THE BANKS' INTERNAL WORKOUT: MANAGING DISTRESSED SMES

INTERNATIONAL PERSPECTIVES

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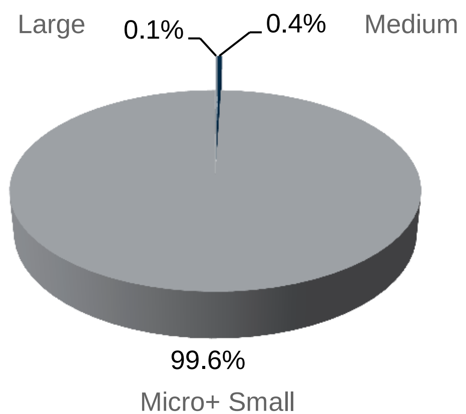
I INTRODUCTION

SME MARKET

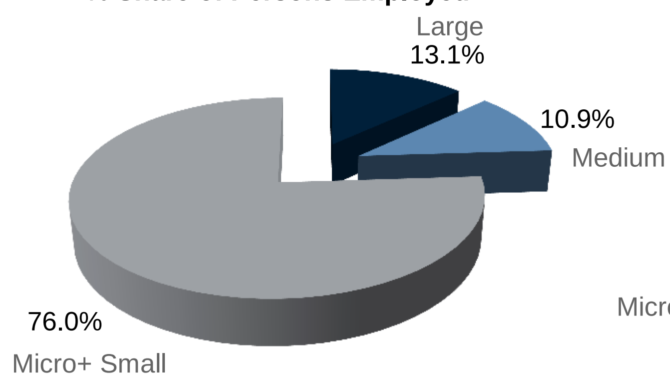
SMEs are of significant importance to the Greek business economy providing c. 87% of all jobs and generating c. 75% of the total value added versus 67% and 58% for EU28 respectively.

	Enterprises (#)			Employees (#)			Value added (€)		
Companies by employee size	**GR Number ('000s)**	**GR % Share**	**EU28 % Share**	**GR Number ('000s)**	**GR % Share**	**EU28 % Share**	**GR Billion (€)**	**GR % Share**	**EU28 % Share**
Total enterprises	**693**	**100.0**	**100.0**	**2,089**	**100.0**	**100.0**	**49**	**100.0**	**100.0**
SME	***692***	***99.9***	***99.8***	***1,815***	***86.9***	***66.9***	***37***	***74.8***	***57.8***
Micro	670	96.7	92.7	1,226	58.7	29.2	18	37.4	21.1
Small	20	2.9	6.1	361	17.3	20.4	10	20.9	18.2
Medium	2	0.4	1.0	229	10.9	17.3	8	16.6	18.5
Large	***0.4***	***0.1***	***0.2***	***274***	***13.1***	***33.1***	***12***	***25.2***	***42.2***

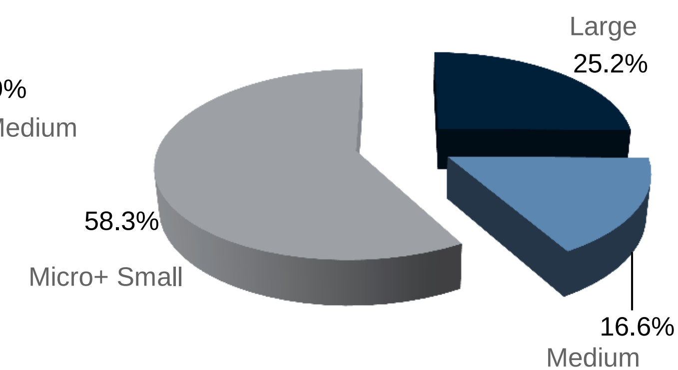
No. of Enterprises



% Share of Persons Employed



% Share of Value Added



Source: SBA Factsheet, 2015

KEY SME STAKEHOLDERS FOR NPLS & GROWTH

Government and government bodies have a key role to (i) resolve the legacy NPL overhang in the Greek banking market and (ii) facilitate SME sector growth by attracting all forms of available financing for SMEs from traditional commercial banks to alternative funders

Central Bank / Regulator

SME Stakeholder Responsibility Map

Key Regulatory Areas

- Capital requirements covering bank SME lending
- Robust strategy, guidelines and codes for NPLs/arrears
- Proactive review of bank's NPL operations
- Setting, implementation and monitoring of bank NPL targets

Ministry of Finance / Treasury

Key Policy Areas

- Facilitate NPL enabling legislation
- Setting of lending targets for state banks
- Faciliate new alternative finance and state schemes (eg.equity, VC, mezz, debt))
- Tax breaks & incentives, where possible
- Develop Credit Bureau
- SME help, advisory and mediation offices

Banks / Main Lenders

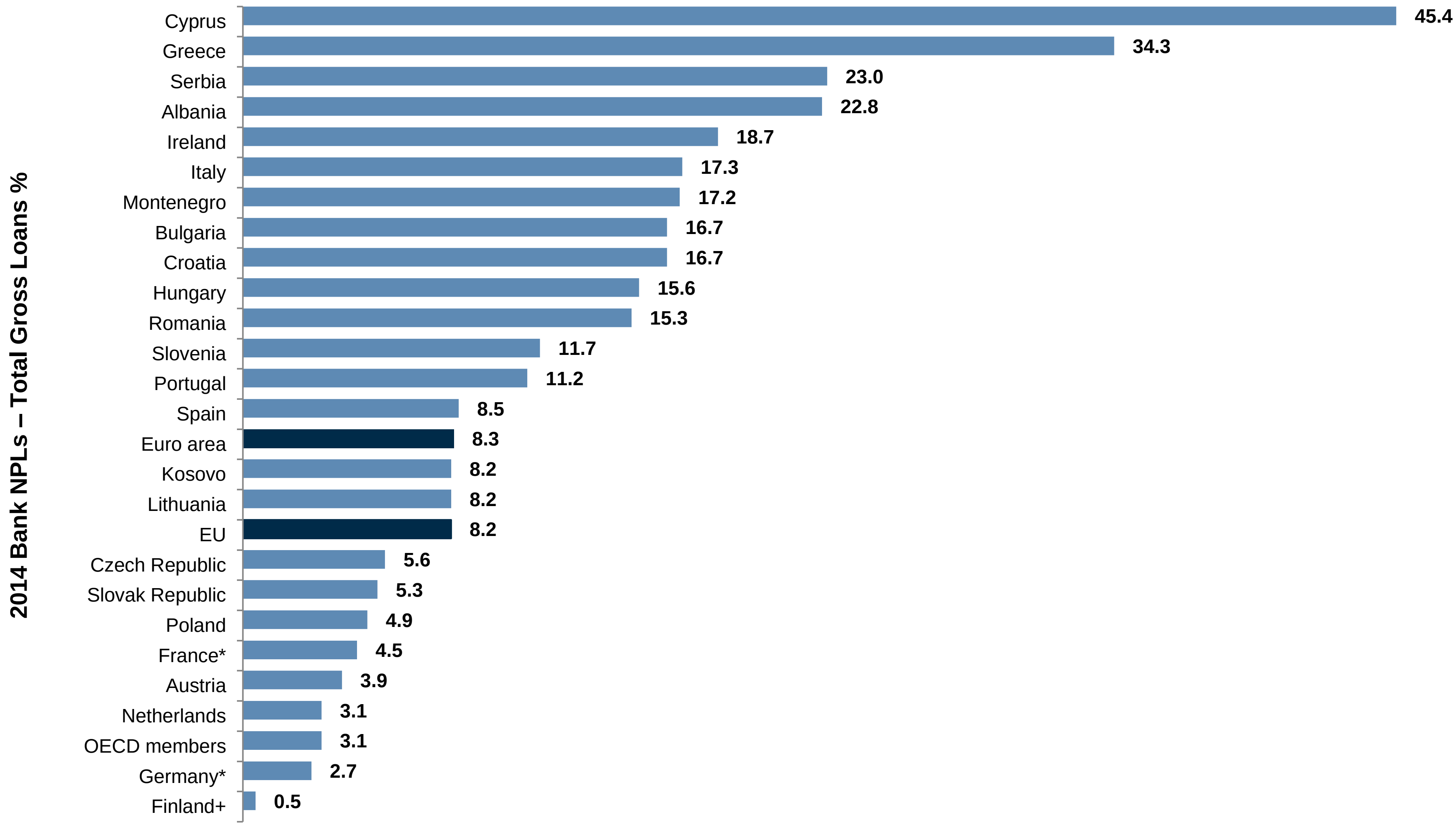
Key Direct Impact Areas

- Robust NPL management strategy, framework & execution by asset class
- Develop appropriate debt restructuring options (e.g. tranched debt)
- Develop appropriate debt products for cashflow financing and exports (e.g. Export credit / Invoice discounting / inventory financing

II NPL MANAGEMENT

NPL VOLUMES REMAIN SIGNIFICANT ACROSS EUROPE

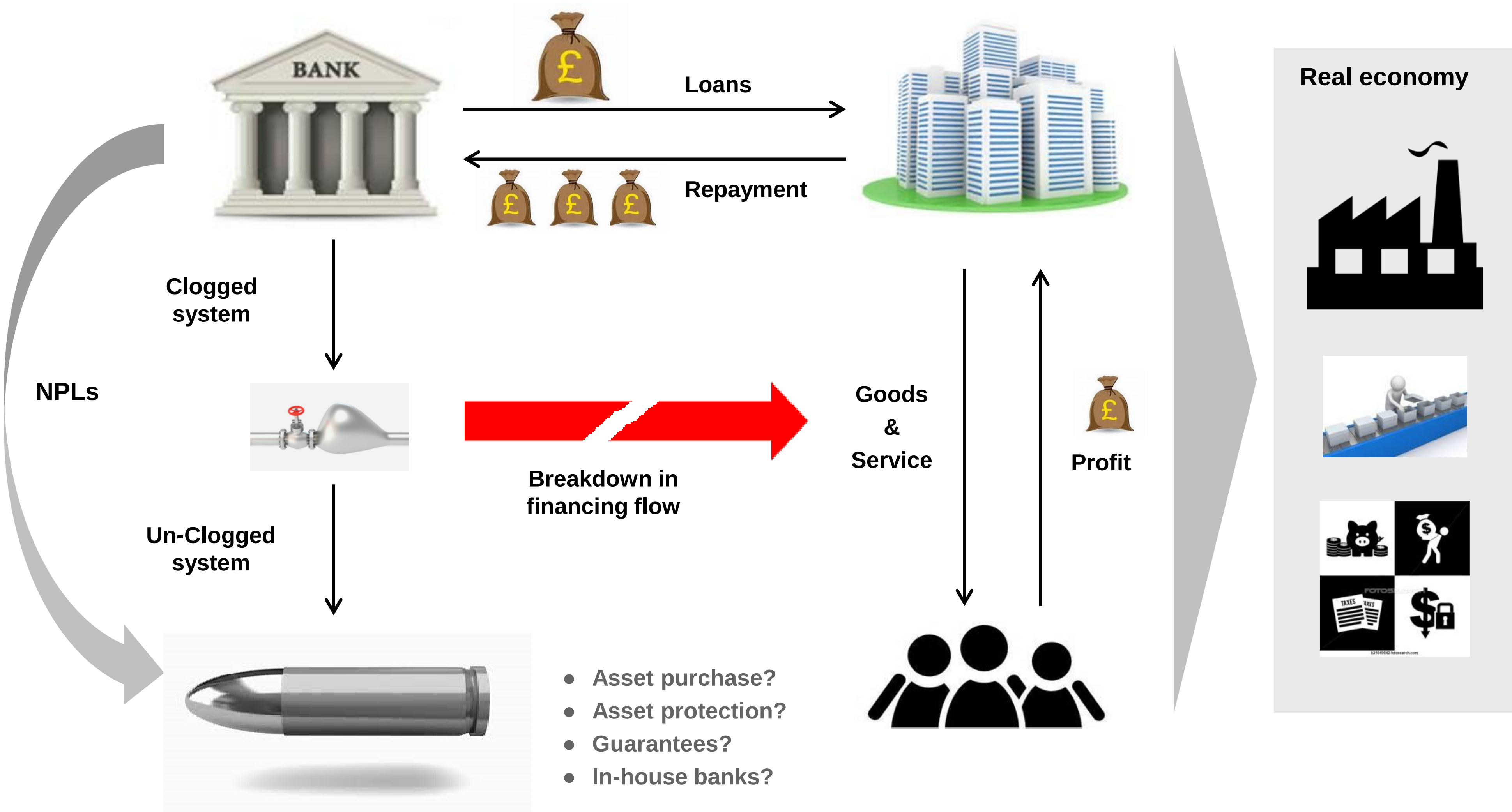
NPL volumes across Europe reached €1.18trn in 2014. Cyprus, Greece, Ireland, Spain and Portugal and the majority of the CEE countries have ratios well above both the Euro (8.3%) and EU (8.2%) averages



*Source: World Bank. * 2013 data, + 2012 data*

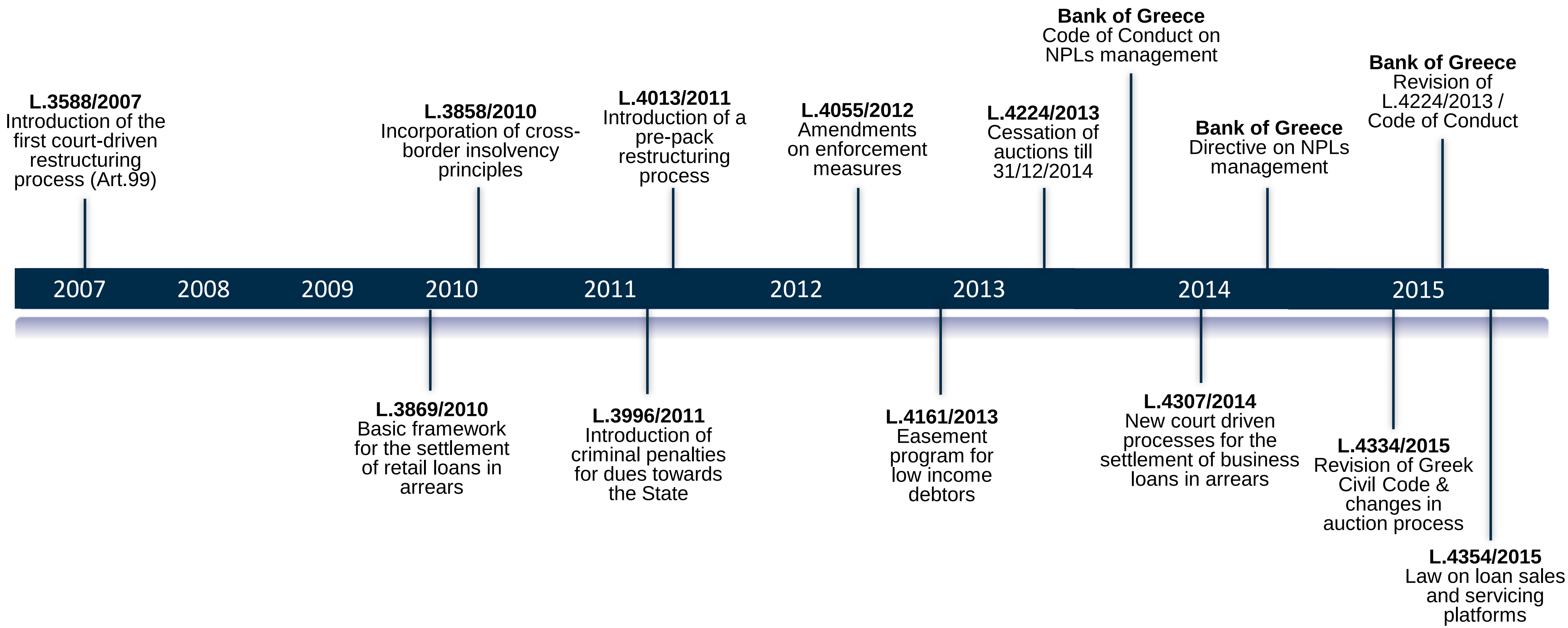
WHERE IS THE SILVER BULLET?

NPL build up must be released to avoid the restriction of financial flows to the business sector and thereby impacting the real economy



OVERVIEW OF THE LEGISLATIVE NPL FRAMEWORK IN GREECE

In an effort to facilitate debt restructuring and effective NPLs management, there has been an increasing oversight of regulator / state towards NPL management from 2007 onwards. A number of important legislative and regulatory measures have been introduced since 2007 with the timeline highlighted below:



CASE STUDY - SME NPL MANAGEMENT PILLARS IN IRELAND

NPL Management Pillars

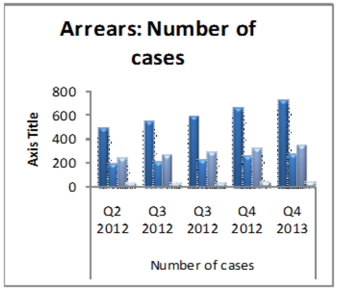
6 NPL stages	Central Bank of Ireland (CBI)	Department of Finance	Banks
1 Strategy	▪ Code of Conduct for Business Lending to SMEs ▪ SME Arrears Resolution Strategy (SARS)	▪ Amend Insolvency & bankruptcy legislation ▪ Insolvency Service of Ireland ▪ Credit Bureau	▪ SARS
2 Segmentation	▪ Distressed Credit Operations Review (DCOR)	▪ N/A	▪ By risk buckets & business drivers (e.g. sector, size, collateral, type, location, vintage)
3 Restructuring Tools	▪ DCOR / Restructuring toolkit	▪ N/A	▪ Restructuring Toolkit (e.g. Tranched debt - ABC notes)
4 Servicing Platform	▪ DCOR ▪ Outsourcing	▪ N/A	▪ Separate NPL unit by asset class
5. Policies & Procedures	▪ DCOR	▪ N/A	▪ Separate P&Ps / DAs
6. Measurements	▪ SME Arrears Resolution Targets (SARTs)	▪ SARTs	▪ Efficiency (stages of restructuring activity) ▪ Effectiveness (SARTs)

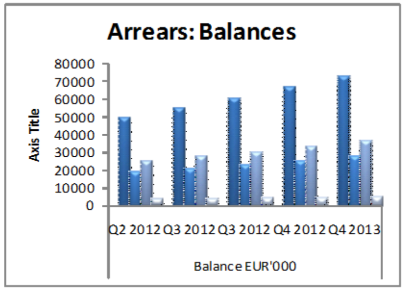
Ireland was in a Troika bail-out program for 3 years (2012 – 2014)

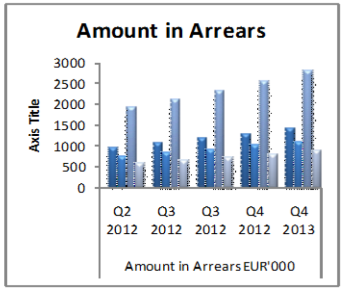
EXAMPLE : WHAT GETS MEASURED GETS DONE - RESOLUTION TARGETS

Loan Book Performance

	Number of cases					Balance EUR'000					Amount in Arrears EUR'000				
	Q2	Q3	Q3	Q4	Q4	Q2	Q3	Q3	Q4	Q4	Q2	Q3	Q3	Q4	Q4 2013
ARREARS															
Total arrears cases in arrears up to 90 days	490	539	593	652	717	50000	55000	60500	66550	73205	980	1078	1186	1304	1435
Total arrears cases in arrears 91 to 180 days	190	209	230	253	278	19000	20900	22990	25289	27818	760	836	920	1012	1113
Total arrears cases in arrears 181 to 360 days	240	264	290	319	351	25000	27500	30250	33275	36603	1920	2112	2323	2556	2811
Total arrears cases in arrears over 361 days	30	33	36	40	44	3500	3850	4235	4659	5124	600	660	726	799	878
LOANS RESTRUCTURED															
New Loans Restructured (in period)	20	22	25	21	28	2200	2640	3000	2520	3360	—	—	1	—	—
Loans restructured recovered (in period)	9	11	8	6	4	990	1210	880	660	440	—	—	—	—	—
Stock Loans restructured (end period)	200	211	228	243	267	22000	23210	25080	26730	29370	22	27	38	37	49
Arrears repayments	10	7	8	14	12	1050	720	840	1450	1300	18	15	15	29	25
Arrears new loans restructured not yet processed	4	2	3	2	1	420	200	325	210	120	8	5	4	4	2
Re-arrears < 90 days	3	4	6	6	7	320	440	680	700	740	9	15	22	24	35
Re-arrears > 90 days	5	3	7	7	8	500	350	720	750	850	12	7	15	14	18



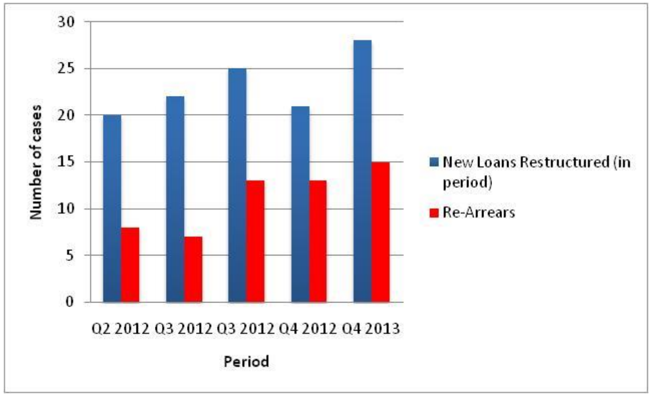




Process efficiency

	Previous 4 Quarters				Current
	Q2 2012	Q3 2012	Q3 2012	Q4 2012	Q1 2013
Number of designated Risk Managers (RM)	4	5	5	5	6
Number of meetings performed per RM	5	5	6	6	7
Number of calls performed	422	452	483	517	553
Coverage % cases in arrears up to 90 days	12%	13%	13%	14%	15%
Coverage % cases in arrears 91 to 180 days	30%	32%	33%	35%	36%
Coverage % cases in arrears 181 to 360 days	35%	37%	39%	41%	43%
Coverage % cases in arrears over 361 days	55%	58%	61%	64%	67%
Number of financial statements obtained	18	15	22	19	20
Number of financial statements assessed	18	14	18	24	19
Time to restructure (average in days)	72	89	72	55	45

New Restructures vs. Re-Arrears



Legal Proceedings

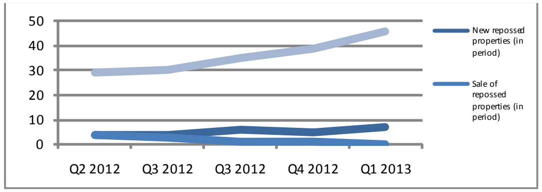
Legal Proceedings	EUR'000				%
Time since start	Number of cases	Exposure	value of collateral	Exposure at risk	Exposure at risk
< 3 months	2	200	184	16	8%
3 - 6 months	5	550	500	50	9%
6 - 12 months	3	270	240	30	11%
12 - 24 months	8	800	704	96	12%
> 24 months	3	360	300	60	17%
Total	21	2180	1928	252	12%

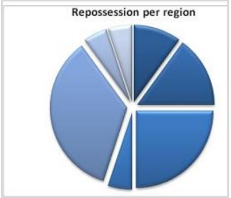
Receiverships

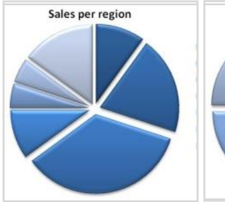
Receiverships	EUR'000				%
Time since start	Number of cases	Exposure	value of collateral	Exposure at risk	Exposure at risk
< 3 months	1	100	90	10	10%
3 - 6 months	3	325	280	45	14%
6 - 12 months	3	350	300	50	14%
12 - 24 months	1	120	80	40	33%
> 24 months	0	0	0	0	0%
Total	8	895	750	145	16%

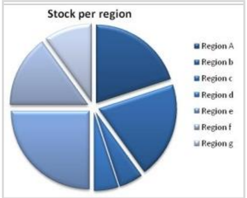
Repossessed Properties Analysis

Repossessed Properties Analysis	Previous 4 Quarters				Current
	Q2 2012	Q3 2012	Q3 2012	Q4 2012	Q1 2013
New repossed properties (in period)	4	4	6	5	7
Sale of repossed properties (in period)	4	3	1	1	0
Stock of repossed properties (end period)	29	30	35	39	46
Market value of stock (EUR'000)	2900	2940	3325	3432	3956
Liquidation value of stock (EUR'000)	2030	2058	2161	2231	2374





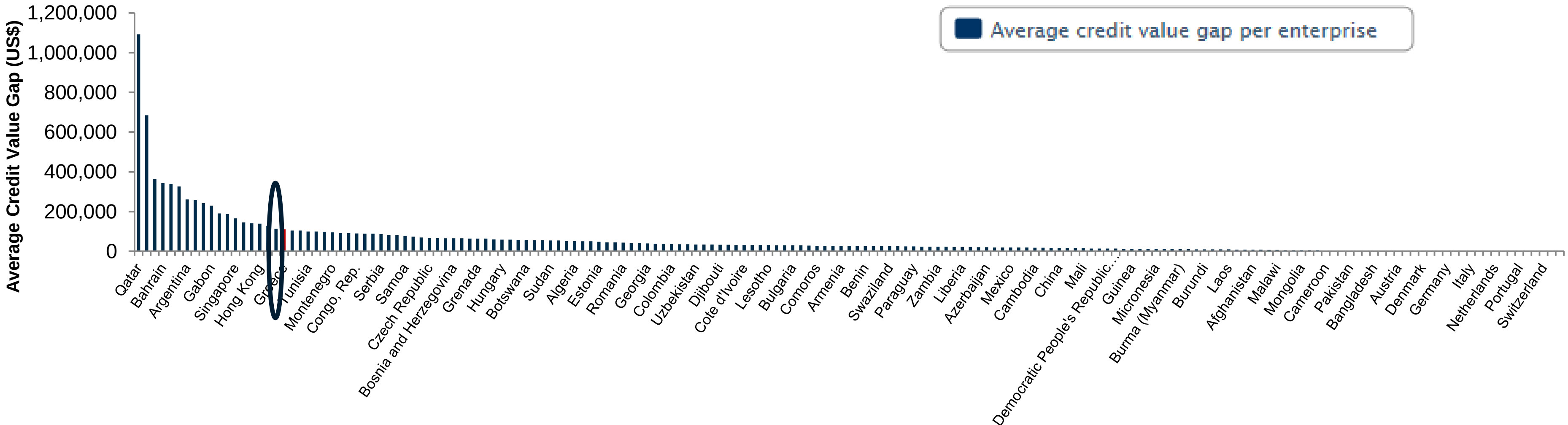




III FINANCING FOR GROWTH

AVERAGE CREDIT VALUE GAP PER ENTERPRISE

Greece has one of the highest average credit value gaps per SME enterprise out of 177 countries surveyed by the International Finance Corporation



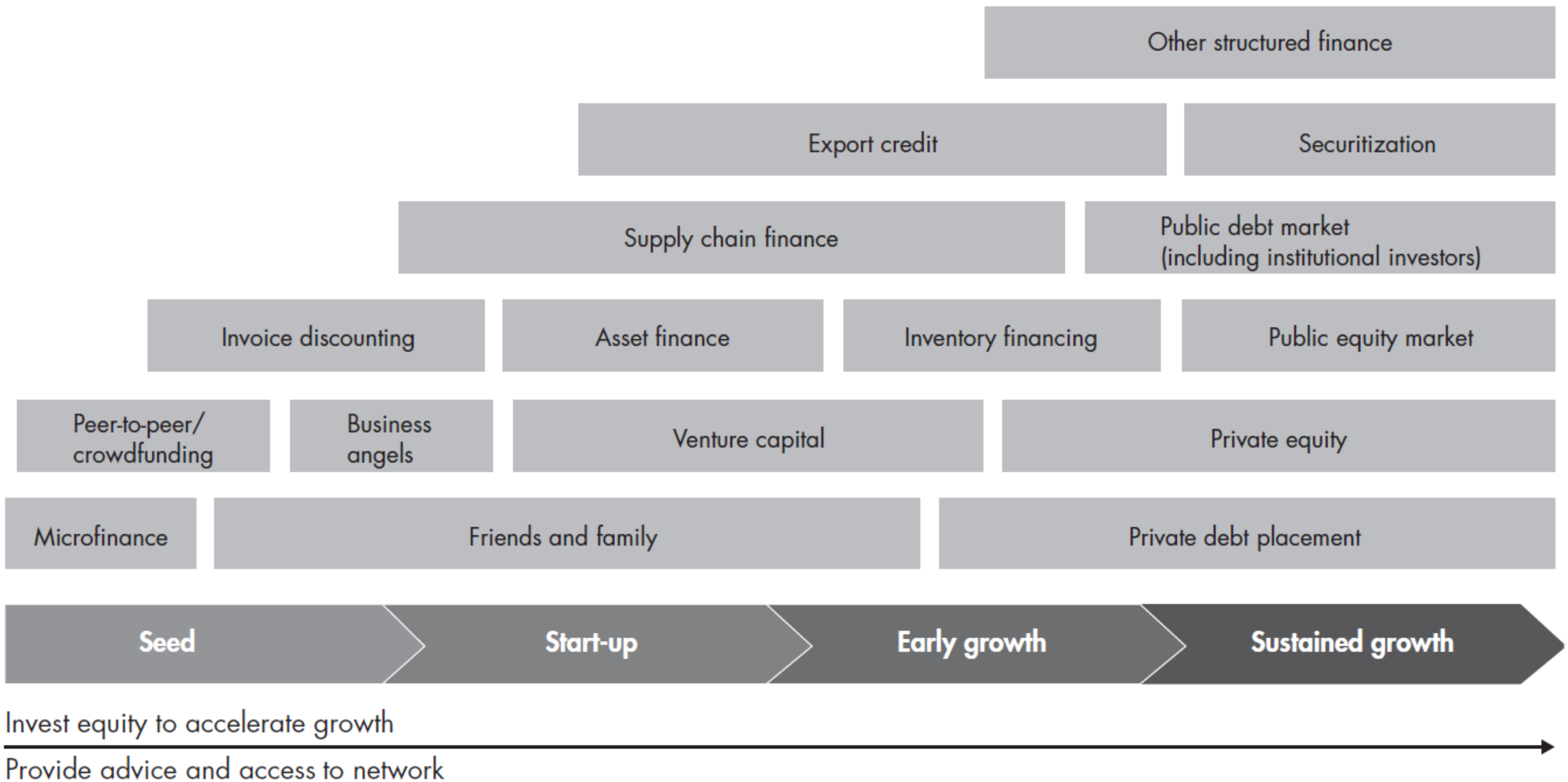
Source: Worldbank

- Of the 177 emerging countries surveyed by the IFC in 2010[1], Greece had one of the highest average credit values gaps per enterprise ($111k)
- As per the IFC Enterprise Finance Database, Greece has c.188k SMEs

1. The *IFC Enterprise Finance Gap Database*, using primarily data from World Bank Enterprise Surveys, estimates the number of small, and medium enterprises (SMEs) in the world, and the degree of access to credit and use of deposit accounts for formal and informal SMEs. The database currently covers 177 countries

THE CHANGING FINANCING NEEDS OF GROWING COMPANIES

1. **As companies grow, their financing needs change moving towards relatively formal forms of finance and capital market sourced financing.**
2. **The level of market maturity will depend on the types and forms of financing available.**



Source: The IIF / Bain & Company interviews

CASE STUDY - SME FINANCING FOR GROWTH PILLARS IN IRELAND

Funding Growth Pillars

Equity

- ***Seed / Start-up:*** **Enterprise Ireland Seed & VC scheme**
- ***Early Growth:*** **Development Capital Scheme**
- ***Sustained Growth:*** **ISIF SME Equity fund**

Debt

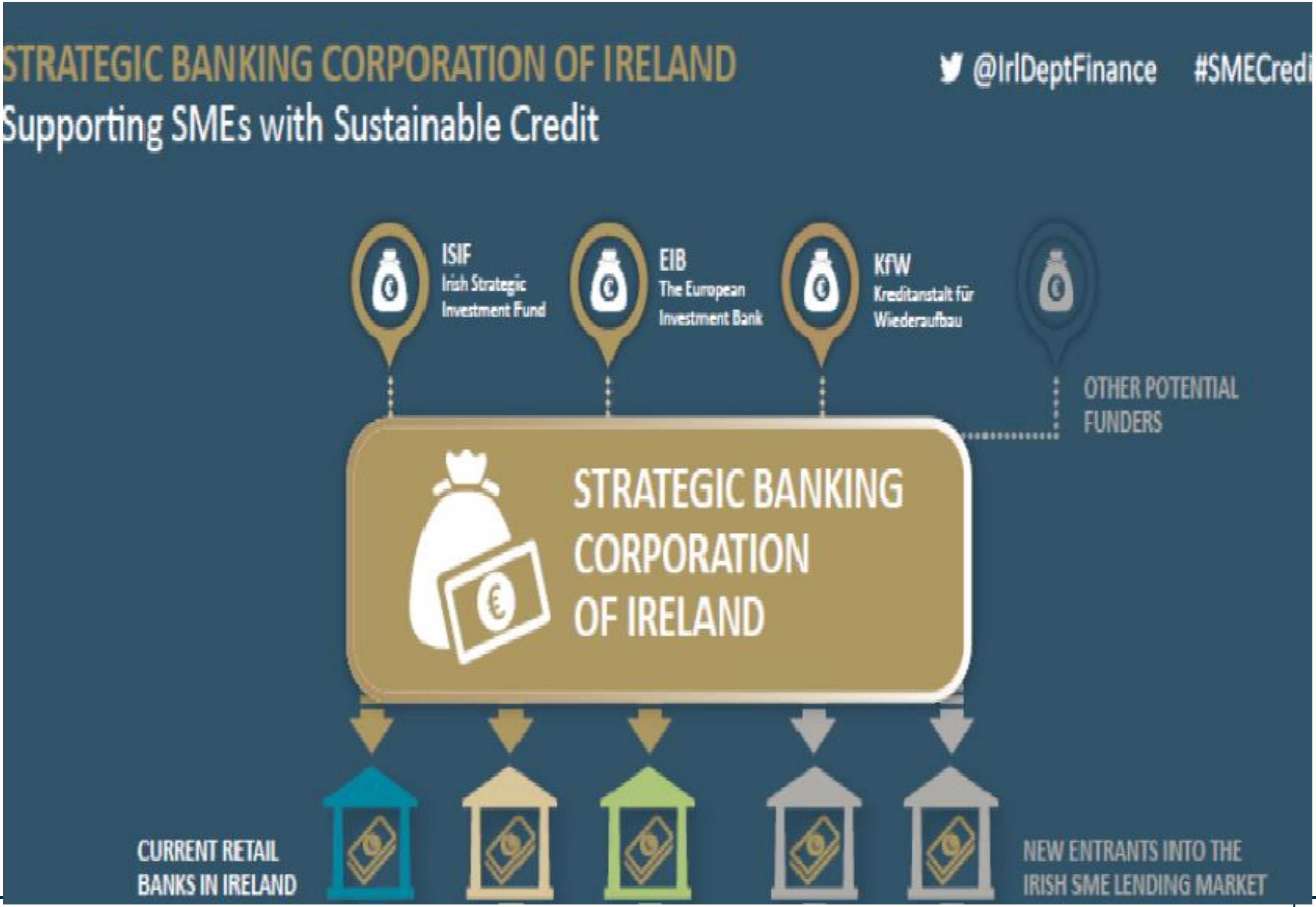
- **Pillar Bank targets - 5 year funding targets (€33bn)**
- **ISIF SME Credit fund**
- **Strategic Banking Corporation of Ireland (SBCI)**
- **MicroFinance Ireland Loan fund**
- **Credit Guarantee Scheme**
- **Credit Review Office (CRO)**

Other

- **Government payments protocol**
- **SURE Tax Scheme**
- **Supporting SME online toolkit**
- **DOF SME credit demand survey**
- **DOF SME quarterly newsletter**
- **ThinkBusiness.ie (BOI)**

TEAM IRELAND: THERE ARE C. 80 GOVERNMENT SUPPORTS FROM 30 GOVERNMENT DEPARTMENTS AND AGENCIES FOR SMES IN IRELAND

STRATEGIC BANKING CORPORATION OF IRELAND



SME FUTURE CONSIDERATIONS (NPL & GROWTH STRANDS)

SMEs are a unique asset class due to intrinsic relationship with the domestic economy
NPL resolution and growth strategies must be considered in tandem and co-ordinated by the authorities

SME Attributes ← **SME NPLS** → **NPL Strategy**

- Multi-banked nature
- Volume & diversity of SMEs (region and sector)
- Property and other debt entanglement
- Weak collateral and reliance on personal guarantees
- Access to relevant financial information

1. Enhanced supervision,
2. Legislative reforms (insolvency), and
3. Development of a distressed debt market (investors & servicers)
4. Multi-faceted PROGRAM, ACTION & RESULTS

SME Attributes | **SME Funding for Growth** | **Growth Strategy**

- Tied to the domestic economic market
- Bank concentration & competition
- Lower bank credit risk appetite since the crisis
- SMEs now more risk averse and debt shy
- Information about SME creditworthiness is difficult to obtain
- SMEs face disincentives to increase scale & competitive
- Alternative funding providers face many barriers to entry

- Facilitating credit from existing and new players
- Support entrepreneurs and equity investing into SMEs
- Access European funding support (Kfw, EIB, EBRD)
- Developing more information supports for funders (credit bureau) and SMEs (one stop shop for advice)

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