BANK OF GREECE
EUROSYSTEM

# Report on Operational Targets for Non-Performing Exposures

5 April 2017

## A. Asset Quality Metrics with end-December 2016 data

At end-December 2016, the stock of Non-Performing Exposures (NPEs)[1] decreased by 1.2% compared to end-September 2016 and reached €106.3 billion or 44.8% of total exposures[2]. This is the third subsequent quarter that a reduction in the stock of NPEs is noted, and the first quarter since the beginning of the crisis recording a reduction in the NPE ratio.

Still, the NPE ratio remains high across most asset classes. For end-December 2016 the NPE ratio is 41.5% for residential, 54.0% for consumer and 44.6% for the business portfolio. For the business portfolio in specific, a very low asset quality is noted in the Small Business and Professionals (SBPs) segment (68.3% NPE ratio) and the Small and Medium-Sized Enterprises (SMEs) segment (NPE ratio at 58.9%). On the other hand, relatively better performance is noted in the Large Corporate (26.7% NPE ratio) and Shipping (33.0% NPE ratio) segments.

The new reporting templates allow the supervisory authorities to have a more granular view on the asset quality of Greek banks per asset class and also on the movement between different performance categories as per the EBA definition and actual metrics for the submitted operational targets and selected Key Performance Indicators (KPIs).

Overall, the default rate has decelerated in the last quarter of the year, but it still exceeds the cure rate. The gap between default rate and cure rate is mainly driven by the business portfolio, where banks reported stronger inflows of new NPEs. On the other side, a high cure rate has been reported in the mortgage book, which exceeds the default rate. The outflow of NPEs coming from collections, liquidations and sales of loans was rather limited. Instead, the key driver for the reduction in the stock of NPEs over the last quarter of the year has been the loan write-offs, especially in the business and consumer portfolios.

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[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 1.1% in the fourth quarter of 2016 at €104.8 billion or 50.0% of total exposures.

Provisions coverage at system level is slightly increased to 49.6% in December from 49.5% in September. Including the value of collaterals (reported up to the gross value of the loan) we see that NPEs are fully covered.

## B. Operational Targets set by the banks

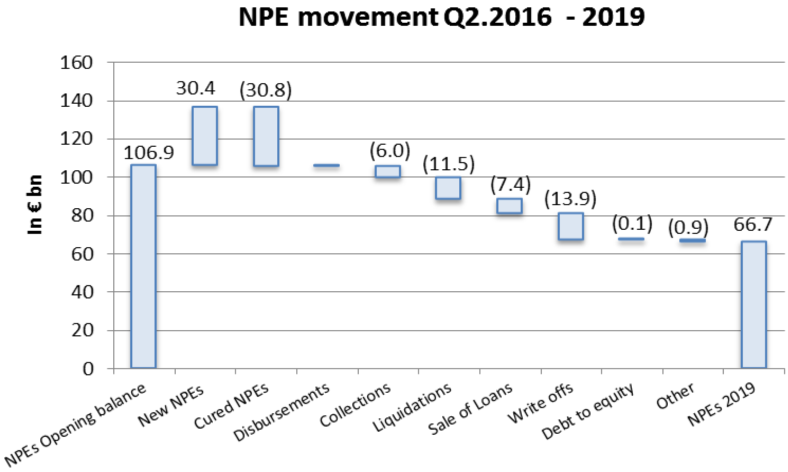
Early in September last year, banks submitted their operational targets for NPEs on the basis of their own macroeconomic assumptions and NPEs' strategy. The table below summarizes the development of key operational targets and metrics for the **total portfolio** for the period June 2016 up to December 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 | 50.5% | 50.9% | 50.5% | 50.6% | 50.0% | 49.6% | 48.0% | 41.8% | 33.9% |
| **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 | 37.0% | 37.2% | 36.4% | 36.0% | 35.0% | 34.3% | 32.2% | 26.6% | 20.4% |

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

According to the banks' submissions, the largest part of the reduction will be back loaded and take effect in 2018 and 2019. The reduction will be 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 will be mitigated by the inflows of new NPEs, which are expected to remain quite significant throughout 2017. The NPEs as a percentage of total exposure will gradually decelerate and reach 33.9% in 2019.

The drivers of NPE reduction are presented in the diagram below:



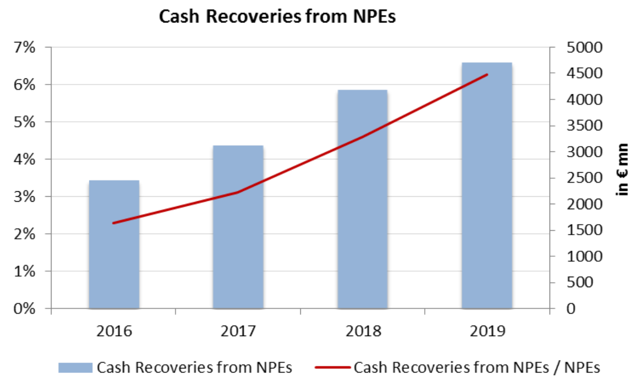

For the same period the reduction in loans past due more than 90 days (Non-Performing Loans - NPLs) is set at 49%, thus from €78.3 billion in June 2016 to €40.2 billion in 2019. The relevant NPL ratio decreases in the same period from 37% to 20%. The larger reduction in the stock and ratio of NPLs compared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

Furthermore, 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:




**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 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.

**Target 5** monitors business loans which are over 720 days past due ("dpd") but not denounced as a percentage over loans 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 2016 until 2019 (from 6%-26% to 1%-7% for SMEs and from 12%-34% to 2%-24% for Large corporates).

**Target 6,** in consequence, monitors the course of legal actions taken over denounced loans, with the target to 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 over active NPE SMEs. 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 peak 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).

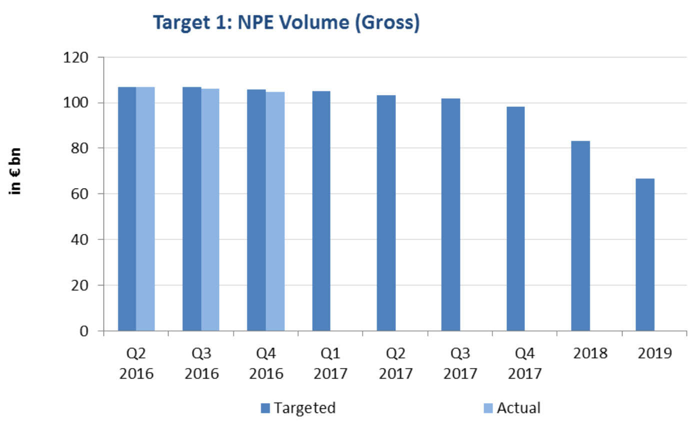
[3] The types of long term modifications that are widely used are grouped, standardized and ranked in ECA 102/30.08.2016, in order to have data that are comparable, transparent and better monitored, both per credit institution and on a banking system level.

**Target 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.

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

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

In Q4 2016 Greek banks managed in total to meet the targets both for the reduction in the stock of NPEs and also for the stock of NPLs. More specifically, with end December 2016 data, the stock of NPEs is €104.8[4] billion or €1 billion lower than the targeted amount.




In a similar vein, the stock of NPLs is €75.9 billion or ~€0.5 billion lower than the targeted amount.


[4] Excluding off-balance sheet items.

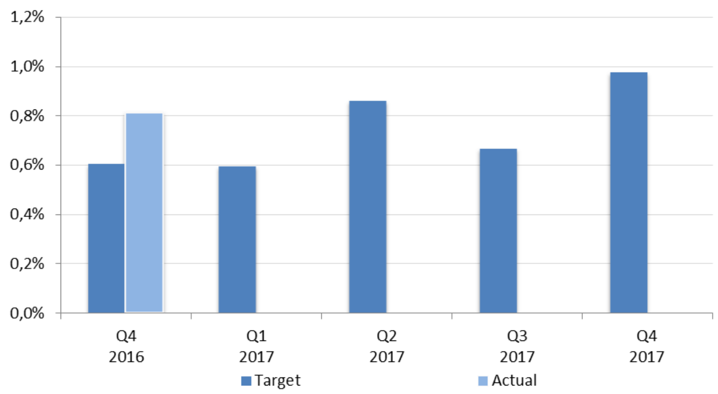
Regarding the two key monitoring indicators (NPE and NPL ratios), both of them outperformed with the actual NPE ratio standing at 50.0% compared to targeted level of 50.5% and the NPL ratio at 36.2% compared to the targeted level of 36.4%[5].

The outperformance (in targets and monitoring indicators) also stands for the majority of metrics for the three main asset classes, i.e. mortgages, consumer and business loans, with the marginal exception of the NPE target for the mortgage portfolio (amounts are in €billion):

| December 2016 | NPE Volume (Gross) | | NPE Ratio | | NPL Volume (Gross) | | NPL Ratio | |
|---|---|---|---|---|---|---|---|---|
| | Actual | Target | Actual | Target | Actual | Target | Actual | Target |
| **TOTAL** | **104.8** | **105.8** | **50.0%** | **50.5%** | **75.9** | **76.3** | **36.2%** | **36.4%** |
| Residential | 27.5 | 27.4 | 41.5% | 41.5% | 20.7 | 20.9 | 31.3% | 31.6% |
| Consumer | 14.4 | 14.5 | 62.4% | 63.3% | 11.6 | 11.8 | 50.0% | 51.5% |
| Business | 62.9 | 63.9 | 52.2% | 53.0% | 43.6 | 43.6 | 36.2% | 36.2% |

As far as cash recoveries from NPEs are concerned (target 3), it is noted that in the fourth quarter of 2016 actual cash recoveries from NPEs over total NPEs are higher than the target (0.8% compared to 0.6% respectively). This is driven by the over-performance of Greek banks in the business portfolio and the sale of a NPE loan.

Target 3: Cash recoveries from NPEs / Total average NPEs




Additionally, concerning the performance over the remaining targets[6] with end-December 2016 data, it is noted that banks are mostly in line with their targets set for the respective period, either achieving the targets set or even outperforming them. Some deviations are noticed in target 7 and target 8.

[5] NPE and NPL ratio have been calculated excluding off-balance sheet items and a current loan to the Greek State which has been excluded from target-setting.

[6] The remaining targets regarding sustainable solutions and action-oriented operational targets cannot be aggregated at a system level.

## 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[7]), 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[8] (SIs) and the three High Priority Less Systemic Institutions[9] (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[10] 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 / NPE+ Performing Forborne Loans with long term modifications (PF-LTM).
- **Target 5**: Volume of NPE >720 dpd not denounced[11] / (NPE >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 NPE SMEs for which a viability analysis has been conducted in the last 12 months / Active NPE SMEs.
- **Target 8**: Volume of SME and Corporate NPE common borrowers[12] for which a common restructuring solution has been implemented.
- **Target 9**: Volume of corporate NPE for which the bank(s) have engaged a specialist for the implementation of a company restructuring plan.

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[7] NPLs refer to loans more than 90 days past due.
[8] The four SIs namely are Piraeus Bank, National Bank of Greece, Alpha Bank and Eurobank.
[9] High Priority LSIs are Attica Bank, Pancretan Cooperative Bank and Cooperative Bank of Chania.
[10] i.e. Target 1, Target 2, Target 4, Target 5 and Target 6, as listed below.
[11] 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.
[12] Debtors are considered as common borrowers when they have exposures to multiple banks.

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 and Professionals - SBPs**. Credit exposures to professionals and businesses with turnover less than 2.5 million euro.
    - **Small and Medium-Sized 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.