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Supervisory policies applied to the Significant Institutions in Greece

Dear Madame Lagarde,

Your staff has approached the European Central Bank in the context of a possible IMF programme for Greece and has asked for information as regards the ECB's supervision of Significant Institutions (SIs) in Greece. Please note that the Treaty on the Functioning of the European Union has established the ECB as an independent institution, stipulating that the ECB must not seek or take instructions from European Union institutions, bodies, offices or agencies, from any national government or from any other body. Also with respect to its supervisory activities, the ECB shall act independently: this has to be respected by Member States and any other bodies, as put down in the Council Regulation conferring to the ECB specific tasks concerning policies relating to the prudential supervision of credit institutions.

The Greek banking sector continues to face a variety of specific challenges which include a prolonged and deep economic downturn and a correspondingly high level of non-performing exposures in the volume of EUR 111.67 billion, as at end 2016, which translates into a non-performing exposure (NPE) ratio of 45.86%, as well as past severe system-wide liquidity outflows which have led to the implementation of capital controls. The attention also paid by the IMF to these issues underlines the importance that they be addressed as a matter of priority.

The ECB is committed to contributing to the soundness and resilience of each and every significant institution (SI) under the remit of the Single Supervisory Mechanism (SSM), including the Greek SIs. Against this background, the ECB stands ready to explain its supervisory approach, with a particular emphasis on Greek banks and mindful of the aforementioned specific situation of the Greek banking sector. The information provided below has a purely explanatory objective and should not be construed in

any way as a commitment by the ECB vis-à-vis third parties to undertake certain policy actions. Any ECB action should be undertaken only if deemed necessary and appropriate by the ECB's decision-making bodies at any given point in time.

Since the set-up of the SSM in November 2014 the ECB has been closely monitoring the overall evolution and business performance of Greek SIs. In doing so, the ECB has been and will keep paying special attention to those areas considered of particular importance for the appropriate functioning of the banks as well as their effective handling of the risks they are faced with.

In this regard, it is worth highlighting the following supervisory actions:

1. NPE Supervisory framework

The Bank of Greece (BoG) and the ECB constantly engage with the Greek SIs to enforce the bank-specific targets for non-performing loan and exposure (NPL/NPE) reduction as well as key operational and financial indicators which have been approved by the banks themselves and submitted to the Bank of Greece (BoG) and the ECB, and will keep in place an assessment framework to regularly monitor banks' performance towards these targets and indicators.

According to the approved 2017 Supervisory Examination Program, the ECB will perform on-site missions at the Greek SIs during the second half of 2017, a period in which the main operational measures to address NPLs/NPEs (as included in the banks' plans and strategies) have to be already implemented.

The scope of the supervisory work includes the in-depth evaluation of the appropriateness of the NPL/NPE strategies and targets, the review of actions to ensure the efficient implementation of their strategies including the evaluation of banks' capacity, as well as the identification of remaining gaps and potential avenues to further accelerate NPL/NPE resolution.

As a consequence of the regular monitoring of NPL/NPE management, the IFRS9 thematic review, the work of the ECB task force on NPLs and the dedicated on-site missions, within the first half of 2018 the ECB intends to communicate to banks any material shortcomings identified so far, for them to take effective and efficient remedial actions. Furthermore, as already established, on a yearly basis and starting by end-September 2017, banks will be updating their targets and strategies in order to ensure they remain realistic yet ambitious.

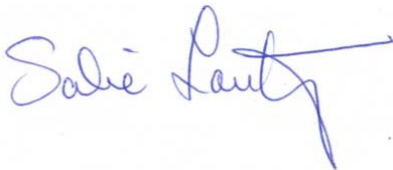
2. Bank capital

As per the relevant supervisory and regulatory requirements, the ECB takes the appropriate measures to ensure that the systemic banks address any capital-related breaches that will be revealed in the context of the regular supervisory review and evaluation process which is performed, as a rule, on a yearly basis. The supervisory review of Greek banks is based on standardised methodology and also takes into consideration the specificities of the Greek macro-environment as well as local legal framework. In addition, the Greek SIs are subject to regular updates of the condition of selected portfolios and stress testing exercises conducted by the ECB.

3. Bank governance

The ECB regularly monitors and assesses the banks' overall governance frameworks as per the relevant supervisory and regulatory requirements, including also the assessment of effectiveness of banks' middle and senior management by the banks' Board of Directors (BoDs), and requires banks to address any identified deficiencies without delay. This issue is of a particular importance in the case of the Greek banking sector following the extensive BoD renewal processes recently experienced by Greek SIs.

Yours sincerely,



Sabine Lautenschläger