



Annual Progress Report of 2018

Introduction:

The HFSF formulates each year its Operational Strategy. In order to improve the transparency and accountability of its activities it will begin to publish regular (semi-annual) reports that assess its performance with respect to this strategy. Year-end 2018 marked the end of the Restructuring phase for the banks and thus the beginning of the transition of the HFSF to its Divestment phase: the period when it prepares, plans and executes on behalf of the Greek State the orderly and transparent return of systemic banks to private ownership. In September 2017 the General Council (GC) approved the Fund's strategic objectives for the period 2018-20. The Management Team collectively agreed on those strategic objectives and actions for the same period. This report summarises the performance for the first year.

Strategic Objectives & Initiatives:

The Operational Strategy of the HFSF consists of four objectives and associated initiatives:

1. Fulfil its statutory role as strategic shareholder
 - a. Define performance expectations as a shareholder & strive for value creation in the banking system
 - b. Closely monitor the working of systemic banks' Boards of Directors and assume an active role in promoting HFSF shareholder interests through the Boards
 - c. Promote Banks' return to private ownership
2. Guide Banks' return to long-term health and profitability
 - a. Monitor banks' progress in executing restructuring plans and commitments
 - b. Support banks' return to the international capital markets
 - c. Assist banks in developing a proper risk culture and establishing a risk management strategy: define their risk appetite, strengthen and update their risk assessment and mitigation tools, maintain appropriate buffers.
 - d. Establish HFSF centre of financial expertise
3. Contribute to NPE resolution
 - a. Drive banks' progress with NPE resolution
 - b. Establish and promote international best practice in NPE resolution
 - c. Support systemic initiatives to accelerate balance sheet clean-up
4. Improve Corporate Governance of Greek systemic banks
 - a. Promote awareness of systemic issues
 - b. Drive the establishment of an appropriate "Governance Culture" including by providing transparency on HFSF activities
 - c. Formally assess the quality of Corporate Governance in Greek banks

Regarding banks under liquidation by the single liquidator, PQH, the Fund, in its capacity as creditor of the final proceeds of bank liquidations, continues to observe and remain informed of the activities of PQH without playing a role in the governance or supervision of the single liquidator, such role belonging by law to the Bank of Greece.



Key 2018 HFSF activities viz Strategic Objectives

Objective #1: Fulfil our shareholder and statutory role

- **HFSF closely monitor the working of systemic banks' Boards of Directors and assume an active role in promoting HFSF shareholder interests through the Boards.**
- **HFSF approves key Banks' transactions in the context of the Relationship Framework Agreements:** In accordance with the Relationship Framework Agreements that have been signed with each bank, the HFSF must review and give its consent to corporate actions and transactions including: share capital increases, issuance of equity dilutive instruments, distribution of dividends, mergers and acquisitions, disposals/divestments of core/non-core subsidiaries, loan portfolios or other portfolios of assets (exceeding certain thresholds). In 2018, the HFSF reviewed and consented in 7 transactions, of total value of €5.6 billion. The reviews focused on banks having followed an appropriate process in line with international best practice and having received a fair consideration as a result. The review and consent procedure contributes to attract a larger number of potential investors and leads to an improvement in the prices obtained to the benefit of the bank and of its shareholders, including the Fund. In spite of the 75% increase in the number of transactions from previous years, the overall cost of HFSF advisor fees was almost halved by comparison to previous years, due in part to a reduction in the fees paid per transaction but also in part to the development of in-house analytical expertise.
- **HFSF promote Banks' return to private ownership and for that reason developed a divestment Strategy:** HFSF has developed a strategy for the divestment from the equity stakes it holds in the four systemic banks. The strategy is in line with the commitments of the Hellenic Republic in the context of the European Stability Mechanism Programme and it consists of a set of principles that underpin and regulate: the criteria for the sale of shares, the preparation of the transaction and its execution, as provided in article 8 of Law 3864/2010. The divestment strategy was approved by the General Council, in line with the internal HFSF policies, and was subsequently communicated to the Ministry of Finance at the end of November 2018. The divestment strategy inaugurates the period where HFSF will further support the Banks to enhance their equity value, aiming at attracting a solid private sector investor its shares on conditions more beneficial to the long term interests of the Greek State and of the Greek economy.

Objective #2: Guide Banks' return to long-term viability

- **Monitoring of systemic banks:** HFSF monitored closely the performance and capital position of the Greek banks, and provided input to the banks' management and (through its representatives) to the Boards of Directors. The Fund evaluated available options for the enhancement of banks' capital positions in the prevailing market environment, and it engaged with banks' management to discuss the way forward for each institution. In addition, the Fund pushed for a sharpening of Board of Directors' focus on business performance and promoted the idea of a forward-looking review of each bank's strategy. Both changes are particularly important against the background of increasingly competitive and challenging business environment and an intensification of competitive pressures.
- **Monitoring of Restructuring Plans:** Three banks successfully completed their Restructuring Plans by the end-2018 deadline and exited the State Aid regime. A fourth bank received an extension from the European Commission until the end of 2020 to complete its plan. The HFSF always monitored closely the restructuring process keeping its stakeholders abreast of developments.
- **Establishment of internal Financial Centre of Expertise:** The HFSF refocused internal resources to put more emphasis on strengthening finance skills that are focused on monitoring and analysing



business performance and capital planning of banks. The effort has yielded valuable results by upgrading the Fund's readiness to respond to crises and to capacity to form a valid independent view of banks' business plans and major transactions.

Objective #3: Contribute to the resolution of NPEs

- **HFSF strategic initiative on system-wide plan for NPE resolution:** HFSF developed a blueprint of a system-wide approach to NPE resolution in the form of the Hellenic Asset Protection Scheme. The need for a systemic solution to deal decisively with the reduction of the current stock of NPEs as well as provide a vehicle to address future occurrences is of paramount importance for the Greek banking system and a top priority for HFSF. Provided that the underlying objective is to ensure that conditions triggering State Aid are ruled out and that Banks will be able to achieve accounting derecognition and Significant Risk Transfer (SRT), it was decided that the most beneficial approach for all stakeholders, at this time, would include off balance sheet protection, i.e. the proposed solution of a Hellenic -Asset Protection Scheme (H-APS). The Fund first started examining the scheme at the end of 2017 and communicated it to the Ministry of Finance in its original form in June 2018.
- **HFSF review of NPE sales and securitisations:** In 2018, the HFSF reviewed the details of 7 transactions (o/w HFSF's consent was called for in 3 NPE sales) by banks that reduced banks' stock of NPEs by c. €9.8 billion. Reviews focused on banks having followed an appropriate process in line with international best practice and having received a fair consideration as a result.

Objective #4: Improve Corporate Governance of Greek systemic banks

- **HFSF evaluation of Systemic Banks' Board of Directors and corporate governance framework:** As a result of the 2016 corporate governance and Board evaluation, banks have notably improved their governance, succeeding to attract new highly skilled and experienced board members, as well as, gradually implementing the Fund's recommendations on corporate governance improvement. In March 2018, HFSF published its revised Guidelines on the Board of Directors' selection and appointment process in order to assist banks to improve their Board nomination policies, whilst ensuring a formal and transparent selection and appointment process for Board members. As of December 10, 2018, and since the enactment of the amended HFSF Law in November 2015, 67% of total Board members and 79% of total non-executive directors have been replaced respectively; while banks have succeeded in attracting international experience in their Boards by having c.71% of foreign NEDs.
- **Initiative to establish a Board Ethics Committee in Systemic Banks:** HFSF took the initiative to propose the establishment of a Board Ethics Committee in the four systemic Banks in 2018. By December 2018, NBG and Piraeus Banks had established their Board Ethics Committees. Eurobank and Alpha Bank are still in the evaluation phase in establishing an Ethics Committee, following HFSF's presentation to their respective Boards in December 2018.

Conclusion:

In 2018, the HFSF continued to actively pursue its objectives, as per its Operational Strategy, in order to ensure the orderly return of the Banks to private ownership while protecting the value of its assets and supporting the stability of the Greek banking sector.