

DCE FSI Business School and Audit Academy '18 Athens



Ταμείο Χρηματοπιστωτικής Σταθερότητας
Hellenic Financial Stability Fund

HFSF's Mission: ***Past, Present & Main Challenges Ahead***

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Athens, June 14-15, 2018

Agenda

- 1 Executive Summary
- 2 HFSF's History, Mission & Stewardship
- 3 Living the New Corporate Governance
- 4 Stocktaking & Challenges Ahead
- 5 A new Business Model for Greek Banks



1 Executive Summary



Executive Summary

- ❑ **HFSF has actively contributed** in the rationalization and return to viability of Greek banks through varying roles assumed since 2010; The Fund's **main strategic objectives until 2022**, include guidance for overall strategic direction including post crisis challenges; capital backstop if required, conduct an orderly exit and ultimately boost shareholder value;
- ❑ Part of **HFSF's strategic objectives** is to continue its efforts to provide and promote best practices and standards aiming at improving corporate governance framework and Board performance of the systemic Greek banks;
- ❑ **HFSF** has also contributed to **NPL facilitation 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, to the studies delivered on the identification of **NPL market impediments** and the recommended action plan on Banks' coordination regarding **Large Corporates**;
- ❑ But despite achievements in the **Legal, Judicial & the overall NPL management framework**; improvement in **Greek macro-economic indicators**; acceleration of **banks' initiatives** regarding NPL resolution; banks still face challenges;
- ❑ Customer expectations, technological capabilities, regulatory requirements, demographics and economics are together **creating an imperative to change**;
- ❑ Banks need to **get ahead of these challenges**. There could be a need to make **tricky choices** about which **customers** to serve, **how to win and where not to play**;
- ❑ Banks **must not only execute on today's imperatives**, but shall also **radically innovate and strategically transform** for the future;



2 HFSF's History, Mission & Stewardship



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

- 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;
- Ensure the stability of supported credit institutions by taking prudent decisions to safeguard their interests against undue risks.

Manage for Value

- HFSF strategy and drive key decisions with a view to preserve the value of HFSF holdings and optimize the benefit for the taxpayer.

Promote long-term viability and competitiveness

- Promote the return of the supported credit institutions to sustainable long-term viability to ensure its future health and efficient functioning to support Greece's economy; through ongoing monitoring & evaluation of the BoD corporate governance structure and through active NPL management facilitation;
- Pursue actions to improve confidence in the system both on the side of depositors as well as private investors;
- Guide the banks in becoming more competitive.

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



Hellenic Financial Stability Fund

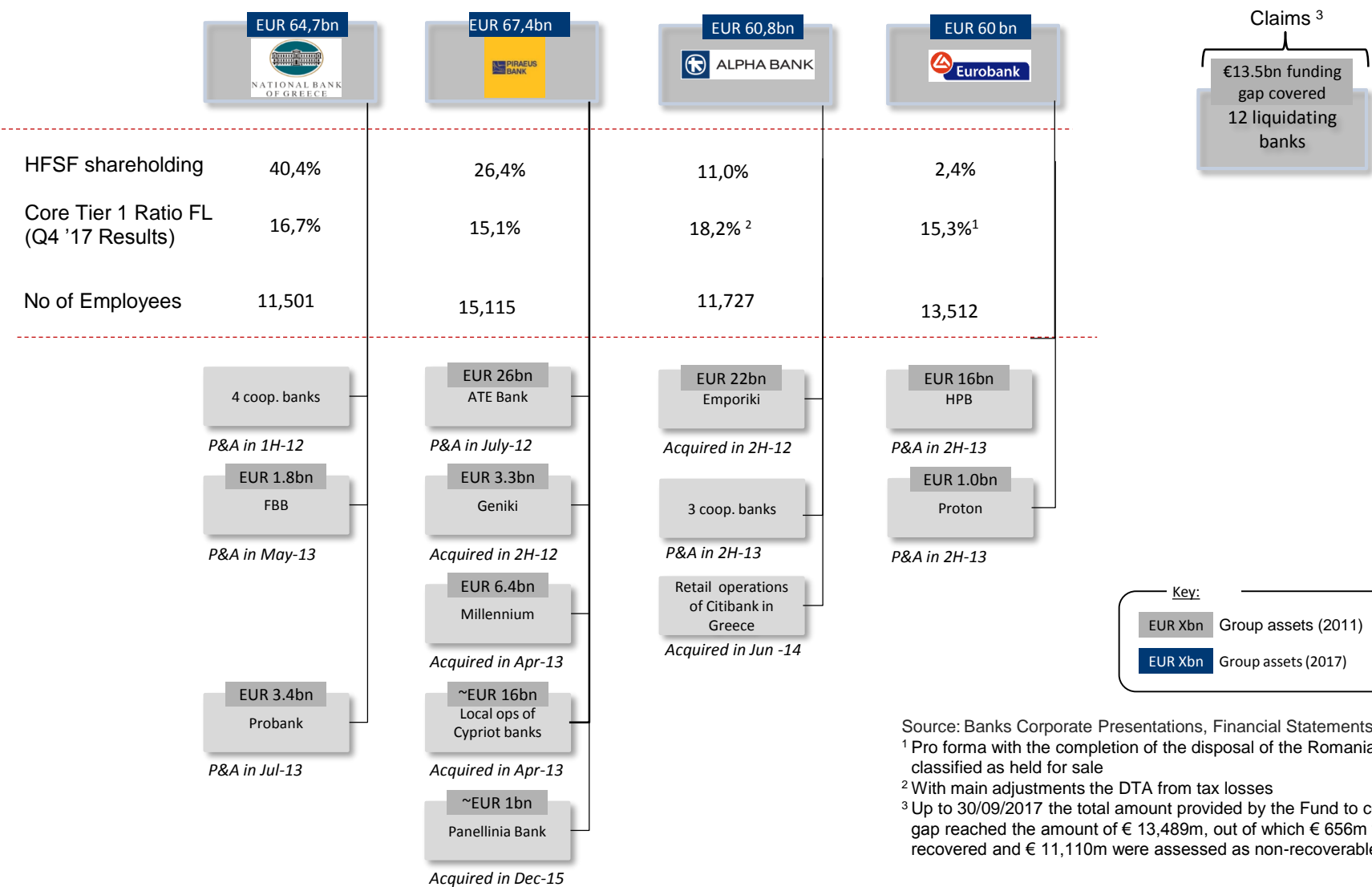
HFSF has assumed varying roles since 2010 actively supporting Greek banks

HFSF has actively contributed in the rationalization and return to viability of Greek banks through:

- 1 The rapid consolidation of the Greek banking System
- 2 Providing capital and maintaining stability for the Greek banking System
- 3 Attracting private capital and strategic interest to Greek banks
- 4 Promoting & overseeing operational and financial restructuring initiatives across banks
- 5 Overseeing the strategic directions and key decisions of banks and acting as a prudent shareholder
- 6 Introducing best practice policies and corporate governance standards
- 7 Facilitating the NPL resolution through various projects & initiatives
- 8 Increase shareholder value for the Hellenic Republic and prepare for exit



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



Source: Banks Corporate Presentations, Financial Statements.

¹ Pro forma with the completion of the disposal of the Romanian subsidiaries classified as held for sale

² With main adjustments the DTA from tax losses

³ Up to 30/09/2017 the total amount provided by the Fund to cover funding gap reached the amount of € 13,489m, out of which € 656m were recovered and € 11,110m were assessed as non-recoverable.



HFSF strategic objectives until 2022

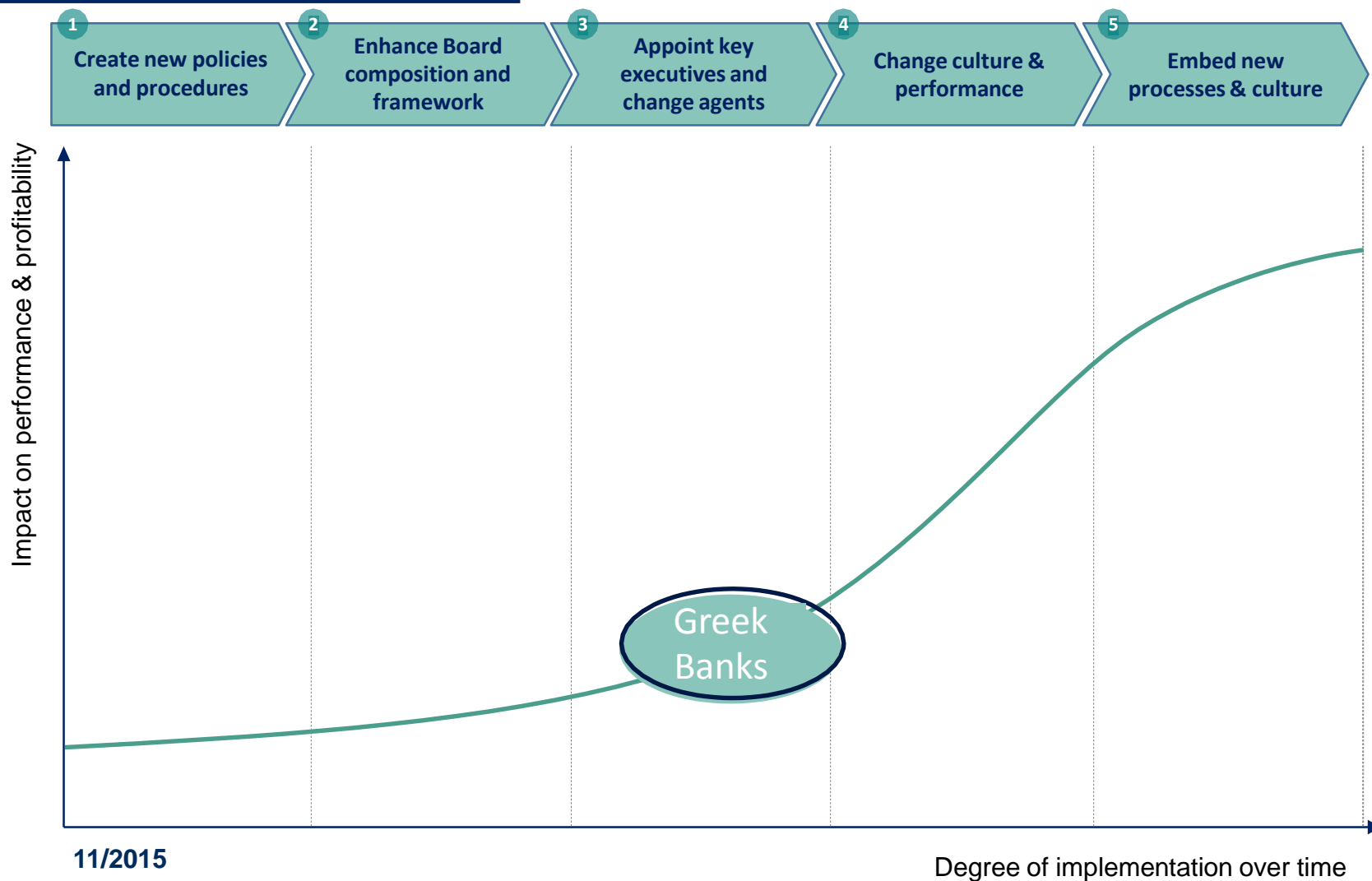
<i>Objectives</i>	<i>Description</i>
1	Fulfil our shareholder and statutory role
2	Guide Banks' return to long-term viability
3	Add value to the resolution of NPLs
4	Improve Corporate Governance
	<ul style="list-style-type: none">▪ Provide guidance for overall strategic direction and 'after the crisis' challenges▪ Provide capital backstop to banks in need and conduct an orderly exit in due course▪ Enhance Shareholder value▪ Pursue the return of systemic banks to long-term profitability, by pushing for appropriate strategies and following up on their implementation▪ Follow up the banks' Restructuring Plans and ensure key Commitments are met▪ Provide technical expertise, direction and advice in the NPLs resolution problem▪ Track NPE/NPL environment to identify opportunities and challenges for their resolution▪ Monitor implementation of NPE reduction plans of each bank and promote optimal strategies over the course of their execution▪ Conduct formal reviews of the Governance arrangements of each banks and provide recommendations to their Boards on an annual basis▪ Continuously pursue improvements in the functioning of banks' boards and committees and encourage the establishment of a "Governance Culture" throughout their hierarchy

3 Living the New Corporate Governance



The Greek banks are in the middle of the Corporate Governance journey

Phases along the Corporate Governance Journey



Focus on steps towards banks' corporate governance improvement

Institutional developments

- HFSF undertakes the responsibility to evaluate banks' corporate governance - MoU & Sup. MoUs
- Signed Relationship Framework Agreements (RFA) include corporate governance guidelines
- **HFSF monitors and evaluates the performance** of systemic banks' boards and board committees
- HFSF develops specific eligibility criteria for board members

Boards' review 2016

- **Evaluation of individual board members against the HFSF criteria**
- Banks were notified on cases of non eligible board members & requested to proceed with their replacement
- HFSF developed specific recommendations for corporate governance improvement

Boards' review 2017

- Focus on the **banks' boards of directors and their risk and audit committees**
- Significant improvement in the boards' composition, skill and focus has been identified
- Additional actions are needed in the areas of risk culture & appetite, compliance, internal control framework, senior management performance assessment
- HFSF has provided to Banks its recommendations, and expected timeline of their implementation

Progress so far & next steps

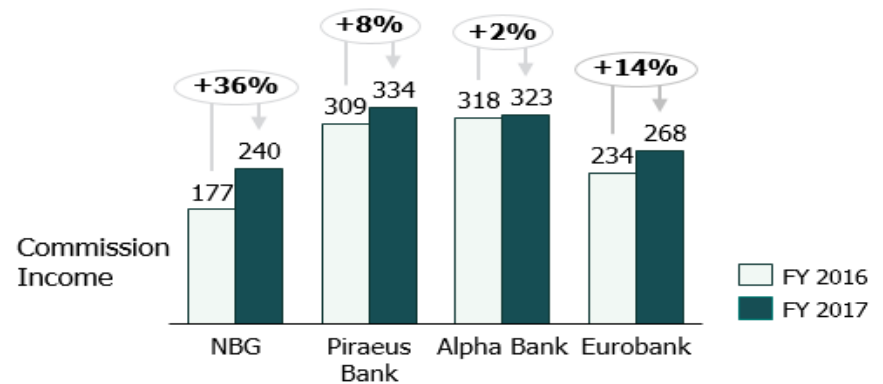
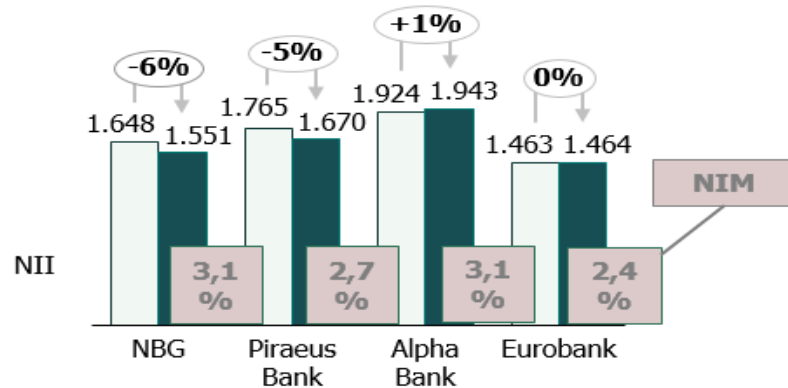
- Banks have notably improved their governance, succeeding to attract new highly skilled and experienced NEDs and largely implementing the HFSF's recommendations. As of December 2017:
 - **63% of total board members have changed,**
 - **76% of NEDs have changed,**
 - **c.70% of NEDs are foreigners,**
- HFSF monitors the implementation of 169 recommendations for the four SCIs



4 Stocktaking & Challenges Ahead



Key Profitability Indicators FY 2017 (Group Basis)



Cost to Income Ratio

NBG

53%

Piraeus Bank

53%

Alpha Bank

48%

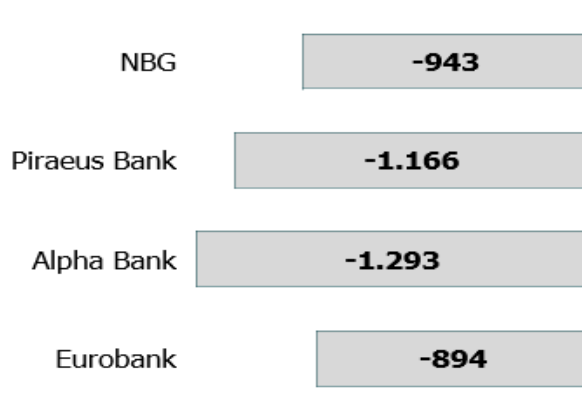
Eurobank

47,5%

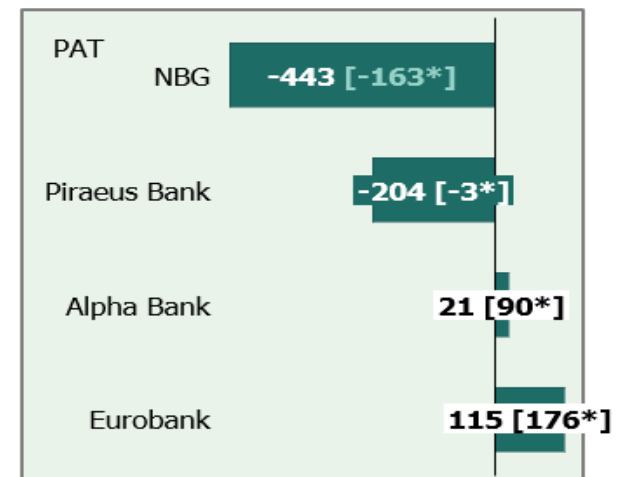
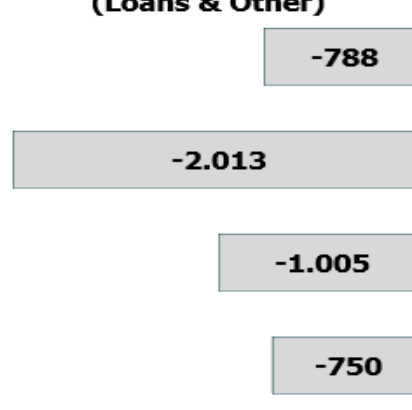
55,64*% CIR for European banks with the same size**

***: *ssm supervisory statistics Q3 2017*

Op Ex



Provision Charge (Loans & Other)

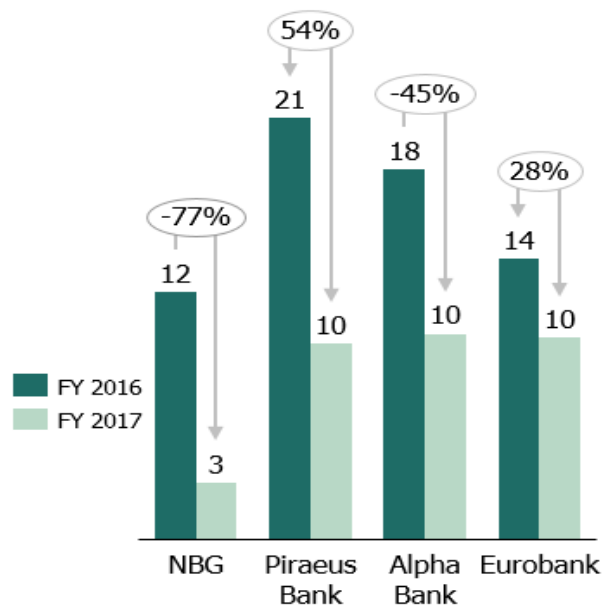


*: Profit / (loss) from Continuing Operations



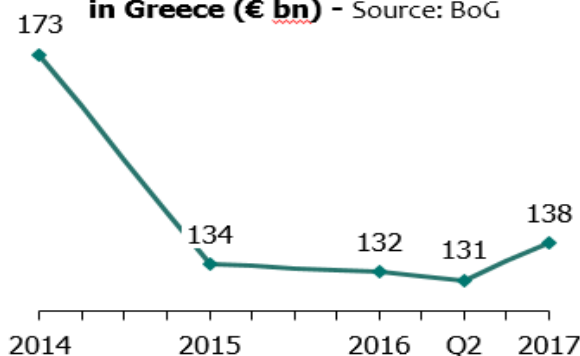
Key Funding & Liquidity Indicators FY 2017 (Group Basis)

Eurosysteem Funding [bn]

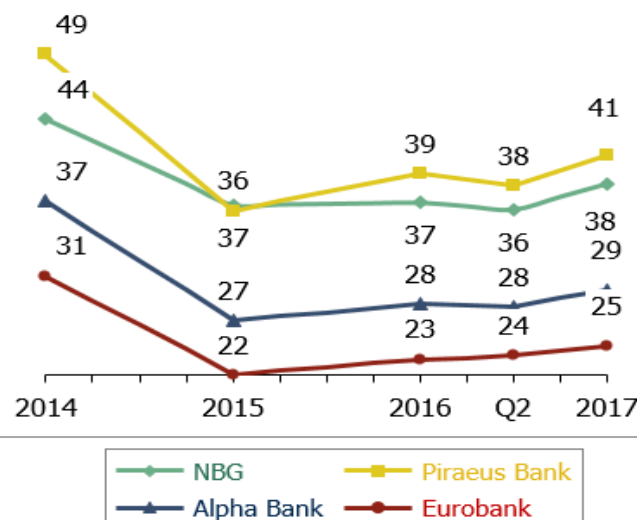


ELA FY 2017	0,0	5,7	7,0	7,9
Δ voy ELA (€ bn)	-5,6	-6,2	-6,2	-4,0
Eurosysteem Over Total Assets	4%	14%	17%	15%
Deposits	40,3	40,9	34,9	33,8

Customer Deposit Movement in Greece (€ bn) - Source: BoG



Customer Deposit Movement in Greece per Bank (€ bn)



L/D ratio

(pro forma for IFRS9 1st January 2018 impact)

NBG

80%

Piraeus Bank

98%

Alpha Bank

128%

Eurobank

107%

**P: 89%, I: 123%, *
G: 115%, S: 115%**

118%: AVG LD for European banks

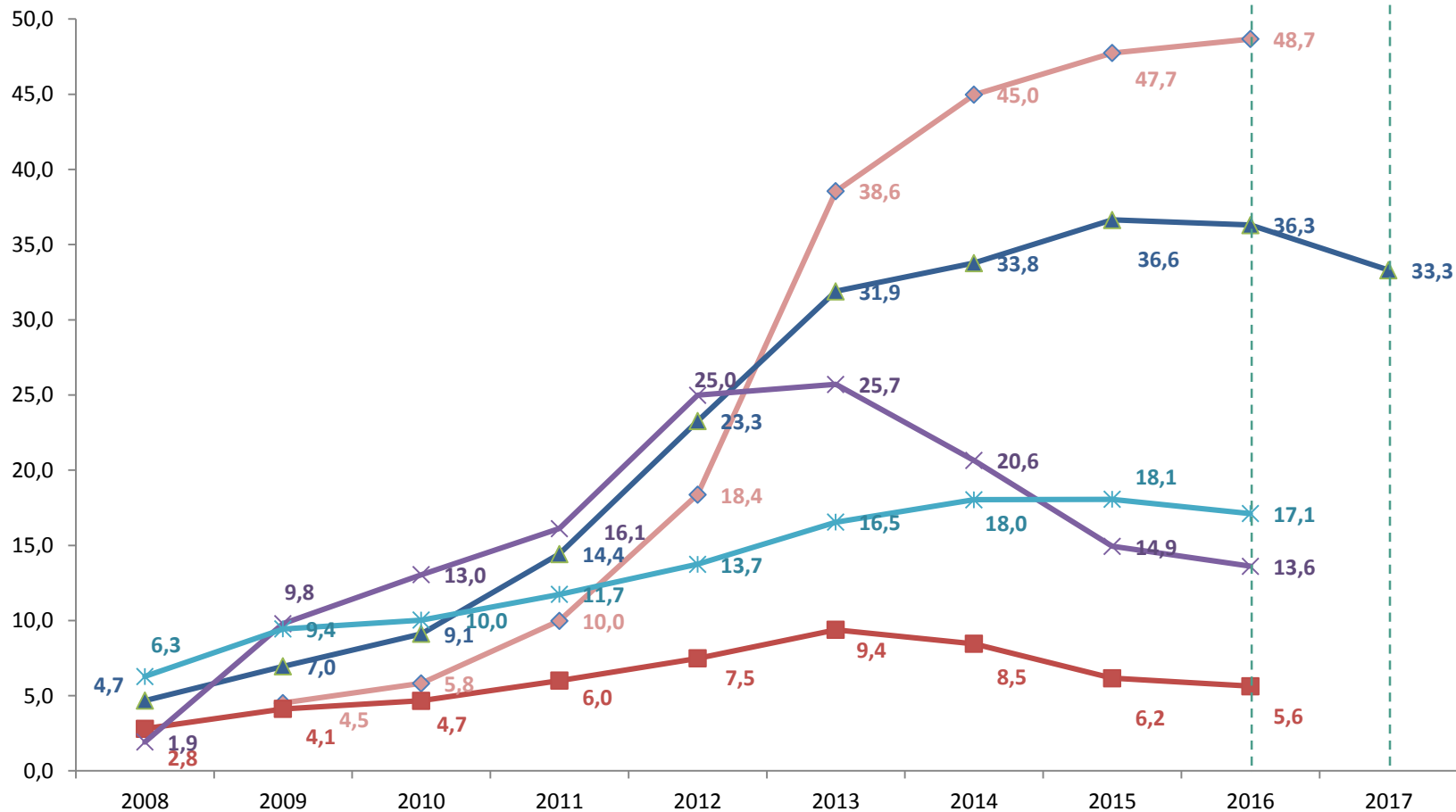
AVG Central Bank Funding: 4,4%*

*: ssm supervisory statistic Q3 2017



The NPL Problem in selected European countries

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



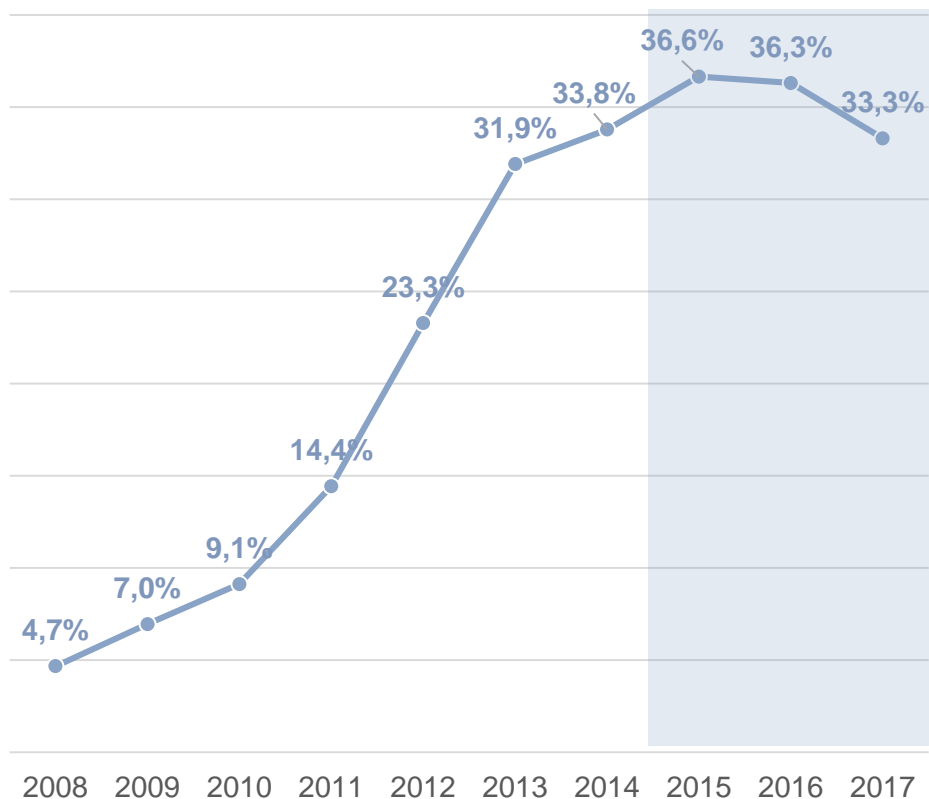
Source: World Bank

Note: Comparable data for the selected European Countries was not available FY 2017

◆ CYP
 ■ ESP
 ▲ GRC
 × IRL
 ✱ ITA

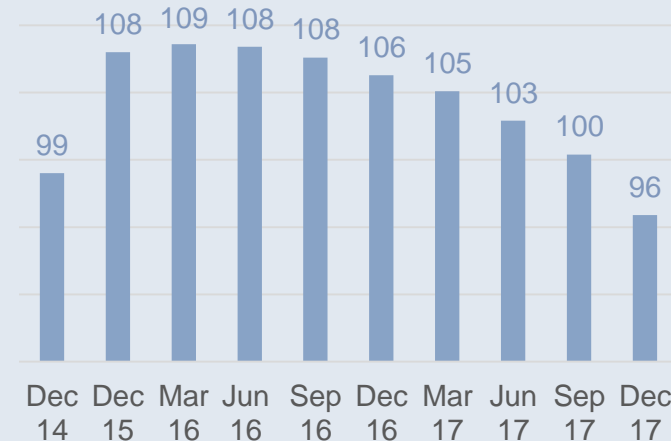
The NPL / NPE problem in Greece

Greek banks - NPL ratio

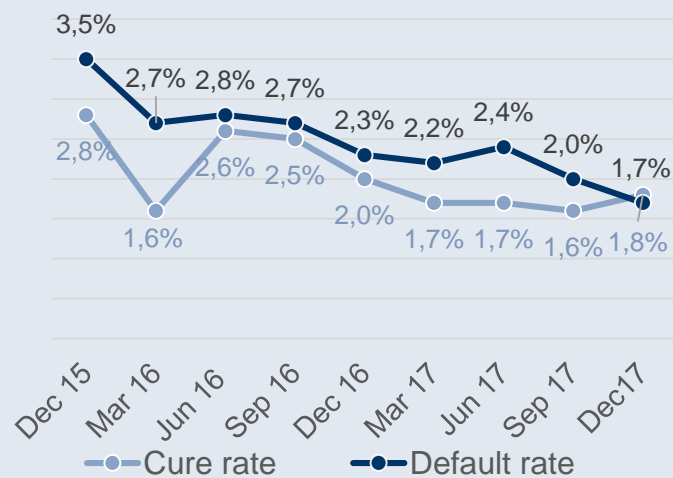


Source: Bank of Greece

Greek banks – NPEs (€ bn)



Greek banks – Loan default & cure rates

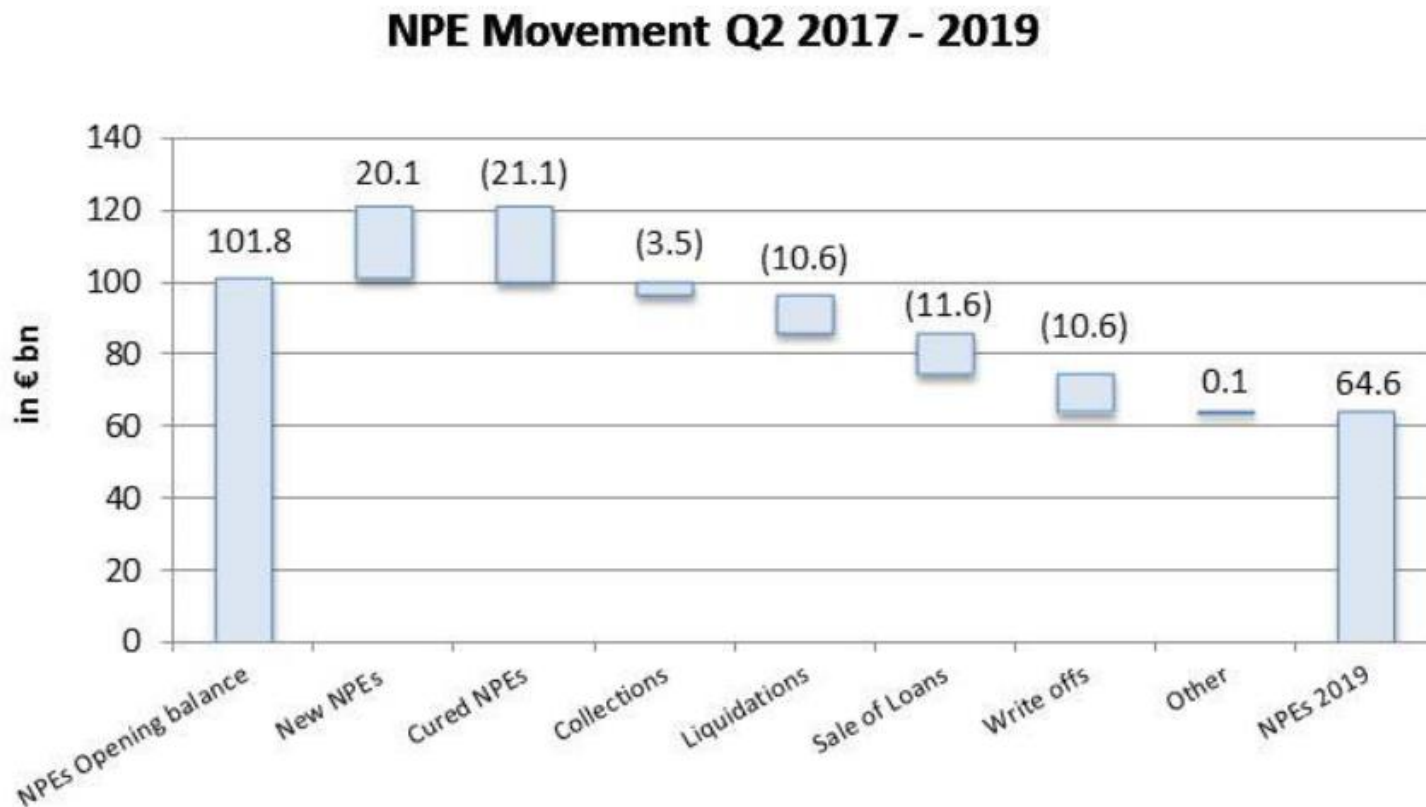


Source: Bank of Greece



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.



Source: Bank of Greece



Several Options available to Maximize & Accelerate NPL 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 re-gain access to financial markets and private capital;

Potential benefits for the State

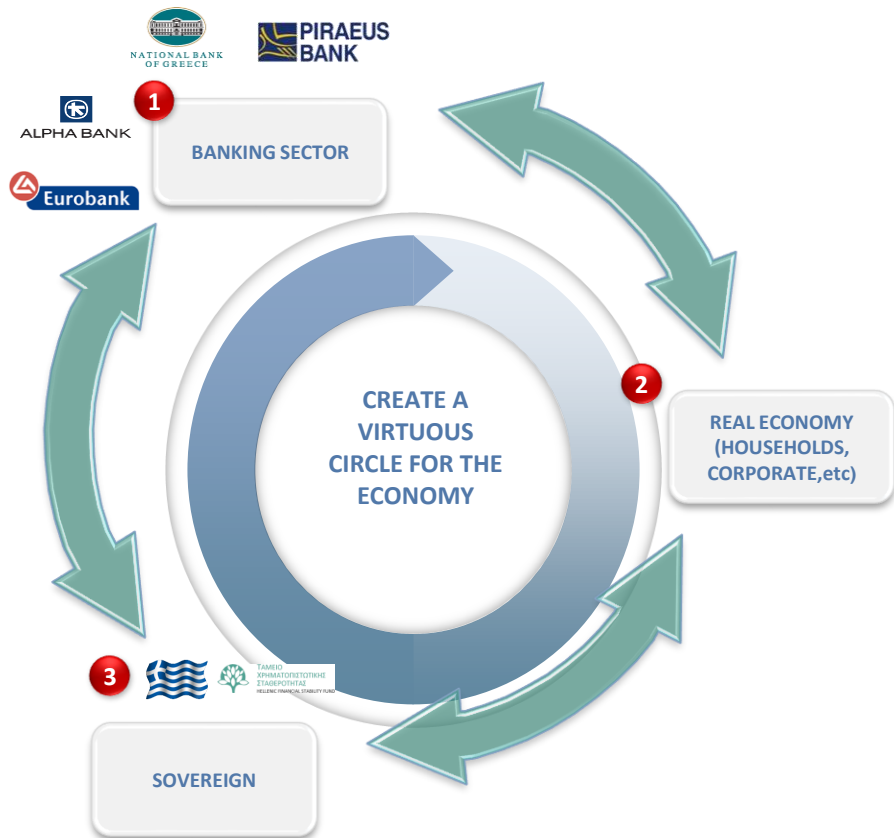
- ❑ Does not require initial public spending since asset guarantees are contingent liabilities and remain off balance sheet;
- ❑ Payment of an annual fee to the State;
- ❑ Reduction of tax payer money used for the bail out of the banking sector;
- ❑ Incentivize banks to re-deploy capital to support and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



5 A New Business Model for Greek Banks



Issues to Be Addressed to Enable Greek Banks to Fuel the Greek Economy



1 THE RETURN OF GREEK BANKS AS SUPPORT OF THE ECONOMY

- **Address/ Facilitate the treatment of NPEs issue will strengthen the soundness of systemic banks**
 - ❑ Strengthen asset quality/Solution for NPLs
- **Sound Greek systemic banks regain the ability to finance the real economy through working credit channels and return enterprises to viability**
- **Adjust to the new business reality trough, among others, improving infrastructure**
 - ❑ Focus on businesses to be accepted by clients

2 A KEY MILESTONE IN THE RECOVERY OF THE GREEK REAL ECONOMY








- **Greek SME/corporate borrowers** with debt trouble refocus on business expansion and employment creation
- **Restructuring of mortgage loans** will fuel the consumption and generate GDP growth
- Incentives might be put in place to support loan restructuring in a timely manner
 - ❑ Potential decrease of private debt

3 POSITIVE IMPACT ON GREEK PUBLIC DEBT

- **Improvement over time of value of State holdings in banks**

Development of a new Business Model for Greek Banks

Within a more complex & competitive environment, banks need to become more agile. A new business model for the Greek systemic banks should take into account implications for both financial efficiency & stability.

	Production Emphasis	Distribution Emphasis	Hybrid	 ALPHA BANK  NATIONAL BANK OF GREECE  PIRAEUS BANK  Eurobank
 Goal	Best of class production & processing of banking products/services	Superior client awareness & management through well defined channels and relationships	Expansion in prime core markets by offering tailor made products, to specific customer segments & distinctive sectors/ geographies	<ul style="list-style-type: none"> • Trade Financing? • Shipping? • Hospitality Sector (tourism / medical tourism)? • Digitalised retail banking?
 Where to go?	Top of the range solutions for distinct customers and segments	Full range of products suite, custom-made to the sector and size of the client, including generic solutions	Well-defined choices of products, based on customer segments and geography	<ul style="list-style-type: none"> • Market Consolidation? • International Expansion? • or • Specialisation (regions/industries)? • Digitalization?
 How to win?	Economies of scale; Built in best class solutions?	Economies of scope; Outsourcing? Partnerships?	Economies of both scale and scope; production in core regional markets & distribution in exclusive local/overseas markets	<ul style="list-style-type: none"> • A hybrid model?



Challenges are clear; the ultimate finale is not...

- ✓ **Transformation** can come in very different shapes, from changes regarding which **client segments to target** and which **services or products to offer**; to becoming more **efficient and effective** in the way services and products are delivered to existing clients;
- ✓ **Greek** Banking industry has been significantly **reshaped in the last decade**; but four systemic banks control the market;
- ✓ **Economic environment** in Greece remains **subtle**, **regulation** is impacting business models & banks' economics;
- ✓ **Customer expectations, technological capabilities, regulatory requirements, demographics and economics are together creating an imperative to change**;
- ✓ Banks need to **get ahead of these challenges**. There could be a need to make **tricky choices** about which **customers** to serve, **how to win and where not to play**;
- ✓ Each bank's response will depend upon its **current position**, **ambitions for the future**, chosen **customer focus**, **organisational competencies**, **brand** capacity, **regulatory** requirements & and **capital** limitations;
- ✓ **Banks must not only execute on today's requirements**, but shall also **form a view** of the banking market in the near future (2020-2022) to understand how Greek/Global trends are impacting the banking system in order to **develop a winning strategy**;



Thank you

Q & As

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