



HFSF Operational Strategy 2017-2020

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:

- Ensuring that systemic Banks have strong Balance Sheets with adequate capital to withstand the ongoing crisis in the Greek economy
- Promoting the accelerated resolution of the Banking Sector's massive NPL volumes, which is a critical requirement to restart economic activity in the country
- Ensuring that Banks return to profitability, thus promoting eventual return to fully private ownership
- Implement standards of Corporate Governance 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 fulfill the following responsibilities:

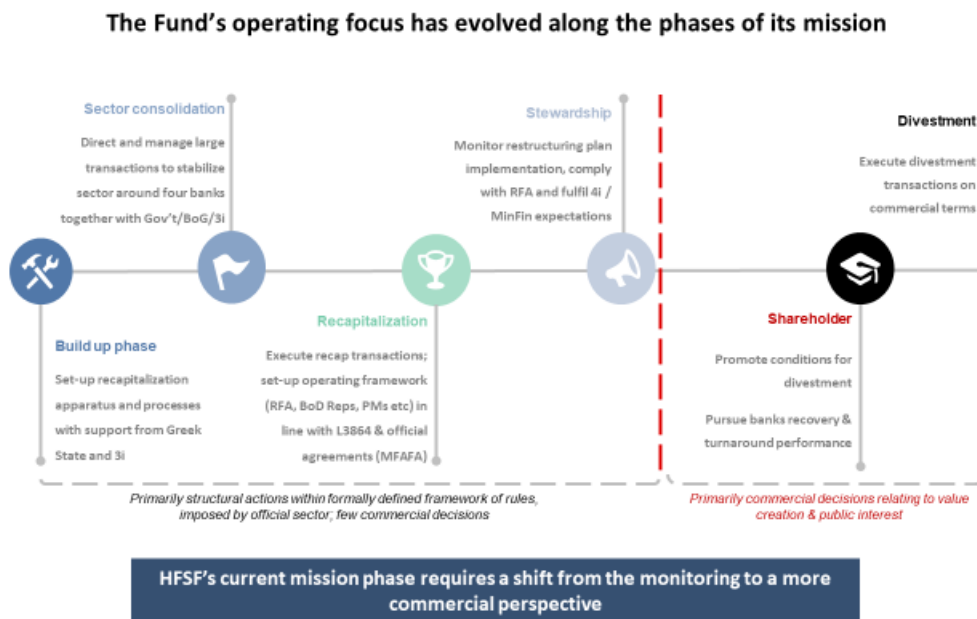
Provide Capital Support to credit institutions, subject to the requisite approvals from State and official sector stakeholders

- Ensure key principles are upheld by credit institutions via the signing of Relationship Framework Agreements ("RFAs")
- Participate in the Governance of said credit institutions via Board Representatives and exercise its voting rights in accordance with L.3864/2010
- Exercise its veto rights if needed, in accordance with L.3864/2010
- Monitor the implementation of the Banks' respective Restructuring Plans ("RPs") and ensure compliance with RP commitments



Strategic objectives for 2017

HFSF is currently operating within a matured stage of the stewardship phase of its mission (please refer to slide below).



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In this phase, HFSF actively pursues its primary mission to support systemic stability, while aiming as a secondary objective to preserve the value of its assets.

From a shareholder's perspective, HFSF strives for a healthy and profitable banking system whilst ensuring financial stability. From the angle of financial stability, the goal is achieved. But the banks' effort is hampered by low bottom line profitability caused among others, by the effect of high NPE burden not only evident by the decrease in NII, but also through the elevated impairment charges and negative loans' growth.

Greek Banks need to adjust to the new reality. Apart from responding to the challenge of drastic NPL/NPE resolution, they also have to define their competitive edges versus their peers, develop new own business models targeting the right client base with the right products, become more cost efficient and create value and a better experience for their customers. At the same time, Greek banks need to keep abreast with developments in the European and international banking sector, including facing competition from new or foreign entrants. Throughout this process, compliance with regulatory requirements is of paramount importance.

Going forward, HFSF gradually repositions its role towards a more active shareholder model, leveraging its presence at the Greek Banks Boards to establish greater credibility of its



opinions and influence decision making, beyond the imposition of its above described statutory authorities (e.g. consents / veto rights). This initiative will entail a proactive engagement with all stakeholders to drive for results, as well as a revised definition of the Banks' strategic plans and transformation initiatives of their business models.

HFSF's mandate at this critical juncture revolves around the following key strategic objectives:

- (A) Oversight of the implementation of the Banks' restructuring plans
- (B) Promotion of Banks' return to long-term viability
- (C) Facilitation of the resolution of NPLs
- (D) Improvement of Corporate Governance standards

Objective (A) : Oversight of Restructuring Plans (RP) Implementation

HFSF closely monitors 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. HFSF will produce regular monitoring reports, based on the published financial results. In addition, the HFSF's Investment Division will proactively highlight any major deviations or execution risks to HFSF management, as they become apparent.

At the same time, HFSF will continue to fulfill its capital backstop role, maintaining its readiness, skills and capacity to support such transactions, in case they become necessary for systemic stability, whilst ensuring that RFAs & HFSF's legal rights are fully respected.



Objective (B): Promotion of Banks' return to profitability

In tandem with the above objective, at the heart of HFSF's mandate lies the need for financial stability. The latter is aligned with the overall health of the banking sector, i.e sustainable profitability, NPE reduction, as well as sensible risk appetite.

Creating shareholder value in the current environment is critically dependent on the improvement of financial performance, decisive strategic actions & operational execution in the "good / bad bank" segments and a clear focus by the Boards on shareholder interest via transparency and strong governance.

Whilst respecting each Bank's independence, HFSF has formulated its own perspective on the optimal strategic direction of the Banks and engages directly with their management and Boards to promote its views.

In this regard, HFSF has identified, prioritized and agreed with the Banks' management, key business initiatives to aid banks business plans, budgets, risk appetite and funding strategies.

HFSF also pursues new initiatives to improve the access of the Greek systemic banks to the international capital markets, including the adoption of EC guidelines for Covered Bond Issues, as well as recommendations for private placements.

HFSF encourages private capital participation in the Greek banks, by communicating improvements made over the last few years and highlighting the potential opportunities to the international investment community.

The above initiatives will create the minimum conditions for materializing HFSF's exit plan (divestment timeline & triggers), to be executed subject to stakeholders' approval.



Objective (C): Facilitation of the resolution of NPLs

The high NPL burden calls for a systemic structural solution. Although the four Greek systemic Banks have made some steps in terms of reducing their NPE ratio, they have still a long way to go to converge to the European average of less than 5%.

The provision of technical assistance in the efforts of the systemic Banks to resolve the above largest impediment on their balance sheets, represents another challenging focus of the HFSF. HFSF strives to ensure that the banks' efforts are aggressive enough to deliver results rather than delaying hard decisions, while also safeguarding against actions that would needlessly hurt taxpayer value. Such technical assistance is both bank-specific and collaborative, by providing expertise where possible and liaising with key stakeholders and regulators, if necessary.

HFSF leverages its shareholder role to push for improved performance in NPL resolution via direct engagement with the Banks' management, as well as via its Board members. The status of NPL resolution progress via RFA Key Performance Indicators ("KPIs") & SSM targets is consistently monitored and any significant risks are escalated to Board and HFSF stakeholders.

Moreover, HFSF has identified best practices in NPL resolution internationally and regularly communicates them to the Banks, via direct contact, Board representation or specialist forums.

Systemic solutions, such as HFSF's Asset Protection Scheme & BoG's AMC/DTC are imperative structures that the Banks need to exploit, to achieve aggressive NPE reduction and approach the Eurozone average. Although Banks have submitted & committed to more or less aggressive NPE reduction plans for the next years, no explicitly pronounced plan for credit growth strategies/ transformational plans is available. Apart from actions undertaken to accelerate the reduction of NPEs (numerator), the banks will have to proceed to parallel actions, in order to increase the Gross Loans (denominator), i.e. supply credit to the real economy.

Other initiatives of the HFSF include the identification of the non-regulatory constraints and impediments that hinder the development of a dynamic NPL market in Greece, the proposed NPL resolution action plan to enhance coordination among Banks and accelerate the restructurings of large corporate NPLs, as well as the latest initiative together with the MinFin, for the introduction of an asset protection scheme (APS) which foresees securitizations of NPL/NPEs partly backed by the Hellenic Republic.



Objective (D): Promotion of best practice and internal control frameworks

The HFSF 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.

HFSF proactively contributes to the improvement of the functioning of Banks' Boards and committees and encourages the establishment of a "Governance Culture" throughout the Banks' hierarchy. It promotes the introduction of best practice via direct and indirect interventions at the Board (e.g. escalation of issues and approval of governance policies respectively).

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. Such standards are defined based on international best practice, aiming to improve governance beyond minimum legal requirements. They also apply within HFSF, so as to ensure credibility and consistency.

HFSF, in cooperation with the Greek systemic Banks, has successfully transformed Boards' membership and succeeded in bringing international experience in the Boards.

Through the constant engagement of the HFSF Representatives with the Board & Committee Chairs, incremental improvements have been evidenced (e.g. banks have started considering the concept of establishing Ethics Committees). This in turn facilitates the strengthening of HFSF's communication with the NEDs of the banks' Boards.

HFSF Board influence has been further enhanced by a tighter cooperation between Observers & Representatives, as well as the regular involvement of the Representatives in meetings within the Fund, in order to increase their awareness of the Fund's views and priorities.

In 2018, HFSF will publish revised guidelines for the Banks to improve their Board nomination policies, whilst ensuring a formal and transparent selection and appointment process for Board members.