10th R!sk Management & Compliance Forum

Ταμείο Χρηματοπιστωτικής Σταθερότητας
Hellenic Financial Stability Fund

HFSF's view as a shareholder on the transformation of the Banks in Greece, from a Risk & Business perspective

Presented by:

Dr. Martin Czurda
Chief Executive Officer
Hellenic Financial Stability Fund

Athens, October 31st 2018

Agenda

1 HFSF's Role as a shareholder

2 Snapshot of Greek Banks' NPEs evolution & Profitability
Comparison with selected European Countries

3 Risk on – Risk Off in Challenging Regulatory & Economic Times

4 A shift in competitive landscape for Greek Banks

5 Concluding Remarks

1 HFSF’s Role as a shareholder

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

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

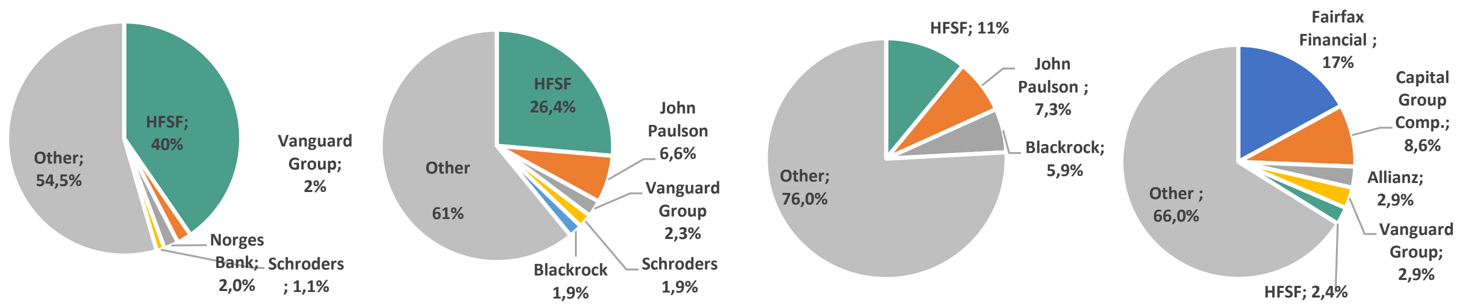
	EUR 62,8bn NATIONAL BANK OF GREECE	EUR 59,2bn PIRAEUS BANK	EUR 59,1bn ALPHA BANK	EUR 56,8bn Eurobank
Core Tier 1 Ratio (Q1 '18 Results)	16,2%[1]	14,0%[2]	18,5%[3]	14,8%
NIM (%)	2,7%	2,5%	3,1%	2,5%
No of Employees (Greece)	9,572[5]	12,390	8,707	9,102
(Group)	11,200[6]	12,858	11,836	13,217
HFSF shareholding	40,4%	26,4%	11,0%	2,4%

Claims [4]

€13.5bn funding gap covered

12 liquidating banks

Greek Banks Shareholder Structures (%)



Source: Bloomberg, 17/09/2018

Source: Banks Corporate Presentations, Financial Statements.

1. By applying the IFRS 9 regulatory transitional arrangements
2. Pro-forma ratio, thus adjusted for the Risk Weighted Assets relief from the disposals of subsidiaries in Albania (signed SPA) and Bulgaria and the agreed sales of the 2 NPE loan portfolios (Amoeba and Arctos). The reported ratio stood at 13.6%.
3. Based on the transitional provisions, while the impact from the full implementation is estimated at approximately 3.0% and the ratio will stand at 15.5% as at 30.6.2018, for the Group.
4. Up to 31/03/2018 the total amount provided by the Fund to cover funding gap reached the amount of € 13,489mn, out of which € 656mn were recovered and € 11,182m were assessed as non-recoverable.
5. Excludes Ethniki Hellenic General Insurance (or else,10,352).
6. Excludes Ethniki Hellenic General Insurance, UBB, BROM, Vojvo & NBG Albania Employees

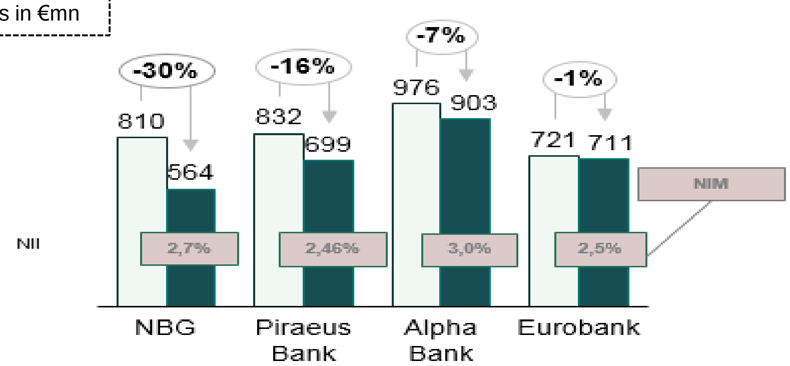
Key: EUR Xbn Group assets (2nd Q 2018)

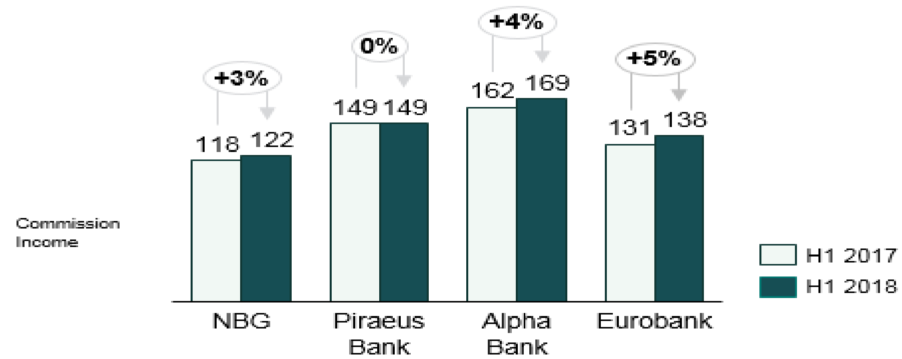
2 Snapshot of Greek Banks’ NPLs/NPEs evolution & Profitability

Comparison with selected European Countries

Profitability Indicators of Greek Systemic Banks (Q2' 18)

Amounts in €mn

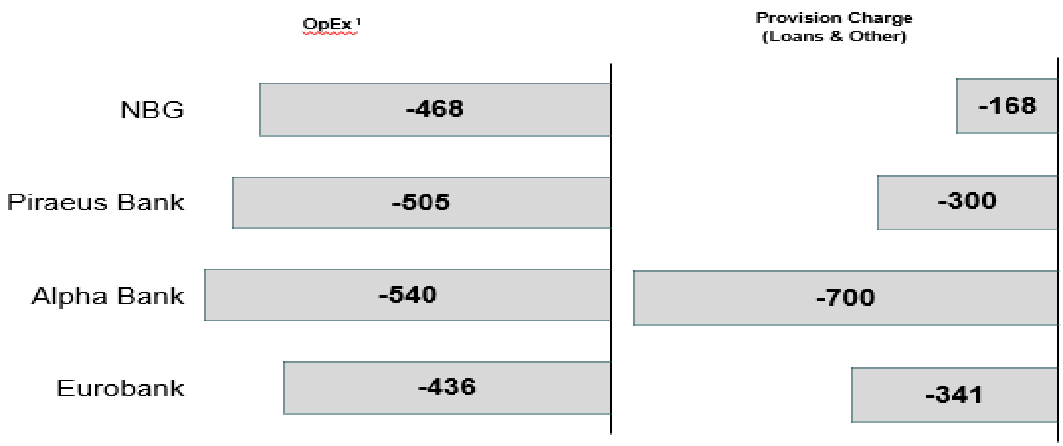


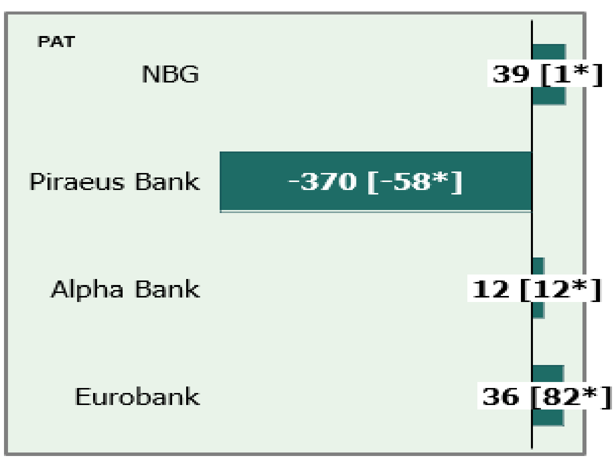


Cost to Income Ratio[1]

NBG	Piraeus Bank	Alpha Bank	Eurobank
67%	56%	50%	48%

[1]: Excluding VES, restructuring and other extraordinary costs of €40 million for NBG, €145 million for Piraeus Bank, €11 million for Alpha Bank & €44 million for Eurobank. Excl. also gains for financial transactions of € 263m for Alpha Bank.



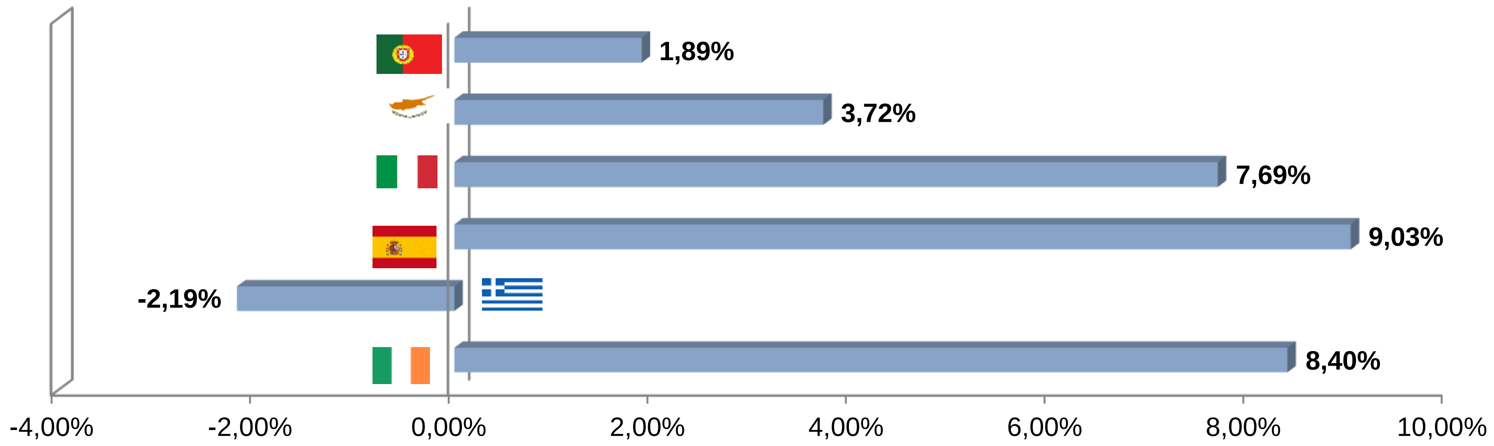


*: Profit / (loss) from Continuing Operations

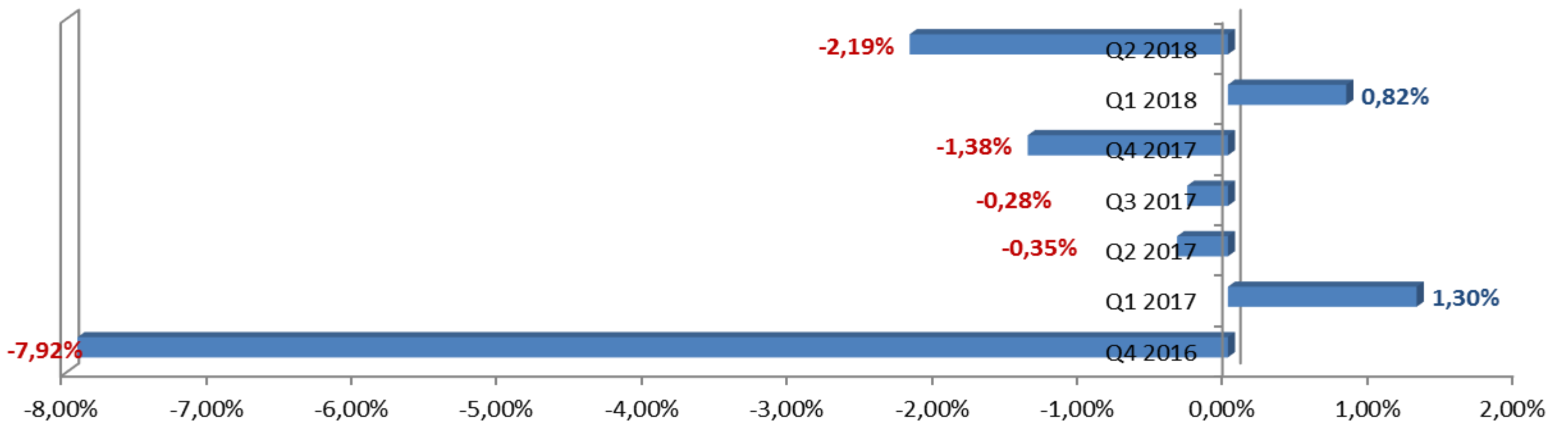
[1]: *Excluding VES, restructuring and other extraordinary costs of €40 million for NBG, €145 million for Piraeus Bank, €11 million for Alpha Bank & €44 million for Eurobank.*

Reflecting on the national breakdown, Greek Banks' RoEs, on negative territory

RoEs (%) Selected European Countries Q2'18



RoEs (%) Greek Banks Quarterly

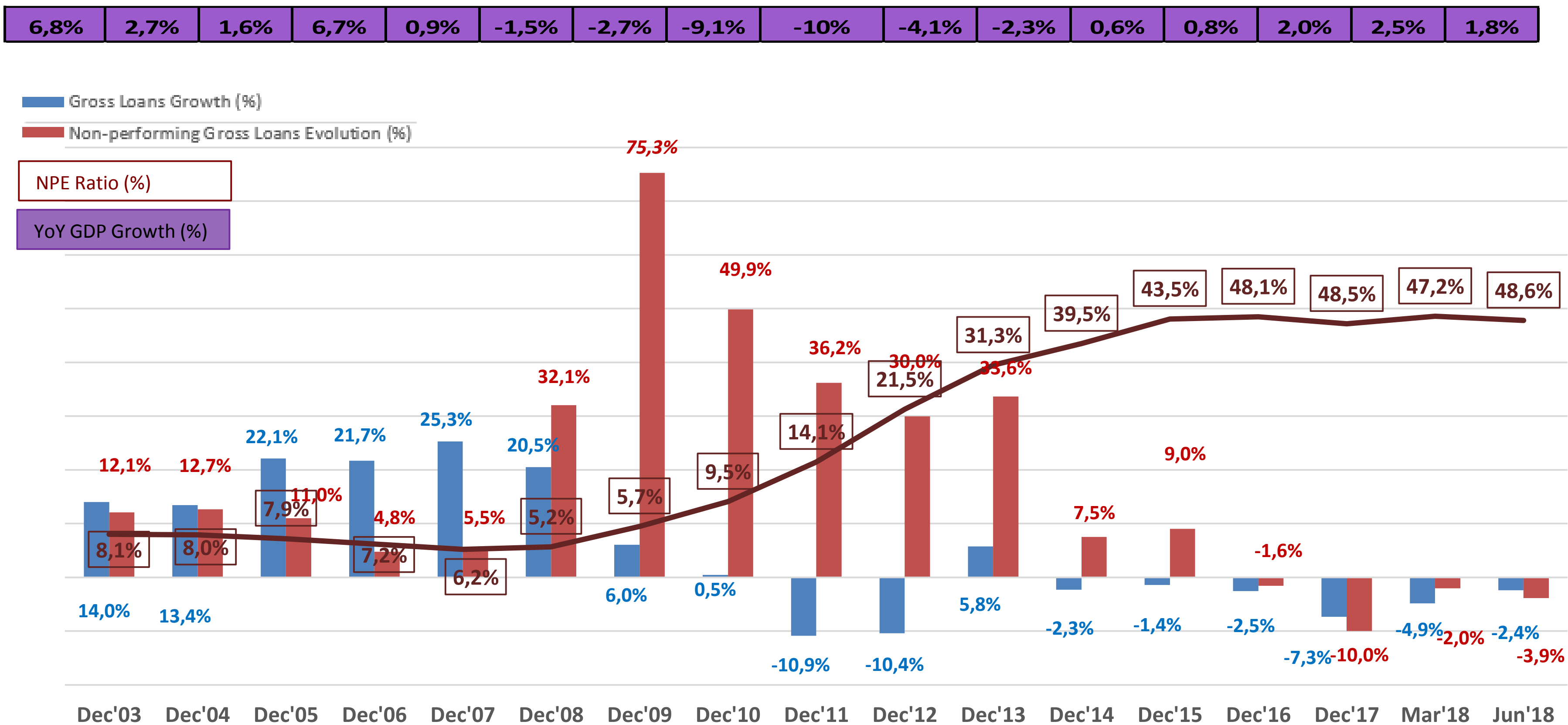


Source: ECB. Notes: Significant institutions at the highest level of consolidation for which common reporting (COREP) and financial reporting (FINREP) are available.

1) RoEs are computed by dividing "net profit/loss" by, "equity" at the end of the corresponding reference period. The values of "net profit/loss", originally year-to-date, are annualised to increase the comparability of the ratios across quarters.
2) 2) Returns figures may be based on different financial years. To increase consistency, if the end of the financial year is not 31 December, a linear projection of the figures has been made for each reporting period.

Greek Banking sector's gloomy asset quality profile

Evolution of Gross Loans' against Non performing volumes' evolution (%)



Sources: Hellenic Statistical Authority GDP (Seasonally and calendar adjusted figures) & BoG data on Loans & NPLs/NPEs

Comments

- All items are on solo basis and refer to on-balance sheet gross loans and advances of Greek commercial and cooperative banks.
- For 2014 onwards, the source is data from banks' submissions according to Act 42/2014 (as applicable) and European Banking Authority (EBA) rules and definitions.
- For 2002 - 9M 2014, the source is data from banks' submissions according to Act 2442/1999 with the following assumption:
  - Non-performing loans include also loans that have been restructured over the past 12 months.
- Balance changes between some quarters may be affected by the restructuring of the Greek banking system (resolution of banks, sale of foreign branches e.t.c.)
- All items refer to on-balance sheet loans and advances, in consistency with the operational targets for the reduction of non-performing loans. For that reason, balances and indicators may differ from previously published figures, where off-balance sheet items were also included in the perimeter.

Complimentary actions to accelerate NPE/NPL resolution

- A significant reduction of NPE/NPLs is critical to restore confidence in Greek banks and support the recovery of the Greek economy;

- Banks' submitted revised targets to SSM, until Q4'21 that envisage: **Non Performing Gross Loans** to reach **c.€35bn** and the **NPE ratio** to reach **c.21% in December 2021;**

- **HFSF** foresees a further reduction in NPE ratio, as necessary, i.e. **below 10%,** in order to approach the European average & return to a sustainable growth path;

- **As such, HFSF is** currently elaborating on the introduction of an **Asset Protection Scheme**, with the overarching aim to:

  - ✓ **Reduce banks NPLs** at an affordable cost and **strengthen their balance sheet** in the short term, while in parallel, **minimise capital impact**;

  - ✓ Support the **real economy** and **shield the financial stability** of the banking system, by boosting the development of an NPL market of size in the longer term.

3 Risk on- Risk Off in Challenging Regulatory & Economic Times

Evolution of risk management responds to regulatory changes only?

Pre-crisis period

- **Strong** economic **growth** & **higher returns** vs today
- Risk focus was modest since the regulatory & market **consensus** was that risk **management was well equipped to identify & mitigate risks**

Financial crisis period

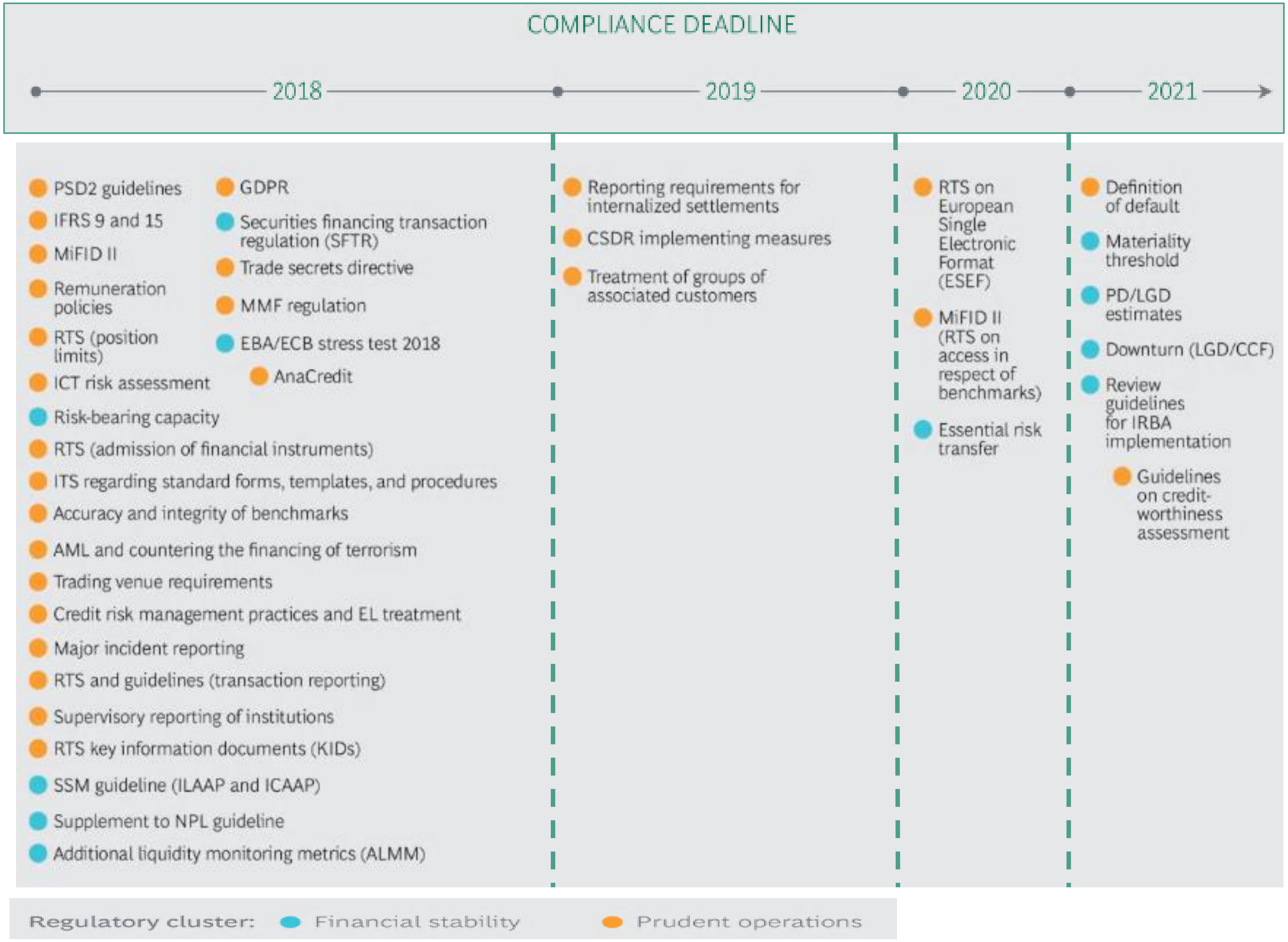
Risk management was **engaged in "defensive" responses**, in order to maintain orderly operations during the period of capital & liquidity crisis

Post-crisis period

-**Low interest rates**, **low growth** & issuance of a wide variety of **new** and **stricter regulatory** requirements

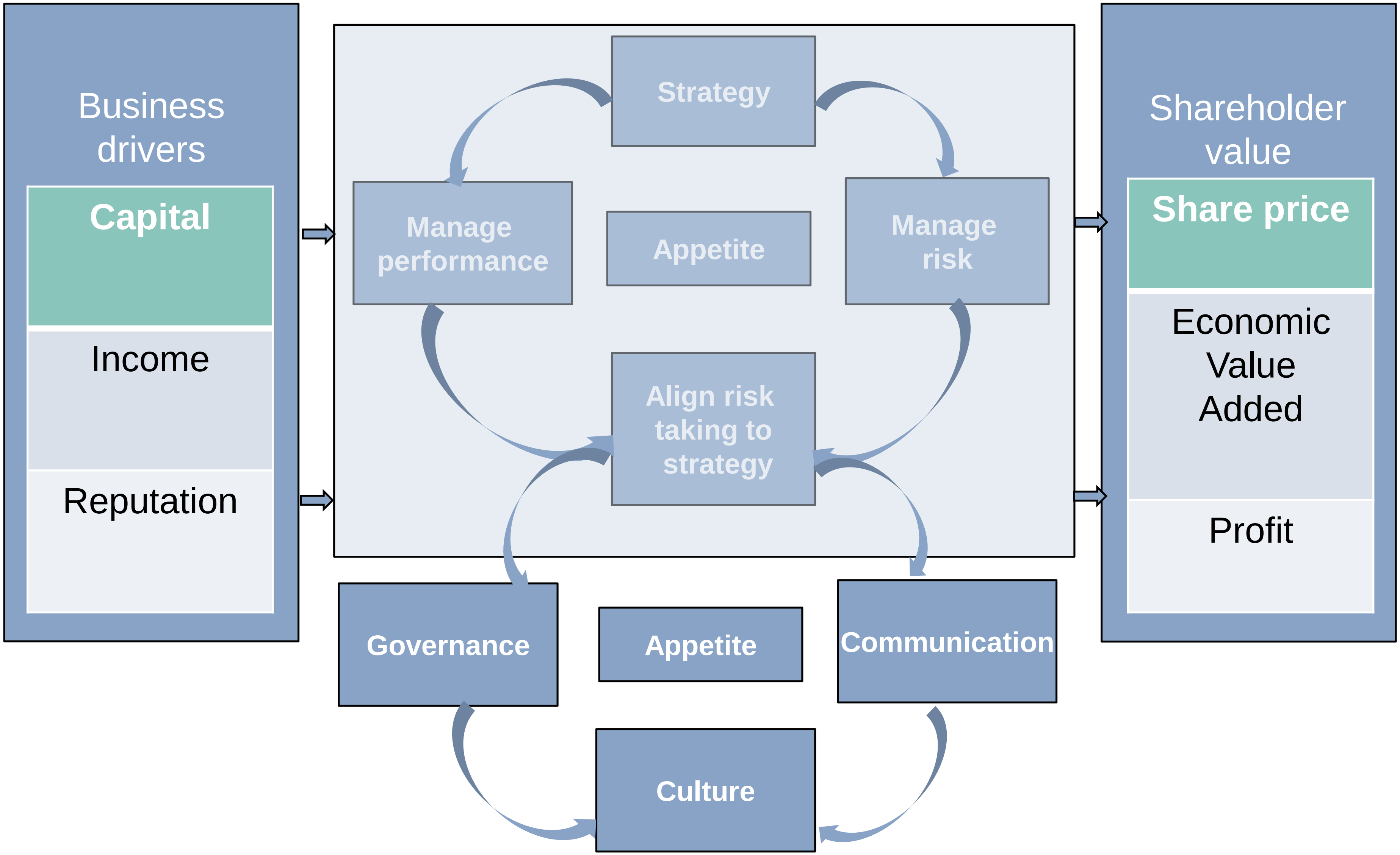
-Significant **time & resources** allocated to keep up with, and implement regulatory changes; which corresponds to expanded risk management functions & increased costs

Will the avalanche of new regulatory requirements deliver tangible results?



Source: BCG's Report on Global Risk, 2018 : Future proofing the Bank risk agenda

Using drivers to frame appetite setting, enables the Board to set a clear 'tone from the top' and operating boundaries



Banks must transform actions/behaviors to achieve desired end-state

The transformation of organization culture initially requires a top-down approach from the Board. This needs to be complemented by re-enforcing momentum by encouraging and promoting bottom up sustainable changes in behavior.

Target Culture - Actions & Behaviors

Board

- Tone from the top
- Challenge on senior management
- Pursuit of excellence
- Establish overall direction
- Top down cultural change

Senior Management

- Align with Board's expectations
- Drive strategic development
- Communicate vision and strategy
- Set tone and pace across organization
- Integrate Board requirements into reporting, processes etc.

Employees

- Clarity of direction of the organization
- Mechanisms for providing ideas for improvement
- Merit-based performance evaluation and incentives
- Recognition of consequences for non-performance
- Transparency and communication
- Interactions based on mutual respect
- Open environment for feedback and challenge
- Increased focus on execution of compliance and risk activities
- Appoint 'change agents' to embed new culture

Priorities for CROs' Agenda

Levers

1 Ascertain Compliance to Regulation

- Continue to **pursue a strategic program** to monitor and manage compliance with shifting global and local regulations will remain key to banks success;

2 Risk Management to become a performance enabler

- **Make** risk management a source of **competitive value**;
- **Expand** and **leverage** the risk function's capabilities in order to enhance the bank's internal decision making and to develop commercial opportunities and client service;
- Expand on an integrated view of balance sheet resources in order to achieve optimal risk-return trade-offs & encourage a desired level of risk taking;
- Deploy capabilities to support & develop advisory services and dedicated tools for customers;

3 Holistic Balance Sheet Management

- Move from a siloed **way of looking** risk or business to an integrated view;
- This allows for an assessment of all organisational impacts, in order to optimize risk – rewards;

4 Digitise the Risk Function

- **Digital transformation** can create significant value by making the process more efficient;
- **Reg-techs** and **other fintech** companies could potentially form valuable **banks' allies**;
- Banks need to take an **integrated approach combining digital functionality** and **convenience** with human interaction; **upgrade product quality** and enhance **customer satisfaction** via focusing on digital customer journeys and personalisation of product offerings;

4 A shift in competitive landscape for Greek Banks

Potential routes to be followed by Greek Banks, in light of the new standards

Retail Side

- To improve performance, banks need to **fuse digital functionality and personalized products**;
- **Improved data quality** and **technologies** will enable banks to have a clear view of the customers' financial and behavioural stance, and effectively offer distinctive & custom made products; Hence, increase customer satisfaction & retention;
- Banks have to decide **where to compete** on the value chain spectrum; Potentially cooperate with fin techs to realise the full value of innovative technology;
- **Improved collections** by re-defining the right timing, offer and contact channel;
- **Personalised pricing and product offers**;

Wholesale Side

- Find ways to **serve the customer better**, to earn **more revenue** per customer;
- Expand in **prime core markets** by offering tailor made products;
- **Reinvention** of the customer engagement model;
- **Adjust to the new business reality** through, among others, improving infrastructure and focus on providing credit to corporates on top of their working capital needs;
- **Specialise** in areas with a **positive outlook for the Greek economy**, such as in trade financing, export oriented companies, shipping, hospitality sector;
- Focus on **specific customer segments** & distinctive **geographies;**
- **Personalised pricing and product offers**;

5 Concluding Remarks

Challenges are rather clear; Identifying the routes to revival are not

- Greek Banks face **disruptions on numerous fronts**. On top of the **NPE/NPL challenges**, banks have to face and rise to the challenges of maintaining **profitability and competitiveness;** Banks need to be **agile** and **adaptable** to strategically position themselves in this environment;

- Mistakes of the past **should not be repeated;**

- Greek Banks have to **get ahead of the challenges** and create the necessary circumstances to **attract international strategic investors,** via realising initiatives both at the NPE/NPL resolution front, but also by reinventing their business models & strategic orientation; taking into account **current position**, **ambitions for the future**, chosen **customer focus**, **organisational competencies**, **brand** capacity, **regulatory** requirements & and **capital** limitations;

- **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;

- **Risk culture shall** be aligned **to business strategy**. Risk Appetite should be integrated into the banks' organisational strategic framework. Risk Appetite is the '**glue'** that brings together Strategy & Risk Management;

- Banks have **to boost their competitiveness** by becoming digital for operational & cost efficiency, but also create value and a better experience for their customers;

- Banks should **consider a fundamental shift in the way they operate**; by re-inventing the customer engagement model, they could deliver the right experience via the right channel, at the right time for the customer;

- **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**;

- **Staying the same may not be an option** in this complex and challenging environment;. Banks must **strategically look to the future to determine how short-term transition will enable a long-term transformation;**

Thank you

Q & As

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

- **Dr. Martin Czurda**
  Chief Executive Officer
  T : +30 215 5606 910
  mczurda@hfsf.gr

- **Ilias Xirouhakis**
  Executive Board Member
  T : +30 215 5606 912
  ilias.xirouhakis@hfsf.gr