

ECFIN Seminar for Journalists from Euro Area Countries

Is Greece fit for the future? A fact finding visit for journalists



Ταμείο Χρηματοπιστωτικής Σταθερότητας
Hellenic Financial Stability Fund

The State of Greek Banks:

Can they tackle non-performing loans and provide credit to the real economy?

Presented by:

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**Hellenic Financial Stability
Fund**

Agenda

1 Executive Summary

2 HFSF's Mission & Governance

2a HFSF's Role in NPL Resolution

3 Improvements in the Greek Legal & Judicial Framework

4 Progress delivered by Banks

5 Banks' Initiatives towards NPL Resolution

6 Banks' NPE strategies and Operational Targets

7 Potential NPL Resolution Strategies

8 Investors' Appetite



1 Executive Summary



Executive Summary

- ❑ Banks' efforts towards NPL resolution have started delivering positive results. This is the outcome of a combination of factors, including achievements in the **Legal, Judicial & the overall NPL management framework**; improvement in **Greek macro-economic indicators**; acceleration of banks' initiatives regarding NPL resolution; Banks' **holistic** approaches to NPL management as depicted in their **NPE strategies**;
- ❑ **Government & Institutions** are also working on several initiatives, including reforms in the Household Insolvency, a roadmap for the relaxation of capital controls, the establishment of a Credit Bureau;
- ❑ **HFSF** has also contributed to these developments, through continuous actions to assist banks in all innovative efforts towards the resolution of NPLs; from enhancements brought upon in the areas of Banks' NPL & Governance framework, the introduction of Risk & NPL experts in the Banks' BoDs, to the studies delivered on the identification of NPL market impediments and the recommended action plan on Banks' coordination regarding Large Corporates, which led to the creation of the NPL forum by Hellenic Banking Association (HBA);
- ❑ Although **the secondary markets** are still in a developing stage, banks have opened the asset sales markets for distressed debt, through sales of NPL portfolios, following, among others, recent enactments in the areas of NPL transfers and servicing as well as, the 10 NPL servicer licenses granted by the Bank of Greece until 31/12/2017;
- ❑ Increased **investors'** appetite is attributable to the aforementioned factors, but also to the low valuations prevalent in the market;
- ❑ Therefore, ceteris paribus, we expect that the above initiatives **will foster the NPLs reduction within the forthcoming years.**



2 HFSF's Mission & Governance



A few words about HFSF's mission...

HFSF mission as set out in Law 3864/2010:

“Contribute to the maintenance of the stability of the Greek banking system for the sake of public interest”

Safeguard Financial Stability	<ul style="list-style-type: none">• HFSF contributed €31,9bn for share capital increases in the Four Systemic Banks and interim financial institutions and €13,5bn in Bad Banks' Funding Gap supporting financial stability in the Banking Sector;• Ongoing support financial stability by taking decisions that consider the implications for the entire banking sector and mitigate systemic risks .	HFSF as Shareholder
Manage for Value	<ul style="list-style-type: none">• HFSF strategy and drive key decisions with a view to preserve the value of HFSF holdings and optimize the benefit for the taxpayer.	HFSF as Active Shareholder:
Promote long-term viability and competitiveness	<ul style="list-style-type: none">• Promote the return of the supported credit institutions to <u>sustainable</u> long-term viability to ensure its future health and efficient functioning to support Greece's economy;• Pursue actions to improve confidence in the system both on the side of depositors as well as private investors – Corporate Governance Initiatives• Guide the banks in becoming more competitive.	RFAs HFSF Reps

The HFSF's Mission Principles are the foundations of its decision making



A few words about HFSF's Structure & Governance...

HFSF's Decision Making Bodies

Bodies	Members	Responsibilities
The Executive Board (EB)	EB shall consist of three members. The members of the Executive Board are selected by a Selection Panel (article 4A of Law 3864/2010) following a public call for expressions of interest and appointed by a decision of the Minister of Finance. Appointments of member of the Executive Board including respective remuneration shall require the prior agreement of the Euro Working Group.	EB is charged with the preparation of the HFSF's tasks and the implementation of its decisions, its competent bodies and conduct of its operations necessary for the administration and operation, as well as, for the fulfillment of its objective. For more information you may visit: http://hfsf.gr/en/exboard.htm .
The General Council (GC)	GC shall consist of nine (9) non-executive members. Seven (7) of its members, including the Chairman, shall be persons with international experience in banking matters. The other members of the General Council shall be a representative of the Ministry of Finance, and a person nominated by the Bank of Greece. With the exception of the representative of the Ministry of Finance and the nominee from the Bank of Greece in the General Council all appointments, including renewal of appointments and respective remuneration of member of the General Council, shall require the prior agreement of the Euro Working Group.	GC shall decide on its own initiative or upon proposal of the Executive Board, depending on the matters involved and shall be charged with the oversight over the proper operation and fulfillment of the objective of the Fund. For more information you may visit: http://hfsf.gr/en/generalcouncil.htm

Bank	# of Shares held (2/2/2018)				
	1st recap (2013)	2nd recap (2014)	3rd recap (2015)	Conversion from Prefs	Total
Alpha Bank	169.175.146	-	-	-	169.175.146
Piraeus Bank	2.042.082	-	113.333.333	-	115.375.415
National Bank of Greece	134.820.022	-	2.254.869.160	1.305.000.000	3.694.689.182
Eurobank	52.080.673	-	-	-	52.080.673

Note that as per par. 1 of article 7a of Law 3864/2010, "The Fund shall exercise without limitation the voting rights corresponding to the common shares subscribed to by it in the context of a capital support pursuant to article 7". Specifically the Fund holds the voting rights as per the table on the right:

30/06/2017	National Bank of Greece	Piraeus Bank	Alpha Bank	Eurobank
Shares with Full voting rights(%)	38,92%	25,95%	-	-
Shares with restricted voting rights (%)	1,47%	0,47%	2,38%	10,96%

2a HFSF's Role in NPL Resolution

HFSF's Contribution in NPL Resolution

2015-2017

August- November 2015

HFSF participated in the WG est. by the MoE, in the creation of a Holistic Strategic Plan of NPL management resolution in Greece.

December 2015

HFSF applied NPL resolution requirements & KPIs, through the revised RFAs.

June 2016

HFSF published the first update of the study on NPL market impediments
http://hfsf.gr/files/updated_analysis_20160901_en.pdf

September 2016

HFSF reviewed & approved the four systemic banks' NPE strategies and respective operational targets, submitted to SSM. HFSF also approved the revised strategies in September 2017.

September 2017

- ❑ HFSF was appointed as an observer, in HBA's NPL Coordination Committee.
- ❑ HFSF's 2nd Corporate Governance Review – Enhancements of NPL & Risk Management Framework

December 2017

HFSF has concluded the second update on the NPL Market Impediments study .

October 2015

HFSF's initial study on the identification of impediments for the establishment of a dynamic NPL market in Greece.

June 2016

HFSF study & action plan, on banks' coordination regarding Large Corporate NPL Resolution; which led to the creation of the NPL Forum by HBA.

July 2016

HFSF's 1st Corporate Governance Review – Significant Changes in BoDs; Introduction of Risk & NPL Experts

June 2017

HFSF's published a progress report on NPL market impediments.
http://hfsf.gr/files/NPL_Market_Impediments_Update_Jun_17.pdf

October 2017

HFSF Participated in meetings with Hellenic Banking Association NPL Forum Chair regarding HFSF's information requests.



3 Improvements in the Greek Legal & Judicial Framework



Major reforms introduced in the Greek Legal & Judicial Framework (1/2)

Within the 2.5 years, Greece has introduced and legislated a number of decrees, laws & regulations. Significant achievements in the legal, judicial and the overall NPL management framework can be highlighted in the following areas:

- ✓ **The introduction of NPL transfer and servicing** is now regulated on the basis of new enactments (L.4354/2015, L.4389/2016 and L.4484/2017);
- ✓ 2017 was the year of enactment of an **Out- of Court-Workout framework (OCW)**, intended to facilitate the workout of the debt of viable enterprises affecting all creditors, private & public alike; The new framework involves the setting up of a platform to facilitate exchange of information and communications among the parties, as well as co-ordination by a certified mediator;
- ✓ Recent amendment in **Greek Bankruptcy Code (GBC)** addresses satisfactorily the issue of conversion of debt to equity even without the shareholders' consent, while previously identified impediments in the GBC have been addressed through L.4446/2016;
- ✓ The amendment of the **Code of Civil Procedure (CCP)** appears to have set the basis for much improved efficiency in the enforcement of security rights, including the procedure of electronic auctions;
- ✓ As of 26/5/2017, the MoJ decision **commenced electronic auctions**, in accordance with the provisions of the CCP. The first day that e-auctions was on 29/11/2017. Only e-auctions are currently allowed as physical ones have been abolished. E-auctions are expected to expedite the foreclosure actions of banks and induce interest in properties market.;

Major reforms introduced in the Greek Legal & Judicial Framework (2/2)

- ✓ Presidential decrees & amendments of Laws have been enacted to:
 - ✓ address the **legal liability** of banks' restructuring personnel,
 - ✓ regulate the profession of the **insolvency administrator** (so that pending cases may be accelerated),
 - ✓ resolve the issue regarding **Banks' tax losses** arising from write-offs or NPL sales to be carried forward and be offset against the taxable profits of each corresponding year. Tax corresponding to the above losses will be DTC eligible.
- ✓ Additionally, there are ongoing reforms for the improvement of the **property registration** system;
- ✓ A relevant roadmap has been agreed between the Greek Authorities, for the **relaxation of capital controls**.

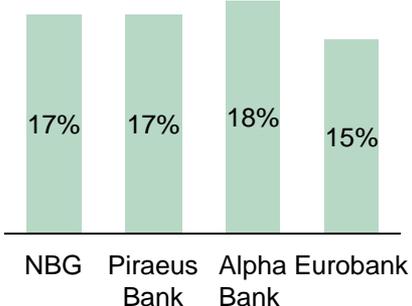


4 Progress delivered by Banks



Significant progress delivered by the 4 systemic Banks

Regulatory Capital Ratios

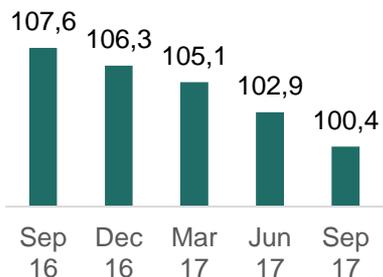


Strong Regulatory Capital Ratio:

Well above average CET1 for European banks (13,9%)

Decrease of the RWAs due to deleveraging

Greek banks NPEs (€ bn)



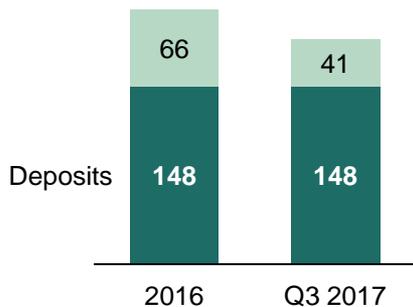
Asset Quality:

Reduction of NPE stock in Greece (€7.2bn since Q3 2016) in line with SSM targets

Average NPE Coverage 49%

Negative NPE formation for two consecutive quarters (Q2 & Q3 2017)

Eurosystem Funding(€ bn)



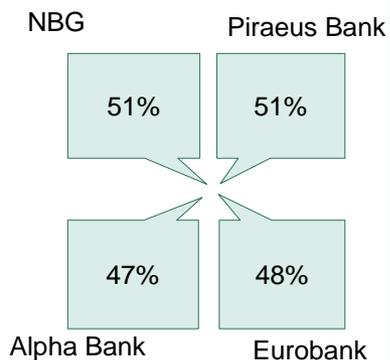
Improved Funding Position:

Significant reduction in EuroSystem Funding Reliance (€-25bn within 9M 2017)

Stable Deposit Base: Private sector deposit flows turned positive in May and increased further during the summer supported by the completion of the 2nd review

Significant progress delivered by the 4 systemic Banks

Cost / Income ratio



Major Sector's Restructuring:

Greek banks have continued to restructure their operations and cost base resulting in significant streamlining of branches and employees

Restructuring Plan Commitments mostly completed

Banks have notably improved their governance, succeeding to attract new highly skilled and experienced NEDs and largely implementing the HFSF's recommendations. As of 30/09/2017:

- 59% of total board members have changed,
- 73% of NEDs have changed,
- 70% of total board members are foreign

HFSF communicated the results of the 2017 review to banks and are cooperating on the recommendations' implementation.

Evaluation of Greek Banks' BoD and Governance Arrangements is performed by HFSF on a regular basis.

5 Banks' Initiatives towards the NPL Resolution



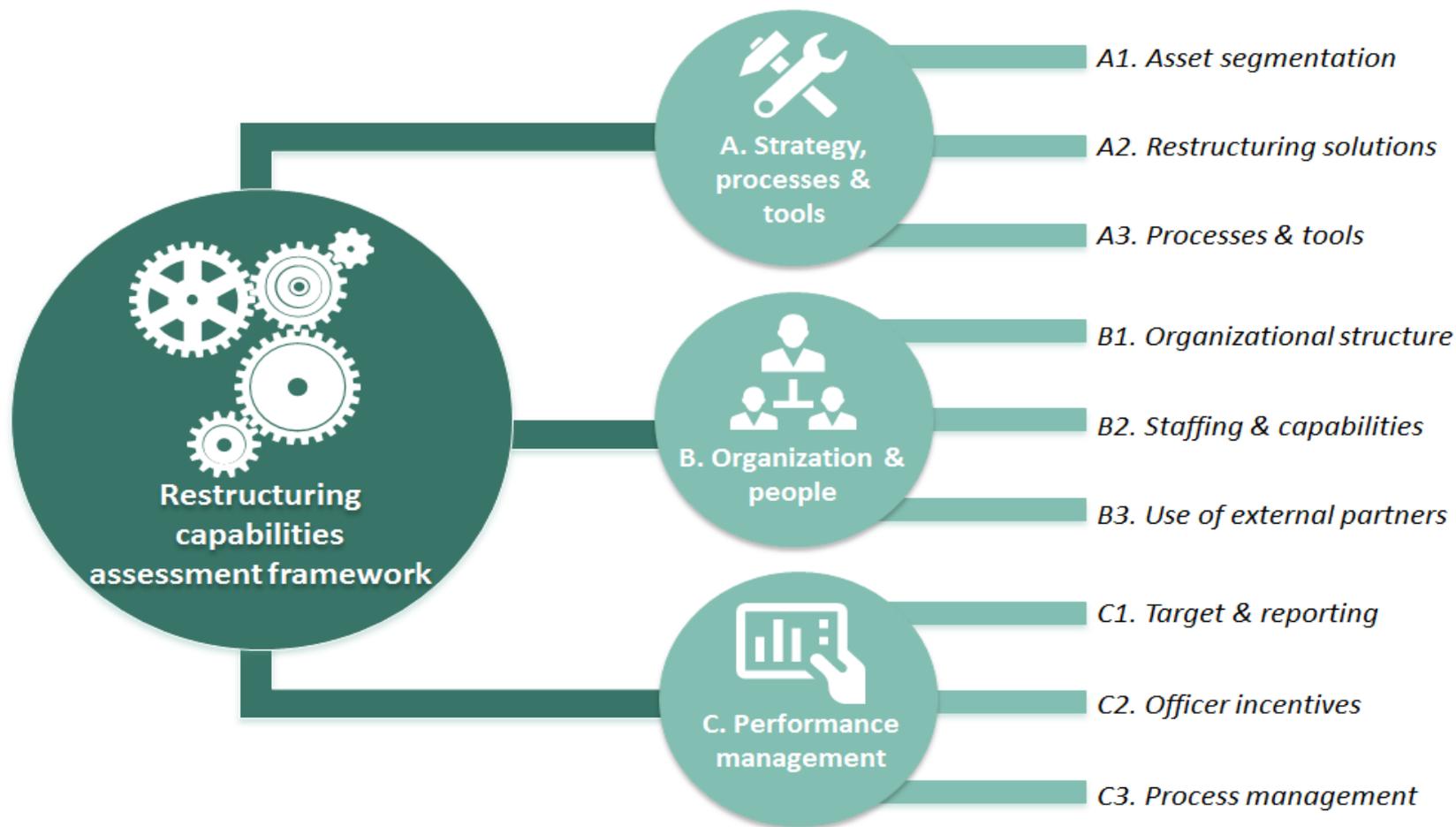
Inter-bank coordination is improving with Banks' initiatives ...

- ❑ The **HBA's NPL Coordination Committee** , which was constituted by a decision of the Hellenic Bank Association's (HBA) Board of Directors, to monitor the institutional legal & regulatory framework for past due claims (indicative: out-of-court work out mechanism, asset management and debt collection companies, debtor information companies, Code of Conduct);
- ❑ The **NPL Forum for Large Corporates**, which is a Forum established by the four systemic banks, in order to achieve a closer cooperation in terms of corporate loan restructurings of common troubled borrowers, which is integral both to the economy and to the accomplishment of banks' respective NPE targets;
- ❑ The **Project Solar**, is the 4 systemic banks' collaborative partnership for the management of a selected pool of NPEs of common SME borrowers under a common asset management & servicing platform. Key objective is to enhance efficiency of work-outs, accelerate recoveries and reduce NPE stock;
- ❑ Interbank co-operation regarding distressed debtors under **Law 3869** protection.



Banks' restructuring capabilities have been substantially improved (1/2)

The development of a number of **additional tools/products** to be used by Banks for restructuring purposes, plus numerous other initiatives, have contributed to a change in the Banks' assessment framework.



Banks' restructuring capabilities have been substantially improved (2/2)

A. Strategy, processes & tools

Enhancements

- Improvements in **asset segmentation & the use of prioritization principles** ;
 - **Expansion of the areas assessed** to include both quantitative (e.g. financial KPIs) and qualitative (e.g. feasibility of company's business plan, sector potential);
 - Clear definition of **criteria thresholds** for different segments & development of detailed decision trees, **linking segments to specific restructuring options**;
 - Use of best practice analytics to support customer delivery, including **NPV and loss budget** allocation framework;
 - Expansion & standardization of **more advanced solutions and long term solutions** (e.g. assessment of debt-to-equity swaps, operational restructurings), through the investment in capabilities of restructuring officers.
-

B. Organization and people

- Banks have addressed staffing limitations by:
 - **Expanding training sessions** for existing resources;
 - Bringing in additional **resources with appropriate expertise** in restructuring solutions.
-

C. Performance management

- Banks have developed a clear NPE strategy, have expanded target setting and conducted structured **performance dialogues** at all levels;
 - Introduced financial & operational KPIs for the effectiveness of restructuring solutions/options;
 - Enhanced the Systems & IT infrastructure to accommodate new indicators;
 - Introduce **incentives** (both monetary and non-monetary) clearly linked to individual and team performance.
-



Effect of changes is depicted in the Banks' submitted operational targets

- ❑ Banks are planning to increase modification solutions offered to distressed customers, aiming to **increasing LT modifications**, in the range of 42% -50% in 2019; vs 20%-33% in 2017; Banks anticipate that the continued efforts towards long-term restructurings would result in major shift of the NPE to a long-term modification by the end of the forecast period (2019). Banks have launched a number of relevant products, taking into account borrower's ability to pay, on a pre-approved basis or upon the normal due diligence/approval process.
- ❑ All institutions are aiming at enhancing efforts to denounce all long past-due loans **720+dpd loans** and move them to legal proceedings; as such, it is expected that the 720+ dpd not denounced loans will decrease significantly from Q2 2017 until the end of 2019 (from 10%-21% to 0%-6% for SMEs and from 16%-35% to 2%-13% for Large Corporates).
- ❑ Subsequently, the **course of legal actions taken over denounced loans**, is anticipated to remain at very high levels throughout the period under consideration (Q2 2017-2019) ; with the respective target forecasted in the area of 92%-99% in 2019; This evolution is also assumed to be mainly driven by the significant changes in the legal environment, including the lift of the auction ban for residential properties, the enhancement of the civil code for the judicial procedure, and the new bankruptcy law for individuals.
- ❑ Banks also expect significant improvements in the areas of:
 - ✓ **SMEs' restructuring solutions** (in terms of increasing the percentage of viability analysis conducted up to the range of 71%-97% in 2019, with the aim to offer appropriate restructuring solutions);
 - ✓ Implementation of an increasing number of common **restructuring solutions over common borrowers' corporate and SME loans**; and
 - ✓ Doubling the number of **Corporate NPEs, for which a specialist** is engaged to implement a company restructuring plan by 2019.

Source: Bank of Greece

Report on Operational Targets for Non-Performing Exposures, 5/12/2017



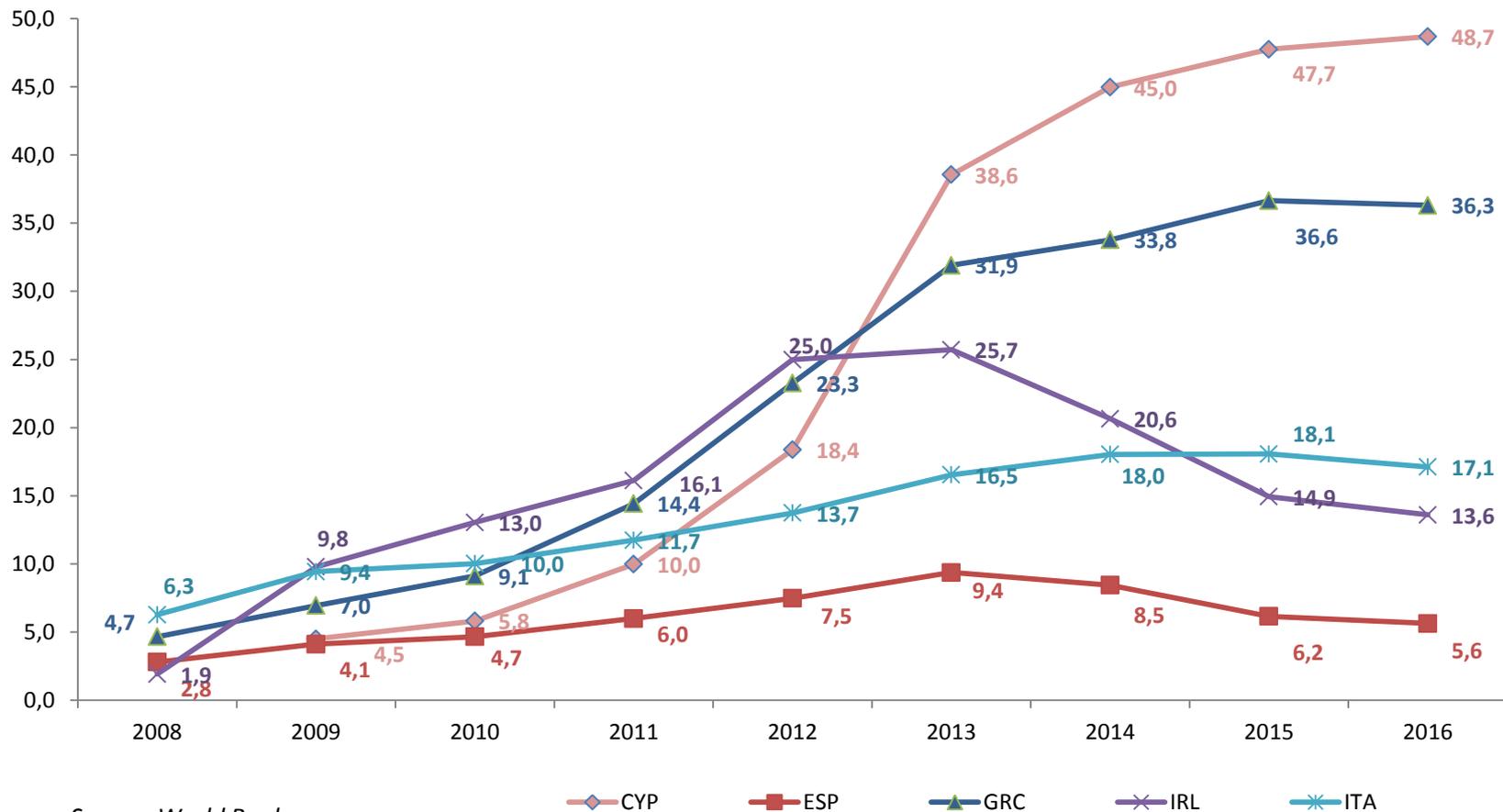
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Banks' NPE strategies and Operational Targets



The NPL Problem in selected European countries

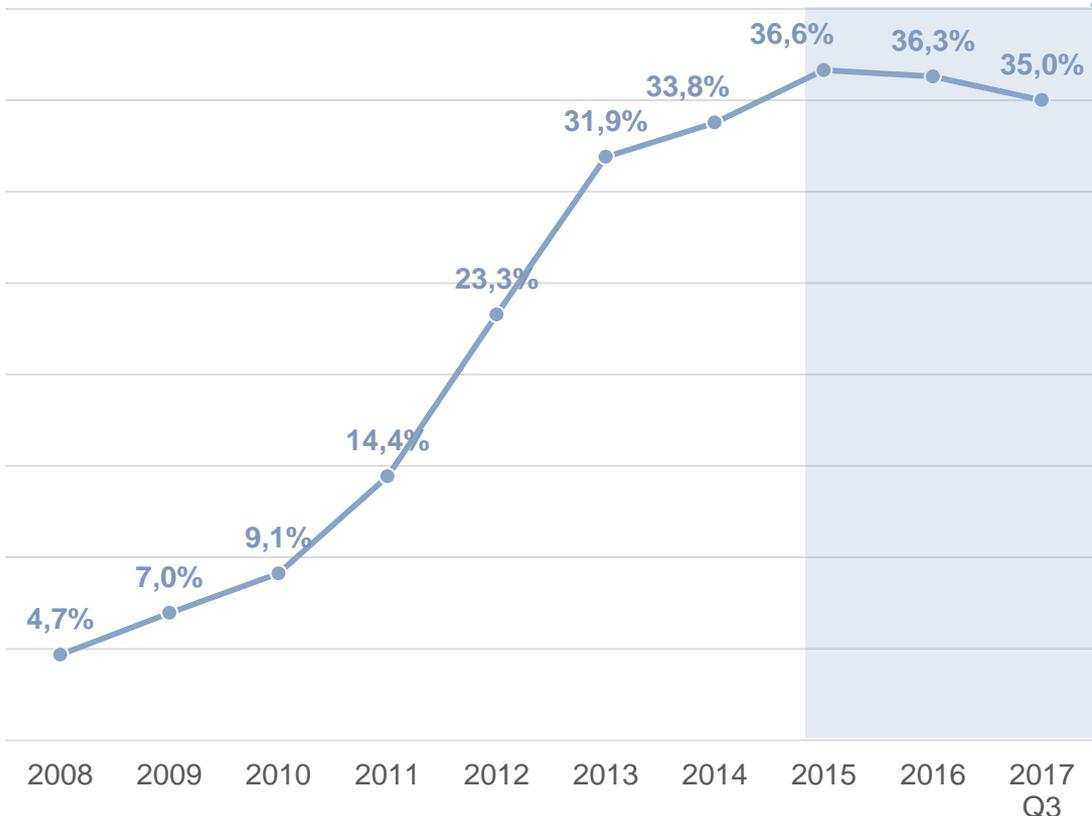
Banks' Non-Performing Loans to total gross loans (%)



Source: World Bank

The NPL / NPE problem in Greece

Greek banks - NPL ratio

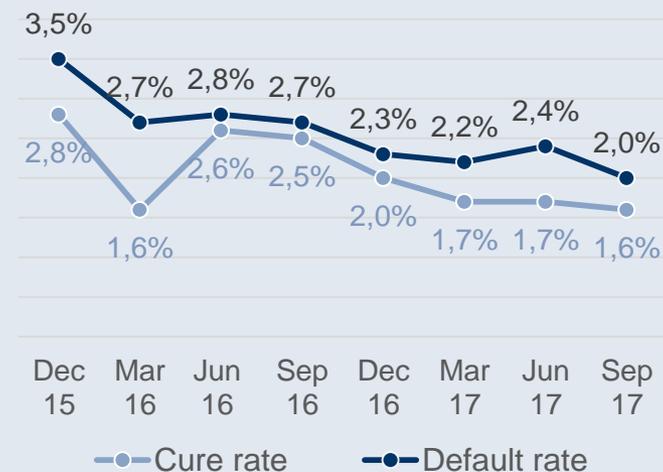


Source: World Bank, Bank of Greece & Statista

Greek banks – NPEs (€ bn)



Greek banks – Loan default & cure rates



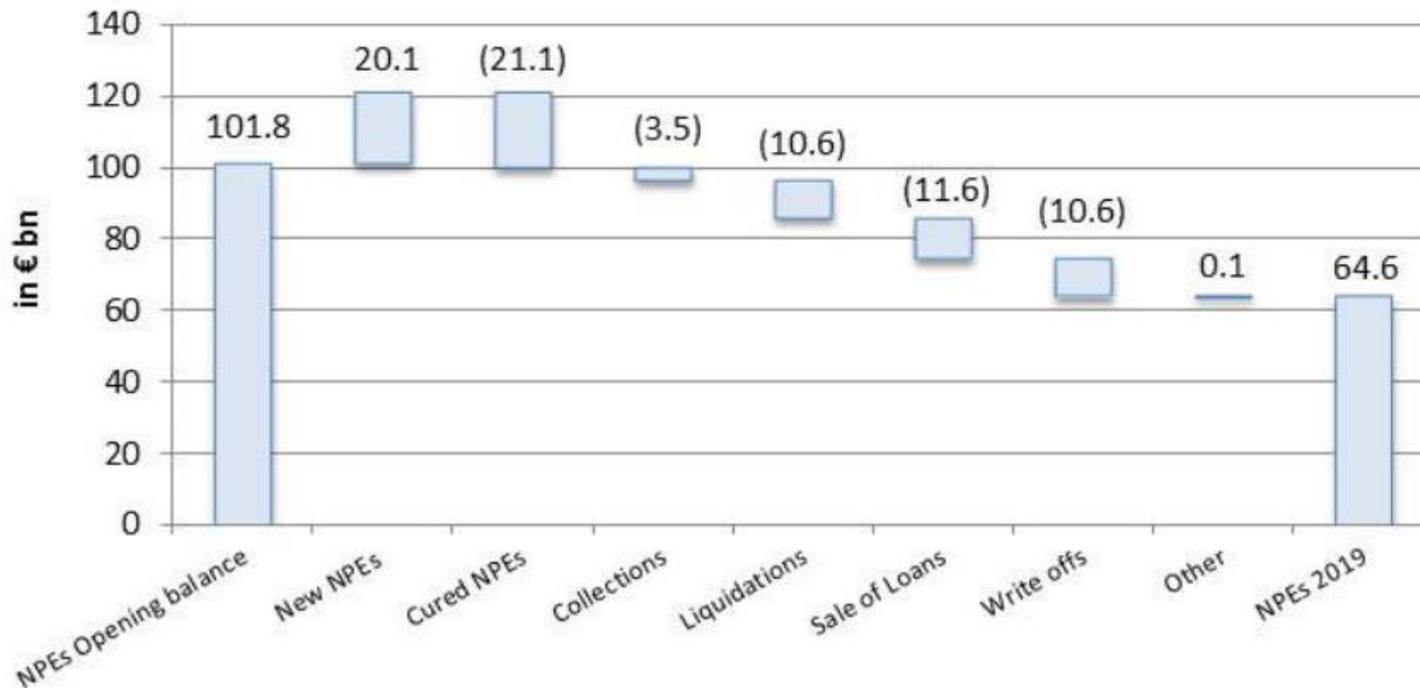
Source: Bank of Greece



Banks' Submitted NPE Strategies to SSM are in the direction of reducing their NPEs

- In September 2017, the Banks' updated Operational Targets and KPIs were submitted to the SSM reflecting the Banks' NPE Management Strategies.

NPE Movement Q2 2017 - 2019



Source: Bank of Greece



7 Potential NPL Resolution Strategies



Several Strategies available for an ultimate NPL resolution

- ❑ A significant reduction of NPLs is critical to restore confidence in Greek banks and support the recovery of the Greek economy;
- ❑ It will take several years for Greek asset values (esp. residential real estate) to recover to pre-crisis levels and for banks to reduce NPLs to sustainable levels;
- ❑ There is a wide range of NPL resolution options that could be deployed by banks and authorities alike;
- ❑ HFSF is currently elaborating on different options available for the acceleration of 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; or
 - ❑ A securitisation transaction with a credit enhancement in the form of an asset protection scheme, which would provide further flexibility with respect to the amount of risk transferred and/or retained by banks and could diversify investors' base with risk tranching;
 - ❑ As well as, other options, as summarised in the next slide.

Several Options available to Maximize & Accelerate NPE Treatment

	INTERNAL NPE MANAGEMENT UNIT	CREATION OF A SEPARATE LEGAL ENTITY	SALE OF NPE PORTFOLIOS	CREATION OF A NATION WIDE AMC	CREATION OF A COMMON SERVICER PLATFORM	ASSET PROTECTION SCHEMES
ADVANTAGES	<ul style="list-style-type: none"> ✓ Avoid transfer of assets & crystallization of losses ✓ Banks and their shareholders keep the ability to benefit from a potential value creation 	<ul style="list-style-type: none"> ✓ Capital relief through RWA reduction and improvement of asset quality ✓ Injection of foreign investment money in Greece ✓ Management focus on core business 	<ul style="list-style-type: none"> ✓ Capital relief through RWA reduction and improvement of asset quality ✓ Injection of foreign investment money in Greece ✓ Professional 3rd party NPE management 	<ul style="list-style-type: none"> ✓ Capital relief through RWA reduction and improvement of asset quality ✓ Professional 3rd party NPE management ✓ Holistic management of NPEs ✓ Management focus on core business 	<ul style="list-style-type: none"> ✓ Rationalization of operational complexity ✓ Realization of cost synergies & economies of scale ✓ Holistic approach to NPEs' management, operating efficiencies, and potentially lower level of re-defaults 	<ul style="list-style-type: none"> ✓ Capital relief through RWA reduction and improvement of asset quality & effectively capital adequacy, via the use of credit enhancement through a securitisation transaction ✓ Provide time to banks to strengthen balance sheets; potentially covers multiple asset classes ✓ Restore confidence in banks
CHALLENGES	<ul style="list-style-type: none"> ✗ Banks still retain the NPE risk on their balance sheets, "consuming" capital and liquidity ✗ Experience of Banks' headcount in NPE treatment? ✗ Limited coordination among banks ✗ Management focus on legacy challenges 	<ul style="list-style-type: none"> ✗ Crystallization of losses might be expected given private investors targeted return ✗ Private investors interest will be limited to part of NPE, with the risk for banks to keep the worst assets ✗ Limited coordination among banks 	<ul style="list-style-type: none"> ✗ Crystallization of losses might be expected given private investors targeted return ✗ Private investors interest will be limited to part of NPE, with the risk for banks to keep the worst assets 	<ul style="list-style-type: none"> ✗ Potential negative impact on banks' capital base as a result of pricing/valuation of transferred assets ✗ Needs to be structured cautiously to avoid any impact on Greek public debt 	<ul style="list-style-type: none"> ✗ Banks still retain the NPE risk on their balance sheets, "consuming" capital and liquidity ✗ Banks' willingness to share borrowers' data ✗ Possibly increased initial costs involved & time and effort to spin off the activity 	<ul style="list-style-type: none"> ✗ Cost for an insurance premium ✗ Highly dependent on any credit quality deterioration ✗ Continues to require banks' resources



An example of an NPL Resolution Option, could be an Asset Protection Scheme

The scheme, which would be on a voluntary basis and supplementary to other banks' initiatives (e.g. restructuring & curing distressed borrowers, liquidations, NPL sales, coordination of common large borrowers' NPL restructuring), would facilitate a progressive and successful resolution of NPLs;

Potential benefits for the banks

- ❑ Provide capital relief for regulatory purposes through reduction of risk weighted assets and effectively boosting banks' capital adequacy;
- ❑ Provide the banks with “breathing time” to progressively strengthen their balance sheets, as real estate prices and distressed borrowers gradually recover;
- ❑ Contain the recognition of losses as Banks will not have to sell the guaranteed distressed assets and will have more time to restructure them;
- ❑ Restore confidence in the banks and help them regain access to financial markets and private capital;

Potential benefits for the State

- ❑ Does not require initial public spending since asset guarantees are contingent liabilities and remain off balance sheet;
- ❑ Payment of an annual fee to the State;
- ❑ Reduction of tax payer money used for the bail out of the banking sector;
- ❑ Incentivize banks to re-deploy capital to support and sustain economic growth through origination of healthy loans to specific business sectors/asset classes (e.g. SMEs, SBLs, mortgages);



8 Investors' Appetite

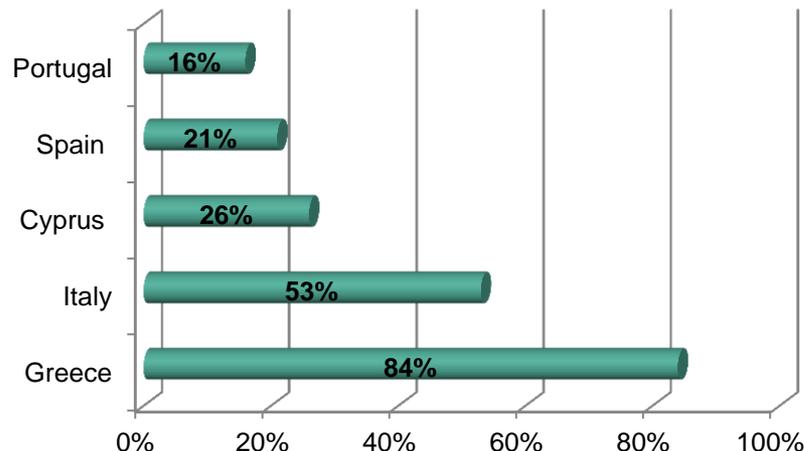


Increasing investor appetite set to bring Greece far & away from non-performing loans' shade

Significant interest observed in the Greek market following an analysis and reflection of the views of senior personnel at over 50 institutions active in the market.

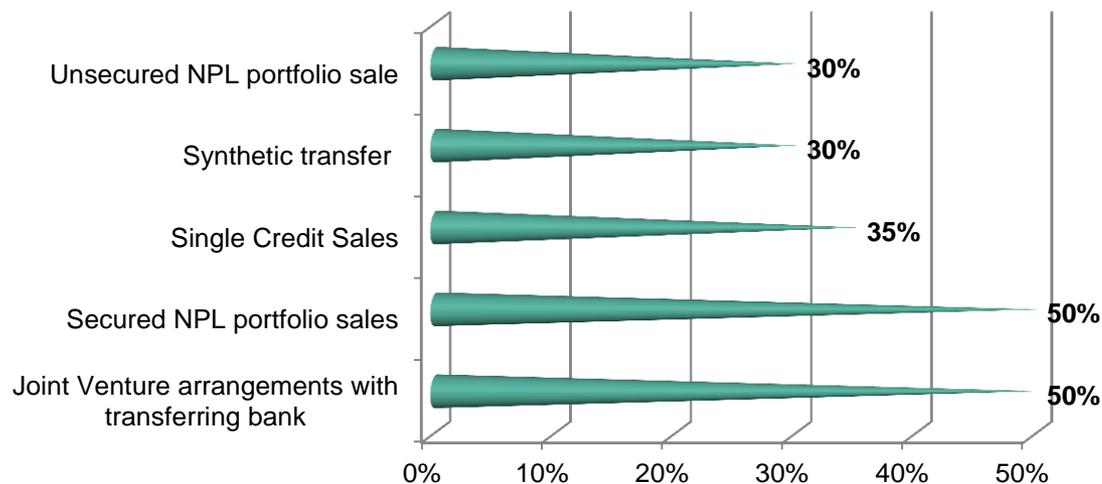
The chart on the right answers to the question posed to investors:

In which of these Southern European Countries, are you most likely to invest in the next 12 months (by selecting two top options)



The chart on the right answers to the question posed to investors:

What type of Greek NPL transaction would be of most interest to you (months) (by selecting two top options)



Source: Ashurst/ January 2018
 Report on: Greek NPL momentum builds
 TRENDS, ANALYSIS AND HORIZON SCANNING

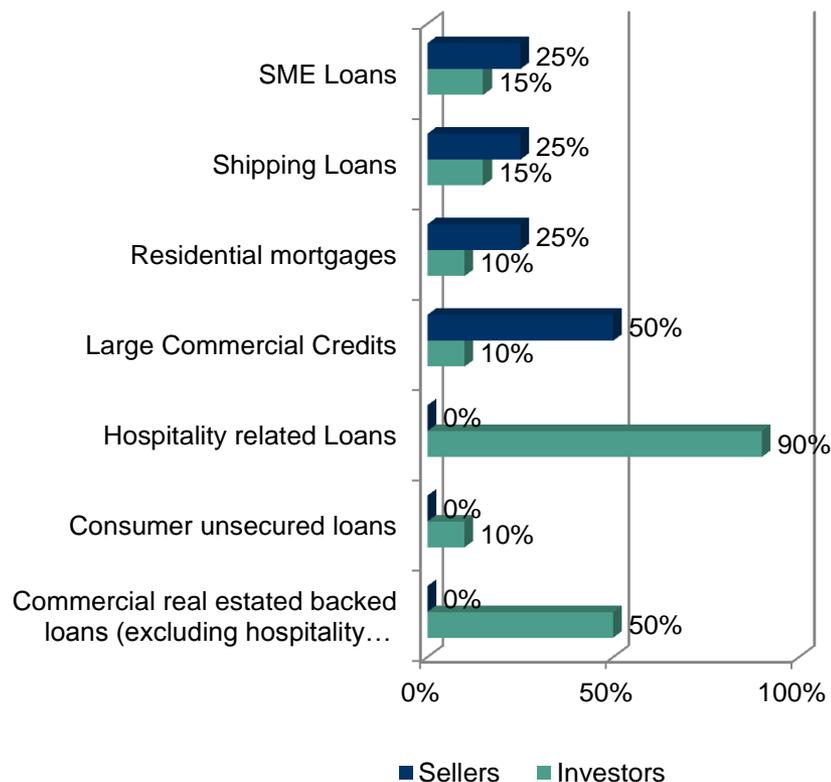
Increasing investor appetite set to bring Greece far & away from non-performing loans' shade

The chart on the right answers to the question posed to investors & sellers:

Sellers: in which sectors does your organisation face the biggest NPL challenge?(select two options)

Investors : Which asset classes would be of most interest to you in the Greek Market? (select two top options)

Hospitality related assets feature very prominently on investors' assets; While large commercial credits could be on the top the sellers agenda.



Source: Ashurst/ January 2018

Report on: Greek NPL momentum builds
TRENDS, ANALYSIS AND HORIZON SCANNING



Big opportunity for both investors & sellers alike...

- Big **opportunity** to create a market in Greece as other markets across Europe are maturing; It is clear that Greece has currently the attention of international NPL investors' community;
- There are many **NPL resolution strategies available**, to be deployed by banks and authorities alike;
- There is a **high investors' interest in buying & servicing** loan portfolios; as evident by the increased number of NPL service licenses provided but also by applications;
- **Quarterly Sale of loans**, as of Q3 2017 alone, are €1.4 bn and relate to a transaction by one Bank. This brings the total loan sales' figure for the 9 - month period to September 2019, to €1.8 billion; with a number of expected loan sales' transactions in the pipeline, within the next 12 months; and c. **€10bn** transactions expected until the end of 2019;
- It is anticipated that all aforementioned **reforms/ opportunities** will create a long term deleveraging environment & a credible pipeline of successful portfolio transactions.



Thank you

Q & As

In case you require any further information, do connect with us:

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