BANK OF GREECE
EUROSYSTEM

Report on Operational Targets for Non-Performing Exposures

5 December 2017

A. Asset Quality Metrics with end-September 2017 data

At end-September 2017, the stock of Non-Performing Exposures (NPEs)[1] decreased by 2.4% and 5.5% compared to end-June 2017 and end-December 2016 respectively and reached €100.4 billion or 44.6% of total exposures[2]. Since March 2016, when the stock of NPEs reached the peak, the reduction is 7.6% or €8.2 billion.

The quarterly default rate decreased for the first time in 2017 reaching 2% but still exceeding the cure rate, constituting write-offs the main tool for NPE reduction. Quarterly sales had a significant impact on NPE reduction, which however relate to a single transaction performed by a bank. Quarterly write-offs amounted to €1.1 billion, reaching €4.4 billion for the 9 month period that ended on September 30, 2017. Quarterly sales of loans amounted to €1.4 billion, reaching €1.8 billion for the 9 month period. The highest quarterly NPE inflows were again reported in the mortgage portfolio, which were counterbalanced by the significant cure rates reported in the same portfolio. Same as in previous quarters, collections and liquidations were rather limited. As previously mentioned, the key drivers for the reduction in the stock of NPEs over the past quarter have been the write-offs and sales of loans, especially in the business portfolio.

The percentage of NPE obligors that have applied for legal protection remains significant. On aggregate 14.5% of NPE obligors have applied for legal protection, while the highest level of protection is observed in the mortgage portfolio, where the percentage exceeds 30%.

The NPE ratio remains high across most asset classes. For end-September 2017, the NPE ratio is 43.3% for residential, 53.2% for consumer and 43.6% for the business portfolio. For the business portfolio in specific, the highest NPE ratio is noted in the Small Business and Professionals (SBPs) segment (66.5% NPE ratio) and the Small and

[1] 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).

[2] Including off-balance sheet items. Excluding the off-balance sheet items and a current loan to the Greek State, which has been excluded from target-setting, the stock of NPEs is reduced by 2.6% in the second quarter of 2017 at €99.1 billion or 50.1% of total exposures.

Medium-Sized Enterprises (SMEs) segment (NPE ratio at 59.0%). Similar to previous quarters, better performance is noted in the Large Corporate (24.5% NPE ratio) and Shipping (34.8% NPE ratio) segments.

Provisions coverage at system level is decreased marginally at 48.0% in September 2017 from 48.3% in June, mainly due to the high quarterly write-offs and sales of loans, which were almost fully covered in their majority. Including the value of collaterals (reported up to the gross value of the loan), we see that NPEs are almost fully covered.

B. Revised Operational Targets set by the banks

According to the NPE operational targets, framework banks should provide at the end of September each year the values for the four quarters of the coming year. They are also allowed to revise their targets in order to align with potential changes in the operating environment and/or changes in their NPE strategies.

The table below summarizes the development of key operational targets and metrics for the **total portfolio** for the period from June 2016 up to December 2019 (amounts are in €billion). Note that the data reported for June 2016 and June 2017 are actual:

	June 2016	June 2017	Sept 2017	Dec 2017	March 2018	June 2018	Sept 2018	Dec 2018	2019
Target 1: NPE Volume (Gross)	**106.9**	**101.8**	**99.9**	**95.9**	**93.6**	**90.2**	**87.6**	**81.5**	**64.6**
Monitoring: NPE Ratio	50.5%	50.6%	49.9%	48.5%	48.1%	46.9%	45.9%	43.1%	35.2%
Target 2: NPL Volume (Gross)	**78.3**	**72.8**	**70.2**	**65.9**	**63.9**	**60.6**	**58.0**	**52.0**	**38.6**
Monitoring: NPL Ratio	37.0%	36.1%	35.1%	33.3%	32.8%	31.5%	30.4%	27.5%	21.1%

In June 2017, banks outperformed their NPE target that was set in last year's submission by €1.6 billion. Consequently, the opening balance for NPEs of Greek commercial and cooperative banks for the new targets setting period (June 2017 – 2019) was €101.8 billion (these exposures do not include off-balance sheet items of approx. €1 billion). Banks are now targeting for a 37% reduction of their NPEs within the above mentioned period (June 2017 – 2019), reaching €64.6 billion in 2019. This is a more ambitious target compared to previous submission by €2.2 billion.

Additionally, the tables below show the development of selected operational targets and metrics for the three main asset classes, i.e. mortgages, consumer and business loans for the period June 2017 – 2019.

More specifically in the mortgage portfolio (amounts in €billion):

	June 2016	June 2017	Sept 2017	Dec 2017	March 2018	June 2018	Sept 2018	Dec 2018	2019
Target 1: NPE Volume (Gross)	**28.1**	**27.8**	**27.8**	**27.7**	**27.5**	**27.1**	**26.4**	**25.3**	**20.6**
Monitoring: NPE Ratio	41.8%	42.8%	43.0%	43.3%	43.2%	42.8%	42.2%	41.0%	34.9%
Target 2: NPL Volume (Gross)	**20.7**	**21.1**	**21.1**	**20.9**	**20.5**	**19.9**	**19.0**	**17.6**	**12.9**
Monitoring: NPL Ratio	30.9%	32.5%	32.6%	32.6%	32.1%	31.4%	30.3%	28.6%	21.9%

The consumer portfolio (amounts in €billion):

	June 2016	June 2017	Sept 2017	Dec 2017	March 2018	June 2018	Sept 2018	Dec 2018	2019
Target 1: NPE Volume (Gross)	**15.2**	**13.8**	**13.7**	**11.7**	**10.4**	**10.2**	**9.9**	**8.7**	**6.6**
Monitoring: NPE Ratio	63.8%	62.4%	62.2%	57.8%	53.2%	52.8%	52.3%	49.1%	39.7%
Target 2: NPL Volume (Gross)	**12.5**	**11.1**	**10.9**	**9.1**	**7.8**	**7.7**	**7.5**	**6.3**	**4.3**
Monitoring: NPL Ratio	52.4%	49.9%	49.4%	45.1%	40.3%	39.9%	39.3%	35.5%	26.1%

And finally the business portfolio (amounts in €billion):

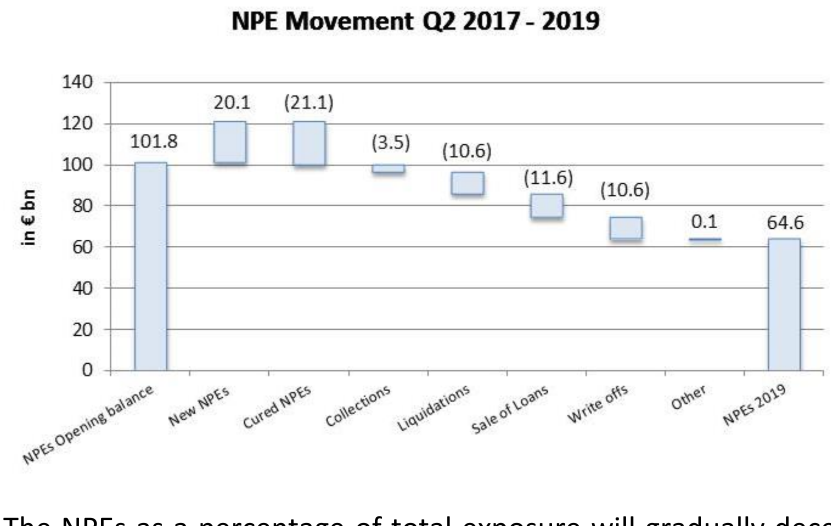
	June 2016	June 2017	Sept 2017	Dec 2017	March 2018	June 2018	Sept 2018	Dec 2018	2019
Target 1: NPE Volume (Gross)	**63.6**	**60.1**	**58.4**	**56.5**	**55.8**	**52.9**	**51.3**	**47.5**	**37.4**
Monitoring: NPE Ratio	52.6%	52.7%	51.4%	49.9%	50.0%	48.3%	46.9%	43.4%	34.6%
Target 2: NPL Volume (Gross)	**45.1**	**40.6**	**38.3**	**35.9**	**35.6**	**33.0**	**31.5**	**28.0**	**21.4**
Monitoring: NPL Ratio	37.3%	35.5%	33.7%	31.7%	31.9%	30.1%	28.9%	25.6%	19.8%

The timing of the NPE reduction has not changed and the largest part will be back loaded and will take effect in 2018 and 2019. However, some changes in the drivers for the reduction are noted compared to previous submission. More specifically:

- Banks intend to accelerate the sale of loans, mainly in the business portfolio and to a lesser extent in the consumer portfolio. More specifically, banks target now for an additional amount of €4.7 billion, thus the total amount of loan sales for the period June 2017 – 2019 reaches €11.6 billion. Part of this additional amount of loan sales (€1.4 billion) has already been executed in Q3 2017 through a securitization and transfer of a non-performing loans portfolio by a less systemic bank.

- In addition, banks intend to increase the amount of write-offs by approx. €1.2 billion, primarily in the retail portfolio.
- However, compared to the previous submission, banks adjusted the targeted net inflows of NPEs to the more conservative side. The inflows of new NPEs for the period June 2017 to 2019 increase by €1.2 billion, whereas curing of loans is lower by €2.5 billion. Banks have incorporated in their models worse macroeconomic assumptions compared to the previous submission (GDP growth, disposable income) that affected the re-default rates and the net inflows of NPEs. The lower cure rate is to some extent attributed also to the higher amount of sales and loan write-offs.
- The remaining factors regarding the NPE reduction have not changed compared to the previous submission. Liquidations remain a key driver with a total outstanding amount of €10.6 billion.

The drivers of NPE reduction for the remaining period up to 2019 are presented in the diagram below:



The NPEs as a percentage of total exposure will gradually decelerate and reach 35.2% in 2019. However, this percentage is slightly higher than the previously targeted ratio of 33.9% on the back of the difference in drivers for NPEs reduction and the lower implied credit growth.

For the same period, the reduction in loans past due ("dpd") more than 90 days (Non-Performing Loans - NPLs) is set at 47%, thus from €72.8 billion in June 2017 to €38.6 billion in 2019.

The relevant NPL ratio decreases in the same period from 36.1% to 21.1%.

Furthermore, the table below illustrates the components of the NPEs' reduction per portfolio:

	Total	Mortgage	Consumer	Business
NPEs opening balance	**101.8**	**27.8**	**13.8**	**60.1**
New NPEs	20.1	7.3	2.5	10.3
Cured NPEs	(21.1)	(8.6)	(2.6)	(9.9)
Collections	(3.5)	(0.7)	(0.5)	(2.4)
Liquidations	(10.6)	(2.9)	(0.2)	(7.5)
Sale of Loans	(11.6)	(0.2)	(4.1)	(7.3)
Write-offs	(10.6)	(2.2)	(2.4)	(5.9)
Other	0.1	0.2	0.0	0.0
NPEs 2019	**64.6**	**20.6**	**6.6**	**37.4**

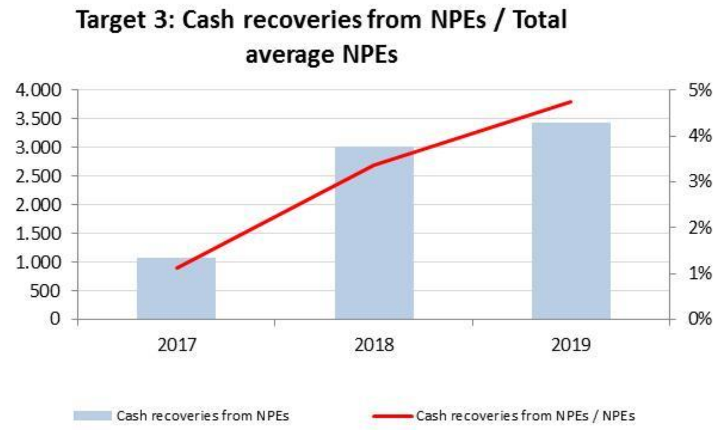
*Any differences in totals are due to roundings

Finally, the table below summarizes the contribution of each portfolio to the reduction in NPEs for the period from June 2017 to December 2019. Compared to last year's submission, we note that banks target for a larger reduction in business portfolio compared to residential and consumer:

Share of each portfolio in NPEs reduction							
TOTAL	**Residential**	**Consumer**	**Business**	**SBP**	**SME**	**Corporate**	**Shipping**
100%	19%	20%	61%	16%	30%	13%	2%

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 targeting to higher collections and increasing liquidation proceeds. Compared to last year's submission, collections have been revised downwards, especially concerning collections from customers and proceeds from liquidations, as higher losses and write-offs are expected. The diagram below presents the evolution of cash recoveries from NPEs throughout the years 2017-2019:



Target 4 monitors the composition of modification solutions offered to distressed customers, measuring the long-term ("LT") modifications[3] over the population of NPEs and performing LT modifications. All institutions are aiming towards increasing LT modifications, with target 4 varying from 42%-50% in 2019 from a much lower range of 20%-33% in Q2 2017. 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. Compared to prior year's targets, banks have confirmed their shift towards LT modifications with some changes made mostly due to the inclusion of empirical evidence in target-setting.

Target 5 monitors business loans which are over 720 dpd but not denounced as a percentage of loans over 720 dpd but not denounced plus denounced 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 2017 until the end of 2019 (from 10%-21% to 0%-6% for SMEs and from 16%-35% to 2%-13% for Large Corporates). There are no significant amendments compared to last year's targets.

[3] 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, with the target remaining at a very high level throughout the period and thus ranging 92%-99% in 2019; again no significant amendments compared to last year's targets.

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 over active NPEs of SMEs. Institutions have targeted in improving significantly in this area, increasing the percentage of viability analysis conducted up to a range of 71%-97% in 2019, in order to offer appropriate restructuring solutions. No significant amendments compared to last year's targets.

Target 8 examines the efforts to implement common restructuring solutions over common borrowers' corporate and SME loans. The target is back loaded with the main amount of solutions offered in 2018 and 2019. Despite the fact that the target has been missed mostly due to the lengthy procedures, banks have revised their targets slightly upwards, expecting common efforts for restructuring to intensify in the forthcoming months.

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 June 2017.

C. Comparison of actual data with Operational Targets set by the banks

Banks have submitted their September 2017 data on asset quality on the basis of the Bank of Greece ECA 102/2016 reporting templates.

Taking into consideration that banks submitted their revised operational targets in 30 September 2017, the submitted targets for this period are very close to the actual ones. According to end-September data, NPEs reached €99.1[4] billion while NPLs reached €70.2[4] billion. Banks have overperformed the NPE target by 0.8% (or €796 million) and the NPL target by 0.1% (or €89 million) compared to the targets set.

[4] Excluding off-balance sheet items.

D. APPENDIX: 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[5]), 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[6] (SIs) and the three High Priority Less Systemic Institutions[7] (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[8] 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**: Volume of loans with long term modifications / NPEs+ Performing Forborne Loans with long term modifications (PF-LTM).
- **Target 5**: Volume of NPEs >720 dpd not denounced[9] / (NPEs >720 dpd not denounced + Denounced).
- **Target 6**: Volume of denounced loans for which legal action has been initiated / Total denounced loans.
- **Target 7**: Volume of active NPEs SMEs for which a viability analysis has been conducted in the last 12 months / Active NPEs SMEs.
- **Target 8**: Volume of SME and Corporate NPE common borrowers[10] for which a common restructuring solution has been implemented.
- **Target 9**: Volume of corporate NPEs 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:

[5] NPLs refer to loans more than 90 dpd.
[6] The four SIs namely are Piraeus Bank, National Bank of Greece, Alpha Bank and Eurobank.
[7] High Priority LSIs are Attica Bank, Pancretan Cooperative Bank and Cooperative Bank of Chania.
[8] i.e. Target 1, Target 2, Target 4, Target 5 and Target 6, as listed below.
[9] 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.
[10] Debtors are considered as common borrowers when they have exposures to multiple banks.

- **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 and Professionals - SBPs**. Credit exposures to professionals and businesses with turnover less than €2.5 million.
    - **Small and Medium-Sized Enterprises - SMEs.** Credit exposures to businesses with turnover above €2.5 million and below €50 million.
    - **Corporate.** Credit exposures to businesses with turnover above €50 million.
    - **Shipping Finance.** Credit exposures to shipping finance.