriate governance bodies as defined in the RFA.

5) Continue to enhance Corporate Governance standards

Supported credit institutions are required to follow the principles set out in the RFA, HFSF Law, Corporate Governance Code and Commitments signed between the Hellenic Republic and the EC (DGCOMP).

The HFSF, through the revised RFA (signed with the banks as part of the Q3 2015 Recapitalization process), continues to update the corporate governance standards requirements for credit institutions, in order to ensure an effective internal control environment is in place and shareholder value is protected.

Moreover, the HFSF monitors the Banks's adherence to the aforementioned corporate governance standards on an ongoing basis. This includes the areas of



the BoD and Board Committees operation, composition, performance, risk governance and remuneration.

The continued improvement in Corporate Governance standards is further promoted via the HFSF's participation in Banks' governing bodies and the interventions made by the Fund's representatives with the support of the Fund's officers.

The HFSF constantly assesses the quality of the banks' Corporate Governance practices and provides direct feedback where necessary (within the limits of its authority), as well as encouraging any initiatives that can deliver improvements.

6) Conducting the Corporate Governance Review

As per the MoU, the HFSF will conduct a review of supported Banks's BoDs and Corporate Governance arrangements by the end of H1 2016, with the help of an independent international consultant.

The objective of the Project is to ensure that systemic banks' Boards of Directors and Board Committees are set up and operate properly, in line with international best practice, as well as to tackle the special challenges and circumstances, faced by the Greek banking sector today.

The project involves a review and evaluation of the Boards of Directors and Board Committees of the four systemic banks, including the development of the criteria for this evaluation. The review and recommendations delivered will focus on:

- A. Evaluation criteria and target skills/profile for each role within the Board and Committees.
- B. Board nomination policies and succession planning.
- C. Board and Board Committees' size, composition, responsibilities and their allocation.
- D. Board and Board Committees members' experience, responsibilities and competence against international best practices, EU and Greek regulation and legislation, and the special needs of Greek banks.



- E. The practices to determine the ideal mix of skills that the Boards and the Board Committees should possess, their implementation in Greek Banks and benchmarking against international best practice.
- F. The effectiveness of Board and Committees' oversight and decision making processes with special emphasis on strategy, risk culture, risk governance, NPL management and the internal control framework.
- G. Board and Board Committees' functioning.

7) Strengthening HFSF's human capital and infrastructure

The HFSF will undertake a number of internal projects to improve its operating effectiveness, including:

A. HFSF Staff Performance Assessment & Development System.

The Staff Performance Assessment & Development System aims to the retention and effective engagement of HFSF staff. Specifically, the System has the following milestones to:

- i. Evaluate the HFSF staff,
- ii. Explore potential development of the staff,
- iii. Identify possible areas in need of improvement with regard to staff,
- iv. Assess the current organizational chart efficiency and
- v. Motivate HFSF staff in order to achieve staff retention.

B. HFSF New Procurement Policy

A law firm has been engaged in January 2016 to assist HFSF in updating its procurement policy, following the new law regarding public procurement. The policy is expected to be finalized by April 2016.



C. HFSF IT & Infrastructure

i. Disaster Recovery Site (DRS) / Business Continuity Plan (BCP)

HFSF plans to establish a disaster recovery site to ensure business continuity in case of operational difficulties at the main HFSF offices.

ii. Central Archiving Protect Plan / Digitalization

The HFSF is currently investigating the possibility of installing a Documents Management System in order to easily store and retrieve documents used for its activities.



Glossary

BCP: Business Continuity Plan

BoD: Board of Directors

BoG: Bank of Greece

CRO: Chief Risk Officer

DGCOMP: European Commission, Directorate General for Competition

DR: Disaster Recovery

EC: European Commission

ECB: European Central Bank

EU: European Union

HFSF: Hellenic Financial Stability Fund

JV: Joint Venture

KPI: Key Performance Indicators

LME: Liability Management Exercise

M&A: Merger & Acquisition

MoU: Memorandum of Understanding, among the European Commission (acting on behalf of the European Stability Mechanism), the Hellenic Republic and the Bank of Greece (BoG)

NPL: Non-Performing Loan(s)

RFA: Relationship Framework Agreement

RP: Restructuring Plan

SSM: Single Supervisory Mechanism

SPV: Special Purpose Vehicle

TCI: Transitional Credit Institution