

# ATHENS INVESTORS DAY



Ταμείο Χρηματοπιστωτικής Σταθερότητας  
Hellenic Financial Stability Fund

## *HFSF's perspective on Greek Banks*

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***Athens, June 26-27, 2018***

# Agenda

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- 1 HFSSF's Role, Mission & Strategic Objectives
- 2 Stocktaking, Challenges & Options Available
- 3 Greek Banks' reaction to a changing landscape & potential routes to recovery
- 4 Some Concluding Remarks



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# 1 HFSF's Role, Mission & Strategic Objectives



# 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:

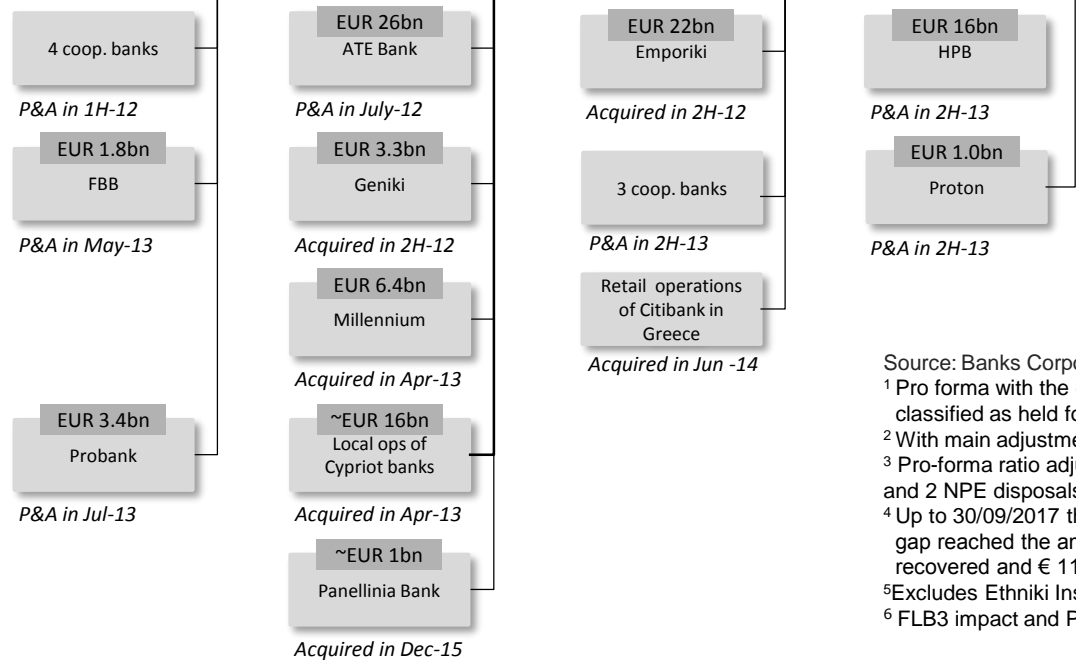
- 1 The rapid consolidation of the Greek banking System
- 2 Providing capital and maintaining stability for the Greek banking System
- 3 Attracting private capital and strategic interest to Greek banks
- 4 Promoting & overseeing operational and financial restructuring initiatives across banks
- 5 Overseeing 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

	EUR 61,5bn NATIONAL BANK OF GREECE	EUR 63,5bn PIRAEUS BANK	EUR 59,3bn ALPHA BANK	EUR 58,5 bn Eurobank
HFSF shareholding	40,4%	26,4%	11,0%	2,4%
Core Tier 1 Ratio (Q1 '18 Results)	16,5% <sup>6</sup>	14,4% <sup>3</sup>	18,3% <sup>2</sup>	15,1% <sup>1</sup>
No of Employees	11,501 <sup>5</sup>	14,824	11,801	13,367

Claims<sup>4</sup>  
 €13.5bn funding gap covered  
 12 liquidating banks



Key:  
 EUR Xbn Group assets (2011)  
 EUR Xbn Group assets (1<sup>st</sup> Q 2018)

Source: Banks Corporate Presentations, Financial Statements.  
<sup>1</sup> Pro forma with the completion of the disposal of the Romanian subsidiaries classified as held for sale –FLB3 and Phased in IFRS 9 impact  
<sup>2</sup> With main adjustments the DTA from tax losses-Phased in IFRS 9 impact  
<sup>3</sup> Pro-forma ratio adjusted for asset disposals under way (Romania, Serbia and 2 NPE disposals) –phased in IFRS9 impact  
<sup>4</sup> 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.  
<sup>5</sup> Excludes Ethniki Insurance, UBB, BROM, Vojvo& NBG Albania employees  
<sup>6</sup> FLB3 impact and Phased in IFRS 9 impact

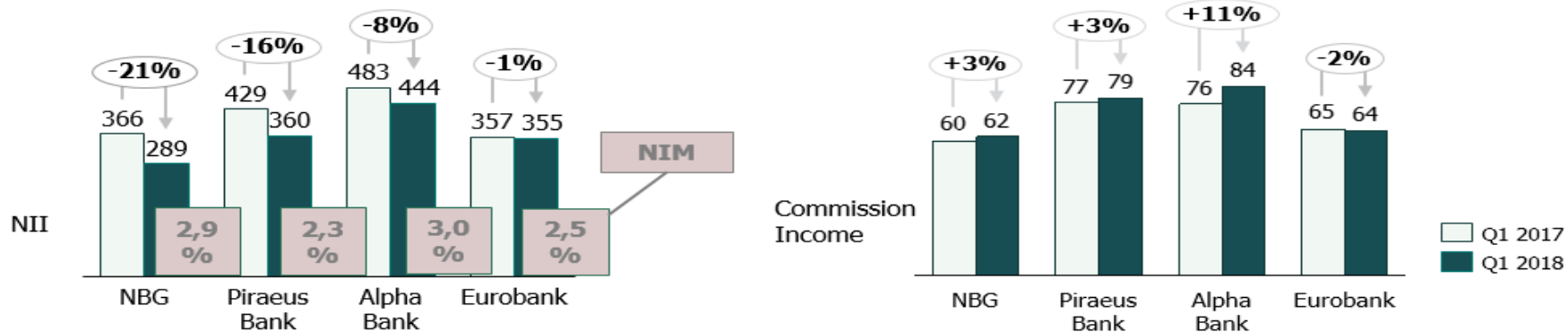
# HFSSF's strategic objectives until 2022

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

## 2 Stocktaking, Challenges & Options Available



# Key Profitability Indicators Q1 2018 (Group Basis)



## Cost to Income Ratio

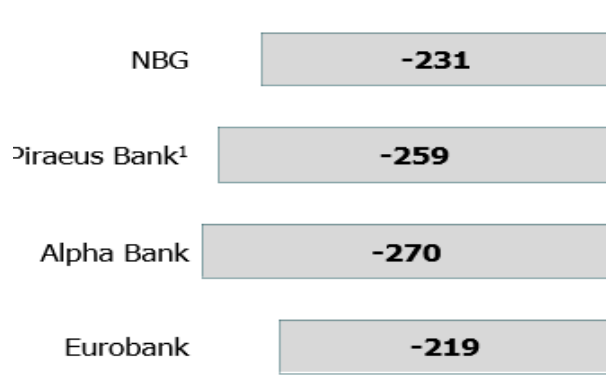


**56.41%\*\* CIR for European banks with the same size**

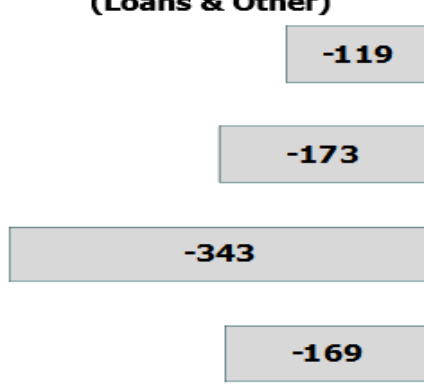
<sup>1</sup>: Excluding VES and extraordinary staff costs of €138 million

\*\*: *ssm supervisory statistics Q4 2017*

## OpEx

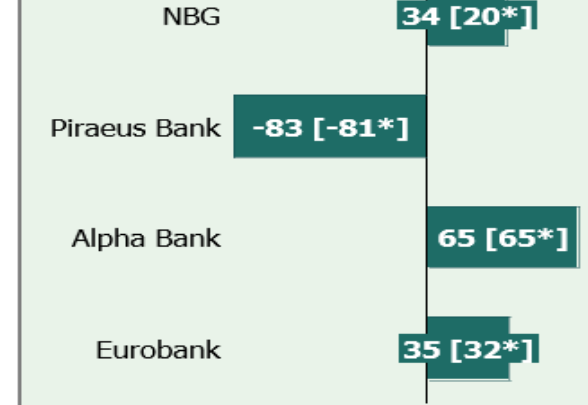


## Provision Charge (Loans & Other)



<sup>1</sup>: Excluding VES and extraordinary staff costs of €138 million

## PAT



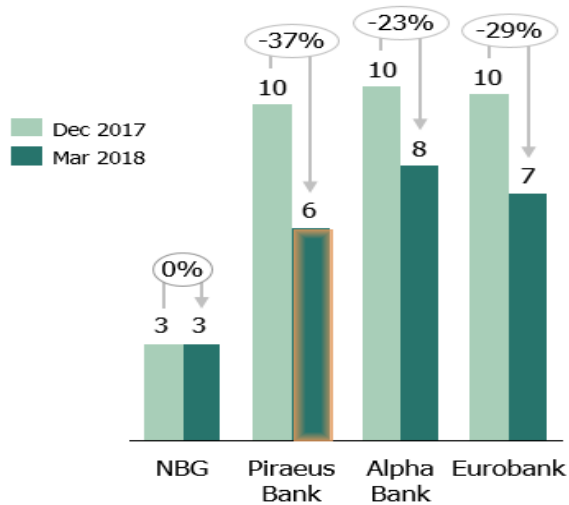
\*: Profit / (loss) from Continuing Operations





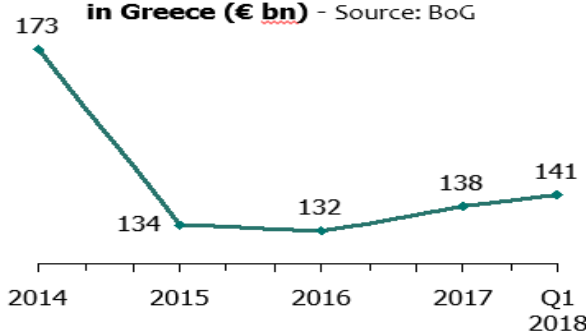
# Key Funding & Liquidity Indicators Q1 2018 (Group Basis)

**Eurosystem Funding (€ bn)**

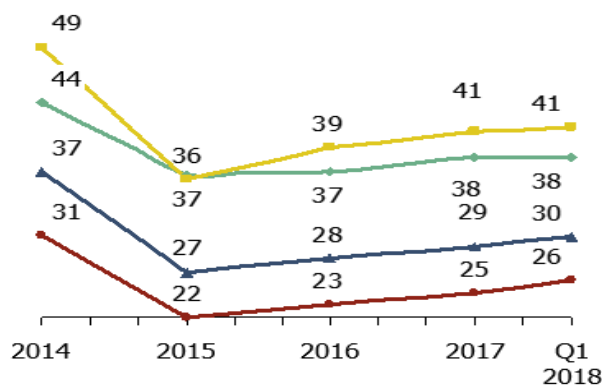


ELA Q1 2018 (€ bn)	0.0	2.1	4.8	5.7
Δ ytd ELA (€ bn)	0.0	-3.6	-2.2	-2.2
Eurosystem Over Total Assets	5%	10%	13%	12%
Deposits (€ bn)	40.3	43.1	35.9	35.3

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

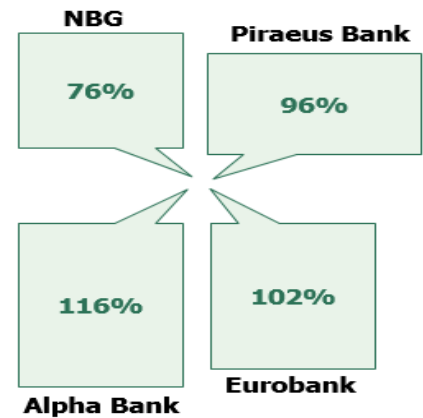


**Customer Deposit Movement in Greece per Bank (€ bn)**



Legend: NBG (green), Piraeus Bank (yellow), Alpha Bank (blue), Eurobank (red)

**L/D ratio**



**P: 86%, I: 120%\*, G: 111%, S: 115%**

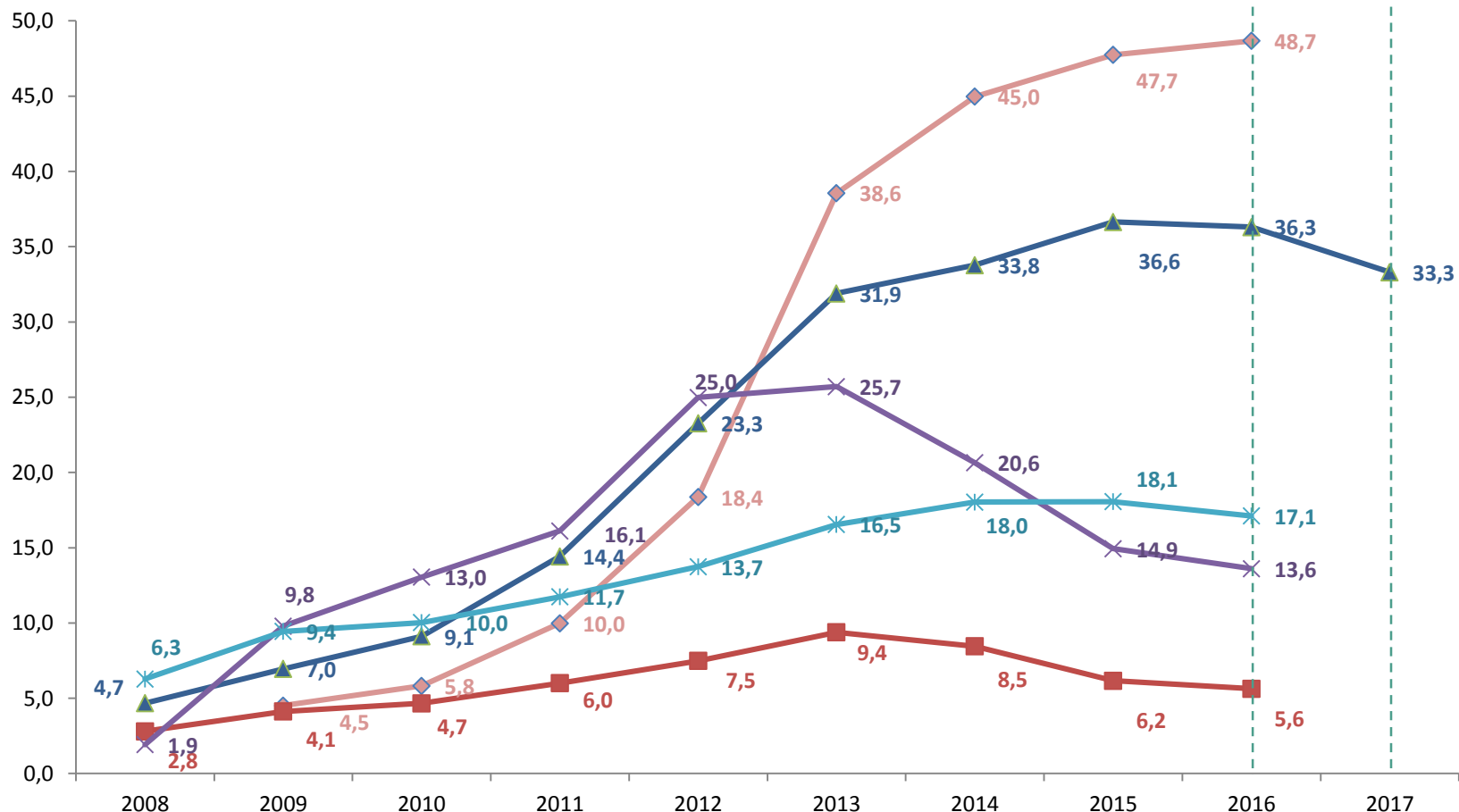
**117%: AVG L/D ratio for European banks**

**AVG Central Bank Funding: 4,3%\***

\*: ssm supervisory statistis Q4 2017

# The NPL Problem in selected European countries

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



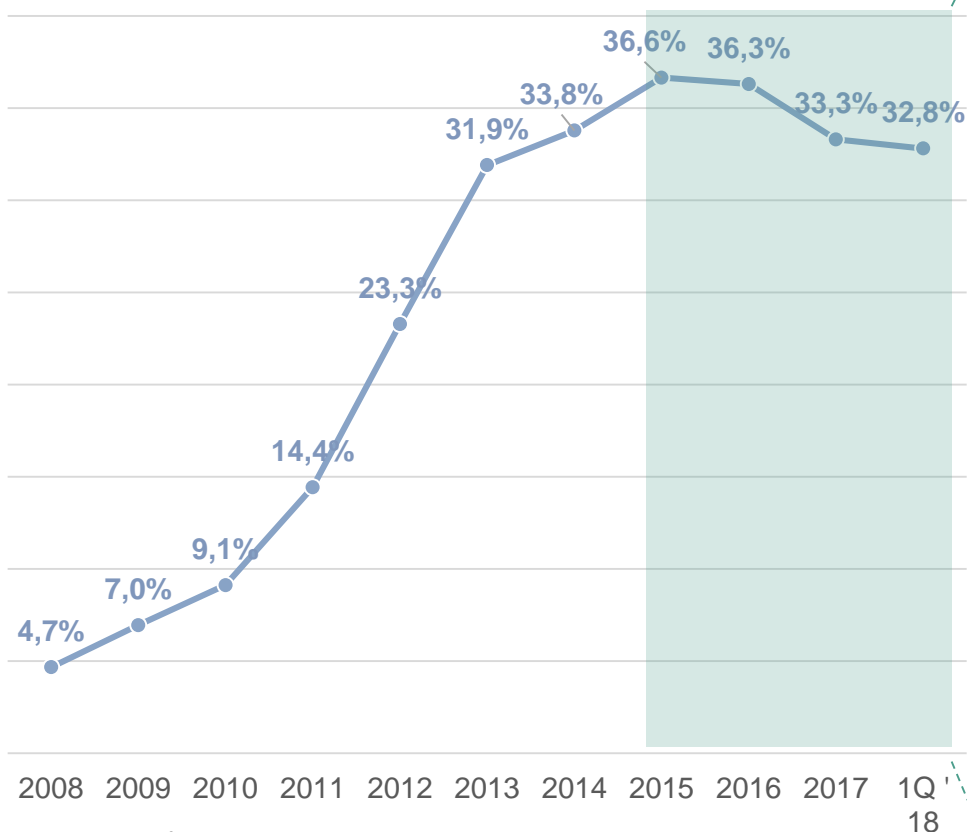
Source: World Bank

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

◆ CYP    
 ■ ESP    
 ▲ GRC    
 × IRL    
 ✱ ITA

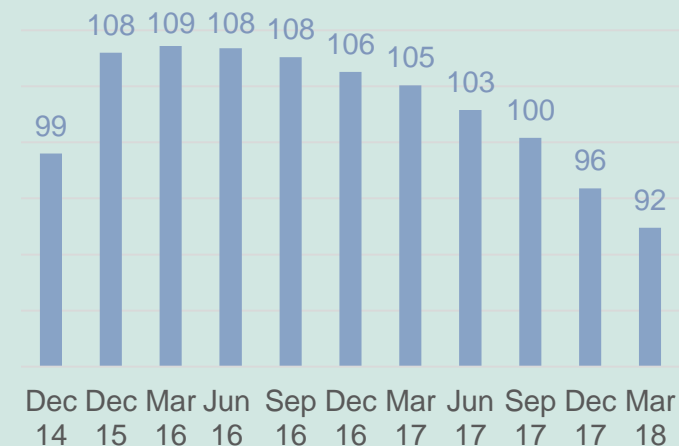
# The NPL / NPE problem in Greece

## Greek banks - NPL ratio

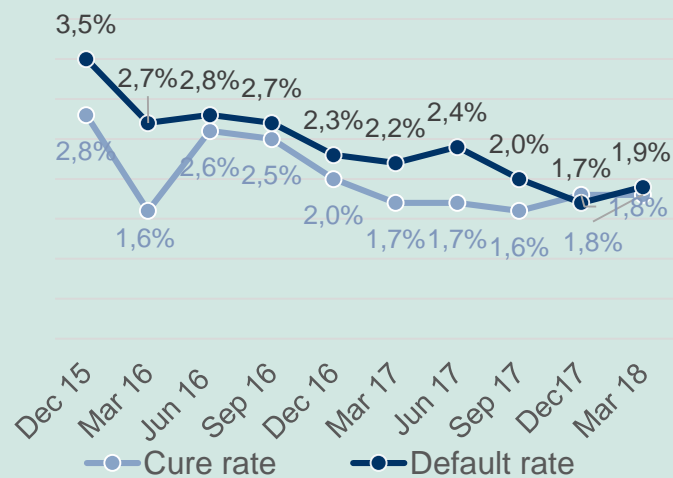


Source: Bank of Greece

## Greek banks – NPEs (€ bn)



## Greek banks – Loan default & cure rates



Source: Bank of Greece



# Internationally Tested Reference Cases for NPL Resolution

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



# 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

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- ❑ 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

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- ❑ 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);



### **3 Greek Banks' reaction to a changing landscape & potential routes to recovery**



# Some positive steps on both sides of the Banks' Balance Sheets within Q1 2018

## Assets' Side

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- ❑ Within the first quarter of 2018 and onwards, the following have been accomplished:
  - ✓ **E-auctions** re-started at the end of February, which resulted to a substantial increase of auctions;
  - ✓ **Amendments** regarding Law 3869/2010, "**Katselis Law**" are expected to be introduced imminently; Banks are cooperating towards a new initiative regarding the active management of common NPL borrowers of Law 3869;
  - ✓ Efforts regarding the interbank **NPL Forum operations** should be accelerated in order to enhance resolution of common Large Corporates' NPLs;
  
- ❑ Banks efforts towards partnerships and holistic approach to NPL management have **started bearing positive results**;
  
- ❑ Systemic Banks' **NPE stock decreased for eighth consecutive quarter in Q1 2018**; Default rate showed a decelerating trend as of March 2018;
  
- ❑ Though continuing **loan deleveraging** constitutes a noteworthy issue;
  
- ❑ The issue of **strategic defaulters creates** an imperative for banks that needs to be resolved imminently. Based on some market estimates, the number of strategic defaulters, is possibly higher than originally thought, due to a considerable number of strategic defaults being identified through the initiation of e-auctions; indeed the actual number of strategic defaulters post the initiation of the e-auctions **could increase, against a hitherto estimated rate of 15%-20%**.

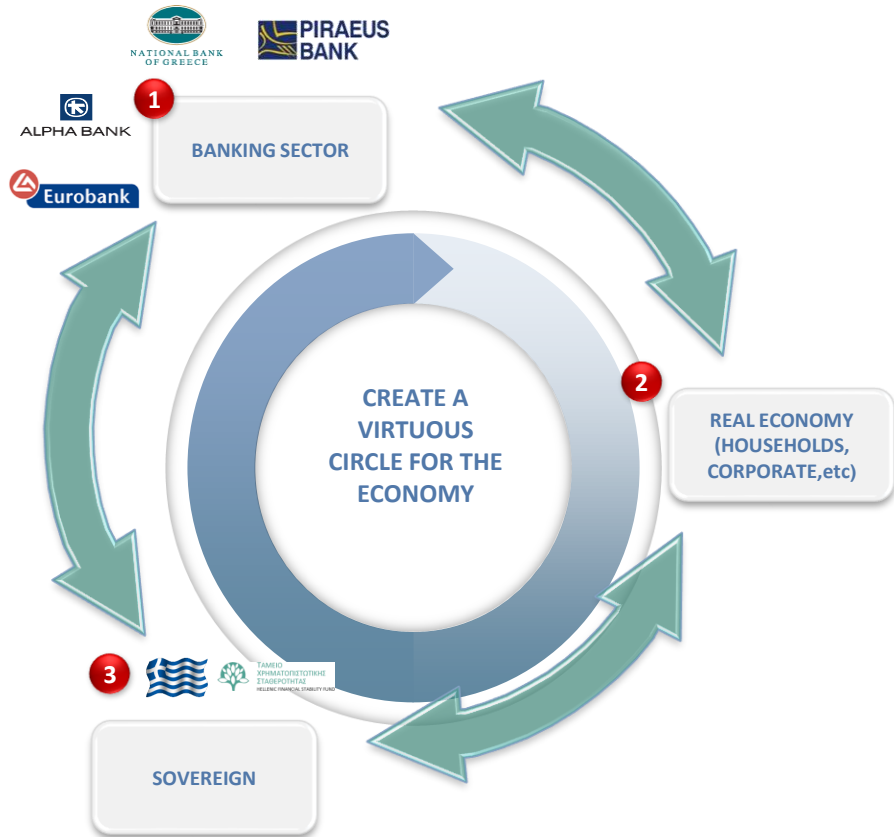
# Some positive steps on both sides of the Banks' Balance Sheets within Q1 2018

## Liabilities' Side

- ❑ **Liquidity** conditions are improving, as Greek banks further reduced the reliance on **ECB** and **ELA** funding in Q1 2018;
- ❑ **Reduction in ELA** could result, ceteris paribus, in interest expense improvement and possibly create a buffer for **NII enhancement**;
- ❑ Enhanced liquidity position and lower funding cost could be **advantageous in satisfying credit demand**;
- ❑ Results **based ECB's EU-wide stress test** showed that Greek banks are adequately capitalized and pointed to no capital shortfall and no capital plan required as a result of the exercise;
  - ❑ Results indicate that all Banks have adequate **capital level** in the Baseline scenario to meet 2016 Total SREP Capital Requirements;
- ❑ There is evidence of a **sustained return of deposits** in Greece, continuing the upward trend that started in mid 2017;



# 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**

# How could Greek Banks react to the radically transformed banking & market situation?

- ❑ Would the solution to the challenges faced, entail *a new business model /strategic orientation* for Greek Banks?
- ❑ *Can Banks do more, for a faster NPL resolution?*
  - *Are Regulators' and Law makers' new initiatives, a step towards the right direction?*
- ❑ Would **Strategic Investors offer** a realistic option for a change?
  - *Is Banks' internal/organic growth sufficient to generate income for NPLs and Investments?*
- ❑ Does the Greek Banking system share any attributes of what could be defined as an *oligopolistic competition*?
  - *Should competition within the Greek Banking system be encouraged?*
- ❑ Should Greek Banks act more *entrepreneurial*?
  - *Or should the focus be on addressing regulatory/legacy issues, for the time being?*
  - *Could both entrepreneurship and regulation/legacy issues be effectively addressed?*
- ❑ Is there a potential for *expanding* revenue within the Greek Banking system?
  - Could enhanced revenue be achieved via means *of specialization & focus?*
  - Could Banks' *emphasis on production or distribution*, contribute to the desired *economies of scale & scope?*
  - Could growth in *prime core markets* by offering tailor made products, to specific customer segments & distinctive sectors/ geographies, be a step in the right direction?
  - Would Banks consider that special *emphasis on Trade Financing, Shipping, Hospitality Sector (tourism / medical tourism)*, could be a step change, within the context of their transformation?

## 4 Some Concluding Remarks

## Challenges are rather clear; Identifying the routes to recovery are not

- ✓ Despite achievements in the **Legal, Judicial & the overall NPL management framework**; improvement in **Greek macro-economic indicators**; acceleration of **banks' initiatives** regarding NPL resolution; there are still **challenges**;
- ✓ **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**;
- ✓ Banks need to be **agile** and **adaptable** to strategically position themselves in this environment;
- ✓ Banks need to **get ahead of these challenges**. **Banks must not only execute on today's requirements**, but shall also **form a view** of the banking market in the near future to understand how Greek/Global trends are impacting the banking system in order to **develop a winning strategy**;
- ✓ **Banks focus could be twofold:**
  - **Actions to accelerate NPL resolution, while in parallel**;
  - **Complimentary Actions** to increase supply of credit to the real economy, by identifying an ultimate business model & strategic orientation, taking into account **current position**, **ambitions for the future**, chosen **customer focus**, **organisational competencies**, **brand** capacity, **regulatory** requirements & and **capital** limitations;
- ✓ **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**?
- ✓ 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

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

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