BANK OF GREECE
EUROSYSTEM

Report on Operational Targets for Non Performing Exposures

30 November 2016

A. Introduction.

Greek banks entered the crisis in 2008 with a total outstanding amount of Non-Performing Exposures ("NPEs") to the tune of €14.5 bn or 5.5% of total exposures[1]. At end-June 2016 the stock of NPEs[2] had reached €108.4 bn or 45.1% of total exposures[3] (€106,9 bn or 50.5% of total exposures, excluding off-balance sheet items).

Today, NPEs represent the most significant challenge for the Greek banking system. Addressing this problem in an efficient manner is important from both a micro and a macro prudential perspective, since it can not only improve the financial soundness of banks, but also allow freeing-up of capital that can be directed to other more productive sectors of the economy, resulting in an increase of productivity and growth.

The resolution of private debt is of utmost significance for the rebalancing of the Greek economy towards export-oriented sectors and the efficient allocation of resources. The identification of viable businesses, for which sustainable long-term restructuring solutions should be implemented, will preserve the productive fabric of the economy and lay the foundations for resumption in investment and growth. In a similar vein, restoring affordability of household debt can render many households once again bankable and reinforce social cohesion.

There are currently a number of initiatives underway, with the aim to remove impediments for NPEs resolution (such as tax, legal, judicial, etc.) and to improve the banks' capacity in dealing with the stock of their problematic assets.

The design and implementation of an NPE operational targets framework is one of the key policy initiatives and an integral part of the national strategy for the reduction of NPEs. The recent Guidance to banks on non-performing loans, published by the Banking Supervision arm of the ECB[4], has also identified target setting as a crucial part of their NPEs Strategy for a time-bound reduction of NPEs. From a supervisory point of view, it is of utmost importance that the banks with high NPEs ratios include in their

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[1] Non-performing exposures included loans past due more than 90 days and restructured loans, as reported in the templates of BoG Governors' Act 2442/1999.

[2] The European Banking Authority (EBA) definition on Non-performing exposures includes loans more than 90 days past due or loans whose debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past due amount or of the number of days past due (EBA, Annex V. Part 2. 145-162).

[3] Including off-balance sheet items.

[4] https://www.bankingsupervision.europa.eu/legalframework/publiccons/pdf/npl/npl_guidance.en.pdf

NPEs strategy concrete operational targets per asset class (e.g. business, mortgage etc.), per time horizon (e.g. short-term, medium-term) and per reduction implementation option (e.g. loan restructuring, collateral realization, loan sales etc.).

In this vein, the Bank of Greece, in close cooperation with the Banking Supervision arm of the European Central Bank ("ECB") has designed an NPE operational targets framework, supported by several Key Performance Indicators ("KPIs"). The selected targets and KPIs are both action-oriented and results-oriented and provide a granular view on the key asset quality metrics of the bank, on the management actions to reduce NPEs and on the effectiveness of these actions. In addition, following an extensive consultation with authorities and the industry, the reporting framework of the Bank of Greece has been upgraded[5] accordingly.

Banks agreed on ambitious but achievable targets, which were submitted at the end of September 2016, with a 3-year time horizon. They used quarterly projections for the four quarters of 2017 and yearly projections for 2018 and 2019. The targets have been fully embedded in the NPE and overall business strategy. The target-setting took into account the intrinsic characteristics of each banks portfolio, organization and capacity. Banks have developed tailored models to support them in appropriately calibrating the NPE operational targets, taking into account macroeconomic assumptions. The banks can adjust their targets, at the end of September each year, providing quarterly projections for the upcoming year. Additionally, they will be able to calibrate, if necessary, their existing targets.

The achievement of NPE operational targets will be monitored closely on a quarterly basis. Banks will submit, through the aforementioned prudential reporting, detailed information regarding the evolution of all NPE operational targets and key monitoring indicators within each quarter. Banks will also submit a note explaining the drivers for the evolution of NPE operational targets and explanations for any potential deviation (i.e. actual vs. targeted). The Bank of Greece, in cooperation with ECB Banking Supervision as appropriate, will assess banks' data and analysis and conduct meetings with relevant bank executives. It will also monitor closely the implementation of the NPE strategy and action plan of banks and might request, in cooperation with ECB Banking Supervision, additional corrective measures if deemed necessary. Moreover, the Bank of Greece will identify any potential remaining impediments to efficient NPL resolution and propose measures to address them.

[5] ECA 102/30.08.2016 (http://www.bankofgreece.gr/BogDocumentPEE/%CE%A0%CE%95%CE%95_102_30_8_2016.pdf) introduces an enhanced reporting framework for NPEs.

The scope of this report, to be published on a quarterly basis, is to provide an aggregate summary on the developments of the operational targets and selected KPIs. For this first report a technical background on the targets is also available. A more detailed analysis on the evolution of asset quality of Greek Banks is available in the Banking System Review and the Monetary Policy Reports of the Bank of Greece.

B. Technical Background

All Greek commercial and cooperative banks are included in the reporting perimeter.

The reporting perimeter is on an entity level basis and not on a consolidated group basis (i.e. “solo basis”).

“Non Performing Exposures” (“NPEs”) and “Non-performing Loans (“NPLs[6]”), for the purposes of target setting, refer to on-balance sheet items only.

NPEs are in agreement with EBA definition (EBA, Annex V. Part 2. 145-162).

The four systemic institutions[7] (“SIs”) and the three High Priority Less Systemic Institutions[8] (“LSIs”) are required to submit the full set of nine operational targets and KPIs, while the rest of the LSIs should only deliver a limited number of selected targets[9] and indicators.

The nine agreed operational targets are listed below:

- **Target 1**: NPE Volume (Gross).
- **Target 2**: NPL Volume (Gross).
- **Target 3**: Cash recoveries (collections, liquidations and sales) from NPEs / Total average NPEs
- **Target 4**: Loans with long term modifications / NPE+ Performing Forborne Loans with long term modifications (“PF-LTM”)
- **Target 5**: NPE >720 dpd not denounced[10] / (NPE >720 dpd not denounced + Denounced)
- **Target 6**: Denounced loans for which legal action has been initiated / Total denounced loans
- **Target 7**: Active NPE SMEs for which a viability analysis has been conducted in the last 12 months / Active NPE SMEs

[6] NPLs refer to loans more than 90 days past due.
[7] The four SIs namely are Piraeus Bank, National Bank of Greece, Alpha Bank and Eurobank.
[8] High Priority LSIs are Attica Bank, Pancretan Bank and Chania Bank.
[9] i.e. Target 1, Target 2, Target 4, Target 5 and Target 6, as listed below.
[10] Denounced loans are loans whose contract has been called off (i.e. terminated) by the lender and the denouncement has been properly announced to the debtor.

- **Target 8**: SME and Corporate NPE common borrowers[11] for which a common restructuring solution has been implemented
- **Target 9**: Corporate NPE for which the bank(s) have engaged a specialist for the implementation of a company restructuring plan

Targets and KPIs are set in total portfolio level and per asset class:

- **Residential Loans**. In this section exposures to households for the acquisition or the maintenance / refurbishment of residential property are included.
- **Consumer Loans.** This section includes secured and unsecured exposures to households for the coverage of consumer needs in the form of revolving credit (i.e. credit cards, overdrafts and revolving consumer loans) and non-revolving credit (i.e. exposures to households for the coverage of consumer needs with a predetermined amortization repayment schedule).
- **Business Loans.** This section includes exposures to businesses as described below:
    - **Small Business & Professionals – SBPs**. Credit exposures to professionals and businesses with turnover less than 2.5 million euro.
    - **Small & Medium Enterprises - SMEs.** Credit exposures to businesses with turnover above 2.5 million euro and below 50 million euro.
    - **Corporate.** Credit exposures to businesses with turnover above 50 million euro.
    - **Shipping Finance.** Credit exposures to shipping finance.

C. Operational Targets set by the banks

In September 2016 banks submitted their operational targets for NPEs on the basis of their own macroeconomic assumptions and NPEs' strategy. The table below summarizes the development of key operational targets and metrics for the **total portfolio** for the period June 2016 up to December 2019 (amounts are in €billion):

A.-Result oriented operational targets	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2018	2019
Target 1: NPE Volume (Gross)	**106.9**	**106.9**	**105.8**	**105.2**	**103.4**	**102.0**	**98.2**	**83.3**	**66.7**
Monitoring: NPE Ratio	51%	51%	51%	51%	50%	50%	48%	42%	34%

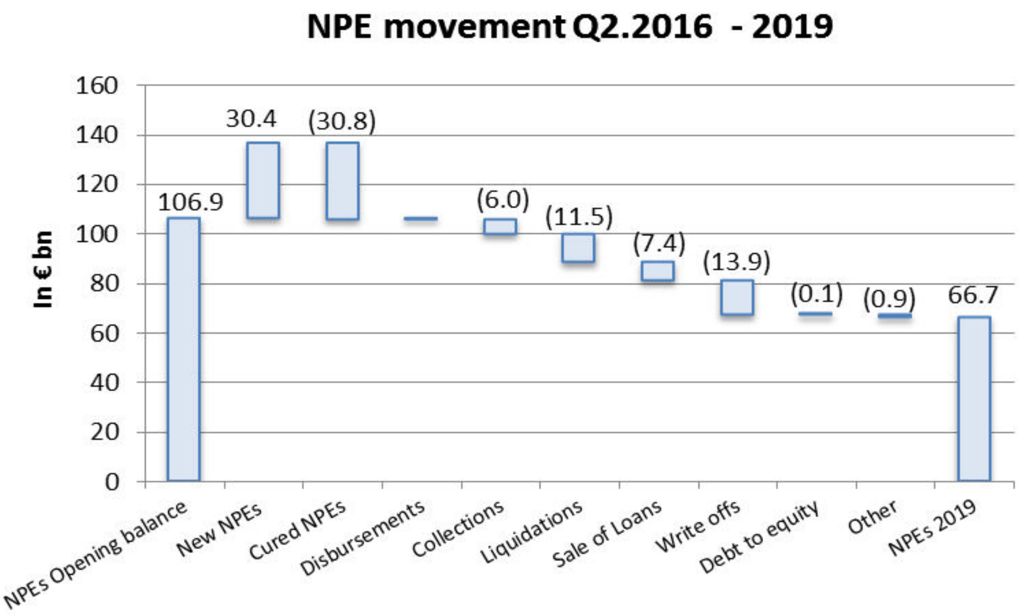
[11] Debtors are considered as common borrowers when they have exposures to multiple banks.

Target 2: NPL Volume (Gross)	78.3	78.1	76.3	74.7	72.4	70.5	65.9	53.0	40.2
Monitoring: NPL Ratio	38%	37%	36%	36%	35%	34%	32%	27%	20%

Following the above, the opening balance (June 2016) for NPEs of Greek commercial and cooperative banks is €106.9 bn (these exposures do not include off-balance sheet items of approx. €1.5 bn). Banks have set a target for a -38% reduction of their NPEs within the period, reaching €66.7 bn by 2019.

According to the banks' submissions, the largest part of the reduction will be effective in 2018 and 2019. The reduction is mainly driven by curing of loans and write-offs and to a lesser extent by liquidations, collections and sales of loans. The reduction of balances is mitigated by the inflows of new NPEs, which are expected to remain quite significant in the second half of 2016 and in 2017. The NPEs as a percentage of total exposure will gradually decelerate and reach 34% in 2019.

More specifically, approx. 29% of the June 2016 opening balance for NPEs will be rehabilitated to performing status, mostly on the back of effective loan restructurings. However, this reduction is counterbalanced by new inflows of non-performing exposures and re-defaulted customers (in total 28% of June 2016 NPEs). Additionally, collections and liquidations of NPEs will contribute by 16% to NPEs reduction, the sale of loans by 7% and write-offs and other by 14%, resulting in an overall decrease of NPEs by 38% for the period June 2016 to 2019. The drivers of NPE reduction are presented in the diagram below:



For the same period the reduction in loans past due more than 90 days ("NPLs") is set at 49%, thus from €78.3 bn in June 2016 to €40.2 bn in 2019. The relevant NPLs ratio decreases in the same period from 37% to 20%. The larger reduction in the stock and ratio of NPLs compared to the NPEs is mostly related to the minimum probation period of one year for the curing of forborne loans, as per EBA guidelines.

The information below refers to the movement of selected balances and metrics for the three main asset classes, i.e. mortgages, consumer and business loans. More specifically:

The table below shows the development of selected operational targets and metrics for the **mortgage portfolio** for the period of June 2016 up to December 2019 (amounts are in €billion):

A.-Result oriented operational targets	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2018	2019
Target 1: NPE Volume (Gross)	**28.1**	**27.6**	**27.4**	**27.3**	**27.0**	**26.7**	**26.3**	**23.6**	**19.7**
Monitoring: NPE Ratio	42%	42%	42%	42%	41%	41%	41%	37%	32%
Target 2: NPL Volume (Gross)	**20.7**	**20.9**	**20.9**	**20.6**	**20.2**	**19.8**	**19.3**	**16.5**	**12.9**
Monitoring: NPL Ratio	31%	31%	31%	31%	31%	30%	30%	26%	21%

The table below shows the development of selected operational targets and metrics for the **consumer portfolio** for the period of June 2016 up to December 2019 (amounts are in €billion):

A.-Result oriented operational targets	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2018	2019
Target 1: NPE Volume (Gross)	**15.2**	**15.0**	**14.5**	**14.2**	**13.7**	**13.4**	**12.1**	**8.9**	**6.5**
Monitoring: NPE Ratio	64%	64%	63%	62%	61%	60%	58%	47%	36%
Target 2: NPL Volume (Gross)	**12.5**	**12.2**	**11.8**	**11.6**	**11.1**	**10.9**	**9.7**	**6.7**	**4.6**
Monitoring: NPL Ratio	52%	52%	51%	50%	49%	49%	46%	35%	25%

The table below shows the development of selected operational targets and metrics for the **business portfolio** (incl. all sub-asset classes of the business portfolio) for the period of June 2016 up to December 2019 (amounts are in €billion):

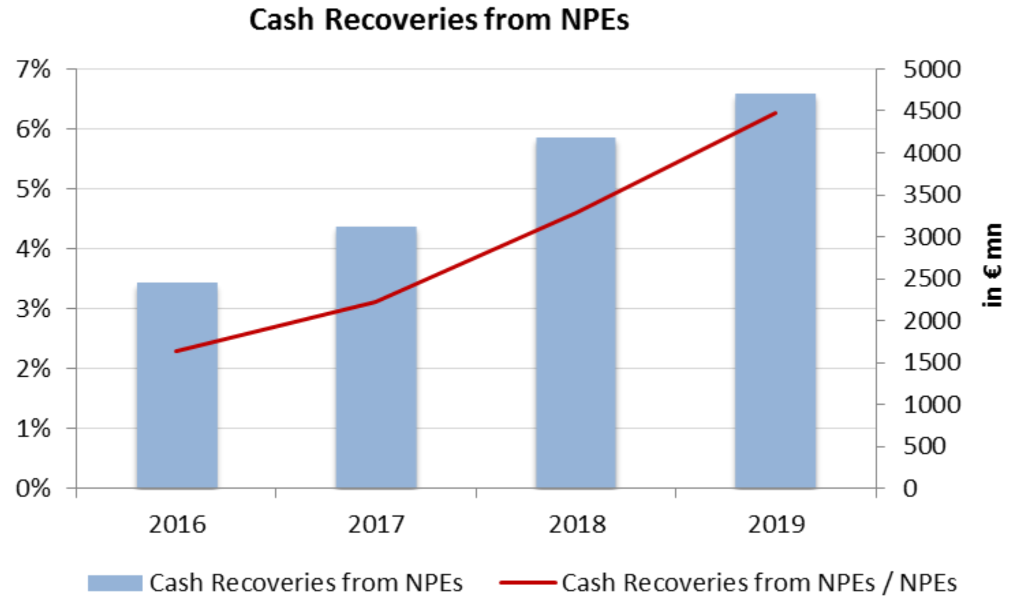
A.-Result oriented operational targets	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2018	2019
Target 1: NPE Volume (Gross)	**63.6**	**64.3**	**63.9**	**63.7**	**62.7**	**61.9**	**59.8**	**50.7**	**40.5**
Monitoring: NPE Ratio	53%	53%	53%	53%	53%	52%	50%	43%	35%
Target 2: NPL Volume (Gross)	**45.1**	**45.0**	**43.6**	**42.6**	**41.0**	**39.8**	**36.9**	**29.9**	**22.7**
Monitoring: NPL Ratio	37%	37%	36%	36%	35%	34%	31%	26%	19%

Further to the previous analysis, the table below summarizes the contribution of each portfolio to the reduction in NPEs for the period June 2016 to December 2019:

Share of each portfolio in NPEs reduction							
TOTAL	Residential	Consumer	Business				
				SBP	SME	Corporate	Shipping
100%	21%	22%	58%	15%	26%	16%	1%

In addition to target-setting over NPEs and NPLs level, more targets have been set to monitor the banks' performance in reducing NPEs. In specific:

Target 3 (Cash recoveries (collections, liquidations and sales) from NPEs / Total average NPEs) aims in monitoring the results of collections efforts as well as the amounts of cash collected from collaterals' liquidations and loans' sales. Banks' targets are set towards increasing collections on an annual basis, mainly due to expected increasing liquidation proceeds. The diagram below presents the evolution of cash recoveries from NPEs throughout the years 2016-2019:



The table below summarizes the contribution of each portfolio to the cash collected during the 4-year period:

Share of each portfolio in NPEs' cash recoveries							
TOTAL	Residential	Consumer	Business				
				SBP	SME	Corporate	Shipping
100%	19%	10%	71%	15%	27%	26%	3%

Target 4 monitors the composition of modification solutions offered to distressed customers, measuring the long-term ("LT") modifications[12] over the population of NPEs and performing LT modifications. All institutions are aiming towards increasing LT modifications, with target 4 varying from 27%-61% in 2019 from a much lower range of 15%-19% in Q2.2016. Long term modifications are offered for a period longer than two years and indicate more sustainable solutions that could lead to the transition of a borrower into viability and finally into a cured status. Therefore, Target 4 is considered as a key operational target.

Target 5 monitors loans which are over 720 days past due ("dpd") but not denounced as a percentage of loans over 720 dpd but not denounced and denounced loans. The target applies solely to business loans. All institutions are aiming at enhancing efforts to denounce such loans and proceed with legal actions, with the percentage of over 720 dpd not denounced loans decreasing significantly from Q2.2016 (ranging 6%-26%) until 2019 (ranging 1%-7%).

[12] The types of long term modifications that are widely used are grouped, standardized and ranked in ECA 102/30.08.2016, in order to have data that are comparable, transparent and better monitored, both per credit institution and on a banking system level.

Target 6, in consequence, monitors the course of legal actions taken over denounced loans, which remain at a very high level (87% - 100%) throughout the period until 2019.

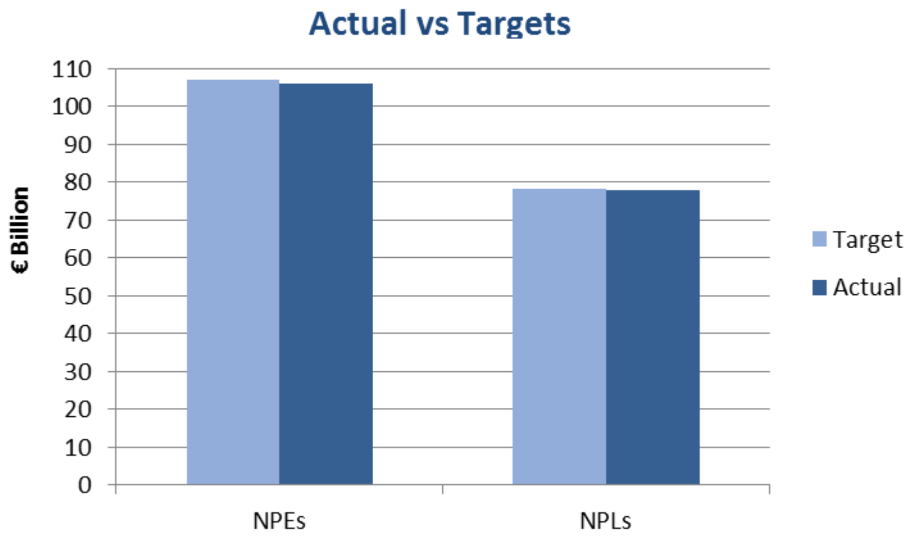
Target 7 monitors the SME portfolio explicitly. In specific, target 7 examines the percentage of active SMEs for which a viability analysis has been conducted in the last 12 months. Institutions have targeted in improving significantly in this area, increasing the percentage of viability analysis conducted up to a range of 80%-97% in 2019, in order to offer appropriate restructuring solutions.

Target 8 examines the efforts to implement common restructuring solutions over common borrowers' corporate and SME loans. As far as SMEs are concerned, loans with common restructuring solutions reach a pick at the end of 2017 increased by 45% compared to Q2.2016. A more ambitious target has been set for corporate loans, where common restructuring solutions double in 2017 and remain at significantly high levels until 2019 (up by 55% compared to Q2.2016).

Target 9, finally, aims at monitoring the amount of Corporate NPEs for which a specialist is engaged to implement a company restructuring plan. Accordingly, banks have set ambitious targets, aiming at doubling the amount of such loans by 2019 compared to Q2.2016.

D. Targets' comparison with actual September 2016 data

Banks have submitted their September 2016 data on asset quality on the basis of the ECA 47 reporting templates; this has enabled us to compare the actual prudential data with the operational targets set. However the figures submitted are preliminary, as the publication of their interim financial statements has not been completed yet.



In total, banks have achieved their targets for Q3 2016, as the divergence between targeted and actual NPEs is not only immaterial but also on the positive side, bringing NPEs at €106.0 bn, down by 1% compared to the targeted amount of €106.9 bn. The NPE ratio (on-balance sheet exposures only) for Q3 2016 stands at 51%, exactly meeting the target set.

NPLs concluded at €79.3 bn, up by 1,5% from the targeted amount of €78.1 bn. Respectively the NPL ratio (on-balance sheet exposures only) for Q3 2016 has remained stable at 38% , 1% down from the targeted ratio of 37% for the same period.