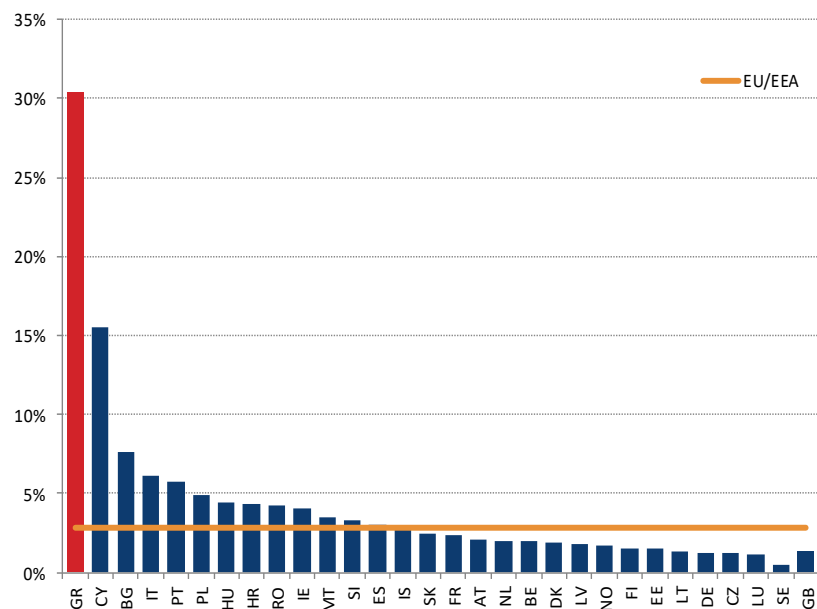


A SYSTEMIC SOLUTION TO THE GREEK NPL SITUATION

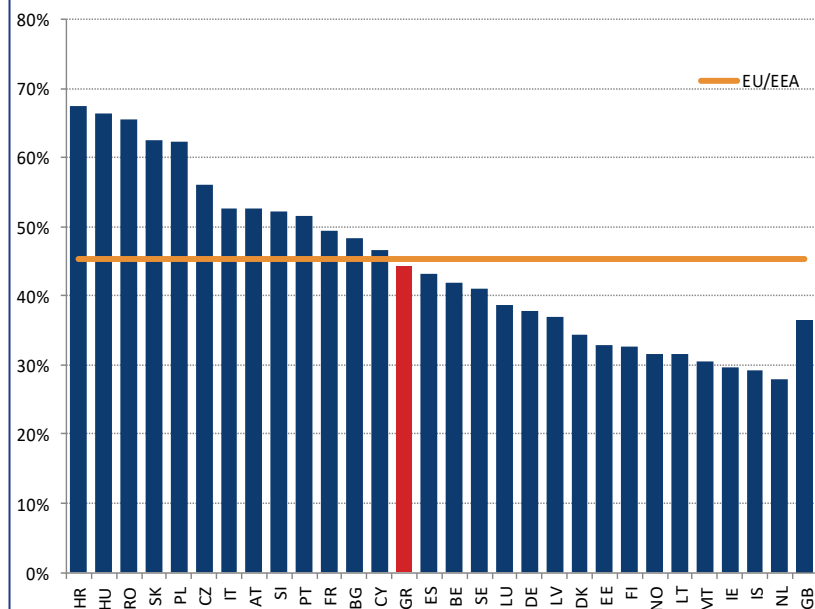
Spiros Pantelias - Bank of Greece

Greece still the EU “NPL champion”

NPL% - Country dispersion (as of 2020 Q2)



NPL Coverage% - Country dispersion (as of 2020 Q2)

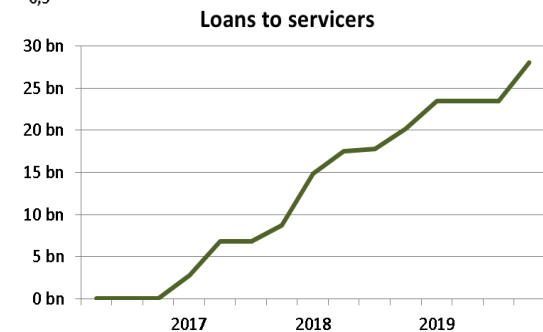
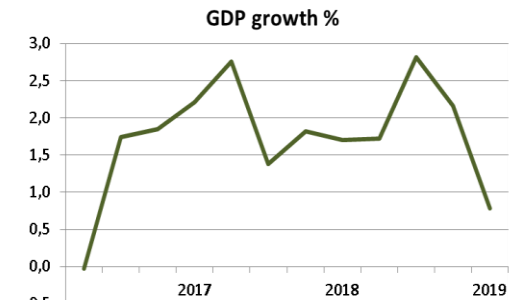
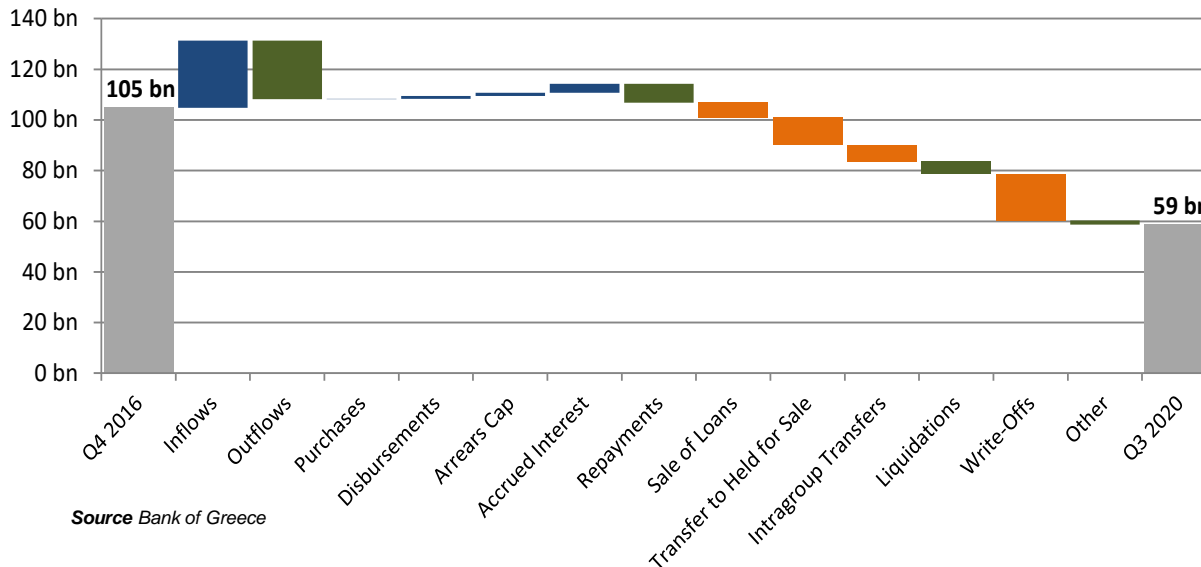


Source European Banking Authority

- Greek SIs still have the **highest NPL % across EU***, significantly higher than other countries and the EU average (2.9%) and far away from the unofficial 5% threshold that is being discussed at political level for the possible early introduction of the common backstop to the Single Resolution Fund (SRF) by the European Stability Mechanism (ESM).
- NPL coverage fell slightly below the EU average (to 44.5% with EU avg at 45.3%). Note though that Greece lags behind other countries (IT, PT, SI, BG, HU, CY) which also face a significant NPL %.

*Note that the EBA formula on NPL% includes also exposures to central banks and credit institutions and therefore the June 2020 NPL% is lower by ~6 pp at 30.4% vis a vis the BoG data

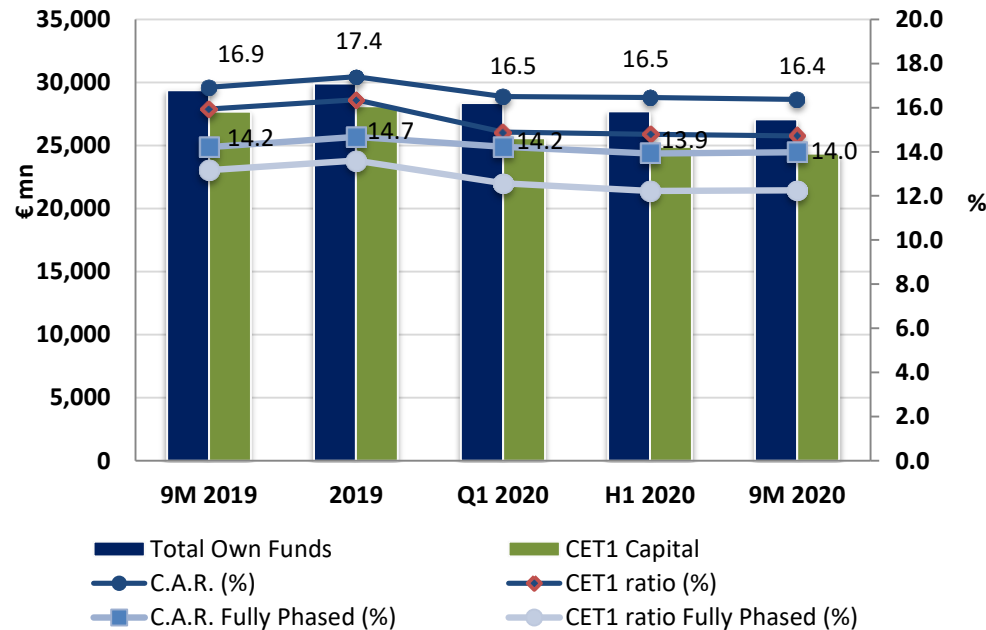
Even in periods of economic expansion material NPL decrease comes at a capital cost



- Greek banks managed to decrease NPLs by 48,4 bn since the peak of March 2016. However, **the driving factors for the NPL reduction were practically sales (~24 bn) and write-offs (~18,4 bn)** which come at a **significant capital cost for the banks**.
- Even though GDP grew on average by 1.7% yoy, NPL inflows surpassed outflows whereas the impact of repayments was minor. Impediments in NPL workout, banks' own capacity, strategic defaulters and weak financial conditions of obligors **among the key reasons behind this**.
- In addition a large bulk of NPL loans just changed ownership with rather little evidence so far of a material private debt resolution (moved from banks to servicers). We expect this trend to change in the years to come.
- Going forward, **the prerequisites for a material resolution of private debt overhang** are: a) an improving economic environment, b) a more active servicing market, c) clean slate in terms of impediments. The impact of the new insolvency framework will be more visible in the years to come.
- For banks, it is clear that additional NPL reduction requires capital and better performance in loan restructuring.

Banks above capital requirements but challenges on capital ahead

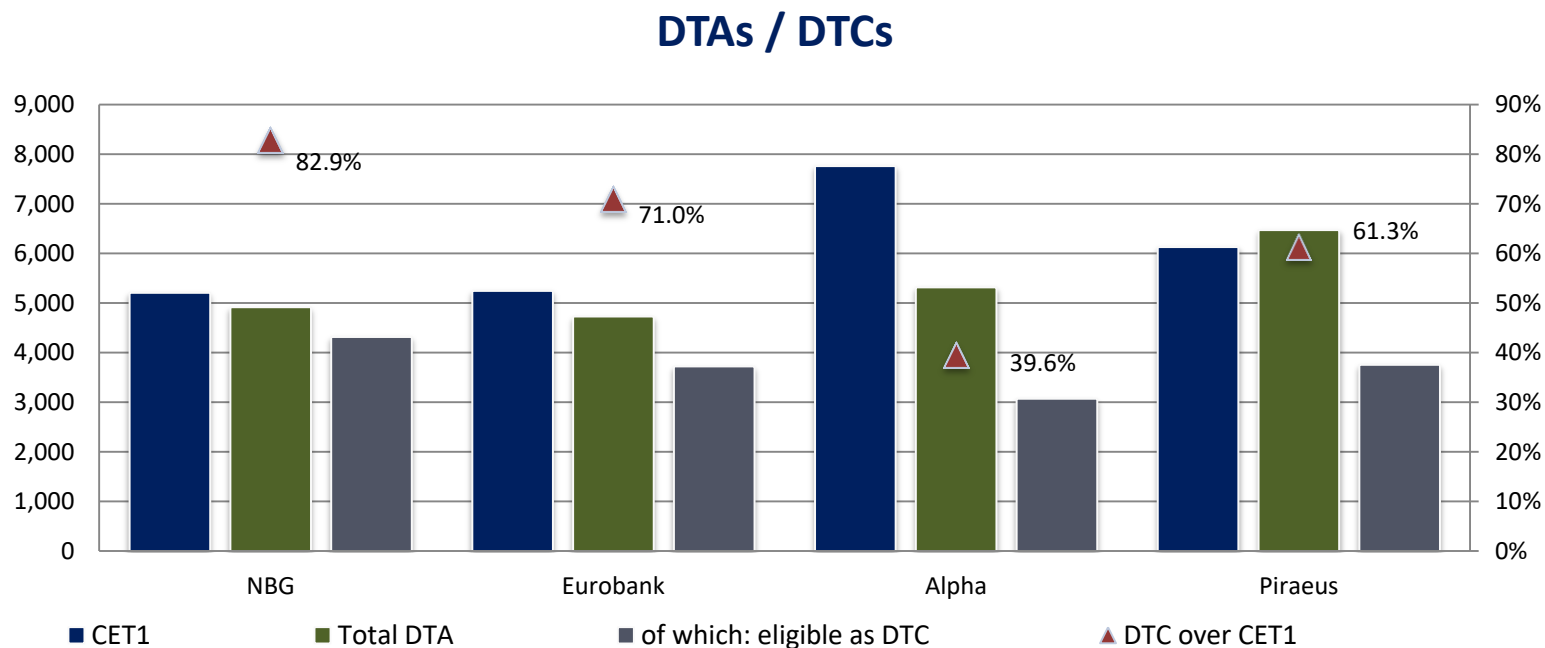
Capital Adequacy Ratios Evolution



Source Bank of Greece

- All banks at an adequate capital level, **above OCR** on a transitional basis.
- **Temporary supervisory tolerance** for breaches of P2G and CCB in place until end of 2022. BoG has also 'frozen' the OSII buffer transition for a year. Expiration of tolerance coincides with IFRS9 full implementation.
- **Average** capital impact from Hercules at ~3%. The cost of the pandemic will come on top.

DTC still comprises an important part of banks' capital



Source Bank of Greece

- **69,4%** of DTA is eligible as DTC, while DTC comprises **61,1%** of CET1 capital.
- Following expected **securitizations** (along with other factors like IFRS9 impact) DTC's share in total capital is **expected to further increase** approx. to **100%** for certain banks.

Key highlights of the proposal (1/2)

Objectives

- Support the recovery of Greek economy and safeguard financial stability, by restoring the correct functioning of the banking system through the improvement of the asset quality, which currently represents the most compelling issue for the Greek banks
- Provide a systemic solution to simultaneously address high stock of NPEs (i.e. 37%) and low quality of banks' capital. Reduce the banks' NPE level, with short-term focus on NPLs and inclusion of UTPs in the medium-term
- Allow banks to absorb the losses associated to NPEs disposal over time through the profits generated by their core activity
- Reduce the proportion of DTCs in the banks' capital structure (i.e. more than double that of country with second most¹) in order to improve their quality of capital and gradually reducing the State's involvement in the banking sector, which would otherwise require a significantly improved profitability to do so
- Minimise as far as possible the fiscal impact on the Greek taxpayer
- The structure allows banks to present a cleaner balance sheet and gives time to deliver on their business plans while enhancing financial stability
- Argo can complement HAPS, enlarging the tool box of the banks, providing additional optionality and solutions to reduce NPEs
- The State guarantee provided by HAPS has made securitisation a more attractive tool for NPE disposal, while Argo provides a solution to address simultaneously both increasing NPEs and DTC issues

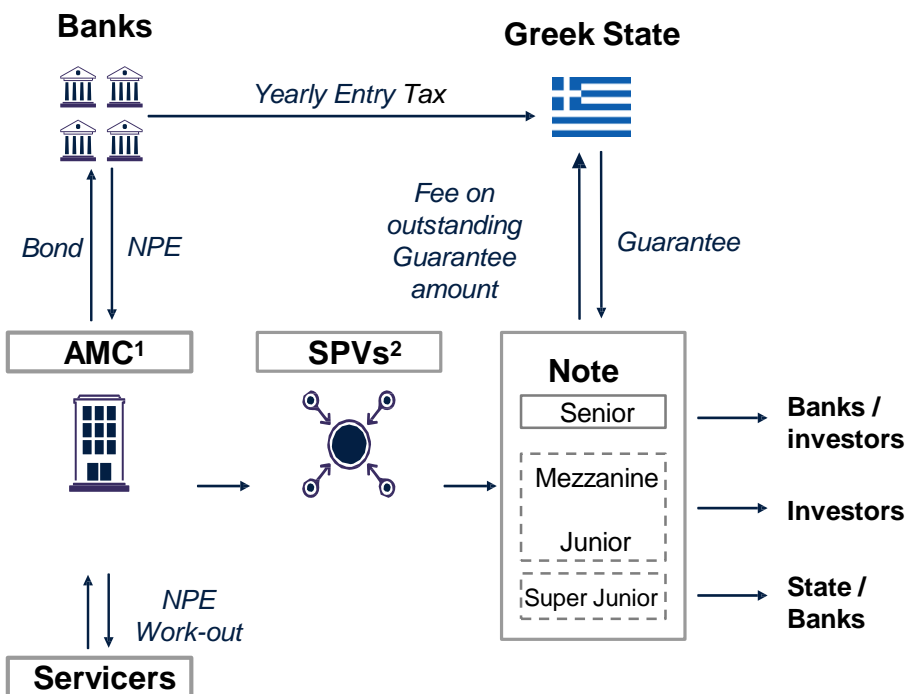
Key highlights of the proposal (2/2)

Benefits

- ✓ In the several cases observed in the European market, AMCs proved to be an effective policy instrument to quickly relieve banks from high- level of NPEs and stabilize financial system
- ✓ A one-off systemic solution is the most efficient way of addressing a sizeable part of the asset quality problem affecting the Greek banking system
- ✓ A solution for the legacy stock of NPEs will allow banks to actively manage an increasing amount of exposures coming from Covid-19 post expiration of the moratoria
- ✓ Strengthen the capital structure of the banks by reducing DTCs over time
- ✓ Restore market confidence, limit risk of value dilution for old and new shareholders making the banks more attractive for equity investors
- ✓ Creation of a privately managed central entity more capable of servicing NPEs (subject to asset class segmentation with potentially different servicers)
- ✓ Improving liquidity position for the banks (subject to private investor interest)
- ✓ Allowing banks to access markets / new equity investors through a new and more attractive investment case post reduction of NPEs
- ✓ Allowing banks to refocus on core business generation, alleviating uncertainty about their medium term prospects and allowing them to increase lending for the benefit of the Greek economy

Structure of the proposed transaction

Overview of transaction structure



Illustrative

Step 1 – Asset Transfer

- Banks transfer up to 100% of their NPEs to the AMC at net book value in exchange for securities (notes)
- No derecognition takes place by the banks³
- AMC inherits existing Servicers relationships from banks and ring fences the NPEs to keep books managed separately
- Fronting bank agreements are established to manage active credit lines for UTPs⁴
- Banks pay to the State a Yearly Entry Tax to access the scheme, equal to 6.4% each year of the NPE net book value transferred to the AMC, for 5 years

Step 2 – Securitization & NPE derecognition

- The AMC securitises the NPEs and sells 50% of the Senior notes as well as 100% of both Mezzanine and Junior to private investors
- SRT⁵ is assessed and NPE derecognition takes place from the banks' balance sheets
- The State obtains 90% of the Super Junior notes while the bank retains 50% of the Senior notes and 10% of the Super Junior notes
- The State provides a Guarantee on the cash flow of the Portfolio to cover the difference between net book value (transfer price to the AMC) and market price (to be determined by a competitive auction amongst reputable specialized investors)

Step 3 – Guarantee structure

- The State is compensated for the provision of the Guarantee by receiving i) a fee based on the notional amount of the Guarantee, ii) the Yearly Entry Tax (paid 61% in cash and 39% in DTC) and iii) 90% of the Super Junior notes
- The Yearly Entry Tax represents a newly introduced tax to the banks entering Project Argo partially paid in cash (61%) and partially through netting of with DTC (39%)
- The Guarantee is triggered in the event of shortfall of actual vs anticipated cashflow from the proceedings of the Portfolio