



September 15th, 2017

Press Release

Hellenic Financial Stability Fund's Annual Financial Report

The Hellenic Financial Stability Fund (HFSF or the Fund) uploaded today to its web site (www.hfsf.gr) the "Annual Financial Report" for 2016.

Business Highlights in 2016

Key Milestones

▪ **HFSF's role in the evaluation of Systemic Banks' Board of Directors and Corporate Governance Framework.**

In line with the requirements of the MoU signed on 19/08/2015, the HFSF's Law (3864/2010) was amended in November 2015, in order to empower the HFSF to evaluate the corporate governance framework of credit institutions, to which it has provided capital support.

In this context, HFSF, with the assistance of an international consulting firm, evaluated the Boards of Directors of the four Greek systemic banks. This evaluation resulted to the strengthening of the four banks' governance framework, by gradually implementing HFSF's recommendations on corporate governance improvement. In order to fulfil this project the HFSF was assisted, on a technical basis, by the European Bank for Reconstruction and Development (EBRD). The project was funded by the HFSF and the European Union (EU) through the EU-EBRD Technical Cooperation Fund for International Financial Institutions Project Financing in Greece.

The evaluation of the boards and the board's committees of the systemic banks was completed in July 2016 and the results have been communicated to all parties involved. As of 31 December 2016, the following developments have taken place in the composition of the four banks' boards:

- ✓ 44% of total board headcount (excluding State and HFSF representatives) have been replaced;
- ✓ 58% of total non-executive directors (excluding State and HFSF representatives) have been replaced;
- ✓ 91% of current board members (excluding State and HFSF representatives) comply with the HFSF's Law requirements.

▪ **HFSF's significant role in the resolution of Non-Performing Loans (NPL)**

In line with the MoU signed on 19/08/2015, the HFSF, with the help of an independent international consultant, presented an NPL resolution action plan to enhance coordination among banks and accelerate the restructurings of the large corporate NPLs.

The project evolved around the following **five main areas**:

- a) Identification and prioritization of obstacles for large corporate NPLs' restructuring,

- b) Suggestions for a coordination framework among banks,
- c) Definition of a high-level perimeter of distressed companies and economic sectors,
- d) Assessment of current relevant capabilities in the banking sector,
- e) Suggestions to expand capital markets' involvement.

The project was completed and the relevant study was communicated to the Institutions, Ministry of Finance, Ministry of Economy and Bank of Greece (BoG) on 27/04/2016. Subsequently, HFSF presented the main findings of the study, to all stakeholders, including representatives of the competent Ministries, BoG and the systemic banks; within 2016, there has been ongoing communication between HFSF and the systemic banks concerning the adoption of HFSF's recommendations regarding the improvement of large corporates' NPLs resolution.

As per the provisions of the MoU signed on 19/08/2015, the HFSF in cooperation with BoG, conducted a study to identify non-regulatory constraints and impediments to the development of a dynamic NPL market in Greece.

During the study, impediments were identified, analyzed and grouped per broad category, i.e. legal and judicial, tax and accounting, administrative and other impediments.

The study was completed and presented to the Authorities, in October 2015. Subsequently and as specified in the Supplemental MoU signed on 16/06/2016, the HFSF in cooperation with BoG, updated the aforementioned study, and proposed concrete actions regarding all remaining non-regulatory impediments to the development of a dynamic NPL market. The updated study was completed and the report was published on HFSF's web site in September 2016.

Proceeds Received

- **€2 billion of the Greek public debt was repaid following the Fund's initiative and the successful repayment of Cocos**
NBG proceeded with the redemption of its CoCos in line with the Bank's commitment to its restructuring plan and following the approval given by the Single Supervisory Mechanism (SSM).
- **€334 million of income received by NBG's and Piraeus's bank from Cocos annual coupon**
In December 2016 the Fund received proceeds from annual coupon amounting to €165.92m from Piraeus and €165.04m from NBG. Additionally, following the repayment of NBG's CoCos on 15/12/2016, the Fund received in cash from NBG the amount of €2.7m relating to the accrued income of CoCos for the period from 09-14/12/2016.
- **€30 million of receivables from banks under liquidation**
During 2016, the Fund received €30m from ATEbank under liquidation.

The Fund's financial performance

- **€2,388 million increase in cash and balances with banks compared to 2015** resulting from:
 - a) €2,029m from the repayment of principal amount of CoCos
 - b) €334m relating to the income of CoCos
 - c) €30m collections from ATEbank under liquidation
 - d) €6.5m relating to the proceeds of the cash management account
 - e) €11.5m outflows relating to various payments
- **Financial assets at fair value through profit or loss:** The balance includes the Fund's investments in the four systemic banks and the CoCos issued by Piraeus Bank. As of 31/12/2016 the market value of shares amounted to €1.8 billion versus €2.4 billion as of 31/12/2015. The decline is due to the continuous market volatility.

The valuation of CoCos amounted to €2.0 billion as of 31/12/2016 versus €4.1 billion as of 31/12/2015 due to the redemption of NBG's CoCos.

- **Receivables from banks under liquidation:** The balance includes to the estimated recoverable amount of the funding gap, which has been covered by the Fund instead of the HDIGF, and amounted to €1,862m as of 31/12/2016 versus €2,052m as of 31/12/2015. During 2016 the Fund collected from the ATEbank under liquidation the amount of €30m and recognized in the statement of comprehensive income an impairment loss of €160m. The final liquidation proceeds may vary from the estimated recoverable amount as the liquidation process is a dynamic process and the proceeds are subject to factors beyond the liquidators control such as the macroeconomic outlook.
- **Equity:** During 2016, the loss amounted to €469m and the accumulated loss increased to €35,822m from €35,353m as of 31/12/2015. The capital amounted to €44,193m and remained unchanged as compared to 31/12/2015.
- **€16 million interest income:** Interest income amounted to €16m versus €18m in 2015. The interest income of 2016 represents the proceeds from the Fund's deposits in the cash management account.
- **€334 million income from CoCos:** The Fund received in cash the total amount of €331m relating to the annual coupon of CoCos. In particular, the Fund received €166m from Piraeus Bank and €165m from NBG. Following the redemption of NBG's CoCos on 15/12/2016, the Fund received from NBG the amount of €3m in cash relating to the accrued income of CoCos for the period from 9-14/12/2016.
- **Personnel Expenses:** During 2016, the personnel expenses amounted to €2.7m versus €2.8m in 2015.
- **General administrative and other operating expenses:** In line with the commitments of the MoU signed in August 2015 the Fund had general administrative and operating expenses €5.9m including the advisory fees in relation to the sale of Finansbank and UBB by NBG and some additional projects undertaken by HFSF.
- **Impairment of receivables from banks under liquidation:** The impairment loss of receivables from banks under liquidation amounted to €160m as of 31/12/2016 versus €282m as of 31/12/2015.
- **Significant decrease of losses from financial instruments at fair value through profit or loss:** The €650m loss in 2016, a decrease of €8,685m compared to 2015 (2015: €9,334m) corresponds to the financial result from the revaluation of bank's shares, warrants and CoCos held by the Fund. The €650m loss is due to the revaluation loss of the Fund's participation in the four systemic banks which is partly offset by the gain of the sales of shares and specifically:
 - a) Significant decrease of €9,964m from the revaluation result of shares (2016: €631m loss, 2015: €10,594m loss)
 - b) the revaluation result of warrants (2016: €0.5m loss, 2015: €1,268m gain)
 - c) the revaluation result of CoCos (2016: €19m loss, 2015: €8m loss)

The recently appointed CEO of the Fund **Dr. Martin Czurda** mentioned: "This year was a pivotal year for the Fund as, in line with its mandate, the requirements of the MoU signed on 19/08/2015 and its Law (3864/2010), it successfully concluded important projects.

One was related to the **Corporate Governance** framework. The Fund, with the assistance an international consulting firm, and the European Bank for Reconstruction and Development's (EBRD) technical support, evaluated the Boards of Directors of the four Greek systemic banks. The evaluation was completed in July 2016 and resulted to the strengthening of the four banks' governance framework, by gradually implementing HFSF's recommendations on corporate governance improvement.

Another project was related to the Fund's significant role in the **resolution of the Non-Performing Loans (NPLs)**. The Fund, according to its mandate, with the assistance of an independent international consultant, presented, to all stakeholders, an NPL resolution action plan aiming to enhance coordination among banks and accelerate the restructurings of the large corporate loans. Additionally, HFSF, in cooperation with the Bank of Greece, completed and published a study where it identified non-regulatory constraints & impediments and proposed concrete actions which could result to the development of a dynamic NPL market in Greece.

Going forward, the Fund will set its priorities aiming to successfully deliver its mission and vision according to its institutional role. The HFSF will also continue to strengthen the Corporate Governance framework of the banks and assist them on NPL resolution issues as there are additional actions that can be implemented by the banks, which will eventually further improve their modus operandi for the sake of their customers, their shareholders, the stakeholders and the banking sector in general”.

For the full “Annual Financial Report” please visit the following link:

http://www.hfsf.gr/files/hfsf_annual_report_2016_en.pdf

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Hellenic Financial Stability Fund (HFSF)

The Hellenic Financial Stability Fund (HFSF) was founded in July 2010 under the law 3864/2010 as a private legal entity it does not belong to the public sector and has administrative and financial autonomy. The objective of the HFSF shall be to contribute to the maintenance of the stability of the Greek banking system, for the sake of public interest.

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