BANK OF GREECE
EUROSYSTEM

Report on Operational Targets for Non-Performing Exposures

September 6, 2017

A. Asset Quality Metrics with end-March 2017 data

At end-June 2017, the stock of Non-Performing Exposures (NPEs)[1] decreased by 2.0% and 3.2% compared to end-March 2017 and end-December 2016 respectively and reached €102.9 billion or 44.9% of total exposures[2]. Since March 2016, when the stock of NPEs reached the peak, the reduction is 5.2% or €5.7 billion.

The quarterly default rate remains above 2% and still exceeds the cure rate, constituting write-offs the main tool for NPE reduction. Quarterly write-offs amounted to €1.9 billion reaching €3.3 billion for the first semester of 2017. The highest quarterly NPE inflows were reported in the mortgage portfolio, which were counterbalanced by the significant cure rates reported in the same portfolio. Following the pattern of previous quarters, the outflow of NPEs coming from collections, liquidations and sales of loans was rather limited. As previously mentioned, the key driver for the reduction in the stock of NPEs over the past quarter has been the loan write-offs, especially in the business and consumer portfolios.

Additionally, a significant percentage of NPE obligors have applied for legal protection. In terms of total loans' portfolios 15% of NPE obligors have applied for legal protection, while in the mortgage portfolio the percentage exceeds 30%.

The NPE ratio remains high across most asset classes. For end-June 2017, the NPE ratio is 42.7% for residential, 53.6% for consumer and 44.4% for the business portfolio. For the business portfolio in specific, the highest NPE ratio is noted in the Small Business and Professionals (SBPs) segment (67.8% NPE ratio) and the Small and Medium-Sized Enterprises (SMEs) segment (NPE ratio at 59.8%). Similar to previous quarters, better performance is noted in the Large Corporate (25.0% NPE ratio) and Shipping (36.8% NPE ratio) segments.

Provisions coverage at system level is decreased further at 48.3% in June 2017 from 49.1% in March, mainly due to the high quarterly write-offs. Including the value of

[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 1.9% in the second quarter of 2017 at €101.8 billion or 50.5% of total exposures.

collaterals (reported up to the gross value of the loan) we see that NPEs are almost fully covered.

B. Operational Targets set by the banks

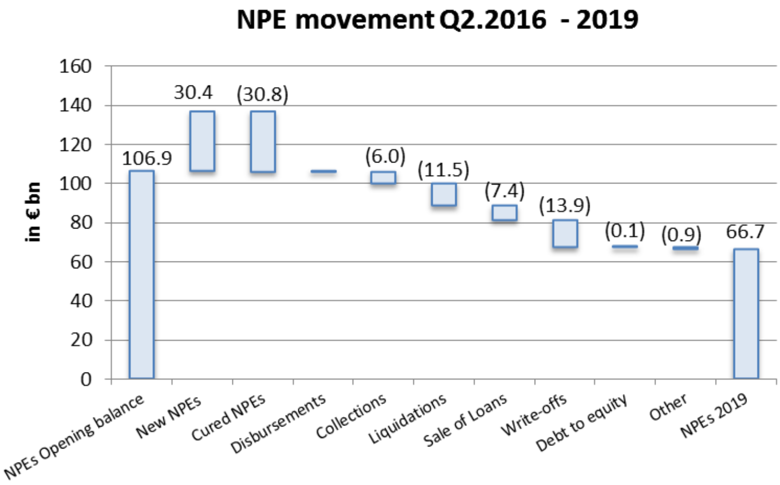
Early in September last year, banks submitted their operational targets for NPEs on the basis of their own macroeconomic assumptions and NPEs' strategy. The table below summarizes the development of key operational targets and metrics for the **total portfolio** for the period from June 2016 up to December 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 above mentioned period, reaching €66.7 billion by the end of 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:



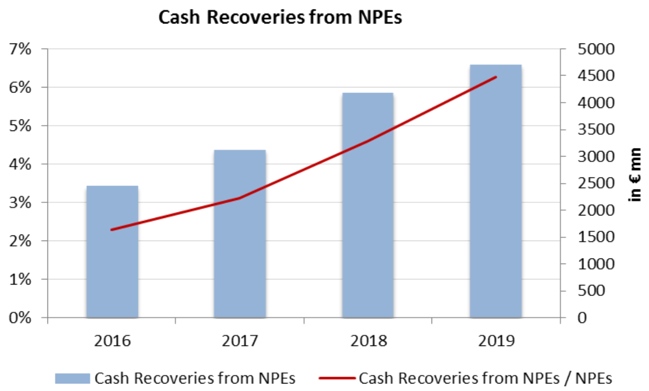
For the same period, the reduction in loans past due ("dpd") more than 90 days (Non-Performing Loans - NPLs) is set at 49%, thus from €78.3 billion in June 2016 to €40.2 billion in 2019. The relevant NPL ratio decreases in the same period from 37% to 20%. The larger reduction in the stock and ratio of 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 from 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 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 2016 until the end of 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 NPEs of 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).

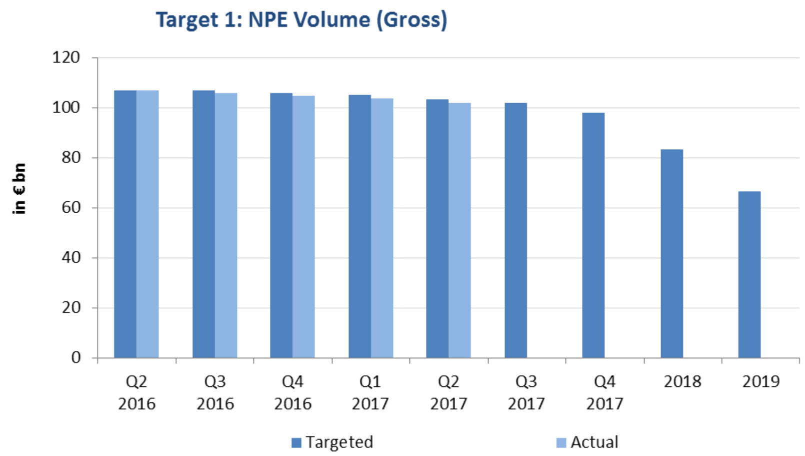
[3] The types of long term modifications that are widely used are grouped, standardized and ranked in ECA 102/30.08.2016, in order to have data that are comparable, transparent and better monitored, both per credit institution and on a banking system level.

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.

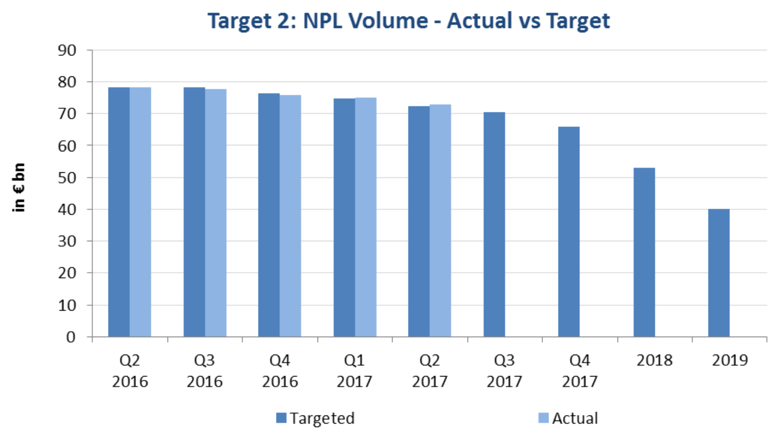
C. Comparison of actual data with Operational Targets set by the banks

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

In Q2 2017 Greek banks managed to meet the targets for the reduction in the stock of NPEs on a system level. More specifically, with end June 2017 data, the stock of NPEs is €101.8[4] billion or €1.6 billion lower than the targeted amount.



However, for the second consecutive period banks missed the target for the stock of NPLs which stand at €72.8 billion or approximately €0.4 billion higher than the targeted amount.



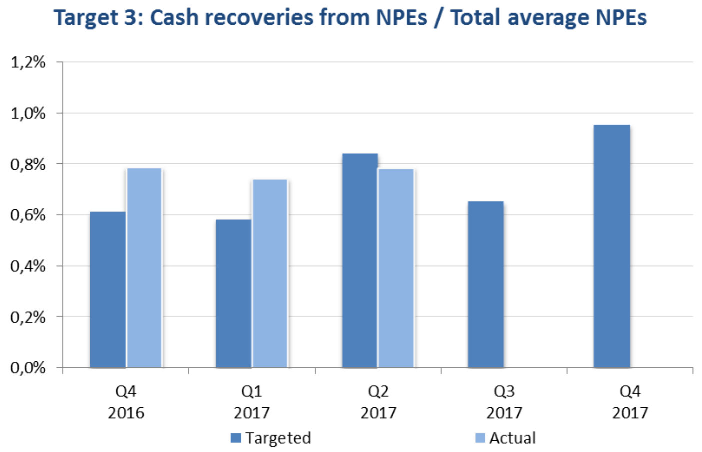
[4] Excluding off-balance sheet items.

The actual NPE ratio stands at 50.6% higher than the foreseen level of 50% and the NPL ratio at 36.1% compared to the foreseen level of 35.0%[5]. Despite achieving the NPE target, the lower than expected volume of total loans resulted in the higher than expected NPE ratio.

The performance (in targets and monitoring indicators) is different among the three main asset classes, i.e. mortgages, consumer and business loans. Same as in previous quarters, significant deviation is reported in the mortgage portfolio and relatively better performance in the business loans (amounts are in €billion):

June 2016	NPE Volume (Gross)		NPE Ratio		NPL Volume (Gross)		NPL Ratio	
	Actual	Target	Actual	Target	Actual	Target	Actual	Target
TOTAL	**101.8**	**103.4**	**50.6%**	**50.0%**	**72.8**	**72.4**	**36.1%**	**35.0%**
Residential	27.8	27.0	42.8%	41.2%	21.1	20.2	32.5%	30.8%
Consumer	13.8	13.7	62.4%	60.8%	11.1	11.1	49.9%	49.4%
Business	60.1	62.7	52.7%	52.8%	40.6	41.0	35.5%	34.6%

As far as cash recoveries from NPEs are concerned (target 3), it is noted that in the second quarter of 2017 actual cash recoveries from NPEs over total NPEs are at approximately the targeted level (0.79% compared to the target of 0.84%), slightly increased since the first quarter (0.79% versus 0.74%).



Additionally, concerning the performance over the remaining targets[6] with end-June 2017 data, it is noted that most banks performed worse than targeted in Q2 2017, especially regarding targets 5, 7, and 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.

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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 / NPEs+ Performing Forborne Loans with long term modifications (PF-LTM).
- **Target 5**: Volume of NPEs >720 dpd not denounced[11] / (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[12] 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:

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[7] NPLs refer to loans more than 90 dpd.
[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.

- **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.