

23rd Banking Forum



Ταμείο Χρηματοπιστωτικής Σταθερότητας
Hellenic Financial Stability Fund

HFSF's perspective on Greek Banks

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Athens, July 4-5, 2018

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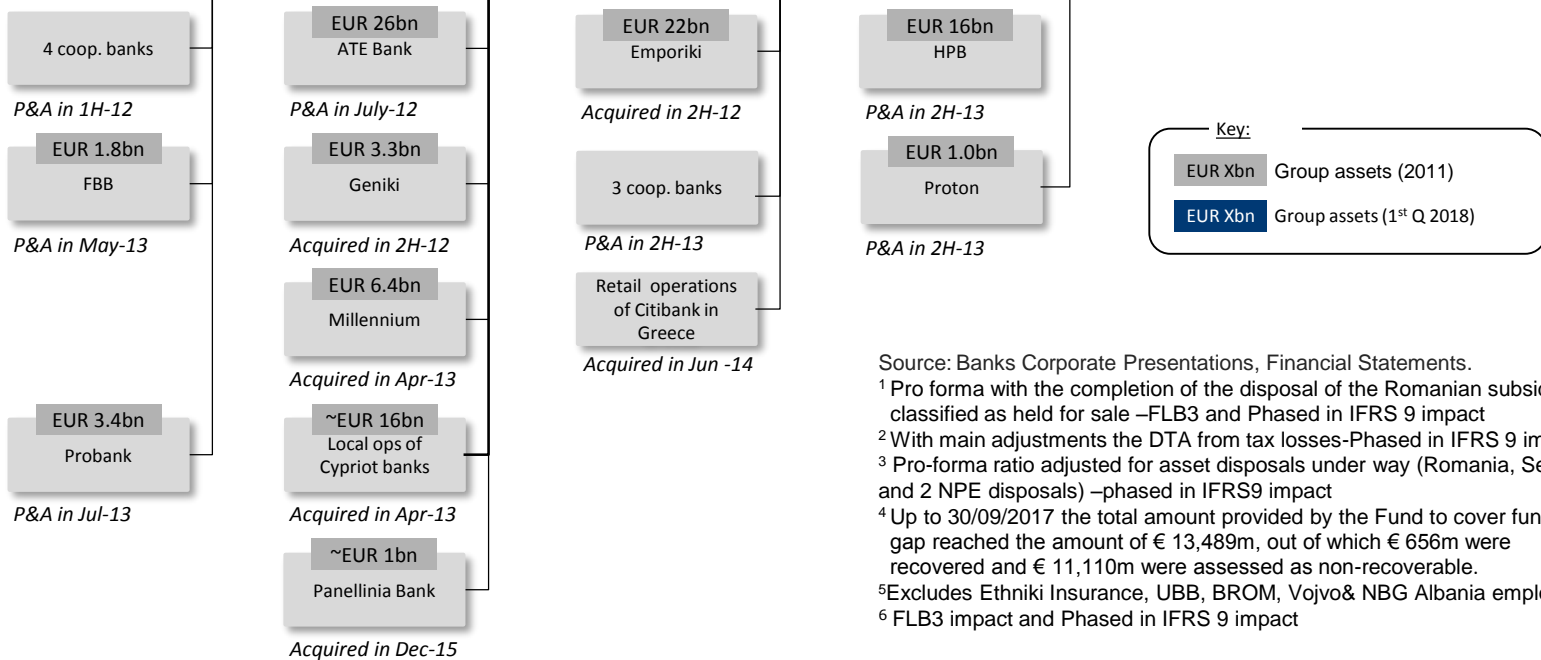


1 HFSF's Role



Currently, HFSF is the largest shareholder & maintains oversight in the 4 systemic banks

	EUR 61,5bn NATIONAL BANK OF GREECE	EUR 63,5bn PIRAEUS BANK	EUR 59,3bn ALPHA BANK	EUR 58,5 bn Eurobank	Claims ⁴ €13.5bn funding gap covered 12 liquidating banks
HFSF shareholding	40,4%	26,4%	11,0%	2,4%	
Core Tier 1 Ratio (Q1 '18 Results)	16,5% ⁶	14,4% ³	18,3% ²	15,1% ¹	
No of Employees	11,501 ⁵	14,824	11,801	13,367	



HFST's expectations from banks

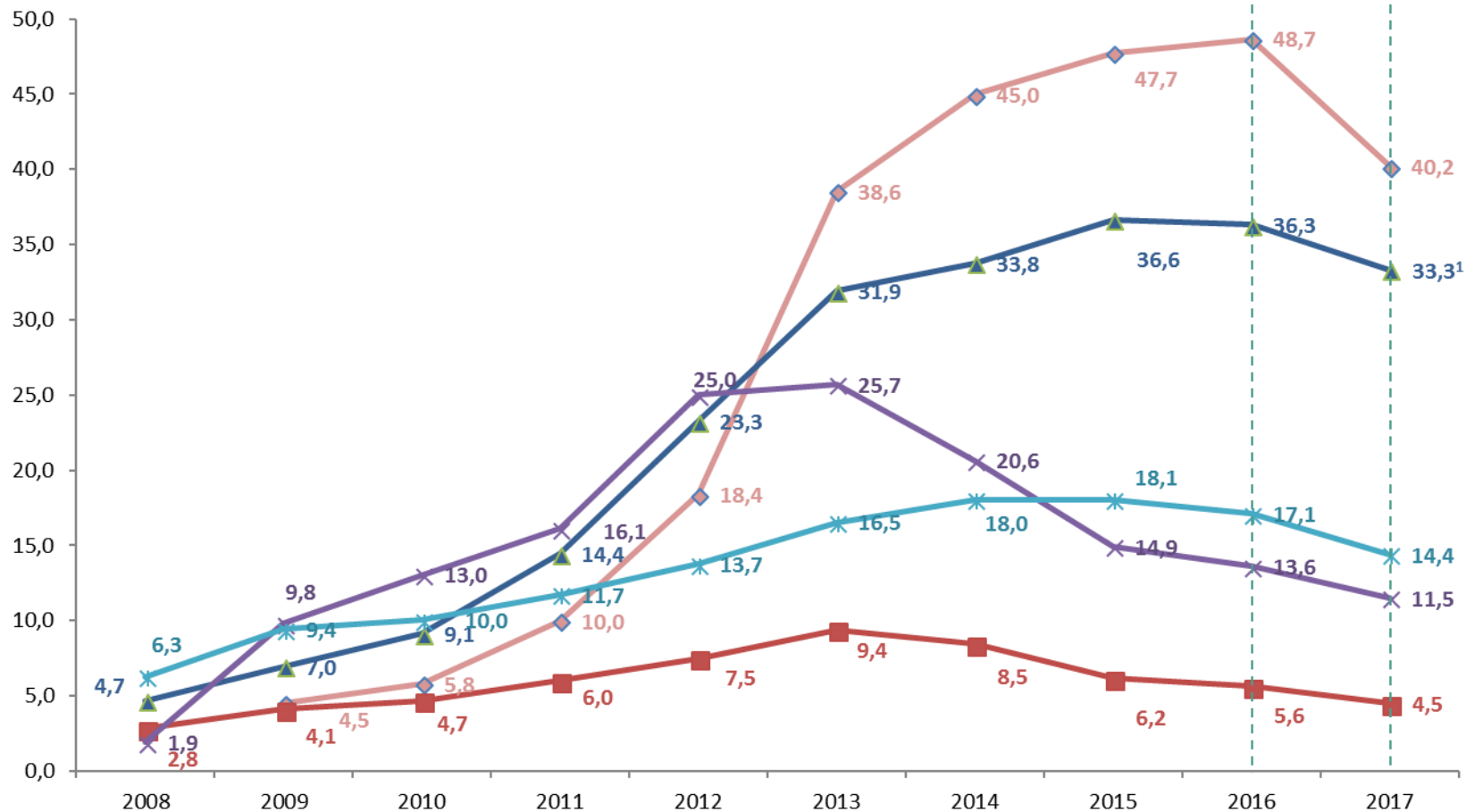
- ❑ Pursue return to **long-term profitability** & ensure that **rate of return** is well above their **cost of capital**;
- ❑ Continuously chase improvements in the functioning of banks' boards and committees and encourage the establishment of a **"Governance Culture"**;
- ❑ Embed in all areas of management, strong **risk awareness** & close alignment between **corporate strategy and risk culture**;
- ❑ Greek banks' **NPE reduction target of around 37% by the end of 2019** (submitted in September 2017), is back loaded towards in 2018 and 2019 and is relatively skewed towards NPE sales and write offs. Liquidations and recoveries through restructurings also play an important role, but the latter are highly contingent on the country's economic outlook. To remain competitive banks need to get ahead of these targets. **Further initiatives in the NPE/NPL area, would definitely boost competitiveness and banks' stance**;
- ❑ Banks have achieved **reduction in operating costs** (VRS & branch closures) to support profits; but **further cost efficiency** is necessary to **enhance performance** through a mixture of **digital functionality, personalised interaction and specialisation**;
- ❑ Banks' management need to become more **humble and take an integrated approach** to re-establish trust and their **operating and business models**;

2 NPE/NPL Challenge & Options Available



The NPL Problem in selected European countries

Banks' Non-Performing Loans to total gross loans (%)

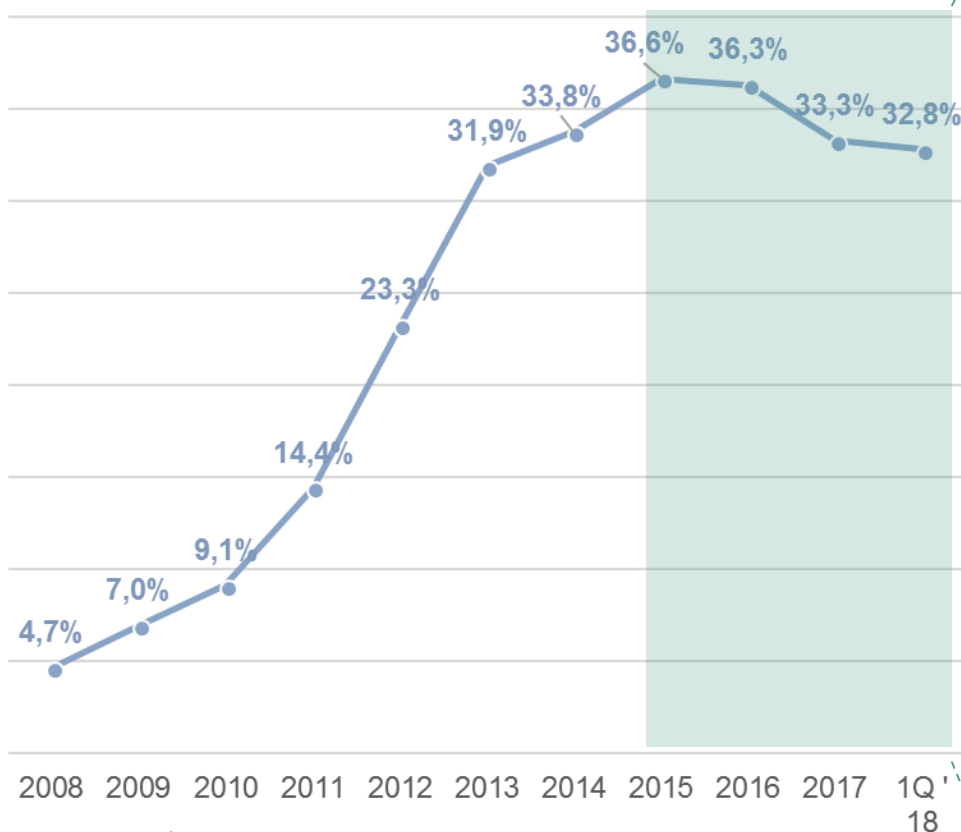


Source: World Bank, ¹ Bank of Greece

◆ CYP
 ■ ESP
 ▲ GRC
 × IRL
 ✱ ITA

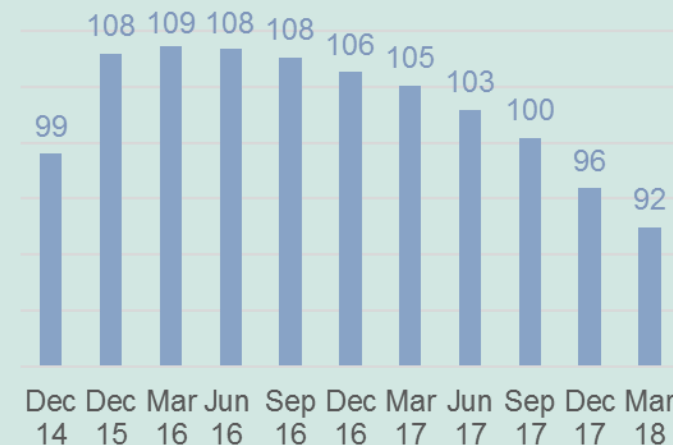
The NPL / NPE problem in Greece

Greek banks - NPL ratio

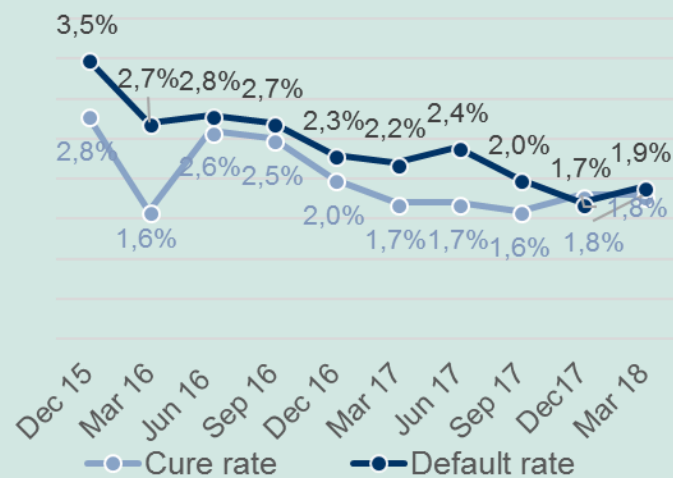


Source: Bank of Greece

Greek banks – NPEs (€ bn)



Greek banks – Loan default & cure rates



Source: Bank of Greece



Several Options Available

- ❑ A significant **reduction of NPE/NPLs is critical to restore confidence** in Greek banks and support the recovery of the Greek economy;
- ❑ There is a **wide range of options** that could be deployed by banks and authorities alike for a faster NPE/NPL resolution;
- ❑ **HFSF and other institutions in Greece and Europe**, are currently elaborating on different options available for the acceleration of NPE/NPL resolution, which among others include:
 - ❑ **An Asset Protection Scheme**, as a stabilization tool to help banks in the implementation of targeted solutions to gradually wind down their non performing loans;
- ❑ **Other stakeholders** also consider the option of **an Asset Management Company** or **securitisation transactions with embedded significant risk transfer structure**;



3 A shift in competitive landscape for Greek Banks



Current trends in banking

- ❑ Recent developments demonstrate that the **outlook in banking** will more likely be supported by **risk reduction and risk sharing in parallel, rather than bail out**;
- ❑ Financial challenges, operational pressures & competitive disruptions, imply that **banks need to re-invent the way to add value to their customers**;
- ❑ **Banks & fin techs** have different **strengths & weaknesses**; but both should play to their strengths, or even better, collaborate to realise the full value of innovation;
- ❑ Instead of surface level fixes, **Banks' management need to become more humble** and take an **integrated approach** to re-establish their operating and business models;
- ❑ **Banks** need to become **a driver of change**, rather than a 'victim' of change; they should **instil a culture of eagerness and innovation** and seek out, among others, opportunities in developing technologies;
- ❑ **Competition should be encouraged** within the Greek Banking system that currently shares attributes of an oligopolistic competition;
- ❑ Banks need to get **creative & entrepreneurial** to maintain profitability;
- ❑ To **enhance cost efficiency**, digitizing the technology enablers is an imperative;
- ❑ Banks need to take an **integrated approach combining digital functionality** and **convenience** with human interaction; **upgrade product quality** and enhance **customer satisfaction** via focusing on digital customer journeys and personalisation of product offerings;
- ❑ Most traditional banks are both producers and distributors; **Banks have to redefine their business model** in a way that complements their strategy, either as a distributor, or a producer or an integrator or a platform;

Potential routes to be followed by Greek Banks, in light of the new standards

Retail Side

- ❑ To improve performance, banks need to **fuse digital functionality and personalized products**;
- ❑ **Improved data quality and technologies** will enable banks to have a clear view of the customers' financial and behavioural stance, and effectively offer distinctive & custom made products; Hence, increase customer satisfaction & retention;
- ❑ Banks have to decide **where to compete** on the value chain spectrum; Potentially cooperate with fin techs to realise the full value of innovative technology;
- ❑ **Improved collections** by re-defining the right timing, offer and contact channel;
- ❑ **Personalised pricing and product offers**;

Wholesale Side

- ❑ Find ways to **serve the customer better**, to earn **more revenue** per customer;
- ❑ Expand in **prime core markets** by offering tailor made products;
- ❑ **Reinvention** of the customer engagement model;
- ❑ **Adjust to the new business reality** through, among others, improving infrastructure and focus on providing credit to corporates on top of their working capital needs;
- ❑ **Specialise** in areas with a **positive outlook for the Greek economy**, such as in trade financing, export oriented companies, shipping, hospitality sector;
- ❑ Focus on **specific customer segments** & distinctive **geographies**;
- ❑ **Personalised pricing and product offers**;



4 Concluding Remarks

Challenges are rather clear; Identifying the routes to revival are not

- ❑ Greek Banks face **disruptions on numerous fronts**. On top of the **NPE/NPL challenges**, banks have to face and rise to the challenges of maintaining **profitability and competitiveness**; Banks need to be **agile** and **adaptable** to strategically position themselves in this environment;
- ❑ Although **competition** is welcomed and should be **encouraged within the Greek banking context**, the current banking landscape does not share any attributes of a perfect competition;
- ❑ Greek Banks have to **get ahead of the challenges** and create the necessary circumstances to **attract international strategic investors**, via realising initiatives both at the NPE/NPL resolution front, but also by reinventing their business models & strategic orientation; taking into account **current position**, **ambitions for the future**, chosen **customer focus**, **organisational competencies**, **brand** capacity, **regulatory** requirements & and **capital** limitations;
- ❑ Banks have **room to boost their competitiveness** by becoming digital for operational & cost efficiency, but also create value and a better experience for their customers;
- ❑ Banks should **consider a fundamental shift in the way they operate**; by re-inventing the customer engagement model, they could deliver the right experience via the right channel, at the right time for the customer;
- ❑ **Investors are** also waiting for banks to **capture their transformative impact of their move to digital banking on the retail front**;
- ❑ **Staying the same may not be an option** in this complex and challenging environment; Banks should consider the stance they wish to adopt. Do they wish to **contribute into shaping the future or manage passively?**
- ❑ Banks must **strategically look to the future to determine how short-term transition will enable a long-term transformation**;
- ❑ It is imperative for banks to develop strategies to tackle these issues; One that rises to **today's challenges** and the **status quo**;



Thank you

Q & As

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