

*The Impact of the Current Eurozone Fiscal Crisis
on the Greek Banking System. The Perspectives
within the European Banking Union*

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I. The Impact of the Current Fiscal Crisis on the Greek Banking System

A. Basic economic data on Greece in a historical context

Chart 1: General government debt, external debt and general government deficit

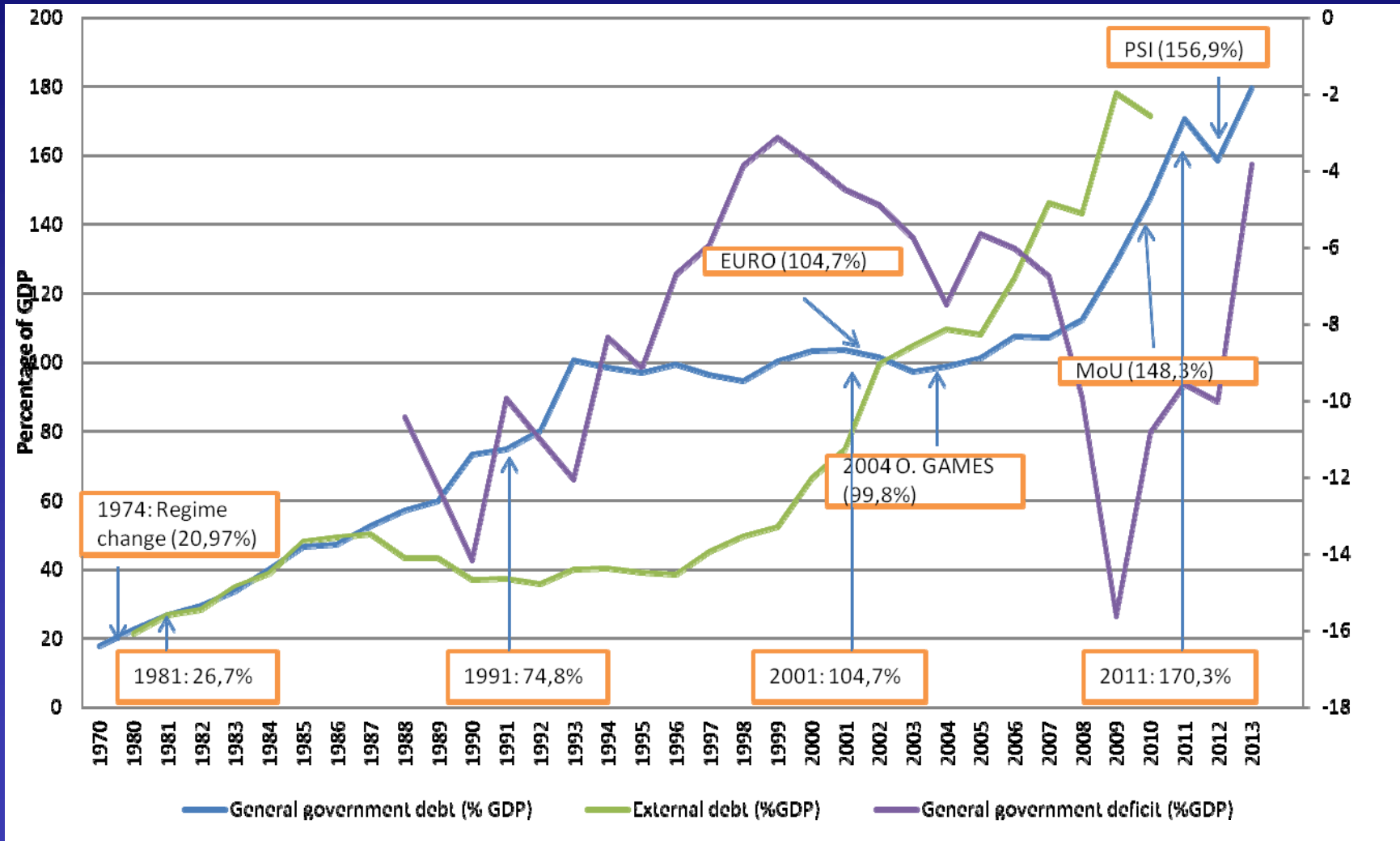
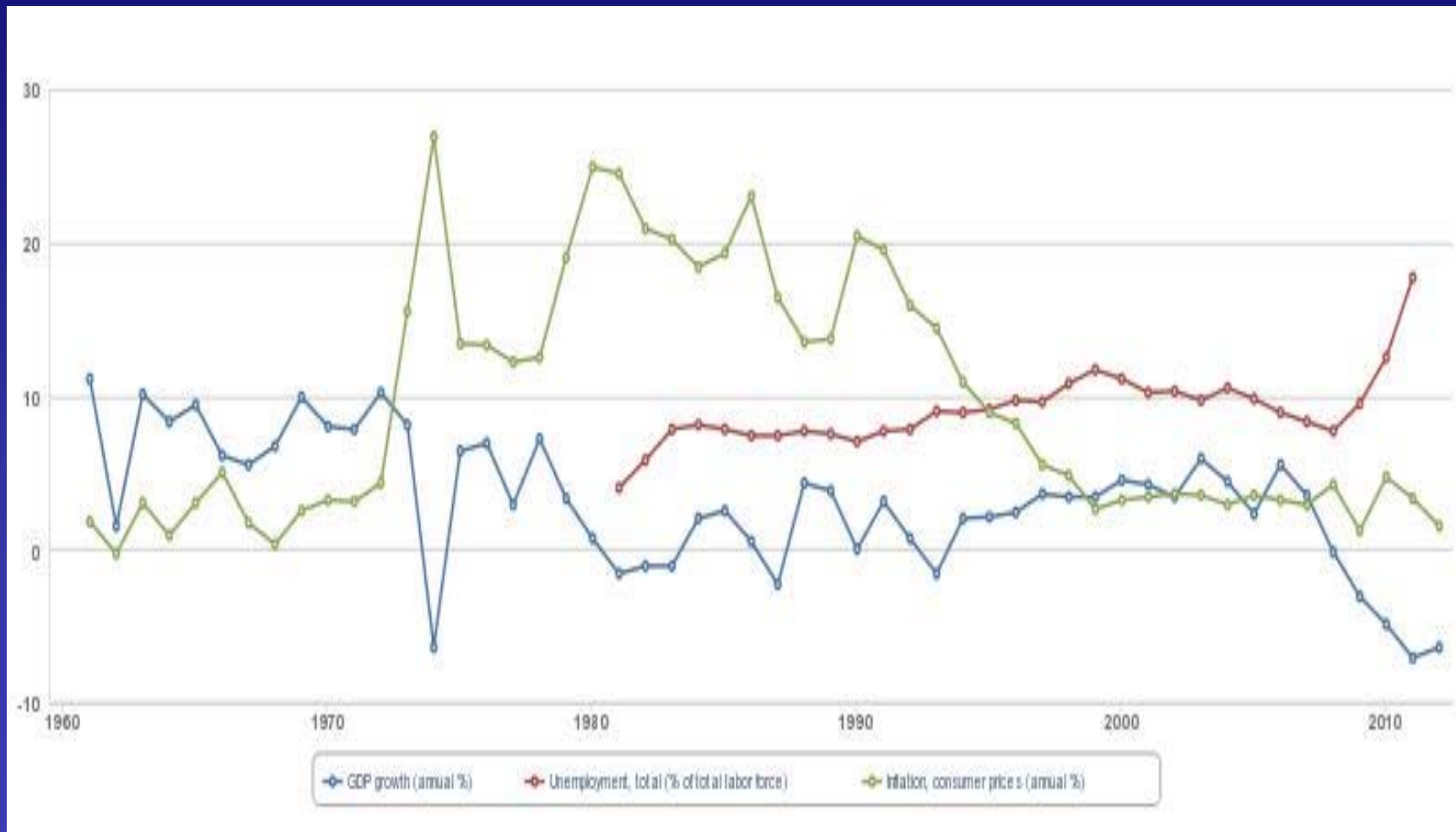


Chart 2: GDP growth, unemployment and inflation



1970s-1993: the performance of the Greek economy was rather poor:

- 1979-1993: cumulative impact and interaction of various economic, structural and political factors
 - very high inflation (18.9 per cent on average),
 - slow economic growth (0.9 per cent on average),
 - very high levels of budget deficit relative to GDP,
 - public debt raised from 23% of GDP in 1979 to 74,7% in 1990 and then to 99,1 % in 1993, and
 - the national currency (“drachma”) lost about 83% of its value during that period.

- Efforts to improve the economy (1985-87 and 1992-93) were not successful under the pressure of political considerations and the lack of an institutional framework for economic policy making

1994-2000: convergence to the EMU criteria

- Average annual inflation (HICP) fell to 2 per cent in 1999
- Budget deficit shrunk to 1.8% of GDP in 1999
- Public debt was at 104.4% at the end of 2000

2000-2009:

- Until 2003 strong economic growth was driven by (a) domestic demand, (b) high investment spending for the preparations of the 2004 Olympic Games, and (c) large inflows from the EU Structural Funds
- However, despite strong growth, Greece had been in excessive deficit since 2000 mainly due to excessive primary spending
- In the middle of the decade, investment growth was significantly declining
- In 2005 the deficit ratio declined due to the lower investment expenditure brought by the end of the Olympic Games and fiscal adjustment presented in the government budget

2009-2013:

- The economic downturn of 2009 pushed debt higher, thus weakening its sustainability and making its refinancing much more expensive, especially since the general government deficit exploded to 15% of GDP in late 2009
- In spring 2012, the implementation of the bond exchange programme (Private Sector Involvement – PSI) caused an unprecedentedly large public debt nominal haircut
- Nevertheless, by the end of 2013 the gross public debt is expected to climb at 177.3% of GDP according to the European Commission winter 2014 forecast
- Debt ratio is projected to decline onwards as the fiscal balance is improving and economic growth resumes (2014: 0,6%, 2015: 2,9%)

**B. The impact of the recent (2007-2009)
international financial crisis on the banking
system: general considerations**

1. The consequence of the recent international financial crisis (2007-2009) was that several banks and other financial institutions around the world (including 'systemically important' institutions) were exposed to insolvency.

This resulted, *inter alia*, in negative effects on the real economy, obliging several governments (especially in the United States and in several member-states of the European Union) to adopt rescue packages and recovery plans in order to support or even bail out individual banks (and, in some cases, the entire banking system). Such government interventions created serious fiscal imbalances, some of which evolved to **fiscal crises, which, in turn, spread to become (mainly) financial crises.**

This was not the case of Greece.

2. A study of the CGFS identifies four (4) main channels of transmission from a fiscal crisis to the financial system:

- i. the impact of negative sovereign ratings on banks' ratings,
- ii. losses incurred by banks from their sovereign debt holdings,
- iii. the 'collateral/liquidity channel', and
- iv. losses from state guarantees granted to banks (explicit and implicit).

In addition, the negative impact on the performance of bank loans (in the event of recession) has to be taken also into account.

3. The Eurozone fiscal crisis was *triggered* by the exceptionally severe fiscal imbalances in Greece, which were then transmitted to other EU Member States of the ‘Eurozone periphery’. This crisis is the main cause of the current severe instability in the European banking sector, which cannot be fully assessed yet, neither as to the severity of its implications nor as to its potential spillover effects on a global scale.

Amidst this crisis, apart from the initiatives undertaken at the European level in order to enhance the existing institutional and regulatory framework governing the operation of the ‘economic pillar’ of the EMU, governments and central banks in several Eurozone Member States resorted to institutional, supervisory and regulatory measures in order to preserve the stability of their domestic banking sectors (and, more generally, financial systems).

C. The impact of the current European fiscal crisis on the Greek banking sector

1. The Greek banking sector

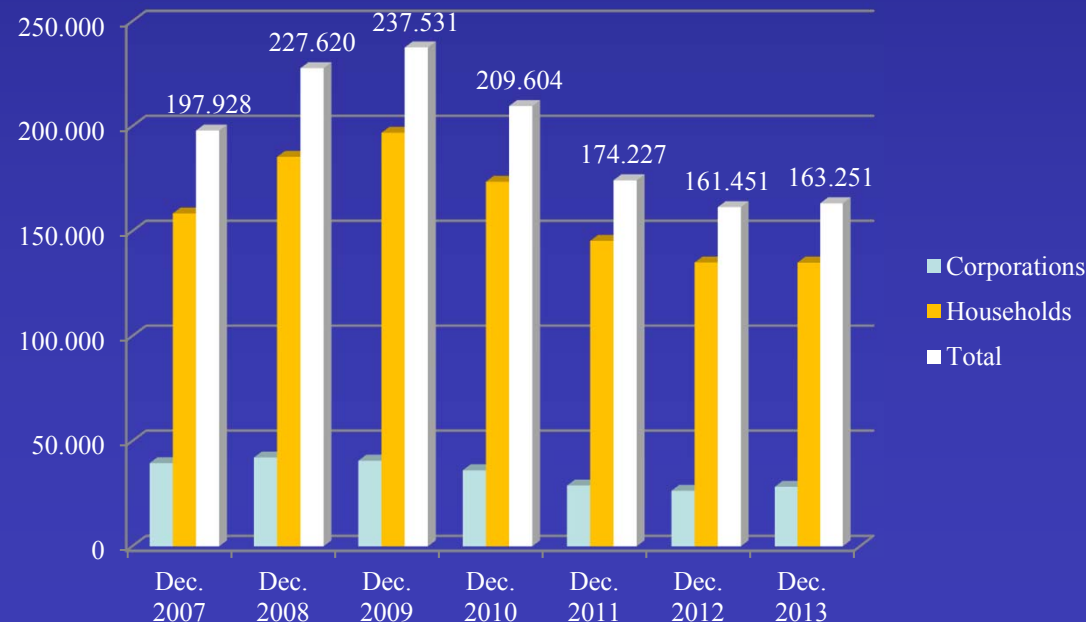
I. In December 2009 the Greek banking sector consisted of 65 credit institutions with 4,079 branches and 65,680 employees. There were four main categories of credit institutions operating in Greece:

- nineteen (19) commercial banks incorporated in Greece and operating under a license by the Bank of Greece,
- sixteen (16) cooperative banks incorporated in Greece and operating under a license by the Bank of Greece (both of which are hereinafter referred to as ‘Greek credit institutions’),
- the branches of twenty five (25) credit institutions incorporated in other EU Member States, and
- the branches of five (5) credit institutions incorporated in third countries (outside the EU).

1. The Greek banking sector (cont.)

II. Deposits and repos of domestic Corporations and Households (private sector) in MFIs in Greece (excluding the Bank of Greece)

End-December Outstanding amounts in EUR millions	2007	2008	2009	2010	2011	2012	2013
Corporations	39.514	42.196	40.671	36.094	28.857	26.388	28.257
Households	158.414	185.424	196.860	173.510	145.370	135.063	134.994
Total	197.928	227.620	237.531	209.604	174.227	161.451	163.251

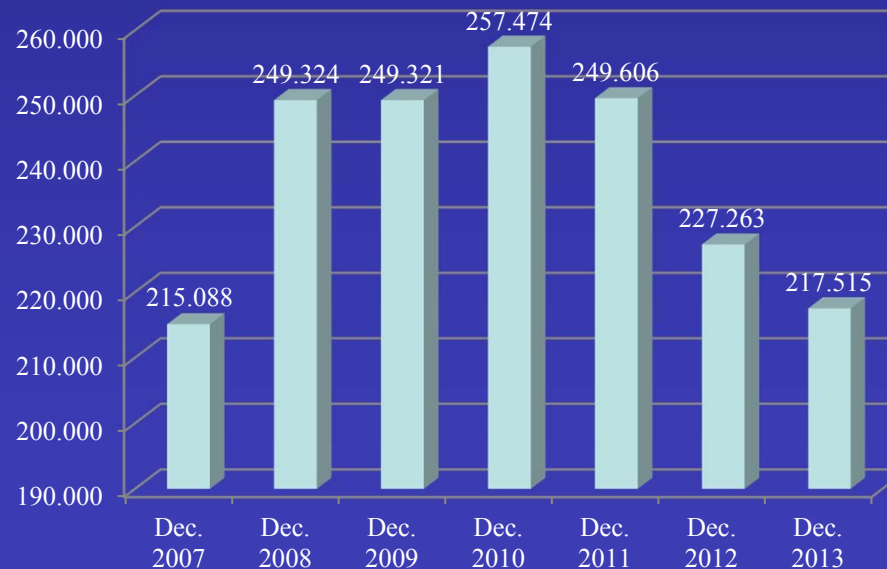


Source: Bank of Greece

1. The Greek banking sector (cont.)

III. Credit to domestic Corporations and Households (private sector) in MFIs in Greece (excluding the Bank of Greece)

End-December	2007	2008	2009	2010	2011	2012	2013
Outstanding amounts in EUR millions	215.088	249.324	249.321	257.474	249.606	227.263	217.515

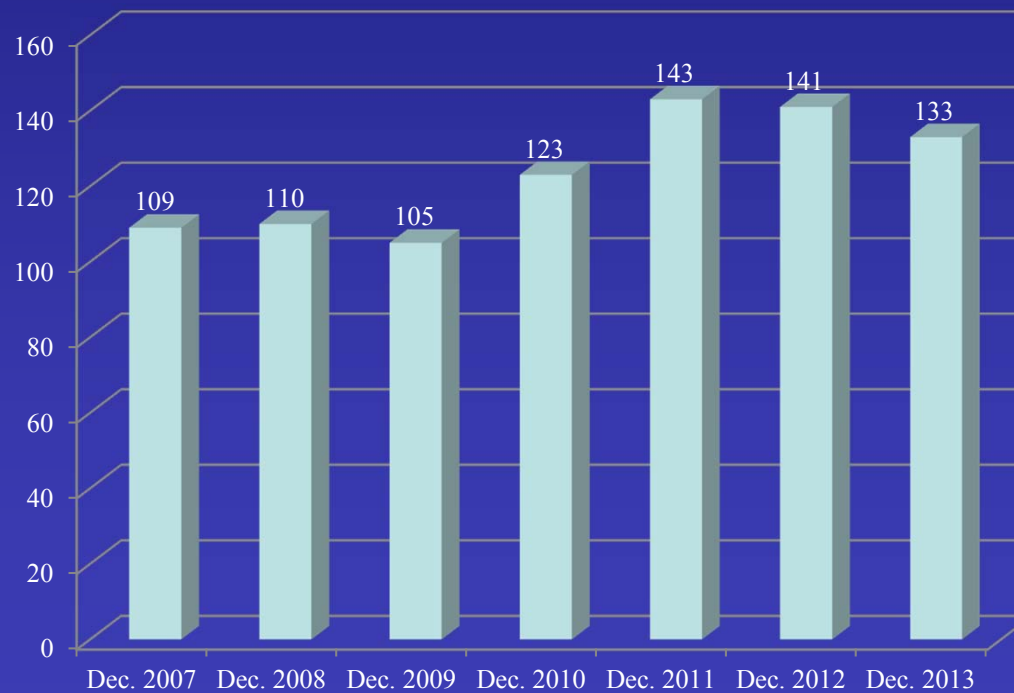


Source: Bank of Greece

1. The Greek banking sector (cont.)

IV. Credits (Loans) to Deposits and repos (%)

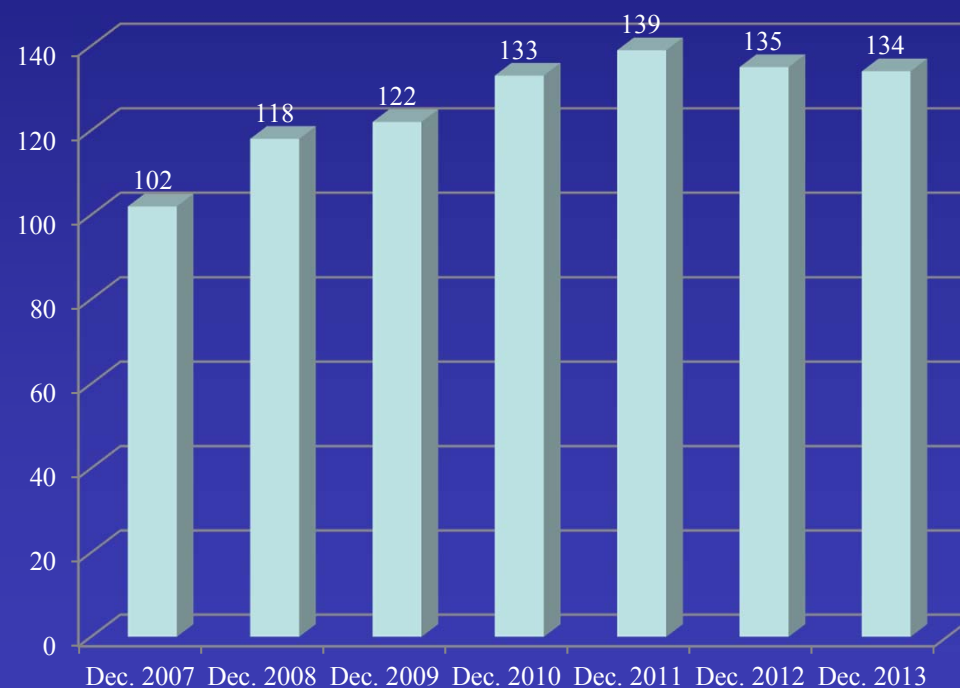
End-December	2007	2008	2009	2010	2011	2012	2013
	109%	110%	105%	123%	143%	141%	133%



1. The Greek banking sector (cont.)

V. Credits (Loans) to GDP* (%)

Year	2007	2008	2009	2010	2011	2012	2013(**)
	102%	118%	122%	133%	139%	135%	134%



Sources: Bank of Greece,
Hellenic Statistical
Authority (EL.STAT.)

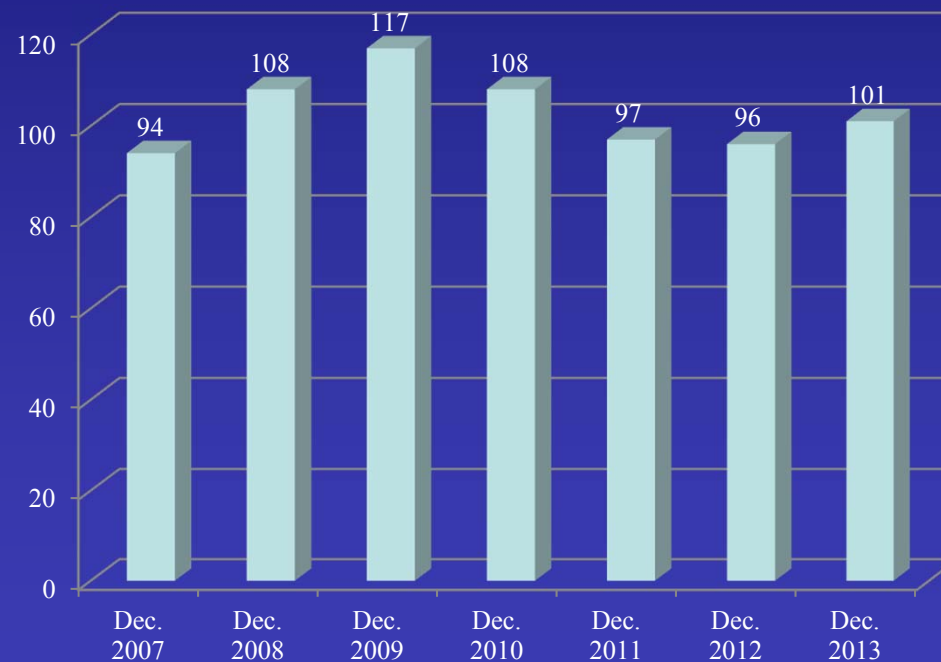
(*) At reference year 2005 prices. Non-seasonally adjusted figures

(**) Provisional data for 2013 GDP

1. The Greek banking sector (cont.)

VI. Deposits and repos to GDP* (%)

Year	2007	2008	2009	2010	2011	2012	2013(**)
	94%	108%	117%	108%	97%	96%	101%



Sources: Bank of Greece,
Hellenic Statistical
Authority (EL.STAT.)

(*) At reference year 2005 prices. Non-seasonally adjusted figures

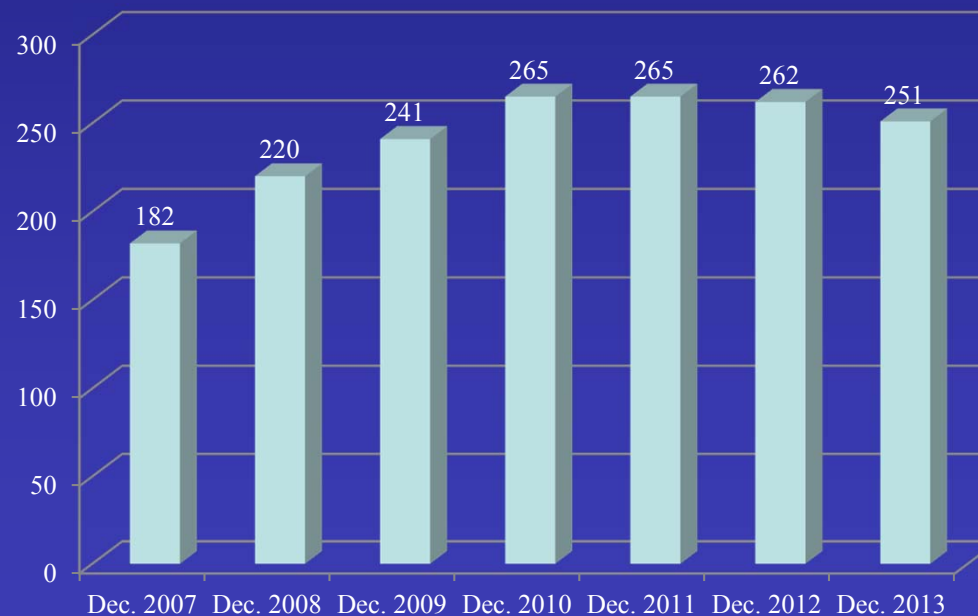
(**) Provisional data for 2013 GDP

1. The Greek banking sector (cont.)

VII. Total Assets of credit institutions to GDP* (%)

With total assets at 251% of GDP, the Greek banking sector is not oversized compared to other economically developed countries.

Year	2007	2008	2009	2010	2011	2012	2013**
	182%	220%	241%	265%	265%	262%	251%



Sources: Bank of Greece,
Hellenic Statistical
Authority (EL.STAT.)

(*) At reference year 2005 prices. Non-seasonally adjusted figures

(**) Provisional data for 2013 GDP

2. The impact of the crisis

(a) Greek credit institutions were not exposed to the risks that triggered the recent (2007-2009) international financial crisis. As a result, the spillover effects on the Greek banking sector were limited. Accordingly, there was no need for a bank rescue package.

(b) However, liquidity conditions were strained during this crisis, since Greek credit institutions had restricted access to wholesale market liquidity for their lending operations, while maturing interbank liabilities put additional pressure on their liquidity position, thus rendering necessary the adoption of a recovery program (see below, under D).

2. The impact of the crisis (cont.)

(c) Despite these problems, Greek credit institutions have shown remarkable resilience and were able to overcome adversities due to a number of factors, such as, *inter alia*,:

- a strong capital base and steadily increased provisions (more than 40% on a year-to-year basis),
- liquidity-support measures by the European Central Bank and the Greek government, and
- effective micro-prudential supervision by the Bank of Greece, which ensured the stability of the Greek banking sector.

As a result, the Greek banking sector remained healthy, adequately capitalised, and highly profitable amidst the international financial crisis.

2. The impact of the crisis (cont.)

(d) On the other hand, the Greek banking sector was negatively affected by the current Eurozone fiscal crisis. All the abovementioned channels for the transmission of problems from the government to the banking sector were set in motion.

In particular:

The successive downgrades of Greece's sovereign debt since late-2009 resulted in cuts also in the ratings of Greek credit institutions and severely tightened their liquidity position:

- (i)** Bank deposits and repos declined by 21% since the end of 2010 (30% since the end of 2009)
- (ii)** Greek credit institutions' ability to raise liquidity on the international interbank market, as well as international bond markets was almost totally constrained
- (iii)** Accordingly, there was a need to rely heavily on the Eurosystem credit facilities. Greek banks are also heavily reliant on the 'Emergency Liquidity Assistance' (ELA) mechanism of the Bank of Greece, which acts as a lender of last resort to Greek credit institutions, even though at a lower pace recently (see below, Table 1).

2. The impact of the crisis (cont.):

(e) Total gross PSI loss for the Greek banking system

The private sector involvement (PSI) in Greece's debt exchange offer was extremely high. Out of a total of €205.5 billion in bonds eligible for the exchange offer, approximately €199 billion (96.9%) have been exchanged with a nominal discount of 53.5%

The total gross PSI loss(*) for the Greek banks was €37.7 billion (€28.2 billion for the four “Systemically Important banks”)

() The gross PSI loss is the sum of the PSI loss of GGBs and PSI loss of state - related loans*

2. The impact of the crisis (cont.):

(f) Total Debt Buy-Back loss for the Greek banking system

The Greek authorities also completed, on 18 December 2012, a voluntary buyback of bonds from the private sector after the Eurogroup decisions of 27 November 2012(*)

The buyback 'retired' €31.8 billion in exchanged bonds, including €14.1 billion from Greek banks (or 44% of the total amount). The average price reached 33.8 with the tendered bonds spread about equally across the maturities. In all, the exchange is estimated to have reduced 2020 debt to GDP by 9½ percentage points.

The total Debt Buy-Back loss for the Greek banks was €4.8 billion.

() Eurogroup statement on Greece, 27 November 2012 and Hellenic Republic, Ministry of Finance Press Releases, 3, 10 and 12 December 2012*

2. The impact of the crisis (cont.)

(g) The ‘collateral/liquidity’ channel has also been activated, since the European Central Bank has been gradually:

- cutting the market value of Greek government bonds and the other assets provided as collateral by Greek credit institutions, and
- referring them to the ELA mechanism of the Bank of Greece (despite the fact that the ECB has repeatedly relaxed its regulatory framework with regard to the relevant eligibility criteria).

Table 1**Lending to Greek credit institutions related to monetary policy operations (ECB) and other claims (Emergency Liquidity Assistance – ELA) (in thousand euro)**

End-December	2008	2009	2010	2011	2012	2013
Lending to Greek credit Institutions related to Monetary policy Operations Denominated in euro	38.354.900	49.655.100	97.668.800	76.119.500	19.346.500	63.225.800
Other claims on Greek credit institutions denominated in euro (Emergency Liquidity Assistance–ELA)	76.779	72.760	71.609	52.009.195	101.850.944	9.790.608
TOTAL	38.431.679	49.727.860	97.740.409	128.128.695	121.197.444	73.016.408

Source: Bank of Greece, Financial Statements, Annual Accounts and Monthly Balance Sheets

2. The impact of the crisis (cont.)

(h) Greek credit institutions also suffer losses on account of (explicit or implicit) Greek government guarantees granted to them, which cannot be honoured in full given the current fiscal strains.

(i) Finally, on the front of non-performing loans, the situation seems to deteriorate consistently: they increased to 24.5% in December 2012 (from 16% at end-2011, 10.5% at end-2010 and 7.7% at end-2009), and the trend seems to worsen due to the ongoing economic recession in Greece (September 2013, around 30%).

**D. Measures adopted to preserve the stability
of the Greek banking sector in 2008
(amidst the recent international financial crisis)**

1. As already mentioned, the recent (2007-2009) international financial crisis did not have a severe impact on the Greek banking sector, since Greek credit institutions were not exposed to the risk of holding 'toxic assets' or other crisis-related risks. Thus, the negative effects of the international crisis on the Greek banking sector were limited and, accordingly, there was no need for a bank rescue package, in contrast to several other countries, including EU Member States.

2. Nevertheless, in late 2008, in order to enhance the solvency and especially the liquidity of the Greek banking sector amidst the crisis, following the bankruptcy of the investment bank *Lehman Brothers Holdings Inc.* (the 'LBHI') on 15 September 2008, the Greek government was urged to take initiatives, which led to the adoption of two legal acts by the Hellenic Parliament:

(a) By virtue of Law 3714/2008, adopted immediately after LBHI's bankruptcy, the level of deposit guarantees was raised to €100,000 (from €20,000 previously) per depositor (for each credit institution), in order to enhance depositors' confidence in the banking sector (successfully averting a potential bank run).

(b) In addition, in December 2008 the Greek government adopted a 'recovery program' (widely known as 'the 28bn euro package') under Law 3723/2008 "*For the enhancement of liquidity of the economy in response to the impact of the international financial crisis*". This program mainly aimed at the enhancement of liquidity conditions in the banking system.

According to this Law's provisions, the government took the following liquidity-support measures in aid of Greek credit institutions:

- (i) A capital support of €5 billion, through capital increases with the issue of preference shares rendering a fixed annual return of 10% (the 'first pillar').
- (ii) Issuance of bank bond guarantees (with commission) worth €15 billion in order to facilitate fund-raising on international markets and bolster their liquidity (the 'second pillar').
- (iii) Issuance of 'special' Greek government bonds (also with commission) worth €8 billion, in order to further bolster their liquidity and to ensure competitive terms for the financing of small and medium enterprises, and also housing loans for households (the 'third pillar').

3. All these support measures fall into the category of state subsidies under EU competition law and were authorised by the European Commission as state aid compatible under Article 107, paragraph 3(b), of the Treaty on the Functioning of the European Union.

It is also worth mentioning that in February 2009 the Hellenic Deposit Guarantee Fund was transformed into the Hellenic Deposit and Investment Guarantee Fund (hereinafter the 'HDIGF') pursuant to Law 3746/2009. The major development was the establishment of an 'investor compensation scheme', alongside the 'deposit guarantee scheme', in order to ensure that the customers of Greek credit institutions providing investment services would be adequately covered in accordance with the provisions of Directive 97/9/EC of the European Parliament and of the Council "on investor compensation schemes".

4. After the onset of the Eurozone fiscal crisis in 2010, however, the need to reinforce the stability of the Greek banking sector became imperative. This triggered important initiatives, which made use of:

- ear-marked institutional measures,
- micro-prudential supervisory and regulatory measures, and
- reorganisation measures and resolution tools.

In addition, the ‘second pillar’ of Law 3723/2008 (on p. 34 above) has been further reinforced on three (3) occasions, in 2010 with €15 billion and in 2011 with an additional €25 billion, and another €30 billion.

E. Institutional arrangements after the Eurozone fiscal crisis

1. The 'trilemma' during a banking crisis with regard to credit institutions exposed to insolvency

- Winding-up of credit institutions – activation of the Deposit Guarantee Scheme
- Recapitalisation of 'systemically important' credit institutions
- Resolution of not 'systemically important' credit institutions

2. The Hellenic Financial Stability Fund

(a) The Hellenic Financial Stability Fund (hereinafter the ‘HFSF’) was established in 2010 by Law 3864/2010 as a legal person of private law. This Law is in force today as amended repeatedly.

(b) The HFSF has full legal capacity and the right to bring an action in court (*locus standi*), and it does not come under the public sector. It enjoys administrative and financial independence, and operates exclusively in accordance with the rules of private economy.

(c) Its capital has been set at €50 billion from the financial support mechanism for the Greek economy by euro area Member States, the European Central Bank and the International Monetary Fund.

2. The Hellenic Financial Stability Fund (cont.)

(d) The objective of the HFSF is to maintain the stability of the Greek banking sector by:

- providing equity capital to ‘systemically important’ Greek credit institutions, in case a credit institution faces capital adequacy problems as laid down in Law 3864/2010,
- providing equity capital to bridge banks, and
- acting, temporarily, as a resolution fund.

In pursuing this objective, the HFSF has to manage its capital and assets and exercise the rights ensuing from its capacity as shareholder of credit institutions in a way that:

- *preserves the value of its assets,*
- *minimises risks for Greek taxpayers, and*
- *does not hamper or distort competition in the banking sector.*

2. The Hellenic Financial Stability Fund (cont.)

(e) It is not up to the HFSF to provide liquidity to Greek credit institutions, which is exclusively granted by the European Central Bank (in the course of its open market operations) and the Bank of Greece (through the 'Emergency Liquidity Assistance' in its capacity as lender of last resort).

- (f) The governance of the HFSF is delegated to two bodies:
- the General Board, and
 - the Executive Committee.

The General Board consists of seven (7) members and the Executive Committee of three (3) members (including its General Manager).

2. The Hellenic Financial Stability Fund (cont.)

(g) With regard to the systemically important credit institutions, the HFSF's shareholders' rights have been graduated as follows:

- full rights, if the HFSF were to participate in the capital increase with more than 90%,
- restricted rights in the opposite case.

This graduation has been introduced in order to create incentives for the maximum possible participation of the private sector in the recapitalisation of the four (4) systemically important institutions (National Bank of Greece, Piraeus Bank, Alpha Bank and Eurobank). The 90% threshold has not been achieved only by the latter (see below, Table 2).

2. The Hellenic Financial Stability Fund (cont.)

The final HFSF contribution to the recapitalization was EFSF bonds of a nominal value of 24,998.1 ml, while the total SCI amount for the 4 banks was 28,595 ml, thus resulting in a lower utilisation of the EFSF resources earmarked for the Greek banking sector by 3,596.9 ml.

Bank	Total HFSF Capital Contribution (bonds at fair value - ml) (1)	EFSF bonds contributed (nominal value – ml)	Subscription in cash by investors (%/ml) (2)		Total SCI (ml) (3)=(1)+(2)
NBG	8,676.9	8,464.3	11.06%	1,079.1	9,75
PIRAEUS	6,985.4	6,847.5	19.68%	1,443.6	8,429
ALPHA	4,021.0	3,960.5	12%	550	4,57
EUROBANK	5,839	5,725.8	n	n	5,83
TOTAL	25,522.2	24,998.1	-	-	28,595

2. The Hellenic Financial Stability Fund (cont.)

(h) The HFSF, as a major shareholder of the systemically important credit institutions, has the right to appoint up to two members in their Board of Directors.

This is on top of the representative appointed by the Hellenic Republic according to the provisions of Law 3723/2008 (liquidity support measures in aid of Greek credit institutions).

It goes without saying that the corporate governance of these credit institutions has been totally altered, especially if one also takes into account the role that the Monitoring Trustees (appointed on behalf of the European Commission due to the state aid that has been provided to them) play on their decision-making processes.

3. Resolution tools and resolution authority

According to the provisions of Law 4021/2011 (amending the basic Banking Law 3601/2007), **two (2) resolution tools** were introduced in Greek law, which may be initiated for the sake of protecting financial stability and boosting public confidence in the banking sector. The Law contains detailed provisions on the conditions under which the following tools can be activated for not systemically important credit institutions, such as the impossibility of taking alternative measures of equivalent effect:

(a) the **sale of specific assets and liabilities** (including deposits covered by the HDIGF) of an insolvent credit institution **to another credit institution**,

(b) the **sale of specific assets and liabilities** (including deposits covered by the HDIGF) of an insolvent credit institution **to a ‘bridge bank’**,

in both cases with the withdrawal of the former’s license (which is set under liquidation).

The Bank of Greece (Resolution Measures Committee) is acting as ‘resolution authority’.

4. The 'resolution fund' of the HDIGF

1. In accordance with the provisions of Article 7 of Law 4021/2011, a 'resolution fund' was established in 2011, as the third pillar of the HDIGF. This fund is the only pillar of the HDIGF which is not (yet) premised on provisions of European law.

2. The resolution fund, which is independent from the other two pillars (the deposit guarantee scheme and investor compensation scheme), provides funding, either in the case of transfer of a credit institution's assets to another credit institution or another entity, or if a bridge bank is established under the provisions of Articles 63D and 63E of Law 3601/2007. The participation of all Greek credit institutions (including Greek branches of credit institutions from third countries, non-EU Member States), as well as the payment of contributions in the resolution fund is mandatory.

4. The 'resolution fund' of the HDIGF (cont.)

3. In this context, it is also worth mentioning that according to Article 9 of Law 4051/2012, for a transitional period of twelve (12) months from the date of enactment of that Law, it is the HFSF which will cover the 'funding gap'. The aforementioned period was extended for an additional period of twelve (12) months (by virtue of Article 16 of Law 4224/2013).

This provision is adequate, taking into account that imposing additional contributions on credit institutions for funding the 'resolution scheme' of the HDIGF (given the current liquidity strains) would not be appropriate (especially to the extent that the Ministry of Finance, Bank of Greece and HFSF have decided, in the course of the recent restructuring of the Greek banking sector, to apply existing resolution tools laid down in Articles 63D and 63E of Law 3601/2007 to several credit institutions) (see below, Table 3).

TABLE 3

Amounts that the Hellenic Financial Stability Fund (HFSF) has disbursed to cover the funding gap in banks that were resolved and the capital provided to Transitory Credit Institutions (Bridge Banks)

Resolved Bank	Status	Date (m/ y)	Amount (€)	Purpose
Proton Bank	Transitory Credit Institution (Bridge Bank)	10/2011	259.621.860	Funding gap
Proton Bank	Transitory Credit Institution (Bridge Bank)	10/2011	515.000.000	Capital
T-Bank	Purchase and assumption by Hellenic Postbank	12/2011	226.956.514	Funding gap
Three Cooperative Banks *	Deposits Acquisition by National Bank of Greece (NBG)	03/2012	320.484.480	Funding gap
ATE Bank	Purchase and assumption by Piraeus Bank	07/2012	7.470.717.000	Funding gap
Hellenic Postbank	Transitory Credit Institution (Bridge Bank)	01/2013	3.732.554.000	Funding gap
Hellenic Postbank	Transitory Credit Institution (Bridge Bank)	01/2013	500.000.000	Capital
FBB	Purchase and assumption by National Bank of Greece (Bridge Bank)	05/2013	349.550.000	Funding gap
PROBANK	Purchase and assumption by National Bank of Greece (Bridge Bank)	07/2013	237.550.000	Funding gap
Three Cooperative Banks **	Deposits Acquisition by ALPHA Bank	12/2013	426.943.941	Funding gap

TOTAL AMMOUNT (€) **14.039.377.795**

TOTAL Funding gap amount (€) 13.024.377.795

TOTAL Capital amount (€) 1.015.000.00

* Achaiki, Lamias, Limnou-Lesvou **Western Macedonia, Dodecanese and Evia

Source: Hellenic Financial Stability Fund

Table 4
Bank acquisitions

Acquired Bank / Branch	Acquirer	Date of Acquisition (m/y)	Amount (€)	Comments
Geniki Bank	Piraeus Bank	12/2012	1.000.000	According to the agreement and the necessary adjustments following the financial due diligence, Societe Generale (Geniki Bank's parent company) proceeded with a capital support of Geniki Bank of €297.000.000 while it also subscribed for a bond issued by Piraeus Bank for an amount equal to €163.000.000.
Emporiki Bank	Alpha Bank	02/2013	1	According to the agreement and the necessary adjustments following the financial due diligence, Crédit Agricole (Emporiki Bank's parent company) proceeded with a capital support of Emporiki Bank of €2.893.000.000 while it also subscribed for a €150.000.000 convertible bond issued by Alpha Bank
Bank of Cyprus*	Piraeus Bank	03/2013	524.000.000	On 18/06/2013, the HFSF disbursed to Piraeus bank EFSF bonds with a nominal value of €524.000.000 so as to cover the capital needs resulting from the transaction
Cyprus Popular Bank (CPB)**	Piraeus Bank	03/2013		
Hellenic Bank***	Piraeus Bank	03/2013		

**Table 4 (cont.)
Bank acquisitions**

Acquired Bank/Branch	Acquirer	Date of Acquisition (m/y)	Amount (€)	Comments
Millennium Bank	Piraeus Bank	04/2013	1.000.000	Before the completion of the transaction, Millennium's parent company BCP capitalized the bank with €413,000,000, while it invested another €400.000.000 in Piraeus' share capital increase via a private placement
New Hellenic Postbank	Eurobank	07/2013	681.000.000	Eurobank agreed to pay a total consideration of €681.000.000 in the form of newly issued Eurobank ordinary shares
New Proton Bank	Eurobank	07/2013	1	Under the terms of the sale, the HFSF committed to recapitalize the bank prior to its sale with an amount of €395.000.000
TOTAL AMOUNT (€)			1.207.000.002	
* Branch of Bank of Cyprus, Cyprus				
** Branch of Laiki Bank, Cyprus				
*** Branch of Hellenic Bank, Cyprus				
Sources: Hellenic Financial Stability Fund (2013), First Half 2013 Activities Report, 30 July and credit institutions press release				

5. The Greek banking sector today

In February 2014, after the recent restructuring, the number of credit institutions operating in Greece has been reduced from 65 (in December 2009) to 39 but most importantly the degree of concentration has increased considerably. Today the GBS with 3,400 branches and 52,000 employees consists of:

- the 4 systemically important credit institutions which have been recapitalised by the HFSF,
- GENIKI bank which is subsidiary of PIRAEUS Bank

(all the above 5 credit institutions account for almost 90% of total deposits and assets)

- another five (5) Greek credit institutions,
- ten (10) Greek cooperative banks,
- the branches of fifteen (15) credit institutions incorporated in other EU Member States, and
- the branches of four (4) credit institutions incorporated in third countries (outside the EU).

II. The European Banking Union

A. Introductory remarks

A. Introductory remarks

The current fiscal crisis in the euro area triggered a new debate on the need to set up supranational supervisory authorities for the European financial system. The debate has taken on a broader focus, with a view to creating a 'European Banking Union', which would lead to setting up at Union level:

- a **Single Supervisory Authority** exclusively for the banking sector, under the auspices of the ECB, in the framework of a Single Supervisory Mechanism,
- a **Single Resolution Authority** for unviable credit institutions in the framework of a Single Resolution Mechanism as well as a **Single Resolution Fund**,
- a **Single Deposit Guarantee Scheme**, and
- a **Single Rulebook** that will cover all the above aspects, on the basis of a 'harmonisation approach'.

A. Introductory remarks (cont.)

- At the 29 June 2012 Euro Area Summit, the euro area Heads of State or Government asked the European Commission to present specific legislative proposals on the establishment of a single supervisory mechanism over credit institutions, in the context of a wider political initiative to create a ‘European Banking Union’. More particularly, it was declared that:

“we affirm that it is imperative to break the vicious circle between banks and sovereigns”.

- *This initiative aimed at establishing a European Banking Union without amending the European Treaties (until now achieved).*

The sources of the core elements of the European Banking Union

(italics denote sources)

	Prudential supervision and prudential regulation of credit institutions	Resolution of unviable credit institutions	Operation of deposit guarantee schemes
European bodies	<p>Single Supervisory Mechanism</p> <p><i>Council Regulation 1024/2013</i></p>	<p>Single Resolution Mechanism and Single Bank Resolution Fund</p> <p><i>Proposal for a Regulation of the European Parliament and of the Council to be adopted until April 2014</i></p>	<p><i>No legislative proposal yet</i></p>
Single Rulebook	<ul style="list-style-type: none"> • <i>Council Regulation 575/2013 of the European Parliament and of the Council (CRR)</i> • <i>Directive 2013/36/EU of the European Parliament and of the Council (CRD IV)</i> 	<p><i>Proposal for a Directive of the European Parliament and of the Council (BRRD) to be adopted until April 2014</i></p>	<p><i>Amendment of Directive 94/19/EC of the European Parliament and of the Council (DGSD) to be adopted until April 2014</i></p>

B. The Single Supervisory Mechanism

B. The Single Supervisory Mechanism

On 29 October 2013, the following Regulations were published:

■ **Council Regulation (EU) No. 1024/2013** conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, and

■ **Regulation (EU) No. 1022/2013** of the European Parliament and of the Council amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority) as regards the conferral of specific tasks on the European Central Bank pursuant to Council Regulation (EU) No 1024/2013

B. The Single Supervisory Mechanism (cont.)

1. Main features

Two Pillars

- European Central Bank (hereinafter the ‘ECB’), and
- National Competent Authorities

- The ECB will supervise directly:
 - the **systemically important credit institutions** incorporated in euro area Member States (approximately 130 covering 85% of euro area bank assets),
 - the credit institutions incorporated in Member States with a derogation, which will establish a ‘close cooperation’ between the ECB and the national competent authority, and
 - branches established in a participating Member State by credit institutions established in non-participating Member States

B. The Single Supervisory Mechanism (cont.)

2. Systemically important credit institutions

- (a) Credit institutions that meet on a consolidated basis any of the following conditions:
- the total value of their assets exceeds **€30 billion**
 - the ratio of their total assets over the GDP of the participating Member State of establishment exceeds **20%**, unless the total value of their assets is below **€5 billion**
- (b) Those for which public financial assistance has been requested or received **directly** from the **EFSM** or the **ESM**
- (c) Following a notification by a national competent authority
- (d) In any case, the three most significant credit institutions in each Member State
- (e) The ECB may also, consider an institution to be of significant relevance where its cross-border activity is substantial

ECB's tasks following the adoption of the Regulation 1024/2013

Category of ECB tasks	Legal basis	Implementation in euro area Member States	Implementation in Member States with a derogation
1. <i>Basic</i> tasks	Article 127 par. 2 TFEU	Yes	No
2. <i>Other</i> tasks	Several TFEU articles	Yes	As a rule, no
3. <i>Specific</i> tasks on macro-prudential oversight over the European financial system	Council Regulation 1096/2010 (based on Article 127, par. 6 of the TFEU)	Yes	yes
4. <i>Specific</i> tasks on micro-prudential supervision of credit institutions (<i>new</i>)	Council Regulation 1024/2013 (based on Article 127, par. 6 of the TFEU)	Yes	Under the conditions of the 'close cooperation procedure'

B. The Single Supervisory Mechanism (cont.)

3. ECB's specific tasks

- Granting and withdrawal of authorization of credit institutions
- Performance of tasks which would fall upon the competent authority of the home Member State under the relevant Union law for credit institutions established in a participating Member State, which are willing to establish a branch or provide cross-border services in an non-participating Member State
- Assessment of applications for the acquisition and disposal of 'qualifying holdings' in credit institutions
- Conduct of micro-prudential supervision

B. The Single Supervisory Mechanism (cont.)

3. ECB's specific tasks (cont.)

- Ensuring compliance of credit institutions with the requirements to have in place robust governance arrangements
- Participation in colleges of supervisors
- Conduct of stress-tests
- Ad hoc imposition on credit institutions of specific additional own funds requirements, disclosure obligations and liquidity requirements ('Pillar 2')
- Supplementary supervision of financial conglomerates
- Carrying out supervisory tasks in relation to recovery plans and early intervention, when a credit institution does not meet or is likely to breach the applicable micro-prudential supervision requirements

B. The Single Supervisory Mechanism (cont.)

4. National Competent Authorities' tasks

- Receiving notifications from credit institutions in relation to the right of establishment and the free provision of services
- Conduct of macro-prudential regulation
- Protection of the economic interests of consumers transacting with financial service providers
- Prevention of the use of the financial system for the purposes of money laundering and terrorist financing
- Conduct of micro-prudential supervision of credit institutions from third countries establishing a branch or providing cross-border services in the Union
- Supervision of payment systems
- Carrying out the function of competent authorities over credit institutions in relation to markets in financial instruments

B. The Single Supervisory Mechanism (cont.)

5. Applicable law

- For the purpose of carrying out its supervisory tasks, ECB shall apply:
 - where Union law is composed of **Directives**, the national legislation transposing those Directives,
 - where Union law is composed of **Regulations** and where currently those Regulations explicitly grant options for Member States, the ECB shall apply the relevant national legislation
- ECB may adopt **Guidelines** and **Recommendations** and take **Decisions** subject to and in compliance with the relevant Union law and in particular any legislative and non-legislative act, including those referred to in Articles 290 and 291 TFEU (**RTS/ITS**)
- ECB may also adopt **Regulations** only to the extent necessary to organise or specify the arrangements for the carrying out of the supervisory tasks

B. The Single Supervisory Mechanism (cont.)

6. Supervision of non-systemically important credit institutions

- The ECB issues Regulations, Guidelines or general instructions to national competent authorities, according to which the supervisory tasks (excluding granting and withdrawal of authorisation of credit institutions and the assessment of applications for the acquisition and disposal of ‘qualifying holdings’ in credit institutions) are performed and supervisory decisions are adopted by national competent authorities
- The ECB may at any time, on its own initiative after consulting with national competent authorities or upon request by a national competent authority, decide to exercise directly itself all the relevant powers

B. The Single Supervisory Mechanism (cont.)

6. Supervision of non-systemically important credit institutions (cont.)

■ The ECB may at any time make use of the following powers:

- Request information
- Conduct general investigations
- Conduct on-site inspections
- Request authorization by a judicial authority

■ The ECB may also request, on an ad hoc or continuous basis, information from the national competent authorities on the performance of their tasks

B. The Single Supervisory Mechanism (cont.)

7. Organisational principles – Supervisory Board

The planning and execution of the tasks conferred upon the ECB will be fully undertaken by an **internal body**, the Supervisory Board. It will propose to the Governing Council of the ECB complete draft decisions to be adopted by the latter.

The Supervisory Board is composed of:

- it's Chair, chosen among individuals of recognised standing and experience in banking and financial matters and who are not members of the Governing Council,
- it's Vice Chair, chosen among the members of the Executive Board of the ECB
- four (4) representatives of the ECB, appointed by the Governing Council of the ECB, and
- one (1) representative of the national competent authority in each participating Member State

B. Single Supervisory Mechanism (cont.)

7. Organisational principles – Administrative Board of Review

- Composed of five (5) individuals of high repute from Member States, excluding current staff of the ECB, as well as current staff of competent authorities or other national or Union institutions, bodies, offices and agencies who are involved in the carrying out of the tasks conferred on the ECB (appointed for a term of five years, which may be extended once)
- Any natural or legal person may request a review of a decision by the ECB which is addressed to that person, or is of a direct and individual concern to that person

B. The Single Supervisory Mechanism (cont.)

8. Powers of the ECB

Investigatory powers

- Request for information
- Conduct of general investigations
- Conduct of on-site inspections
- Request of authorization by judicial authorities

Specific supervisory powers

- Granting and withdrawal of authorisation
- Assessment of acquisitions of qualifying holdings
- Supervisory powers
- Powers of host authorities and cooperation on supervision on a consolidated basis
- Administrative penalties

ECB's specific tasks – Administrative penalties

Scope of application	Breaches of national law	Breaches of Union law (Regulations)	Administrative penalties which ECB may impose
Credit institutions	<i>NCA</i>	<i>ECB</i>	Administrative pecuniary penalties of up to twice the amount of the profits gained or losses avoided because of the breach where those can be determined, or up to 10 % of the total annual turnover, as defined in relevant Union law, of a legal person in the preceding business year or such other pecuniary penalties as may be provided for in relevant Union law
Financial holding companies	<i>NCA</i>	<i>ECB</i>	
Mixed-activity holding companies	<i>NCA</i>	<i>ECB</i>	
Members of the Management Board	<i>NCA</i>		
Individuals who under national law are responsible for a breach	<i>NCA</i>		

B. The Single Supervisory Mechanism (cont.)

9. Separation from monetary policy function

- The staff involved in carrying out the tasks conferred on the ECB by this Regulation shall be organisationally separated from, and subject to, separate reporting lines from the staff involved in carrying out other tasks conferred on the ECB
- The operation of the Governing Council is completely differentiated as regards monetary and supervisory functions (such differentiation shall include strictly separated meetings and agendas)

B. The Single Supervisory Mechanism (cont.)

9. Other issues

- Institutional independence of the ECB with regard to the specific tasks conferred upon it
- Accountability of the ECB before the European Parliament, national Parliaments, and the Council (Interinstitutional Agreement between the European Parliament and the ECB)
- Professional secrecy of the members of the Supervisory Board and of the ECB staff
- Reporting of violations
- ECB's power to roll the cost of micro-prudential supervision over to credit institutions subject to supervision ('supervisory fees')

B. The Single Supervisory Mechanism (cont.)

10. Entry into force

- The ECB shall assume the supervisory tasks conferred upon it on **4 November 2014**
- Without prejudice to the exercise of investigatory powers conferred on it, from 3 November 2013, the ECB may start carrying out the supervisory tasks conferred on it other than adopting supervisory decisions in respect of any credit institution, financial holding company or mixed financial holding company and following a decision addressed to the entities concerned and to the national competent authorities concerned

B. The Single Supervisory Mechanism (cont.)

Framework Regulation

On 7 February 2014: public consultation (until 7 March 2014) on draft ECB SSM Framework Regulation

The draft Framework Regulation describes the rules and procedures governing, *inter alia*, the following aspects:

- the assessment of a bank's significance, to determine whether it falls under the ECB's direct or indirect supervision,
- the ECB's oversight of the whole system,
- cooperation between the ECB and the NCAs with a view to ensuring a smooth functioning of the SSM,
- the general principles for the conduct of supervisory procedures by the ECB,
- procedures relating to the SSM's micro-prudential and macro-prudential tasks, and
- administrative penalties for breaches of the relevant law.

Final version to be published by 4 May 2014.

B. The Single Supervisory Mechanism (cont.)

Comprehensive Assessment

The ECB conducts, currently, cooperating with the national competent authorities and with the company Oliver Wyman, a Comprehensive Assessment of the credit institutions to be supervised directly by the ECB. The Assessment consists of three (3) elements:

- a **Supervisory Risk Assessment** to review, quantitatively and qualitatively, key risks, including liquidity, leverage and funding of the credit institutions
- an **Asset Quality Review (AQR)** to enhance the transparency of bank exposures by reviewing the quality of banks' assets, including the adequacy of asset and collateral valuation and related provisions
- a **stress-test** to examine the resilience of credit institutions' balance sheet to stress scenarios, conducted jointly by the ECB and the EBA

C. The Single Resolution Mechanism

C. The Single Resolution Mechanism

1. State of play

July 2013

- Publication of the proposal for a Regulation of the European Parliament and of the Council establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Bank Resolution Fund (**SRM Regulation proposal**)

December 2013

- **Ecofin**: General Approach on the SRM Regulation proposal

Decision by euro-area member states committing them to negotiate, by 1 March 2014, an intergovernmental agreement on the functioning of the Single Bank Resolution Fund

6 February 2014

- **European Parliament**: adoption of a legislative Resolution on the SRM Regulation proposal

C. The Single Resolution Mechanism (cont.)

2. Scope of application*

The Single Resolution Mechanism (henceforth 'SRM') consists of:

- the euro area Member States, as well as
- Member States whose currency is not the euro and have established a close cooperation with the ECB according to article 7 of the SSM Regulation

The SRM covers in principle all SSM credit institutions but, in practice, national resolution authorities would be responsible for the resolution of all credit institutions, except for:

- the 130 credit institutions that are directly supervised by the ECB supervised banks and those that operate cross-border within the SSM,
- credit institutions, whose resolution requires recourse to the Single Resolution Bank Fund's available financial means

**The information on the SRM presented hereinafter, follows the Council's General Approach*

C. The Single Resolution Mechanism (cont.)

3. Organisational principles

The SRM is composed of:

- the **Council** (whose powers are exercised on a proposal by the Commission),
- the **Single Resolution Board**, and
- the **national resolution authorities** of the participating Member States.

The **Resolution Board** is composed of:

- the Executive Director,
- four additional full-time members,
- a member appointed by each participating Member State, representing the national resolution authorities

C. The Single Resolution Mechanism (cont.)

4. Resolution procedure

- a. The ECB, as a supervisory authority, or the Supervisory Board on its own initiative, shall conduct an assessment of whether the following conditions are met:
 - i. the credit institution is failing or is likely to fail,
 - ii. having regard to timing and other relevant circumstances, there is no reasonable prospect that any alternative private sector or supervisory action (including early intervention measures or the write down or conversion of capital instruments), taken in respect of the credit institution, would prevent its failure within a reasonable timeframe
 - iii. a resolution action is necessary in the public interest

C. The Single Resolution Mechanism (cont.)

4. Resolution procedure (cont.)

- b. Where the abovementioned conditions are met, the **Resolution Board adopts a resolution scheme**. The resolution scheme shall:
 - i. place the credit institution under resolution,
 - ii. determine the application of specific resolution tools to the institution,
 - iii. determine the use of the Single Resolution Bank Fund to support the resolution action.

C. The Single Resolution Mechanism (cont.)

4. Resolution procedure (cont.)

- c. The resolution scheme may enter into force only if no objection has been raised by the Council (ECOFIN) within a **period of 24 hours** after its adoption by the Board

- d. The Council, on proposal by the Commission, may, within that period, address directives to the Board in order to reformulate the resolution scheme

C. The Single Resolution Mechanism (cont.)

4. Resolution procedure (cont.)

- e. In case the Board does not agree with one or more of the directives formulated by the Council it may address a notice to the Commission and to the Council requesting their amendment and explaining the reasons for disagreement.

- f. The Council may, within a deadline of 24 hours after reception of the Board's notice, on proposal by the Commission, amend its directives in line with the views expressed by the Board. If, during the deadline, the Council has not acted or if the Council expressly rejects the request for amendment by the Board, the latter shall incorporate the Council's directives in the resolution scheme.

C. The Single Resolution Mechanism (cont.)

5. Resolution Board

The Board and the Council, where relevant, replace the national resolution authorities designated under the BRRD in respect of all aspects related to the resolution decision-making process. The national resolution authorities designated under the BRRD will continue to carry out activities related to the implementation of resolution schemes adopted by the Board

C. The Single Resolution Mechanism (cont.)

6. Powers

The Resolution Board would be empowered to:

- draw up resolution plans for credit institutions,
- assess the resolvability of credit institutions, and take measures aimed at removing impediments to resolvability, if any,
- require national resolution authorities to apply such appropriate measures designed to remove impediments to resolvability in order to ensure consistency and the resolvability of the institutions concerned,
- require changes to the structure and organization of institutions or groups in order to remove practical impediments to the application of resolution tools and ensure the resolvability of the entities concerned,
- choose the appropriate resolution tool,
- administer and use the Single Resolution Bank Fund

C. The Single Resolution Mechanism (cont.)

7. Single Bank Resolution Fund

- The Council's General Approach foresees that the establishment of the Single Bank Resolution Fund and its national compartments, as well as the decision-making on its use will be provided for by the Regulation. However, the transfer of national funds to the Single Fund and the gradual mutualisation of the national compartments are to be regulated through an inter-governmental agreement between the participating Member States in the SRM
- The Single Bank Resolution Fund will be funded by annual contributions of credit institutions established in the participating Member States

C. The Single Resolution Mechanism (cont.)

7. Single Bank Resolution Fund (cont.)

Target Funding Level:

- In a period no longer than 10 years after the entry into force of the SRM Regulation, the available financial means of the Fund should reach at least 1% of the amount of deposits of all credit institutions authorised in the participating Member States which are covered under Directive 94/19/EC
- According to the Council's General Approach, the Fund will consist of national compartments that will gradually merge over 10 years. During this period, mutualisation between national compartments will progressively increase

C. The Single Resolution Mechanism (cont.)

8. Entry into force

- The SRM Regulation shall be applicable from the date when the conditions allowing the transfer to the Fund of the contributions raised at national level have been met
- Subject to the above, the provisions of the Regulation shall apply from **1 January 2015**
- The provisions concerning **bail-in** shall apply from **1 January 2016**

D. Single Rulebook

D. Single Rulebook

The Single Rulebook covers the following areas:

- Prudential supervision and prudential regulation of credit institutions (CRD IV, CRR),
- Resolution of unviable credit institutions (BRRD), and
- Deposit guarantee schemes (DGSD)

D. Single Rulebook (cont.)

1. Prudential supervision and prudential regulation of credit institutions **CRD IV / CRR**

On 26 June 2013 the following acts were published:

- the **Directive 2013/36/EU** of the European Parliament and of the Council on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, known as “**CRD IV**”, and
- the **Regulation (EU) 575/2013** of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, known as “**CRR**”

D. Single Rulebook (cont.)

1. Prudential supervision and prudential regulation of credit institutions

CRR

The Regulation (EU) 575/2013 includes provisions on micro-prudential regulation that aim to:

- improve the banking sector's ability to absorb shocks arising from financial and economic stress
- introduce innovative instruments on micro-prudential regulation
 - Liquidity Coverage Ratio
 - Net Stable Funding Ratio
 - Leverage Ratio
- promote the clearing of OTC derivatives through central counterparties
- strengthen banks' transparency and disclosures

The provisions contained in the Regulation 575/2013 gradually apply as of 1 January 2014

D. Single Rulebook (cont.)

1. Prudential supervision and prudential regulation of credit institutions

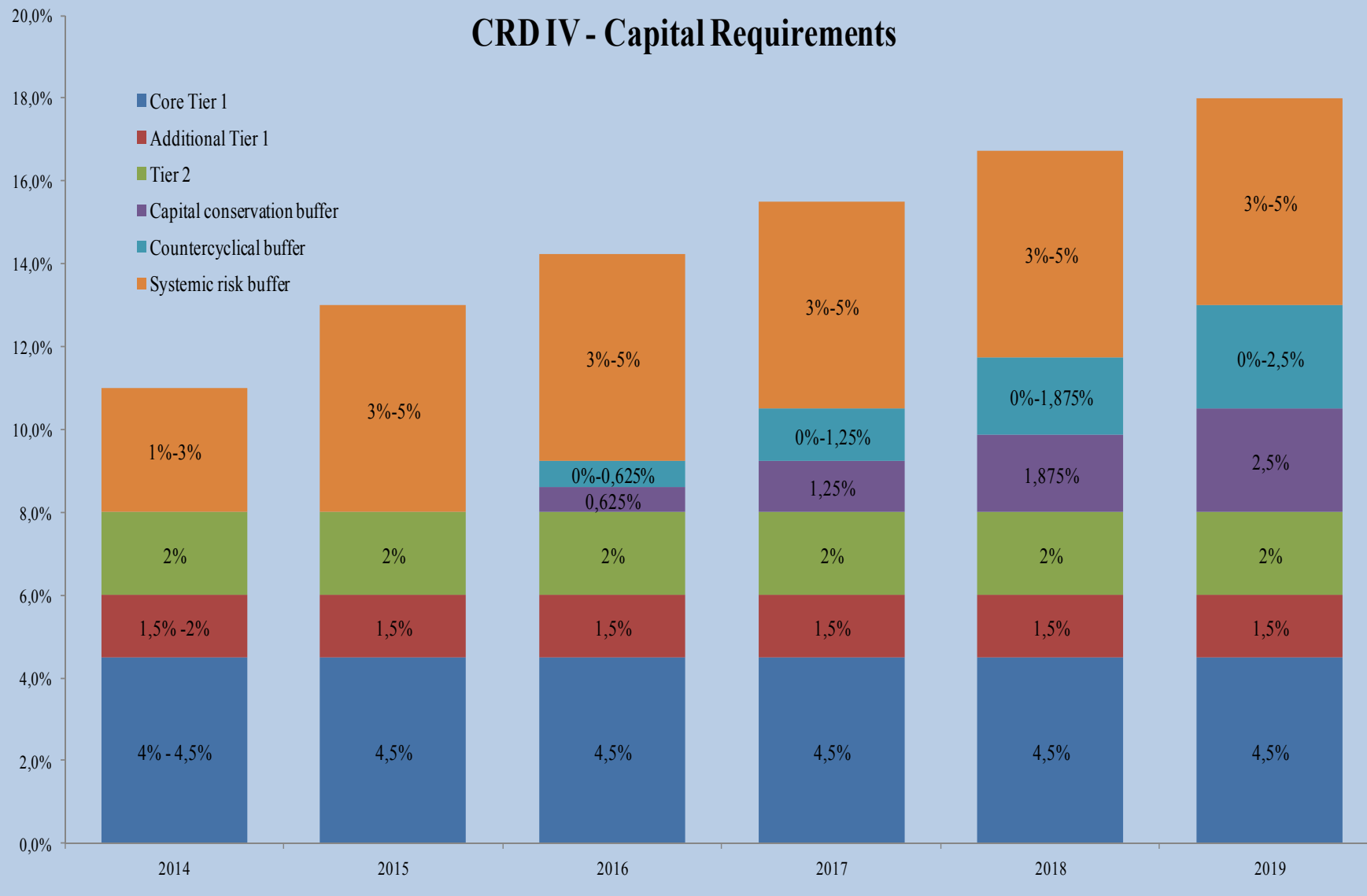
CRD IV

The Directive 2013/36/EU includes provisions on:

- the freedom to establish and provide services by credit institutions,
- the micro-prudential supervision of credit institutions,
- corporate governance,
- remuneration policies, and
- capital buffers

The Directive 2013/36/EU gradually applies as of **1 January 2014**

CRD IV - Capital Requirements



D. Single Rulebook (cont.)

2. Resolution of unviable credit institutions

BRRD

On 12 December 2013 the European Parliament and the Council reached an agreement on the Directive of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms (Bank Recovery and Resolution Directive - BRRD)

The BRRD is expected to be formally adopted and published by April 2014

D. Single Rulebook (cont.)

2. Resolution of unviable credit institutions: BRRD

- The BRRD lays down a complete framework that allows authorities to cope with unsound or failing credit institutions. The framework provides, in particular, the **necessary tools and powers** needed to prevent insolvency or, when insolvency occurs, to minimize negative repercussions through the preservation of the systemically important functions of the institution concerned

- National resolution authorities are equipped with a common framework for the recovery and resolution of credit institutions and investment firms in order to achieve the **resolution in an orderly manner** of the failing financial institutions, safeguarding the financial stability and **minimising the public expenditure**

D. Single Rulebook (cont.)

2. Resolution of unviable credit institutions: BRRD (cont.)

Scope

- credit institutions and investment firms established in the Union,
- financial institutions established in the Union, when the financial institution is a subsidiary of a credit institution or investment firm, or of a company referred to in points (c) or (d), and is covered by the supervision of the parent undertaking on a consolidated basis in accordance with Articles 6 to 17 of Regulation (EU) No 575/2013,
- financial holding companies, mixed financial holding companies and mixed-activity holding companies that are established in the Union,
- parent financial holding companies in a Member State, Union parent financial holding companies, parent mixed financial holding companies in a Member State, Union parent mixed financial holding companies, and
- branches of institutions established outside the Union

D. Single Rulebook (cont.)

2. Resolution of unviable credit institutions: BRRD (cont.)

The prevention and crisis management continuum comprises measures falling under the following three (3) stages:

- a. preparation,
- b. early intervention, and
- c. resolution

D. Single Rulebook (cont.)

2. Resolution of unviable credit institutions: BRRD (cont.)

(a) The preparation stage consists of:

- the credit institutions' obligation to draw up recovery and resolution plans,
- the assessment of credit institutions' resolvability: an institution shall be deemed resolvable if it is feasible and credible for the resolution authority to either liquidate it under normal insolvency proceedings or to resolve it by applying the different resolution tools and powers,
- the provision of Intra Group Financial Support through a voluntary agreement between the parent entity and the subsidiaries of a group that should be authorized by the competent authorities and approved by the shareholders of every group entity concerned

D. Single Rulebook (cont.)

2. Resolution of unviable credit institutions: BRRD (cont.)

(b) Early intervention

Where an institution is in breach of or, due inter alia to a rapidly deteriorating financial condition, including deteriorating liquidity situation, increasing level of leverage, non-performing loans or concentration of exposures, is likely in the near future to be in breach of any of the requirements of CRR, the NCAs require the management body of the institution to:

- implement one or more of the arrangements and measures set out in the recovery plan,
- examine the situation, identify measures to overcome any problems identified and draw up an action program to overcome those problems and a timetable for its implementation
- convene, or if the management body fails to comply with this requirement convene directly, a meeting of shareholders of the institution, and in both cases set the agenda and require certain decisions to be considered for adoption by the shareholders

D. Single Rulebook (cont.)

(b) Early intervention (cont.)

Where an institution is in breach of or, due inter alia to a rapidly deteriorating financial condition, the NCAs require:

- one or more members of the management body or senior management to be removed or replaced if these persons are found unfit to perform their duties,
- the management body of the institution to draw up a plan for negotiation on restructuring of debt with some or all of its creditors according to the recovery plan, where applicable,
- changes to the institution's business strategy or to the legal or operational structures of the institution; and
- to acquire all the information necessary in order to update the resolution plan and prepare for the possible resolution of the institution and for valuation of the assets and liabilities of the institution

D. Single Rulebook (cont.)

2. Resolution of unviable credit institutions: BRRD (cont.)

(c) Resolution

- covered deposits (€100.000) are fully protected,
- losses should be borne first by shareholders and next by creditors of the institution under resolution in order of preference
- no creditor should incur greater losses than it would have incurred if the institution had been wound up under normal insolvency proceedings in accordance with the no creditor worse off principle

D. Single Rulebook (cont.)

2. Resolution of unviable credit institutions: BRRD (cont.)

Resolution tools

- sale of business,
- bridge institution,
- asset separation,
- bail-in

Entry into force

Member States shall apply the provisions of the Directive from **1 January 2015**, except for the provisions concerning **bail-in** which shall apply at the latest from **1 January 2016**

D. Single Rulebook (cont.)

3. Deposit guarantee scheme

On 17 December 2013, the European Parliament and the Council reached an agreement on the Directive on Deposit Guarantee Schemes

Coverage level: for the aggregate deposits of each depositor shall be €100.000 per credit institution

The following deposits are protected above €100.000 for at least 3 months and no longer than 12 months after the amount has been credited or from the moment when such deposits become legally transferable:

- deposits resulting from real estate transactions relating to private residential properties
- deposits that serve social purposes defined in national law and are linked to particular life events such as marriage, divorce, retirement, dismissal, redundancy, invalidity or death of a depositor
- deposits that are based on the payment of insurance benefits or compensation for criminal injuries or wrongful conviction

D. Single Rulebook (cont.)

3. Deposit guarantee scheme (cont.)

Repayment

Repayment deadlines will be gradually reduced **from currently 20 working days to 7 working days**

Member States may for a transitional period until 31 December 2023 establish the following repayment periods:

- 15 working days from 1 January 2019
- 10 working days from 1 January 2021
- 7 working days from 1 January 2024

D. Single Rulebook (cont.)

3. Deposit guarantee scheme (cont.)

Financing of Deposit Guarantee Schemes

Member States shall ensure that, in a period no longer than 10 years after the entry into force of this directive, the available financial means of a DGS shall **at least** reach a target level of 0,8% of the amount of the covered deposits of its members

Where the financing capacity falls short of the target level, the payment of contributions shall resume at least until the target level is reached again

D. Single Rulebook (cont.)

3. Deposit guarantee scheme (cont.)

Calculation of contributions DGS (Article 11)

The contributions shall be based on:

- the amount of covered deposits, and
- the degree of risk incurred by the respective member

DGS may use their own risk-based methods for determining and calculating the risk-based contributions by their members. The calculation of contributions shall be proportional to the risk of the members and shall take due account of the risk profiles of the various business models. This method may also take into account the asset side of the balance sheet and risk indicators, such as capital adequacy, asset quality and liquidity

EBA shall issue guidelines to specify methods for calculating the contributions to DGS

III. Concluding remarks

Concluding remarks

(a) In the current conjuncture, the main challenges for the Greek banking sector are as follows:

(aa) The first is the preservation of its solvency, with adequate recapitalisation from the private sector and, as a last resort, the Hellenic Financial Stability Fund. In any event, the primary objective is for private ownership to be maintained to the extent possible

(ab) The second is maintaining its liquidity, while creating conditions for gradual independence from European Central Bank and Bank of Greece financing

(ac) The third is granting credit to viable enterprises in order to support, as much as possible, the Greek economy's growth

Concluding remarks (cont.)

(b) In the medium term, however, the Greek banking sector will also have to adapt to the European regulatory ‘tsunami’ underway. More specifically, Directive 2006/48/EC of the European Parliament and of the Council relating to the taking up and pursuit of the business of credit institutions (known as ‘CRD’), already amended by Directive 2009/111/EC (‘CRD II’) and Directive 2010/76/EC (‘CRD III’), has been replaced by Regulation 575/2013/EC (‘CRR’) and Directive 2013/36/EC (‘CRD IV’) transposing into European law the ‘Basel III regulatory framework’. Moreover, the SRM Regulation, the BRRD Directive and the new Directive on Deposit Guarantee Schemes are expected to be adopted until April 2014.

In light of this, it can be rightly argued that the business model of EU credit institutions, including those in Greece is in the process of a considerable review (taking also into account the other EU regulatory developments i.e., capital markets law, consumer protection law and the proposal of the European Commission following the Liikanen Report).

Concluding remarks (cont.)

(c) The gradual establishment of the core elements of the European Banking Union will bring significant changes for the whole European banking system.

The delegation to the ECB of the supervision of the systemically important credit institutions has a lot of advantages; however it entails also certain risks, especially concerning the exercise by the same authority of both monetary and supervisory tasks.

Concluding remarks (cont.)

(d) Finally, the European Banking Union underway provides a totally new dimension to the operation of the Greek banking system:

- The four (4) systemically important Greek credit institutions (covering almost 90% of the Greek banking sector) will be directly supervised, by November 2014, by the ECB.
- This implies, *as intended*, that the link between the Greek public sector and the Greek banking system will be weakened, to the benefit of the stability of the banking system in the medium to long term.

Concluding remarks (cont.)

(d) Finally, the European Banking Union underway provides a totally new dimension to the operation of the Greek banking system (cont.):

- In this context, it is worth mentioning that the possibility can not be excluded that the amount endowed to the Hellenic Financial Stability Fund will be transferred to the ESM. This could lead to a substantial reduction of the Greek debt (amounting to almost 30 bn. euros).