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Greece: Financial System Stability Assessment, including Reports on the Observance of Standards and Codes on the following topics, Banking Supervision, Insurance Supervison, Securities Regulation, and Anti-Money Laundering and Combating the Financing of Terrorism

This Financial System Stability Assessment on **Greece** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **November 21, 2005.** The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Greece or the Executive Board of the IMF.

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GREECE

Financial System Stability Assessment

Prepared by the Monetary and Financial Systems and European Departments

Approved by Michael Deppler and Ulrich Baumgartner

November 21, 2005

This Financial System Stability Assessment (FSSA) is based on work of the Financial Sector Assessment Program (FSAP) team, whose two main missions to Greece were in February 2005 and May 2005. The FSAP findings were further discussed with the authorities during the Article IV consultation mission in September 2005.

The FSAP team comprised David Hoelscher (mission chief), Renzo Avesani (both MFD), Angana Banerji (EUR), Laurent Bouscharain (MFD), John Farrel (formerly New Zealand Securities Commission), Michael Hafeman (formerly Office of the Superintendent of Financial Institutions, Canada), Socorro Heysen, Alicia Novoa (both MFD), Peter Phelan (formerly U.K. Financial Services Authority), Alvaro Piris, Emma Warrack (both MFD), and Christo Wiese (formerly South Africa Reserve Bank). The anti-money laundering/combating the financing of terrorism (AML/CFT) team was composed of Peter Csonka (team leader, LEG), Manuel Vasquez (MFD), Joy Smallwood, Marlene Manuel, and Yehuda Shaffer (all LEG). The FSAP team received excellent cooperation from the authorities and market participants. The main findings of the FSAP are:

- The Greek financial sector appears largely sound and resilient to potential adverse shocks. The banking system is well capitalized and profitable, with adequate liquidity, but faces challenges arising from the recent rapid credit growth that increases bank exposure to unfamiliar credit risks. Capital markets are deepening but play only a limited role in the economy. The insurance sector remains small by EU standards, and the financial condition of many insurance firms is weak.

- Strategic and medium-term challenges include addressing legal and institutional impediments to improving competitiveness; developing new, cost-efficient sources of funding; and the relatively small size and low credit ratings of Greek financial institutions compared with EU competitors. Risk management capabilities are being strengthened in response to regulatory change and rapid credit growth, but their application is still uneven across subsectors and institutions.

- Supervision and regulation is also uneven across different segments of the financial sector. The bank supervisory authorities have been largely effective. The Hellenic Capital Market Commission (HCMC) has been strengthened and is playing an increasing role in oversight and regulation. The insurance sector is more weakly supervised.

The main authors of this FSSA are Messrs. Hoelscher and Piris, with contributions from the rest of the FSAP team.

FSAPs are designed to assess the stability of the financial system as a whole and not that of individual institutions. They have been developed to help countries identify and remedy weaknesses in their financial sector structure, thereby enhancing their resilience to macroeconomic shocks and cross-border contagion. FSAPs do not cover risks that are specific to individual institutions such as asset quality, operational or legal risks, or fraud.

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GLOSSARY

ABG	Agricultural Bank of Greece
ACO	Athens Clearing Office
AEMF	Athens Exchange Members Fund
AML	Anti-money laundering
AML/CFT	Anti-money laundering/combating the financing of terrorism
ASE	Athens Stock Exchange
ASEDM	ASE derivative instruments market
ASEMM	ASE main market
BCP	Basel Core Principles for Effective Banking Supervision
BoG	Bank of Greece
CAR	Capital adequacy ratio
CDD	Customer due diligence
CFT	Combating the financing of terrorism
CIS	Collective investment scheme
CSD	Central Securities Depository S.A.
DNFBP	Designated nonfinancial businesses and professions
ECB	European Central Bank
ESCB	European System of Central Banks
FATF	Financial Action Task Force
FI	Financial institution
FIU	Financial Intelligence Unit
FSAP	Financial Sector Assessment Program
FSSA	Financial System Stability Assessment
FT	Financing of terrorism
FX	Foreign exchange
GAAP	Generally Accepted Accounting Principles
GDP	Gross domestic product
HCMC	Hellenic Capital Markets Commission
HELEX	Hellenic Exchanges S.A.
IA	Independent Authority
IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principles
ID	Insurance Directorate
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
ISC	Insurance Supervisory Commission
ML	Money laundering
MoDV	Ministry of development
MoF	Ministry of finance
NBG	National Bank of Greece
NPL	Nonperforming loan
NPO	Nonprofit organization
PD	Probability of default
ROA	Return on assets
ROE	Return on equity
SME	Small- and medium-sized enterprise
SOEL	Certified Public Accountants of Greece
SRO	Self-regulatory organization
STR	Suspicious transaction report
TEK	Deposit insurance system

EXECUTIVE SUMMARY

The Greek financial system has benefited overall from strong economic growth, financial liberalization, and integration into the EU and euro area. The banking sector has expanded credit and enjoyed increased profitability. The capital markets and the insurance industry, however, have not gained proportionally. Capital markets are deepening but remain relatively illiquid and play only a limited role in the economy. The insurance sector remains small by EU standards, and the financial condition of many insurance firms is weak.

No immediate threat to systemic stability is perceived, but the financial sector faces challenges. The rapid credit expansion, particularly to new clients in the small- and medium-sized enterprise (SME) and consumer lending sectors, exposes banks to uncertainties in risk analysis. Banks also face structural challenges arising from their small scale and high and rigid operating costs. The capital markets and insurance sectors also suffer from their small scale and limited integration in the overall financial sector.

The financial position of the Greek banking sector has strengthened since integration in the EU. Banks are generally well capitalized and profitable, with adequate liquidity. These developments reflect the growing share in lending to the private sector and a decrease in the share of state ownership (from over 50 percent in the late 1990s to 21 percent by end-2004.) Strains may already be arising from the rapid credit growth. Nonperforming loans (NPLs) have stabilized at levels higher than European averages. While NPLs are largely provisioned, they are high given economic growth and are likely to rise as the economy slows.

The banking sector faces medium-term challenges. There are legal and institutional impediments to improving competitiveness, including inflexible labor practices and fee and tax structures that limit the scope for reducing costs and interest rate spreads. Relatively slow deposit growth and the changing maturity structure of bank assets are pushing banks to develop new, more costly sources of funding. The access of Greek banks to euro area capital markets may be limited by their small size and relatively low credit ratings. Banks are strengthening risk management capabilities, but risk assessments may be optimistic because of a lack of data over the full economic cycle.

The nonbank financial sector is small and plays a limited role in financial intermediation. Greece remains relatively underinsured compared with EU averages, with poor and volatile profitability in the insurance industry. While stock market capitalization is in line with European averages, capital markets play a limited role in mobilizing resources. The medium-term challenge for these sectors is to strengthen efficiency, integrate more fully into the wider financial market, and adopt adequate risk management techniques.

The entire financial system faces challenges arising from the introduction of International Financial Reporting Standards (IFRS). The new accounting standards, while strengthening transparency and the quality of financial statements, will bring to light the extent of the banks' unfunded pension liabilities and the implications of these deficits on their capital. Resolution of this issue remains under discussion. In addition, as only listed companies will be obliged to report according to IFRS, differing financial disclosure requirements between firms presents a challenge for capital markets development.

Supervision and regulation has been uneven across different segments of the financial sector. The bank supervisory authorities have been largely effective in responding to new challenges, tightening the prudential framework. The Basle Core Principles (BCP) assessment found a high degree of compliance, and the authorities are already acting on some of the recommendations made (e.g., strengthening legal protections for BoG staff, and dedicating additional resources to on-site inspection). Capital market regulation has been strengthened and the HCMC is playing an increasing role in oversight and regulation of capital markets. The International Organization of Securities Commissions (IOSCO) assessment also found a relatively high level of compliance, with recommendations made regarding development of work programs for inspection and surveillance. The insurance sector is more weakly supervised. Nonetheless, the basic legal framework is in place, and a new supervisory body (funded with industry resources) is being established.

MAIN RECOMMENDATIONS

Priority issues

- In light of rapid credit growth, close monitoring on a timely basis of credit risk is critical, particularly regarding lending to new clients and in new regions.
- Develop a more integrated monitoring and reporting system of banks' risk management techniques.
- Bring the Insurance Supervisory Commission (ISC) to operational readiness as soon as possible, by completing selection of professional staff.
- Develop a more risk-focused, forward-looking approach to financial supervision, including (i) expanding on-site inspection; and (ii) developing supervisory capacity to assess risks.

Key structural issues

Banking system

- Intensify cooperation with regional supervisors and increase on-site inspections of the Greek banks' subsidiaries in Southeastern Europe.
- Address tax and legal restrictions that create competitive disadvantages (e.g., the 60 basis point charge subsidizing interest rates on housing loans and labor market rigidities).
- Streamline the legal process for settling disputes concerning debt recovery, with the aim of bringing the period for dispute resolution in line with EU averages.

Safety net

- Develop more detailed internal Bank of Greece (BoG) procedures for crisis resolution.
- Strengthen the deposit insurance system by (i) establishing backup funding procedures in case of need; and (ii) ensuring that adequate information on insured deposits is available.

Strengthening supervisory arrangements

All supervisory institutions

- Strengthen legal protection for all financial sector supervisors.
- Develop expertise by supervisory staff in areas where market practices are evolving rapidly (e.g., risk management techniques, and use of capital market funding instruments).
- Establish procedures for effective cooperation among the different regulatory bodies.

Bank of Greece

- Align more closely provisioning policy with respective credit risk exposures.
- Compile all internal crisis management procedures into a manual for Contingency Planning Arrangements.

Insurance Supervisory Commission

- Ensure operational independence of the ISC by isolating staff making decisions that affect the financial condition of insurance firms from industry or political influence.

Hellenic Capital Markets Commission

- Ensure wide adoption of, and compliance with, IFRS by all companies listed on the Athens Stock Exchange (ASE).

I. Sources of Potential Risk

A. Macroeconomic Risks

1. **Greece has enjoyed a sustained economic boom since 2000**. Output growth averaged some 4½ percent each year, spurred by monetary easing by the European Central Bank (ECB), a significant fiscal expansion, and the Olympic Games. Private consumption and investment has been buoyant, supported by strong real wage growth, wealth effects from rising real estate prices, gains in employment, and financial sector deregulation. An increase in private sector savings has compensated for the growing dissaving by the government sector, resulting in national savings remaining at 28 percent of gross domestic product (GDP) in 2004.

2. **The period since 2000 was marked by relatively high inflation rates compared with the euro area and an erosion of competitiveness**. Inflation exceeded the euro area average by 1–2 percentage points since 2000. Competitiveness has suffered as real wage increases have run ahead of productivity, especially in the last two years, and unit labor costs have risen 7 percentage points faster than the euro area average.

3. **Growth is expected to slow somewhat, although remain strong relative to most EU countries**. The end of Olympics-related stimulus and needed fiscal consolidation will act as brakes on domestic demand, while cumulative losses in competitiveness could limit the benefits of stronger European growth. The stimulative effects of euro adoption will wear off, while interest rates are expected to rise from current low levels. Moreover, high oil prices and the euro appreciation pose downside risks to growth.

B. Financial Exposures

4. **Household indebtedness has increased steadily**. The combination of financial sector deregulation and the rapid fall in interest rates led to an expansion in household demand for credit. Average annual credit growth to households exceeded 30 percent between 2000 and 2004 and included both short-term consumer credit and mortgage debt (Table 1). Risks in this growth, however, are mitigated by the relatively low level of household indebtedness—33 percent of GDP in 2004 compared with 50 percent of GDP in the euro area.

5. **Enterprise indebtedness increased at a slower pace than household debt and remains relatively low by EU standards**. Total enterprise debt increased by an average of 11 percent per year between 2000 and 2004, rising to 53 percent of GDP. This exposure is low compared with 62 percent for the euro area, reflecting, in part, the relatively recent deregulation of the Greek credit market.[1] Debt-to-equity ratios have increased sharply in recent years, reflecting declines in market values for enterprise equity on the Athens Stock Exchange (ASE) as well as increases in debt (Figure 1).

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[1] See ECB Financial Stability Reviews for euro area data.

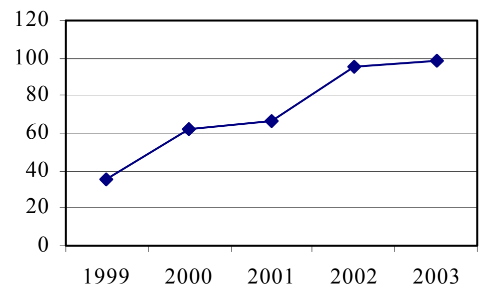
Table 1. Household and Nonfinancial Corporate Debt

	2000	2001	2002	2003	2004
		(In billions of euros)			
Corporates	57.9	67.7	72.1	80.5	87.9
Of which:					
To domestic financial institutions	42.2	49.2	52.9	59.3	66.2
To rest of world	13.9	15.6	15.6	16.5	16.1
Households	17.3	24.4	32.2	41.2	53.8
Of which:					
Short-term loans	4.8	5.8	6.5	8.2	11.4
Housing loans	11.3	15.7	21.2	26.5	33.1
Total	**75.3**	**92.1**	**104.3**	**121.8**	**141.7**
		(Growth in percent)			
Corporates		16.9	6.5	11.7	9.1
Of which:					
To domestic financial institutions		16.6	7.7	12.0	11.7
To rest of world		12.0	0.0	6.1	-2.4
Households		40.6	32.0	28.1	30.5
Of which:					
Short-term loans		21.4	11.6	25.3	40.1
Housing loans		38.9	35.6	25.0	24.8
Total		**22.4**	**13.3**	**16.7**	**16.3**
		(In percent of GDP)			
Corporates	47.6	51.6	50.9	52.5	53.2
Of which:					
To domestic financial institutions	34.6	37.4	37.3	38.6	40.1
To rest of world	11.4	11.8	11.0	10.7	9.7
Households	14.3	18.6	22.7	26.9	32.6
Of which:					
Short-term loans	3.9	4.4	4.6	5.3	6.9
Housing loans	9.3	11.9	15.0	17.3	20.0
Total	**61.8**	**70.1**	**73.6**	**79.3**	**85.7**
Memorandum item					
Euro area, percent of GDP					
Households	45.2	45.9	47.0	48.4	50.4

Source: Bank of Greece.

Figure 1. Enterprise Debt-to-Equity Ratio

(In percent)



Source: Bank of Greece.

II. STRENGTHS AND CHALLENGES OF THE FINANCIAL SYSTEM

6. **The Greek financial system is small by European standards and is dominated by banks**. Total assets of the financial system are estimated at 170 percent of 2004 GDP, compared with 250 percent in France (2003), 320 percent in Spain (2004), and 380 percent in Germany (2002). Commercial banks are the main component of the Greek financial sector, with 76 percent of total financial assets (Figure 2). Insurance companies, pension funds and other institutional investors (such as mutual funds) are small in size—3 percent, 7 percent, and 11 percent of the financial system, respectively.

A. Commercial Banks

Structure and performance

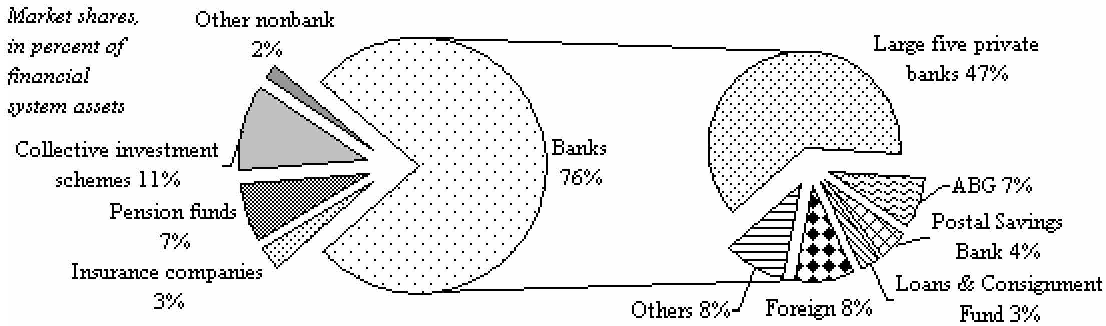
7. **The banking sector is relatively concentrated by European standards**. The top five banks accounted for 65 percent of assets, 67 percent of loans, and 65 percent of deposits in 2004 (Table 2). This concentration has increased following deregulation, a trend seen throughout Europe. The Herfindahl index shows moderate concentration overall, compared to low concentration across the euro area as a whole (1,069 and 600 in Greece and the euro area respectively).

8. **The Greek banking sector appears to have adequate levels of capital, profitable, and liquidity**. A decline in banking system capital adequacy ratio (CAR) from 2000 to 2002, reflecting a shift in asset composition from zero risk-weighted government bonds to commercial credit, was reversed in the last two years in response to supervisory requirements to increase capital (see Appendix Table 16). The aggregate CAR was 12.8 percent of risk-weighted assets at end-2004, in line with euro area levels (Table 3).[2] Bank profitability has

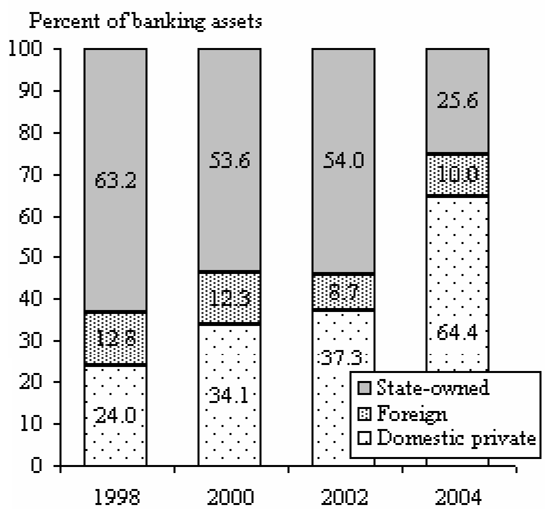
[2] Reported CARs do not take into consideration unfunded pension liabilities. As described in paragraph 47, resolution of this issue remains under discussion with the authorities.

Figure 2. Greece: Characteristics of the Financial Sector

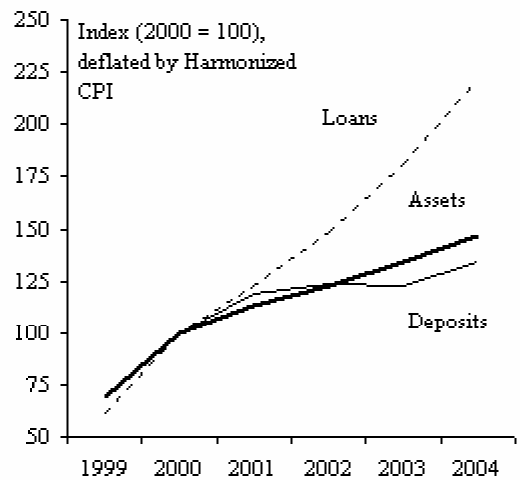
The greek financial sector—with assets of approximately 170 percent of GDP—is dominated by banks, and five large banking groups in particular.



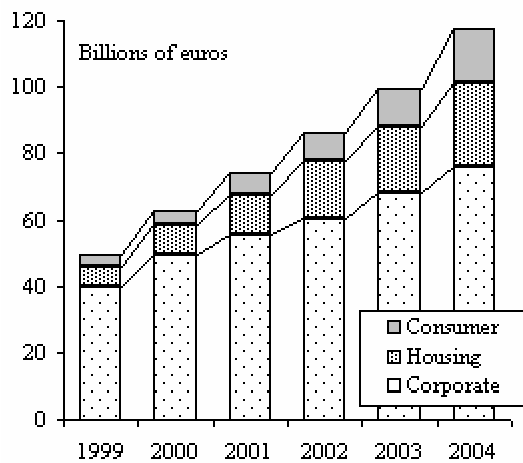
Privatizations have reduced the role of the state, and foreign banks have a limited presence.



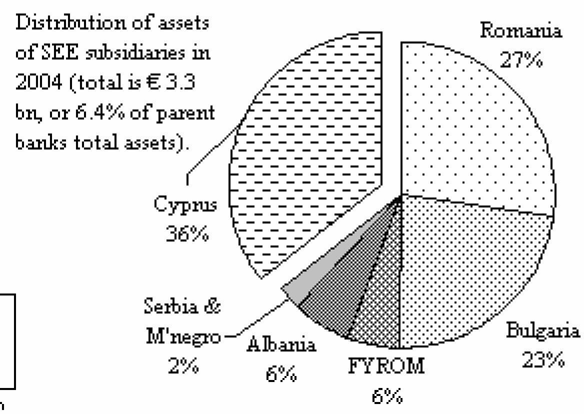
Bank assets—and particularly lending—have grown more rapidly than deposits...



...with the composition of lending is shifting towards the consumer.



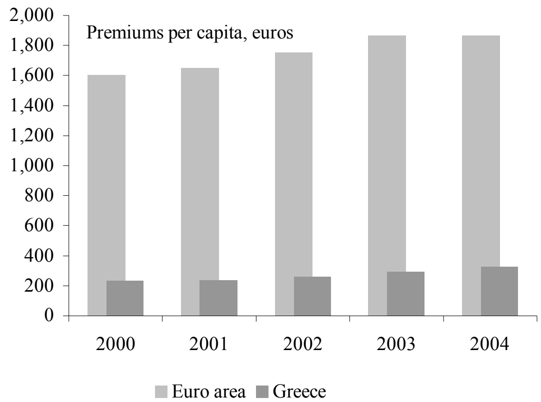
The large banks have also developed a small but significant presence in SE Europe.



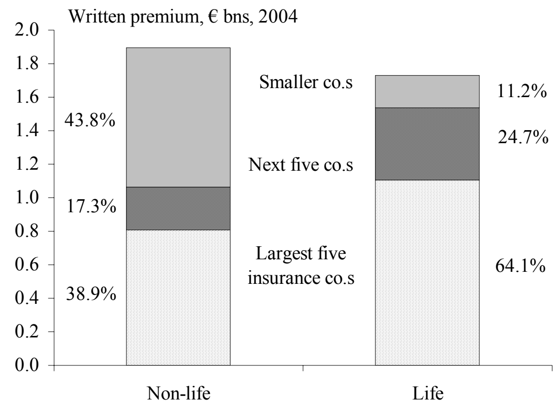
Source: Bank of Greece.

Figure 2. Greece: Characteristics of the Financial Sector (continued)

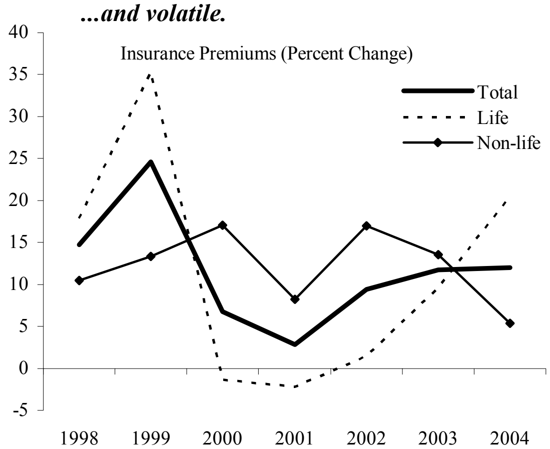
The Greek insurance market is small...



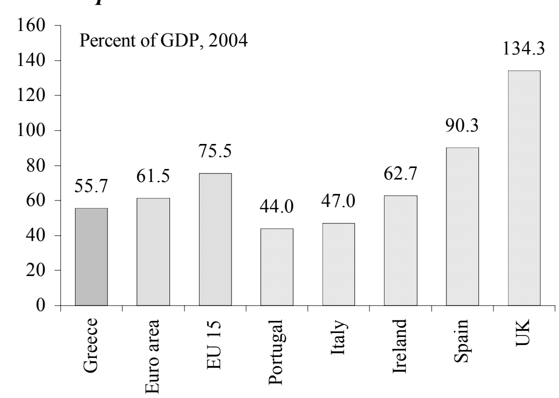
...concentrated...



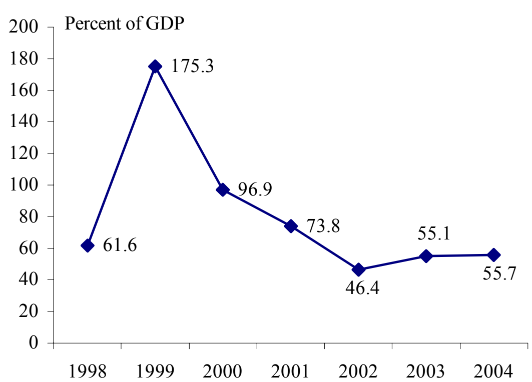
...and volatile.



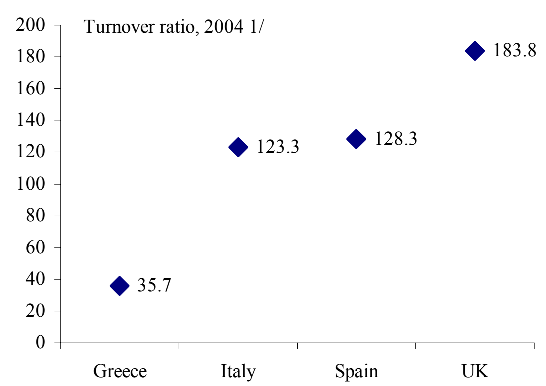
Stock market capitalization is in line with other European countries...



...but has suffered an acute boom-bust cycle...



...and the market is quite illiquid.



Sources: Bank of Greece; Association of Greek Insurance Companies; Hellenic Capital Market Commission; and the IMF Global Financial Stability Report.

1/ Value of shares traded to market capitalization.

Table 2. Market Share of Five Largest Banks

(In percent of total assets)

	1998	2000	2002	2003
Greece	63	65	67	67
Euroarea	47	51	53	53
EU 15	48	51	52	53
Ireland	40	41	46	44
Portugal	45	59	60	63
Spain	35	46	44	44

Source: European Central Bank.

1/ National Bank of Greece (NBG), Alpha, EFG Eurobank, Emporiki, and Piraeus.

Table 3. Key Indicators for Selected Banks, 2004 1/

	Large Private Banks 2/	Other Banks 3/	All Banks	Euro Area 4/
Risk-weighted CAR (solo)	13.7	11.7	13.5	...
Risk-weighted CAR (consolidated)	13.0	11.2	12.8	11.9
Net interest income/gross income	74.7	68.9	74.9	53.5
Net interest income/assets plus provisions	2.7	2.9	2.7	1.3
Post-tax return on average assets	0.7	-0.7	0.5	0.3
Post-tax return on average equity 5/	10.4	-7.6	7.5	7.9
NPL ratio	5.3	5.9	7.0	3.4
Coverage ratio 6/	59.8	53.0	51.1	...
Noninterest expense/net interest income	76.7	127.0	82.6	...
Staff costs/noninterest expense	59.2	51.7	59.1	57.6
Costs/average assets 7/	4.9	7.0	5.0	...

Sources: Bank of Greece; European Central Bank; and published financial statements.

1/ On a solo basis.
2/ NBG, Alpha, EFG Eurobank, Emporiki, and Piraeus.
3/ Excluding Agricultural Bank of Greece (ABG).
4/ Data are for 2003.
5/ These averages include losses recorded by two banks (reflecting charges against an unfunded pension deficit and additional provisioning following acquisition.
6/ Percent of NPLs covered by provisions.
7/ Costs comprise interest expense, administrative expenses, and provisioning for loan losses.

been sustained by rapid growth in lending, with return on assets (ROA) and return on equity (ROE) estimated at 0.5 percent and 7.5 percent, respectively, in 2004, compared with 0.3 percent and 7.9 percent in the euro area.[3] Bank liquidity declined from very high levels in the late 1990s to 17 percent of total assets in 2004, somewhat below EU averages.

9. **While the Greek banking system is financially sound, it faces a number of challenges**. The most important include (i) managing credit risks; (ii) managing competitive pressures; (iii) diversifying funding sources; (iv) limiting state influence on the banking system; and (v) strengthening risk management. While these challenges do not appear to present an immediate threat (as described in the stress testing section below), they merit close monitoring.

Credit risk

10. **Since 2000, bank credit has expanded rapidly, albeit from a low base**. Total credit grew at an average annual pace of 19 percent during 2000–04, with lending to households averaging 34 percent (Table 4).

Table 4. Greece: Commercial Bank Credit to Nonfinancial Firms and Households, 2004

			Households		
	Total	Enterprises	Total	Housing	Consumer Credit
Credit outstanding, billions euros	117.4	76.1	41.2	25.4	15.8
Share in total lending, percent	100.0	64.9	35.1	21.7	13.5
Percent of GDP	71.0	46.1	24.9	15.4	9.6
Percent change					
2000	27.8	25.0	39.2	34.2	49.5
2001	17.8	11.5	41.5	40.8	42.6
2002	16.4	8.7	38.9	43.7	30.1
2003	15.5	13.0	21.2	15.9	32.0
2004	17.8	12.2	29.9	25.3	38.1
Average (2000–04)	19.1	14.1	34.1	32.0	38.5

Source: Bank of Greece.

11. **Bank clients are changing and credit risk may be underestimated**. Financial sector liberalization opened the consumer credit market to both households and SMEs. These newer clients do not have significant credit histories or experience managing economic

[3] These averages include losses recorded by two banks (reflecting charges against an unfunded pension deficit and additional provisioning following acquisition).

slowdowns. Moreover, current bank management has little experience managing either sharp interest rate hikes or an economic downturn. As a result, loan pricing and risk management techniques may not accurately capture the risks presented by these clients. Credit risk management may be marginally limited by the fact that borrowers are able to remove their name from the credit bureau's records, although a mention of the removal remains.

12. **The large commercial banks have expanded into new jurisdictions, diversifying income sources but generating additional risks**. Expansion into the relatively underbanked regions of Southeast Europe is a new source of profits, and the immediate risks are probably small and manageable (Table 5).[4] However, risks may increase over the medium term as lending expands beyond traditional Greek corporate enterprises to local firms and individuals, for whom estimating credit worthiness is more uncertain. In addition, management and risk monitoring capabilities of the banks are being stretched, as some open 10–15 new branches a year in the region, and complex cross-border decision-making structures are adopted. Finally, BoG inspectors find that risk management capabilities in the subsidiaries may be insufficient.

Table 5. Assets and Own Funds of Subsidiaries and Branches of the Large Greek Banking Groups in Southeastern Europe, 2004 1/

	Assets		Own Funds as a Percentage of Group Own Funds	Profits as a Percentage of Group Profits
	Millions of Euros	Percentage of Group Assets		
Romania	2,574.1	1.8	2.1	3.0
Bulgaria	2,153.3	1.5	1.8	3.3
Former Yugoslav Republic of Macedonia	527.4	0.4	0.6	0.1
Albania	578.5	0.4	0.3	0.4
Serbia Montenegro	232.7	0.2	0.5	-0.5
Total	**6,066.0**	**4.1**	**5.3**	**6.4**
Cyprus	3,347.8	2.3	2.1	0.9
Total	**9,413.8**	**6.4**	**7.4**	**7.3**

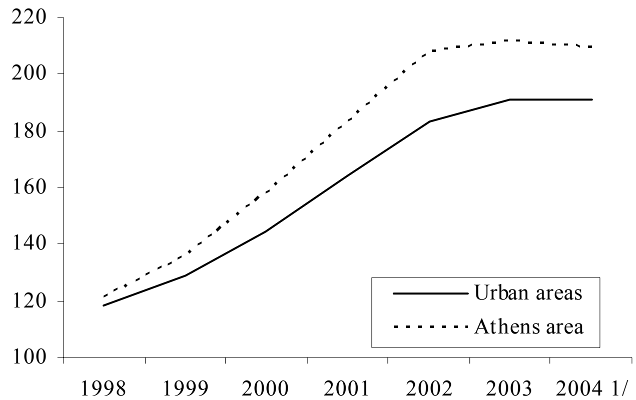
Source: Bank of Greece.

1/ NBG, Alpha, EFG Eurobank, Emporiki, and Piraeus.

13. **The credit boom does not appear to be related to a housing price bubble.** While the housing market has been dynamic, price increases have stabilized since 2002 (Figure 3). The share of mortgage lending to total assets in the banking system averages 25 percent (see Table 4). The preponderance of floating rate mortgages could expose banks to increased

[4] In 2004, 6.4 percent of bank profits were generated in Southeastern Europe, while 4.4 percent of group own funds were invested in the region.

Figure 3. Real Estate Price Index



Source: Bank of Greece.

1/ June 2004.

credit risk, but bank supervisors are monitoring households' debt servicing capacity, and banks report that they continue to lend on the basis of conservative loan-to-value and debt-service-to-income ratios. The banks' ownership of real estate is small.

14. **Lending to related parties represents an important portion of bank capital, while foreign currency denominated lending is less significant** (Table 6). The exposure to related parties largely reflects lending by the parent to financial subsidiaries in Southeastern Europe where risks are probably small and manageable. Lending to Board Directors represented only 4.7 percent of own funds in September 2004. Foreign currency lending to domestic residents has declined substantially, and the remaining exposure is largely to the shipping industry, where revenues as well as debt are denominated in dollars. This industry is a traditional client of the Greek banking sector, and the banks specializing in this lending have developed expertise over many shipping cycles.

15. **Monitoring these risks is particularly important as bank portfolios are already showing signs of strain**. After falling steadily for four years in response to rapid credit growth, favorable economic conditions, and improved risk management, the NPL ratio stabilized at 7.0 percent in 2004, significantly higher than the 4.0 percent average in the euro area (Table 7). This high level of NPLs is a concern, given the rapid economic growth during the period. NPL coverage with provisions is about 51 percent, rising to 60 percent for the large private banks.

Competitive pressures

16. **The Greek banking system is operating in an increasingly competitive environment**. The adoption of the single currency, lowering of competitive barriers, and harmonization of the prudential framework with EU directives, has increased financing

Table 6. Exposures to Selected Asset Classes

(In percent of own funds)

	Large Exposures 1/	Related Parties	Public Enterprises	Foreign Currency 2/
1999	131.1	...	21.5	...
2000	148.5	...	23.3	81.1
2001	155.4	70.5	22.7	66.1
2002	154.1	118.8	...	65.4
2003	190.8	143.7	...	54.8
2004	123.7	120.8	...	45.0

Source: Bank of Greece.

1/ Exposures greater than 10 percent of own funds, on a solo basis.
2/ Domestic bank claims on domestic residents.

Table 7. Nonperforming Loans of the Greek Commercial Banks

	2000	2001	2002	2003	2004
NPL ratio 1/ 2/	9.9	8.2	7.3	7.0	7.0
Corporate	9.8	8.5	7.3	7.4	7.8
Housing	11.0	6.6	6.9	4.8	4.6
Consumer	8.6	8.3	8.5	8.0	7.2
Excluding ABG	7.2	5.6	5.5	5.1	5.4
Corporate	7.2	5.5	5.2	4.9	5.5
NPLs net of provisions					
as a percent of own funds	...	...	...	27.0	26.6
Excluding ABG	...	...	...	16.1	16.4

Source: Bank of Greece.

1/ Nonperforming and doubtful loans, gross of provisions, as a percent of total loans and advances.
2/ Coverage is of the full outstanding value of all loans with payments past due by three months or more, without taking into account collateral.

alternatives for major Greek borrowers. In addition, foreign financial firms are well placed to provide attractive asset management services to Greek depositors.

17. **Greek banks face challenges competing in this environment**. Legal limitations, as well as institutional factors including strong unions, hinder banks' ability to adjust staffing levels, despite efforts to introduce more flexible labor practices. Staff and operating costs as a percent of assets have been higher than EU averages, and the level of loans per employee is lower than in EU counterparts (Table 8). Lending rates are kept high relative to European

Table 8. Operational Efficiency of Credit Institutions, 2003

	Greece						
	2003	2004	Euro Area	EU 15	Ireland	Portugal	Spain
No. of employees							
per 100,000 inhabitants	554	541	710	725	901	516	597
Assets per branch (€ mns)	64.6	67.6	112.7	140.6	622.5	64.1	37.9
Cost to income ratio (percent)	60.8	61.9	64.5	60.4	...	...	...
Staff costs (percent of assets)	1.3	1.3	0.9	0.9	...	...	...
Assets per employee (€ mns)	3.5	3.9	8.6	9.4	16.1	6.5	6.2
Loans per employee (€ mns)	1.8	2.2	3.9	4.1	5.8	3.4	3.6

Sources: European Central Bank; and Bank of Greece.

competitors by (i) a restriction on the fees and commissions that can be charged for arranging loans, resulting in banks covering fixed administrative costs through the interest rate; and (ii) a 60 basis point annual charge on the outstanding amount on any credit facility, except interbank loans and some other minor exemptions.[5]

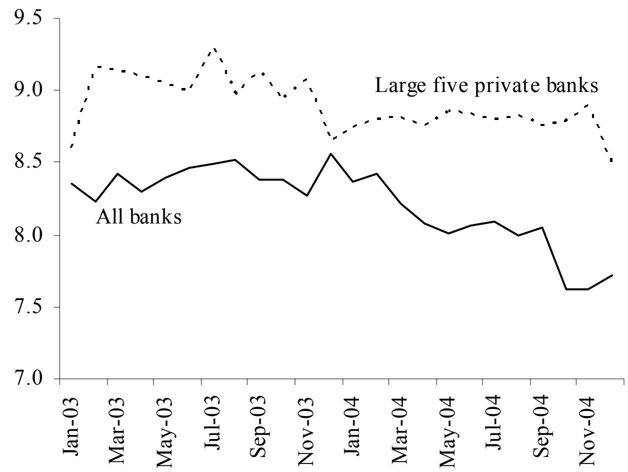
18. **Banks are profiting from high intermediation spreads, particularly in retail business**. Net interest income was equivalent to 2.7 percent of assets in 2004, compared to 1.3 percent in the euro area in 2003, and represented 75 percent of gross income compared to 53 percent (see Table 3). This reflects the high interest rate spreads that are still available in growing retail markets, particularly in lending to households (Figure 4). While spreads will remain higher than in the euro area, partly for the reasons mentioned above, interest rates are expected to fall as the market matures and credit growth slows.

Risks from diversification of funding

19. **Lending growth and the lengthening duration of assets have led banks to seek new funding sources in the capital markets**. Overall, bank credit is growing more rapidly than deposits (Figure 5), and the maturity of bank loan portfolios is lengthening as mortgage lending increases. To raise new funds and mitigate potential duration mismatches, banks are issuing bonds, medium-term notes, and structured products, as well as securitizing receivables (Table 9). However, these new funding sources are relatively costly given the small size and low credit ratings of Greek issues. Smaller banks may have particular difficulties in obtaining such funding, while increasing their reliance on short-term sources could generate significant maturity mismatches.

[5] Revenues from this tax are used by the government to subsidize the interest rate on housing loans and loans given for the restitution of damages from natural disasters.

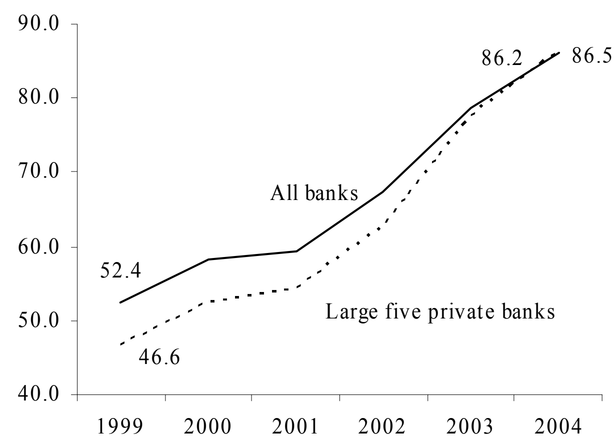
Figure 4. Interest Rate Spreads 1/



Source: Bank of Greece.

1/ Difference in simple averages of bank rates on outstanding balances of consumer loans with initial maturity up to one year and savings deposits.

Figure 5. Commercial Bank Loan to Deposit Ratio



Source: Bank of Greece.

Table 9. Issuance of Capital Market Instruments by Large Private Banks 1/

(In millions of euros)

	2001	2002	2003	2004	2005 2/
Hybrid tier 1	0	300	350	690	1,030
Subordinated debt	100	1,275	380	1,350	668
Medium-term notes 3/ 4/	0	1,000	0	17,500	8,500
Securitization	0	0	250	750	1,500

Source: Bank of Greece.

1/ NBG, Alpha, EFG Eurobank, Emporiki, and Piraeus.
2/ Accumulated to mid-June.
3/ Approximate.
4/ Includes senior and subordinated debt tranches. As a result, some double counting with subordinated debt is possible.

20. **In response, banks are turning to securitization (see Table 9)**. Although issuance has been relatively limited so far, several additional securitizations are planned for the next two years. Mortgage-backed issues have been the most commonly used, although credit card and car loan receivables have also been securitized. The minimum issuance for securitization to be cost effective may limit the scope of small banks to use these instruments; alternatively they might choose to develop mechanisms to pool receivables and issue jointly.

State ownership of banks

21. **Despite a significant privatization program, the government retains important influence in the banking sector**. The presence of state-owned institutions fell from 63.2 percent of total assets at the end of 1998 to 25.6 percent in 2004. Majority government control now remains in ABG (8.3 percent of banking system assets), the Postal Savings Bank (4.6 percent), and the Loans and Consignments Fund (3.6 percent).[6] The state also retains influence in NBG and Emporiki (about 30 percent of system assets) through minority shareholdings of state pension funds. Currently, the government does not appear to influence financial decisions of the banks. Nevertheless, in 2004, the new government used this influence to change bank management in ABG, NBG, and Emporiki. Such practices could raise uncertainties in the market about the role of these institutions during adverse economic periods.

22. **The transition of the Postal Savings Bank from a specialized to a universal bank raises issues**. The Postal Savings Bank does not offer a full range of services, but has applied for a full banking license. The BoG will require that the bank comply with all prudential requirements and have adequate risk management capabilities, but staff capacity may lag.

[6] The state also has ownership in three small specialized development banks, representing 4.7 percent of system assets.

Moreover, the bank's full deposit guarantee will be rescinded but the public may still perceive their deposits as being fully guaranteed.

Risk management framework

23. **The internal risk management systems used by the banks to evaluate and manage risks, while improving, remain limited**. Independent risk management departments are relatively new and generally are not integrated into the banks' decision-making processes (for example, risk-based capital allocation is not widely applied). Second, credit risk models are still new or being developed, and, given the lack of historical data over a full credit cycle, the probability of default (PD) estimates may be biased downwards.

24. **Effective risk management is constrained by financial reporting standards**. While the introduction of IFRS will improve disclosure, only listed companies and banks (about 30 percent of all companies) will report according to IFRS. Unlisted institutions will continue to report according to Greek Generally Accepted Accounting Principles (GAAP), limiting overall transparency.

25. **The legal framework for financial activities is considered adequate and largely uncorrupt but slow**.[7] The banking system can enforce contracts, and take possession of, and realize, collateral. Market participants consider the court system to be fair, without bias against the banks. However, commercial laws are reported to be prodebtor and the legal system to operate slowly. Seizure of collateral averages four years, compared with only half the time on average in the EU. In addition, creditors are only eligible for compensation after all claims have been met, increasing the cost of loan enforcement.

Stress tests

26. **Stress tests found that the Greek banks' ability to withstand risks is good, with credit, equity, and interest rate risks having the largest impact on capital (Box 1).** The largest adverse effect was found for a domestic macroeconomic shock (modelled as a sharp decline in consumption and investment, leading to GDP growth of zero during a one-year period), which resulted in a 9.9 percent decline in regulatory capital. Aggregate CAR remains well above the regulatory minimum in this scenario, with only one small bank falling below the minimum capital requirement, largely because of its relatively high initial NPL ratio.[8] Market risk stress tests highlighted the importance of interest rate and equity price risk, but again, only one bank fell below minimum capital requirements as a result of the shocks. Although the impact was small, the interest rate shock stemmed mostly from positions on the banking book, suggesting that interest rate risk may not be being managed optimally. Banks maintain structural long positions in interest rate risk, with unhedged exposures concentrated

[7] For more details, see the Basel Core Principles Assessment.

[8] Since completion of the stress tests, the bank increased its capital ratios.

Box 1. Stress Test Methodology and Results

Stress tests were performed to assess the sensitivity of the banking system to exceptional but plausible shocks. The sample of institutions included the five largest and two medium-sized commercial banks, representing 74 percent of commercial banking sector assets (excluding specialized institutions). In addition, ABG was subjected to all shocks except to credit risk stress tests. The tests were undertaken by the bank supervision department of the BoG with information provided by the banks, using methodologies agreed in consultation with IMF staff. Results were reported in consolidated form.

	Capital Adequacy Ratio (In Percent)		
	Average	Maximum	Minimum
CAR before shock	12.81		
Credit risk	11.69	13.40	6.07
Interest rate (+200bp)	12.05	14.60	6.87
Interest rate (curve steepening)	12.15	14.97	7.27
Equity (-30 percent–50 percent)	11.82	14.62	6.91
Exchange rate (-30 percent)	12.51	14.89	7.00

To measure credit risk, two macro scenarios were specified: (i) a two year economic slowdown with zero growth in the second year, resulting from exogenous shocks; and (ii) an external crisis scenario, where the euro area nominal interest rate reaches 5 percent during a two-year period. The initial results suggested that the first scenario—more extreme than historical experience—had a larger impact, generating a 36 percent deterioration in NPLs. However, given the structural breaks in the data due to the changing definitions of NPLs, the rapid development of the credit markets and the results from an IMF study of the relationship between NPLs and the economic cycle in other countries, it was decided to assume a much stronger deterioration in NPLs of 60 percent.[1] A one to one relation was assumed between deterioration in NPLs and PDs, so that PDs were also increased by 60 percent. The results indicate that the shock caused one of the banks to fall below the minimum CAR. This is a small bank which recapitalized after this exercise was completed. Risks from exposure to Southeastern Europe and to specific sectors (e.g., textiles, construction, and shipping) were also examined, but were not found to be significant (e.g., doubling the NPLs of subsidiaries in Southeastern Europe had an impact of only 1.1 percent of regulatory capital).

Market risk was also assessed using shocks larger than recent historical experience. Interest rate risks were tested by measuring the impact of parallel shifts, steepening, and flattening, of the yield curve, with the 200 basis point parallel shift having the largest impact (a 5.9 percent reduction in the banks' CAR). Equity risk was tested by a simultaneous fall in equity prices of 30 percent for mature markets and of 50 percent for emerging markets, leading to a 7.7 percent fall in CAR (76 percent of this impact was concentrated in the banking book).[2] Exposure to Greek sovereign bonds was also tested (by increasing the spread over Bunds by 50 bp), but only resulted in a 2 percent reduction in CAR, reflecting declines in the banks' position in government bonds. Exposure to a widening of corporate bond spreads was found to be minimal. Finally, exchange rate risk was found to have on average only a relatively small impact.

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[1] Financial Soundness Indicators—Background Paper, May 14, 2003.

[2] The table shows results below the 8 percent minimum for market risk. Such results were for one small institution in our sample and the tests were severe, as they applied to both the trading and investment portfolio

at the long end of the curve. Use of derivatives is growing, but is still low given the size and complexity of the banking books. The relative impact of equity risk is due to the significant size of strategic equity participations held by the Greek banks.

27. **The BoG revised the supervisory regime for bank liquidity, establishing mandatory liquid assets and mismatch ratios**.[9] In order to test banks' liquidity positions, the ratios were calculated based on end-2004 data (before the new ratios became binding). The results raised concerns about the ability of some of the larger banks to meet the ratios. The affected banks subsequently made appropriate adjustments, and the liquidity ratios become mandatory in July 2005.

28. **Interbank contagion channels appear limited**. Gross interbank exposures are estimated at only 1.2 percent of the banking system's assets, and are with high quality counterparties concentrated among the largest Greek banks and in the euro area.

B. Insurance Sector

29. **The insurance sector is small, with less than 4 percent of financial sector assets**. While the sector experienced strong growth in 2003 and 2004, Greece remains relatively underinsured, with premiums per capita under € 300 compared with the EU average of € 2,100. Market penetration is low, with gross domestic premium income equal to 2.2 percent of GDP in 2004, compared with 9 percent in the EU (Figure 6). Despite fragmentation—the sector was composed of 97 companies at end-2004—most are very small and premium generation is concentrated in the five largest firms.

30. **Industry profitability has been poor and volatile, reflecting intense competition and poor supervision (Table 10)**. Inadequate supervision and enforcement of regulations has allowed aggressive competitors to underprice the market by failing to constitute adequate technical reserves, often resulting in failures. The industry reported losses in 2002, stemming mainly from the third-party motor insurance business, where competition has been most acute, and failures concentrated. Risk and asset-liability management techniques are not used on a widespread basis.

31. **The insurance sector is relatively inefficient**. The small size of the market has slowed the development of a well-trained labor force, impedes firms from reaping scale efficiencies, and limits profitability. Premium generation per employee is well below European averages (Table 11).

32. **Bancassurance accounts for only a small portion of premium generation, but is profitable and growing rapidly**. Seven commercial banks—including the five largest—have an active presence in the insurance market, either through subsidiaries or strategic alliances with international insurance companies. The sector represents an attractive opportunity for banks to diversify income and risk. However, failure to establish effective

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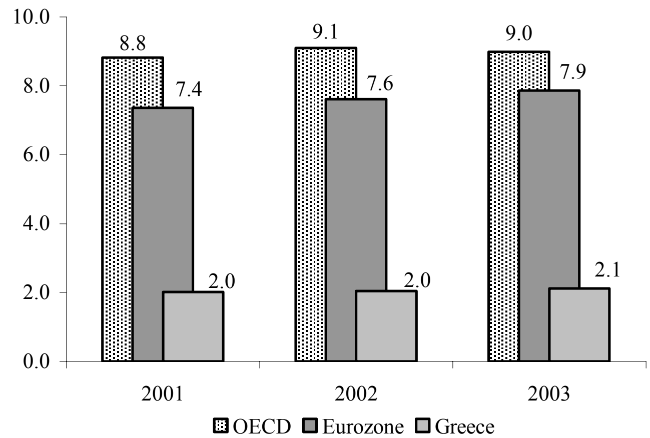
[9] BoG Governor's Act 2560/1.4.2005.

Figure 6. Insurance Premiums

(In percent of GDP)



Source: Association of Greek Insurance Companies.

Table 10. Insurance Sector: Selected Indicators

(In billions of euros; unless otherwise stated)

	2002	2003	Growth
Gross written premium	2.9	3.2	11.7
Life	1.3	1.4	9.5
Nonlife	1.6	1.8	13.5
Retention ratio (percent)	83.8	84.0	...
Assets	8.4	9.6	14.3
Equity	1.2	1.5	33.1
Capital/assets (percent)	13.8	16.1	
Reserves	5.6	6.2	10.6
Life	3.6	3.9	9.1
Nonlife	2.0	2.2	13.2
Pretax profit (mns euros)	-202.0	104.5	...
ROE (percent)	-16.6	7.8	...

Source: Association of Greek Insurance Companies.

Table 11. Direct Gross Premium per Employee

(In millions of euros)

	2000	2001	2002	2003
Greece	0.27	0.28	0.30	0.34
EU 15	0.88	1.00	...	...
Organization for Economic Cooperation and Development	0.80	0.91	...	...
Ireland	1.38	1.37	...	...
Portugal	0.60	...	...	...
Spain	0.96	0.98	...	...

Sources: Association of Greek Insurance Companies; and the Organization for Economic Cooperation and Development.

supervision in a timely manner could allow for more insurance company failures through under-reserving, may generate scope for regulatory arbitrage, and could limit the long-term potential of the market.

C. Capital Markets

33. **The market capitalization of the Greek stock exchange is in line with European counterparts but the level of turnover is significantly lower**. Market capitalization of the ASE is equivalent to 56 percent of GDP in 2004, similar to European stock exchange averages (Table 12). While recovering from sharp declines in 2001 and 2002, the liquidity in the market remains low (Figure 7). For 2004, the turnover ratio was 36 compared with 123 in Milan, 128 in Madrid, and 184 in London.[10] Moreover, stock trading is highly concentrated: of the 360 listed securities, the 4 most actively traded accounted for an average of 46.6 percent of turnover by value in 2004.

34. **The Greek capital market has a limited range of products**. The core product is the ordinary share and, at present, there are no convertible or preference shares in any volume. More importantly, there are few corporate bond issues and almost no secondary market transactions. As a result, the stock market does not provide instruments for the development of asset management and pension funds. The mutual fund industry is relatively small, and is dominated by the banks. About half of the industry's assets are in money market funds, invested principally in government bonds. (Table 13).

[10] The turnover ratio is defined as the value of trading in shares as a percent of market capitalization. Data is from HCMC annual reports.

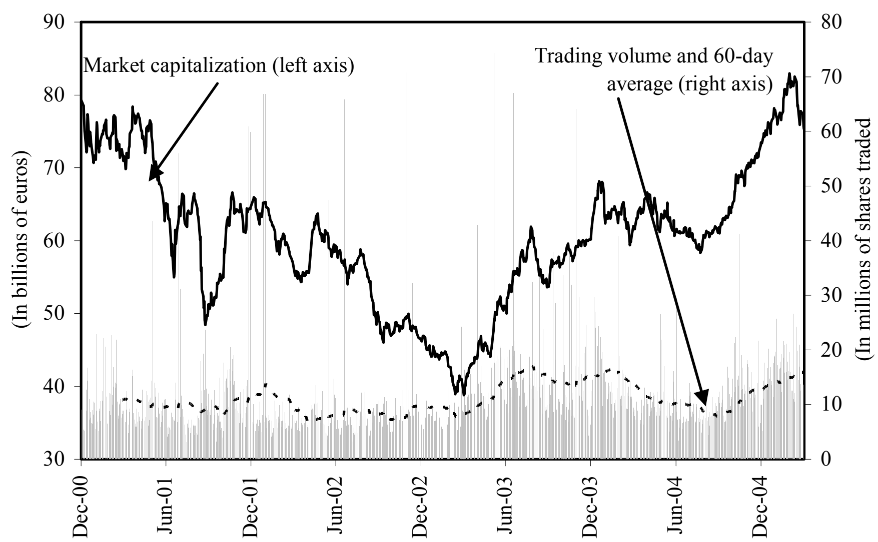
Table 12. Size of the Capital Markets

(In percent of GDP, 2004)

	Greece	Euro Area	EU 15	Ireland	Portugal	Spain
Stock market capitalization	55.7	61.5	75.5	62.7	44.0	90.3
Debt securities	159.1	165.6	157.0	133.2	165.2	139.5
Public	141.7	65.7	59.2	24.5	75.2	48.5
Private	17.4	99.9	97.8	108.6	90.0	91.0

Source: IMF Global Financial Stability Report (September 2005).

Figure 7. Market Capitalization and Trading Volume of the Athens Stock Exchange



Source: Bloomberg.

35. **In line with wider European trends, the corporate bond market is small, but growing**. The total outstanding value of long-term securities issued by nonfinancial firms jumped more than fourfold in 2000, albeit from a very low base, and, by almost 60 percent between 2002 and 2004 (Table 14). However, only five bonds were listed on the ASE in 2004, reflecting increasing use of European markets. Short-term securities issuance is insignificant.

Table 13. Bank Deposits and Market Funds

(In billions of euros; unless otherwise stated)

	Bank deposits	Mutual funds					Ratio of Funds to Deposits (In Percent)
		Total	Money Market	Bonds	Equity	Mixed	
2000	90.7	30.9	15.3	4.7	7.9	2.9	34.0
2001	101.8	26.8	9.7	5.6	5.5	6.1	26.3
2002	104.8	25.4	10.7	5.1	3.7	5.8	24.2
2003	115.8	30.4	15.8	6.5	4.9	3.2	26.3
2004	128.4	31.6	15.4	7.6	5.2	3.4	24.6

Sources: Bank of Greece; and Hellenic Capital Markets Commission.

Table 14. Debt Securities of Nonfinancial Firms

	In Millions of Euros			Percent of Total Debt
	Long-Term	Short-Term	Total	
1999	1,059	42	1,101	2.4
2000	4,821	17	4,838	8.4
2001	4,996	16	5,012	7.4
2002	4,974	24	4,998	6.9
2003	5,862	27	5,889	7.3
2004	7,804	34	7,838	8.9

Source: Bank of Greece.

36. **The stock market has a limited role mobilizing resources**. An average of only € 1.2 billion was raised during 2001–2003, falling from this already low level to € 680 million in 2004. Derivative markets are also limited. Trading volumes in futures and options (traded on the Athens Exchange Derivatives Market) are low. While banks use interest rate swaps and currency futures to hedge exposures, they are not active in credit derivatives markets. Greek insurance companies are not active in derivatives markets.

37. **The future role of capital markets may be constrained by limited financial disclosure**. Approximately 70 percent of Greek companies are not listed on the ASE and, therefore, are not required to report under IFRS. As a result, balance sheets are not comparable between companies using IFRS and those not using it. While the authorities do not believe that the uneven introduction of IFRS will create incentives for companies to delist or remain unlisted, the consequences of leaving some companies reporting under Greek GAAP should be monitored.

D. Pension Funds

38. **The Greek pension system is mostly made up of defined benefit schemes, funded on a pay-as-you-go basis**. There are 95 funds, comprising 26 primary and 69 auxiliary funds, offered by industry groups.[11] Securities investments are largely in Greek government bonds, a significant proportion of which are managed by the BoG on behalf of the pension funds. The pension system is fragmented both across sectors of employment and by type of protection. Funds provide coverage for retirement, disability, life insurance, and health care. Total expenditure by the pension system is estimated at the equivalent of 12 percent of GDP.

39. **No single body is responsible for the regulation and supervision of pension funds, or for oversight of pension fund investments**. Since 2003, pension funds operate as partially self-governed nonprofit legal entities, separate from the sponsoring entity. Supervision is exercised by the ministry of employment and social protection. While the funds have only limited resources, they can freely invest one quarter of funds received and, currently. There is no oversight of such investments. Reporting requirements for pension funds are minimal and cover some statistical reports only. The BoG committee overseeing pension fund investments has been inactive since 2004. The lack of a comprehensive pension fund supervision and regulation poses an important risk for the pension system. This risk will grow as private pension funds (second pillar funds) are introduced and expand.

E. Market Infrastructure

Markets and systemic liquidity

40. **The Greek banks use euro area interbank, repo, and foreign exchange markets for liquidity management**. Access to these markets has improved the depth and liquidity of funding instruments and largely eliminated currency risks. Net placements by Greek banks in the European interbank markets represent almost 70 percent of total interbank placements of the Greek banking system.

41. **The BoG provides liquidity to the banking system with instruments and rules defined in the operational framework of the European System of Central Banks (ESCB)**. Banks participate in the standard open market operations auctions of the euro system, and can access overnight liquidity at their discretion through standing facilities, such as the marginal rate facility, on acceptable collateral. The only Greek securities currently eligible as collateral are Greek government bonds (the BoG has yet to define any securities eligible as Tier II collateral, citing both the lack of adequate supply of such securities and lack of demand from the banks).

42. **The role of domestic securities markets in providing bank liquidity is limited but increasing**. The BoG manages a liquid market for government bonds, but the secondary market for Greek corporate bonds is small and illiquid. Beginning in 2002, corporations

[11] Primary funds typically provide between 60–80 percent replacement and the auxiliary funds an additional 20 percent replacement.

began issuing bonds purchased by banks rather than borrowing directly for tax purposes. These bonds, however, are held to maturity and are not traded actively. In 2003, a law was approved facilitating the issuance of corporate bonds but issuance of complex instruments, such as convertible bonds, remains restricted.[12] Banks have begun to use securitization to mobilize resources and reduce maturity mismatches, but activity to date has been limited.

Payments and securities settlement systems

43. **The payment system in Greece is fully integrated into the EU-wide system**. The Greek system, HERMES, is a real-time gross settlement system, connected to TARGET that handles large value and cross-border transactions. The Athens Clearing Office (ACO) handles retail and large value paper checks. An additional payment system—DIAS—is owned and operated by a consortium of banks and handles electronic retail transactions (e.g., automated teller machines and debit cards) (Table 15).

Table 15. Payment and Settlement Systems Ratio of Transactions Value to GDP

	1999	2000	2001	2002	2003	2004
TARGET systems						
Greece (HERMES) 1/	2.9	32.4	18.4	19.0	21.8	22.4
Ireland (IRIS)	40.0	37.0	39.6	38.1	...	...
Portugal (SPGT)	21.5	19.8	17.9	18.0	...	...
Spain (SLBE)	55.5	56.5	81.7	91.4	...	...
Other Greek payment systems						
ACO 2/	6.6	2.0	1.5	1.3	1.2	1.1
DIAS	0.3	0.4	0.5	0.5	0.5	0.6
Greek securities settlement systems						
BOGS (Government debt exchange)	4.4	8.8	13.4	20.8	25.8	...
ASE-Central Securities Depository S.A. (CSD) (Stock exchange)	1.4	0.8	0.3	0.2	0.2	0.2

Sources: Bank of Greece; Athens Stock Exchange; and the European Central Bank Blue Book.

1/ Includes transactions on EURO HERMES (integrated into HERMES in 2001) in 1999 and 2000.
2/ The ACO ceased to clear credit transfers in 2000.

44. **The lack of clear rules in case a member fails to settle on the ACO represents a potential vulnerability**. The authorities indicated that nonsettling members would not necessarily be excluded from the system on the next day. Rather, the BoG maintains full discretion on the treatment of such members. This policy creates uncertainty among market

[12] Limitations include, for example, the requirement for shareholder approval before issuing such bonds.

participants about whether or under what conditions they would qualify for emergency credit from the BoG. Clear rules and qualifications should be established to eliminate this uncertainty.

45. **Securities transactions are cleared and settled through the CSD of the ASE**. Analogous functions for derivatives are undertaken by the Athens Derivatives Clearing House. The systems for trading, clearance and settlement, and registration of title are fully dematerialized. Risks in the securities settlement system are partially constrained by the Athens Exchange Members' Fund (AEMF). All investment securities firms must join the AEMF, which will compensate ASE members in the face of counterparty default. An auxiliary fund is available to cover settlement risk for brokers.

Accounting framework

46. **Effective 2005, Greece adopted IFRS but implementation will be challenging**. Successful uptake of the new standards will require extensive educational efforts. Listed corporations will have to prepare quarterly financial statements according to IFRS beginning in 2005, requiring a number of changes in financial reporting and auditing practice. Many chartered accountants have had limited exposure to the new system and are not yet in a position to provide advice to their audit clients. Moreover, only companies and banks listed in the ASE will report in accordance with IFRS, while unlisted institutions will report according to Greek GAAP; this uneven implementation will limit transparency.

47. **The implementation of IFRS accounting may reduce banks' regulatory capital**. The new rules will require a tightening of loan loss provisioning through a more comprehensive assessment of impaired assets, and the introduction of rules on valuing financial instruments and hedging activities, as well as the recognition of employee benefits including pension liabilities in the balance sheets. The BoG, along with other European supervisors, is in the process of developing prudential filters to allow changes in the calculation of regulatory capital due to the adoption of IFRS to be phased in.

III. Strengths and Challenges of the Stability Framework

A. Regulation and Supervision

48. **Financial sector regulation is uneven**. While bank supervision is strong, weaknesses in insurance supervision and, to a lesser extent, in capital market supervision raise concerns about the uneven regulatory playing field. Although insurance remains a small portion of overall financial sector assets, bancassurance has growth potential, raising the possibility that financial institutions mask excessive risk through regulatory arbitrage. For this reason, implementation and strengthening of the overall regulatory framework is essential.

Banking supervision

49. **The bank supervision framework is generally strong, but could be further enhanced**. Remaining steps include strengthening legal protection against suit for both the BoG itself and its staff; the current law is interpreted as providing some protection, but this is

not explicit and could be contested. Secondly, the overall risk assessment made by the BoG could be expanded to cover noncredit risks more comprehensively, including market risk, liquidity risk, and operational risk. Finally, the BoG should continue to closely monitor evolving market practices, and adapt their risk analyses to reflect innovation. The BoG should monitor new risk management methodologies being adopted in the market.

50. **Collection and publication of economic data could be strengthened.** Publication of banks' financial statements has been delayed, in part reflecting the introduction of IFRS. Steps to address such delays will improve transparency and enhance market discipline. The frequency with which the BoG receives some of the data is received should be reviewed and the analysis of bank risks focused more broadly on total risks facing the banks. Data collection within the BoG could also be more systematic, with differences between supervisory and economics department data harmonized.

Insurance supervision

51. **Supervision of the insurance sector has been constrained by limited supervisory resources**. Supervision consists largely of the off-site assessment of solvency and monitoring compliance with formal licensing criteria rather than a full risk assessment. Limited on-site inspections began only in 2003. The basic frameworks are in place, but need to be strengthened and made more flexible to cope with changing conditions. In addition, while minimum legal requirements are now in place, supervisory guidance on implementation is either absent or inadequate.

52. **The authorities are reforming the supervisory framework**. A new supervisory agency—the ISC—should be operational by early 2006. A chairman has been appointed, and other members of the Board of Directors are being selected. The deputy chairman of the Board will be the president of the Association of Greek Insurance Companies, and the Board will also include representatives of the Consumer Protection Directorate, the Actuarial Association, a representative of the Insurance Brokers Association, as well as representatives of the ministry of finance (MoF) and the ministry of development (MoDV). The ISC will update the regulatory framework. While the ISC is expected to significantly improve on the current supervisory arrangements, the following observations should be noted:

- The new agency will take time to become fully effective. Care should be taken that adequate staffing and resources are provided to ensure the agency is operational as quickly as possible.

- The composition of the Board of the ISC raises concerns about its independence. While the new agency will need to be sensitive to legitimate concerns of the industry, the current composition does not free the agency from political and industry interference.

- The new agency will report to the MoF rather than the MoDV. A clear delineation of responsibilities between the ISC and the MoF is warranted.

Securities regulation

53. **Securities regulation and supervision is considered sound**. The HCMC is responsible for the regulation of investment firms, mutual fund management firms, portfolio investment companies, the ASE, and the securities clearing and settlement systems. The HCMC has adequate powers to monitor market institutions and practice.

54. **Steps could be taken to strengthen the market oversight of the HCMC.** Procedures and programs need to be established for surveillance and compliance with IFRS and international audit standards that came into force in 2005. In addition, a number of recommendations were made to strengthen the supervisory oversight which include:

- Making the HCMC more independent in planning the allocation of its staff and resources within an overall budget.

- Subjecting the appointment of all members of the executive committee (not just the chairman) to some form of public scrutiny.

- Implementing a code of conduct for staff covering general policies and procedures for disclosing and managing conflicts of interest.

B. Safety Nets

55. **The safety net and crisis management system provides a large degree of flexibility**. In dealing with weak banks, the BoG can provide emergency liquidity assistance within the limits of the operational framework of the ESCB, appoint a commissioner, and extend the repayment period of a bank's liabilities or revoke its license, without the legal framework triggering or prescribing a specific course of action. The BoG has not established criteria to guide this decision process, stressing the importance of maintaining flexibility in their policy response. While this approach has the benefit of allowing the BoG to calibrate its response to specific circumstances, it does not include clear internal procedures for activating and applying the safety net.

Emergency liquidity assistance

56. **In addition to the standing facilities, the BoG can provide emergency liquidity assistance to financial institutions within the limits of the operational framework of the ESCB**. The decision to grant emergency liquidity assistance is made by the governor of the BoG, on the recommendation of the Banking and Credit Committee, and within the framework established by the ECB. If the financial institution has insufficient collateral, there is the presumption that the BoG would not provide liquidity. However, the general council of the BoG can authorize use of a broader range of collateral than is used for standard monetary operations—in theory any asset, including loans, could be authorized. The criteria for determining systemic importance have not been made public to limit moral hazard. Disclosure, in general terms, of the procedures the BoG would follow, however, could strengthen the market's understanding of the process.

Crisis management and bank resolution

57. **The BoG stresses the need for flexibility in its management of an emerging crisis**. The Banking and Credit Committee, conformed by the BoG governor, two deputy governors, and six directors of the BoG, regularly discusses banking problems and has the authority to take remedial measures. More recently, a crisis management committee has been appointed.

58. **A clearer view of the key steps to be followed would make the process more efficient**. The memorandum of understanding recently signed by banking supervisors, central banks, and finance ministers of the EU formalizes the commitment to develop national as well as Europe-wide contingency plans for the management of financial crises. For this purpose, the BoG might identify key aspects, including information requirements, critical steps to be followed, contact lists for critical personnel, communication issues, and general principles including the role of public funding.

Deposit insurance

59. **The deposit insurance system (TEK) is founded on EU directives and is generally sound**. However, several aspects of the system raise potential vulnerabilities. Specifically:

- A total of 80 percent of TEK's assets are invested with the participating banks, so a failure of one bank will (i) reduce the available resources for the deposit payout; and (ii) potentially put liquidity pressures on other banks.
- The deposit insurance agency does not know the amounts of the insured deposits by banks; this information is maintained by the bank.
- The deposit insurance fund does not have access to special financing (either from the BoG or from the MoF) in case the fund is exhausted. Rather the agency would be expected to raise funds from banks through extraordinary premiums.

60. **Consideration should be given to improving the efficiency of the TEK.** The TEK would be able to respond more efficiency to bank failure were information on the insured deposits by bank available. Payout of deposits would be faster and less subject to fraud. Similarly, the credibility of the deposit insurance framework would be strengthened by establishing a contingent line of credit for the TEK.

C. Anti-Money Laundering and Combating the Financing of Terrorism Issues

61. **Greece has put in place some essential components for an AML/CFT framework, but further refinements are needed to meet international standards**.[13] While the legal and supervisory arrangements based on the Anti-Money Laundering (AML)

[13] Those standards are reflected in the Financial Action Task Force (FATF) 40+9 Recommendations.

Law (Law 2331/1995) cover the traditional financial sector, there are issues of implementation and coverage. The designated nonfinancial businesses and professions (DNFBPs) are not covered, compliance with the AML/CFT obligations is uneven, and supervisory practices vary. Greece's Financial Intelligence Unit (FIU) does not currently have the structure, powers, and skills required under the FATF standard. Greece has had some successes in prosecuting money laundering, but judicial practice has only recently clarified certain aspects of the offense. The definition of financing of terrorism does not fully meet the international standards.

62. **The overall effectiveness of Greece's AML/CFT regime should be strengthened**. The following key areas for improvement were identified: (i) development of a coordinated institutional framework; (ii) transparency and governance in certain key economic sectors; (iii) enhancing awareness of money laundering and terrorism financing risks in all sectors; (iv) early development and implementation of measures to combat financing of terrorism in the financial sector; (v) implementation of AML/CFT measures in the DNFBP sector; (vi) enhanced supervision for compliance with AML/CFT standards particularly in the insurance and securities sectors; and (vii) general improvement in efficiency in key public sectors, notably the judiciary and law enforcement.

63. **The Greek authorities are taking steps to address some aspects of these weaknesses**. They have drafted legislation to amend the primary AML Law in order to strengthen the existing preventive measures, develop a framework for combating the financing of terrorism, implement AML/CFT policies in the DNFBP sector, and strengthen the role of the FIU.

Observance of Financial Sector Standards and Codes—Summary Assessments

The annex contains summary assessments of international standards and codes relevant for the financial sector. The assessment has helped to identify the extent to which the supervisory and regulatory framework is adequate to address the potential risks in the financial system.

The following detailed assessment of financial sector standards were undertaken: the Basel Core Principles for Effective Banking Supervision (BCP) by Christo Wiese, (former Head of Banking Supervision, Reserve Bank of South Africa) and Peter Phelan (formerly of the Bank of England and the U.K. Financial Services Authority); the International Association of Insurance Supervisors (IAIS) Insurance Core Principles assessed by Michael Hafeman (formerly of Office of the Superintendent of Financial Institutions, Canada); the International Organization of Securities Commissions (IOSCO) Objectives and Principles of Securities Regulation assessed by John Farrel (formerly New Zealand Securities Commission); and the FATF 40 Recommendations for Anti-Money Laundering and eight special recommendations on Combating the Financing of Terrorism by Peter Csonka (team leader, LEG), Manuel Vasquez (MFD), Joy Smallwood, Marlene Manuel, and Yehuda Shaffer (all LEG).

Basel Core Principles for Effective Banking Supervision and Transparency of Banking Supervision

General preconditions for effective banking supervision

64. The legal environment within which the banking system operates in Greece is broadly satisfactory, although enforcing contracts, especially when they involve the realization of collateral, necessitates recourse to the courts, which is time-consuming. There are plans to introduce remedies to speed these processes up, as well as replace the current Companies Law with something that is more up-to-date.

65. The accounting and auditing regime is also in the process of being upgraded, although this will take a number of years. Banks have just started using IFRS, but it is likely to be some five years before these are fully introduced across the whole economy. There are no Greek auditing standards, but it is intended to apply international ones by 2007. In the meantime, Greek banks need to be cautious in their evaluation of the financial information that they receive from their customers.

66. The payment systems of the country are satisfactory and fully linked into the EU system, and the deposit protection scheme is in conformity with the relevant EU directive.

Main findings

67. The assessment of Greece under the Basel Core Principles (BCPs) was conducted by two persons[14] and was based on a self-assessment carried out by the Greek authorities, a review of laws and regulations, and discussions with the banking supervisors, lawyers, and accountants, together with a number of banks.

68. The Greek authorities chose to be assessed against both the essential criteria and the additional criteria of the BCP, which meant that they were assessed against international standards of best practice as is appropriate for an EU member country.

69. The Greek supervisory regime is essentially sound. Greece is fully compliant with 22 criteria, largely compliant with eight (including the overall assessment for BCP 1), and materially noncompliant with one.

70. The assessors received all the help that they needed from everyone that they dealt with, and would like to express their grateful thanks to all.

Objectives, autonomy, powers, and resources (BCP 1)

71. The legal environment for banking supervision has been extensively updated over the past fifteen years and care has been taken to ensure that all the requirements of EU directives have been fully incorporated into Greek Law. Apart from supervision carried out by other EU supervisors under the EU 'passport,' the only banking supervisor in Greece is the Bank of Greece (BoG). The BoG has all the powers that it needs to carry out effective supervision (including authorization and license revocation), is appropriately resourced, has the necessary independence, and can and does cooperate effectively with other supervisors, both at home and abroad. The only problem under this heading is that the BoG and its staff may well not have the necessary legal protection against lawsuits for undertaking their work in good faith and without negligence.

Licensing and structure (BCPs 2–5)

72. The banking laws provide a robust regime under which the activities of banks can be clearly defined, the use of the term 'bank' is reasonably well-controlled, ownership changes of banks can also be controlled, and the BoG can ensure that major investment decisions of banks have to receive its approval. A comprehensive regime for the authorization of banks is also in place.

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[14] Christo Wiese, formerly Head of Banking Supervision, Reserve Bank of South Africa, who has had 15 years experience of banking supervision and Peter Phelan, formerly of the Bank of England and the U.K. Financial Services Authority, who has had over 13 years experience of supervision.

Prudential regulations and requirements (BCPs 6–15)

73. The BoG's capital adequacy regime is Basel compliant with a minimum ratio for commercial banks of 8 percent, which has been increased to 9 percent or 10 percent in certain cases. All cooperative banks have to meet a 10 percent ratio. The BoG also has supervisory requirements in place for the supervision of country and market risks, which are appropriate to the current development stage of the Greek banking system. There are also adequate regulations and controls over connected lending and lending concentrations. Supervision of internal controls is also effective.

74. The supervision of credit and provisioning is broadly satisfactory but more detailed guidelines for supervisors on the standards that should apply in both these areas would be helpful. There is also sometimes some confusion as to whether facilities are being considered on a portfolio or a line-by-line basis.

75. More work is needed on the supervision of operational risk where there is much that is not currently covered and liquidity risk supervision needs strengthening with better information on the position of individual banks, together with the introduction of mismatch guidelines by the BoG. Some, at least, of this is in hand. The AML supervision is also generally sound, save that the latest recommendations of the FATF have yet to be incorporated into Greek law.

Methods of ongoing supervision (BCPs16–20)

76. The information that the BoG obtains for its supervision is adequate, on-site and off-site staff work well together, and there is appropriate contact with the management of banks, save that more time should be spent with directors as well as management. On-site work is thorough and professional and off-site analysis is also generally satisfactory. However, more resources should be applied to on-site work with more frequent reviews of internal control systems, in particular. A more structured regime for contacts with external auditors should also be put in place.

Information requirement (BCP 21)

77. The BoG's information requirements cover what is needed, but the frequency with which some of the data is received should be reviewed. Analysis is sometimes too narrowly focused with insufficient attention to the total picture.

Formal powers of supervisors (BCP 22)

78. The formal powers of the BoG are fully adequate and there is evidence that these are used effectively. However, the regime for resolving problem situations would be enhanced were the BOG to develop contingency plans for possible problem situations including scenario simulations.

Cross-border banking (BCPs 23–25)

79. Both the legal environment and practice in this area are fully satisfactory.

Main recommendations

Table 1. Recommended Actions to Improve Compliance with the Basel Core Principles

Reference Principle	Recommended Action
CP1.5 Legal Protection	The BoG and its staff should have legal protection against lawsuits when carrying out their duties in good faith and without negligence.
CP 7 Credit Policies	Current guidelines for supervision are too general and should be made more specific.
CP 8 Provisioning Policies	A robust provisioning regime, in the context of the IFRS framework, needs to be developed.
CP 12 Market Risk	More frequent reporting on portfolios subject to market fluctuations should be developed.
CP 13 Other Risks	Enhanced guidelines on operational risk should be developed as well as an improved liquidity supervisory regime.
CP 14 Internal Controls	The roles of chairman and chief executive officer should be split.
CP 16 On-site and off-site Supervision	More resources should be devoted to on-site supervision.
CP 22 Remedial Measures	Contingency planning for resolving problem bank situations should be introduced.

Authorities' response

80. The BoG thanks the IMF mission for the cooperative spirit and objectiveness, as well as the fruitful discussions and consultations during the course of the assessment.

81. The Report recognizes that the Greek supervisory regime is largely compliant with the Basel Core Principles for Effective Banking Supervision. The assessment highlights the progress in the legal framework for the banking supervision over the past fifteen years and the adequacy of prudential regulations.

82. The BoG acknowledges that most of the observations of the IMF's mission are well grounded. Therefore it will be addressing identified shortfalls with measures that have either already been undertaken or are planned for the near future.

83. Specific comments on the main IMF recommendations are the following:

- On BCP 1.5 the BoG has submitted the second draft proposal on legal protection to the ministry of finance, with the aim to provide protection to supervisors against legal actions brought by third parties in response to regulatory and supervisory measures adopted in good faith in the performance of their duties.

- On BCP 7 the BoG is preparing manuals for the supervisory processes, both on- and off-site. The respective manuals intend to provide formal guidelines with procedures and measures aimed at controlling banks' credit risks on a consistent and uniform basis, as well as ensuring the compliance of bank examiners with prescribed methodologies. Inevitably, the manuals will incorporate forthcoming CEBS' guidelines for the convergence of supervisory practices towards Basel II implementation.

- On BCP 8 the BoG has issued Governor's Act 2565/11.10.2005 on the adequacy of loan loss provisions for claims arising from lending, amending the supervisory treatment of mortgage loans regarding the calculation of provisions with the attention to more closely align provisioning policy with respective credit risk exposures. More specifically (a) the reduced provisional supervisory coefficients do not longer apply for mortgage loans that are past due for more than a year; and (b) the banks are required to incorporate in their internal control and risk management systems additional criteria for the approval or rejection of the granting of loans during the pre-screening process, a key criterion being the relationship between the monthly installments and the level of disposable income ranging between 30 percent and 40 percent. Should this criterion not be incorporated and **used**, the BoG will require additional specific provisions/reserves.

- On BCP 13 the BoG has issued the Governor's Act 2560/01.04.2005 on liquidity requirements of credit institutions, introducing compulsory liquidity and asset mismatch ratios and formalizing the framework for the monitoring of liquidity. Hence, the BoG sets out guidelines for sound liquidity management and gains valuable insights on credit institutions' maturity transformation.

- On BCP 14 the BoG has initiated the process of revising and complementing the Governor's Act 2438/06.08.1998 on credit institutions' internal control systems and processes, so that it becomes more targeted. It will explicitly mention the compliance functions, the conflicts of interest issue, as well as guidelines on specific risk areas. The consultation with the banks is expected to be completed by the end of 2005.

- On BCP 16 newly hired personnel has been appointed both to the on- and off-site supervision departments further reinforcing them.

- On BCP 22 the BoG is in the process of compiling all internal crisis management procedures into a manual for Contingency Planning Arrangements, a large part of which has already been prepared.

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS INSURANCE CORE PRINCIPLES

General

84. This report summarizes the results of an assessment of the observance of the Insurance Core Principles (ICP) of the IAIS in Greece. Insurance is supervised in Greece by the Directorate of Insurance Enterprises and Actuaries (referred to in this report as Insurance Directorate or ID) of the MoDV. The ID is responsible for prudential and market conduct supervision of insurance companies and intermediaries. This assessment was done in the context of the IMF and World Bank FSAP, using the ICP dated October 2003. It was conducted during a mission to Greece from April 4 to 18, 2005 and is based on the laws, regulations, policies and practices in place at that time. Although Greece is undergoing significant changes in its supervisory structure, prospective changes have not been considered in the assessment. The report includes recommendations for strengthening the supervision of insurance.

85. Major sources of information used for the assessment included the answers to the questionnaire submitted by the IMF prior to the mission, translations of relevant legislation, and additional background information provided by both the ID and the Association of Insurance Companies. Extensive meetings were held with management and staff of the ID to discuss each of the criteria within the ICP. In addition, meetings were held with representatives of a wide range of organizations: the Association of Insurance Companies; the head of the new ISC; the MoF; the Hellenic Actuarial Society; the Institute of Certified Public Accountants of Greece (SOEL); the Panhellenic Association of Experts; the Association of Assessors; Hellenic Association of Insurance Brokers; partners of several auditing firms; and senior executives of several insurance companies. All concerned gave willingly of their time and were cooperative, and this added significantly to the effectiveness of the assessor.

Institutional and macroprudential setting—Overview

86. While the insurance sector in Greece experienced strong growth in 2003 and 2004, with premium increases of about 12 percent in both years, Greece remains relatively under-insured. Market penetration is low, with gross domestic premium income accounting for 2.12 percent of GDP in 2003, compared to the EU average of close to 9 percent. The total assets of the insurance companies amount to 4.54 percent of GDP in 2003. At year-end 2003, there were 19 licensed life insurance companies, 65 licensed nonlife insurance companies and 13 companies licensed for both life and nonlife insurance (composite companies). These figures include 30 branches of foreign companies, primarily operating in the nonlife sector. The industry is relatively concentrated, with the largest 5 and the largest 10 life companies, respectively, accounting for 63 percent and 89 percent of the sector's total insurance premiums in 2003. The largest 5 and the largest 10 nonlife companies, respectively, wrote 43 percent and 58 percent of the premiums in the same year. Some of the largest companies are predominantly owned by banks. The principle distribution channels remain company-owned networks of branches and tied agents, with a small but growing use of bancassurance.

87. Life insurance products include traditional and unit-linked policies. Health insurance is a growing class of business, and has been unprofitable for many insurers. Motor insurance one of the main nonlife products, has been unprofitable and has led to the failure of many of the 45 companies whose licenses have been withdrawn in the past 20 years. A guarantee fund exists to cover the motor insurance claims of failed insurers or third-party claims involving uninsured motorists. Other nonlife products have been profitable, overall.

88. The supervisor for the insurance sector is currently the ID. An independent supervisory authority, the ISC, was created in December 2004. A Presidential Decree that will enable the transfer of supervisory responsibilities from the ID to the ISC is expected by mid-2005, while the actual transfer is expected to occur by mid-2006.

Main findings

89. Insurance supervision in Greece occurs within a legal framework that incorporates the relevant EU Directives. However, the conduct of supervision, which has been constrained by limited supervisory resources, has consisted largely of the off-site assessment of solvency and compliance with the formal licensing criteria. A limited program of on-site inspections, with the assistance of external resources, was initiated in 2003. The need to significantly strengthen supervision of the insurance sector was mentioned by all market participants interviewed and action to do so has been taken by the Greek government, through the creation of the ISC.

90. The level of observance of the ICP in Greece is mixed, with the legislative and supervisory initiatives that are currently being pursued holding the potential to materially improve the level of observance in the coming years. In some areas, where basic frameworks are in place, it has been recommended that implementation be strengthened or become more flexible to cope with changing conditions, e.g., by conducting more rigorous off-site analysis of financial information, performing regular on-site inspections, moving to a more dynamic basis for the valuation of liabilities, and establishing and communicating a solvency control level. In other cases, where either legal requirements or supervisory guidance are either absent or fairly high level in nature, recommendations focus on the issuance of more complete and explicit requirements or guidance to industry regarding supervisory expectations, e.g., in the areas of governance, risk management, and internal controls.

Conditions for effective insurance supervision

91. Greece largely meets the conditions necessary for effective insurance supervision. The harmonization of accounting standards and the development of an alternative dispute resolution mechanism would enhance these conditions.

Supervisory system

92. The changes currently underway present an opportunity to clarify and formalize the objectives and responsibilities of the supervisory authorities and to increase the level of resources devoted to insurance supervision. The documentation and publishing of

supervisory policies and procedures should be expanded in the interest of greater transparency.

Supervised entity

93. More explicit legislation and guidance on corporate governance and internal control would improve observance.

On-going supervision

94. The development of a risk-focused methodology would facilitate more proactive and effective supervision. Increasing the information available to supervisors, e.g., through active market analysis and quarterly financial returns, would support the monitoring process.

Prudential requirements

95. More explicit legislation and guidance on risk management issues would improve observance. The ability of the supervisor and others to assess the financial condition of insurers could be improved by requiring more consistent and realistic valuation approaches. Solvency requirements could be strengthened, e.g., through the establishment of control levels.

Markets and consumers

96. Supervision of insurance intermediaries and certain aspects of consumer protection could be strengthened. Disclosure practices are expected to improve with the move to IFRS, although supplemental guidance would be appropriate.

Anti-money laundering/combating the financing of terrorism

97. Legislation is currently under development to update AML/CFT requirements to make them consistent with current international standards. Inspection of controls by the insurance supervisor is recommended.

Table 2. Recommended Action Plan to Improve Observance of International Association of Insurance Supervisors Insurance Core Principles

Reference Principle	Recommended Action
Conditions for effective insurance supervision i.e., CP 1	Harmonization of the accounting requirements applicable to insurers under Greek GAAP with those of IFRS should be considered. An alternative dispute resolution mechanism, such as an independent ombudsman, should be established to deal with complaints of insurance consumers (or all financial sector consumers).
The supervisory system	The principal objectives of insurance supervision should be more

Table 2. Recommended Action Plan to Improve Observance of International Association of Insurance Supervisors Insurance Core Principles

Reference Principle	Recommended Action
i.e., CP 2 – 5	explicitly defined in connection with the establishment of the ISC. The funding mechanism for the ISC should be modified to include more flexibility and to provide for the recovery of all costs of the ISC through industry fees and assessments. Individuals currently active in the industry should have no direct input into supervisory decisions regarding specific licensees or potential licensees, for example, regarding the granting or withdrawal of a license. Responsibilities assumed by the ISC and those retained by the MoDV and the Ministry of Finance should be clearly delineated, and mechanisms for regular communication among those involved in issues relevant to insurance supervision should be established. Active and open communication between the ISC and the ID regarding transitional issues, including staffing, should be maintained. The ISC should have the ability to hire, compensate and manage staff in a manner that is consistent with practices in the insurance industry in Greece. It should also have the clear authority to hire, contract or retain the services of external specialists as the need arises. Those involved in insurance supervision should be protected against lawsuits for actions taken in good faith while discharging their duties, if not through formal protection under the law then at least through liability insurance or indemnification for costs. The supervisory authority should document its rules and procedures in writing and publish at least the most significant elements of such documentation. The ID should consider substituting a system of peer review of at least some decisions and correspondence for the current review by section heads and the Director. The supervisory consultation process should be documented, published and observed to the extent possible. A risk-focused approach should be adopted.
The supervised entity i.e., CP 6 – 10	Enact legislation to align the stated deadline for a licensing decision with current practice and to explicitly state that a license will not be granted automatically in the case such deadline is breached. The supervisory authority should consider alternatives to awaiting the receipt of a solvency certificate when assessing the financial condition of a license applicant, in order to minimize delays in the

Table 2. Recommended Action Plan to Improve Observance of International Association of Insurance Supervisors Insurance Core Principles

Reference Principle	Recommended Action
	process. Enact legislation to provide the supervisory authority the power to assess the fitness and propriety of auditors and actuaries, and establish specific criteria for their assessment, including qualifications, professional proficiency, appropriate practical experience, updated knowledge on developments within their profession and membership in professional bodies. In establishing such criteria, the supervisory authority should rely upon SOEL and the Hellenic Actuarial Society; to the extent their membership requirements address such criteria. Enact legislation to explicitly forbid individuals from simultaneously holding two positions which could result in a material conflict, for example, chief executive and actuary. Enact legislation to require an insurer to notify the supervisory authority if circumstances relevant to the fitness and propriety of its key functionaries arise. Enact legislation to enable the supervisory authority to take appropriate action, such as requiring the replacement of an individual or the disposal of a controlling interest, if key functionaries no longer meet fit and proper requirements. The fit and proper requirements should be defined and applied broadly enough to consider an individual's competence and soundness of judgment for fulfilling the responsibilities of the particular position, the diligence with which the person is fulfilling or likely to fulfill those responsibilities and whether the interests of policyholders or potential policyholders of the insurer are, or are likely to, should be, in any way threatened by the person holding that position. The supervisory authority should document and publish the specific criteria that it will apply in assessing proposed changes in control and portfolio transfers. Consideration should be given to including a requirement, either in the legislation or among the assessment criteria that a report should be prepared by an independent actuary regarding the risks that a proposed change in control or portfolio transfer may pose to the interests of the policyholders of both the transferee and transferor. The supervisory authority should provide explicit guidance on the governance practices it expects of insurers, and require that they document significant policies, procedures and responsibilities. Enact legislation to provide for direct access to the board by the actuary and, as is currently the case for auditors, to require that the actuary perform a whistle-blowing function. In fulfilling this

Table 2. Recommended Action Plan to Improve Observance of International Association of Insurance Supervisors Insurance Core Principles

Reference Principle	Recommended Action
	requirement, it is essential that the actuary has legal protection from liability. The supervisory authority should perform both off-site and on-site inspections to evaluate compliance with corporate governance requirements, as well as the effectiveness of their implementation by each insurer. Regular, ongoing contact between supervisory staff and the senior management of insurers, along with periodic meetings with their boards, would contribute greatly to the ability to make such evaluations. The supervisory authority should develop and publish guidance regarding the internal controls that should be maintained by insurers, and evaluate the effectiveness of the controls through an ongoing program of off-site and on-site inspection. Enact legislation to provide the supervisory authority the ability to disapprove the outsourcing by an insurer of a business function if, in its opinion, adequate controls have not should been established. Enact legislation to require all insurers to have an on-going internal audit function appropriate to the nature and scope of their business. The supervisory authority should routinely review the reports prepared by internal auditors. The supervisory authority should meet regularly with the head of the internal audit function, the responsible actuary, and the external auditor to obtain information from them regarding the effectiveness of internal controls. Such meetings should take place on a confidential basis, without management present, and the persons involved should have legal protection from liability for providing information to the supervisory authority.
On-going supervision i.e., CP 11 – 17	The supervisory authority should assign an individual the ongoing responsibility of gathering quantitative and qualitative market information from both internal and external sources, analyzing this information, and communicating the results of the analyses to other members of staff. The gathering of information should include regular meetings with the other Greek financial sector supervisors and representatives of the various industry and professional associations. All insurers should be required to file basic supervisory returns quarterly. The off-site monitoring of the financial condition and performance of insurers should be strengthened. This could include, for example, developing—or expanding the current use of—industry should benchmarks for key financial ratios, monitoring the results of insurers against these ratios, and investigating the reasons for significant variances.

Table 2. Recommended Action Plan to Improve Observance of International Association of Insurance Supervisors Insurance Core Principles

Reference Principle	Recommended Action
	Enact legislation to require insurers to report promptly material changes that might affect the supervisory evaluation their financial condition. The supervisory authority should develop and implement a program of regular on-site inspection, which includes both full-scale and focused inspections. The program should be risk-focused in nature, rather than strictly focused on ensuring compliance with legal requirements. The ISC should retain the staff resources required to successfully implement a risk-focused supervision methodology that includes regular on-site inspections. In the case of noncompliance with a written supervisory request regarding a material concern by the stated deadline, a formal ministerial directive to comply should be issued immediately. The supervisory authority should develop and publish information about the manner in which it would assess the risk profiles of insurers and the nature of supervisory actions—including the sanctions that might be imposed—with respect to insurers assessed at various levels of risk. Risk profiles should be based not only on the assessment of an insurer's balance sheet, but also on the nature of the risks it takes and the effectiveness of its business practices in managing such risks. The supervisory authority should develop guidance regarding measures that might be taken by insurers to prevent breaches of the legislation, such as the establishment of a compliance officer, and monitor the effectiveness of such measures. Enact legislation to broaden the power to impose sanctions to cover situations where, in the opinion of the supervisory authority, the interests of policyholders are at significant risk. Enact legislation to strengthen the legal powers to restrict the ownership or activities of subsidiaries, and to protect insurers from financial difficulties of other companies in a group, in connection with the implementation of the EU Financial Conglomerates Directive. The insurance supervisory authority should exchange information regularly with its Greek counterparts responsible for supervision of the banking and securities sectors, where the insurers are members of a group that includes companies operating in the other sectors.
Prudential requirements i.e., CP 18 – 23	Enact legislation to require insurers to have risk management policies and systems appropriate to the nature and scope of their activities and develop and publish supervisory guidance regarding risk management.

Table 2. Recommended Action Plan to Improve Observance of International Association of Insurance Supervisors Insurance Core Principles

Reference Principle	Recommended Action
	The supervisory authority should regularly assess the quality of each insurer's risk management through both off-site monitoring and on-site inspections. Off-site monitoring could include, for example, review of insurers' annual business plans. The supervisory authority should require insurers to have in place strategic underwriting, pricing, and reinsurance policies and verify that such policies are approved and reviewed regularly by the board of directors. Enact legislation to require insurers to set adequate premiums for all classes of business and provide the supervisory authority with the power to take action such as prohibiting the sale of a product or requiring additional technical provisions if, in its opinion, the product is unfair or unjust or if it poses a significant risk to the solvency of the insurer. Enact legislation to require insurers to have reinsurance appropriate to the nature of their risks and develop and publish supervisory guidance regarding reinsurance. The supervisory authority should regularly assess the adequacy of each insurer's reinsurance through both off-site monitoring and on-site inspections, which should include the selective review of reinsurance contracts and the manner in which they are accounted for. Insurers should be required to calculate their technical provisions on a basis more closely related to a realistic evaluation of the liabilities, but with margins for adverse deviation. International standards for the valuation of insurance contracts are currently under development by both the International Actuarial Association and the International Accounting Standards Board, and consideration should be given to adopting such standards for all insurers. The responsible actuary should be required to provide an explicit opinion on the adequacy of the technical provisions, including the provisions for claims. The supervisory authority should, with the assistance of outside actuarial experts if necessary, regularly review the adequacy of the technical provisions established by insurers and require prompt correction of any deficiencies that may be identified. Enact legislation to allow insurers to take credit for reinsurance of life insurance business, subject to criteria that might be established by the supervisory authority.

Table 2. Recommended Action Plan to Improve Observance of International Association of Insurance Supervisors Insurance Core Principles

Reference Principle	Recommended Action
	Enact legislation to require each insurer to have an overall strategic investment policy that is approved and reviewed annually by the board of directors. The supervisory authority should publish guidance on the essential elements of an investment policy, as well as the nature of investment risk management and controls that it expects of insurers, including specific guidance on the matching of assets and liabilities. The supervisory authority should regularly assess the adequacy of each insurer's investment policies, risk management and controls through both off-site monitoring and on-site inspections. Such assessments should include a thorough review of a sample of the insurer's investments and other assets, such as receivables. Insurers should be required to have in place investment contingency plans. The ministers of development and finance should publish a decision in accordance with Article 8 of the Independent Authority (IA), regarding the use of derivatives by insurers. The supervisory authority should publish guidance on the use and control of derivatives and similar commitments. The supervisory authority should regularly assess the adequacy of each insurer's policies, risk management and controls with respect to the use of derivatives and similar commitments through both off-site monitoring and on-site inspections. The results of the EU Solvency II project should be implemented, once they are finalized. The supervisory authority should establish and communicate a solvency control level in excess of the minimum solvency margin. Enact legislation to require that each insurer's responsible actuary prepare stress tests of assets, liabilities and solvency annually and communicate the results of such tests to the board of directors and the supervisory authority. The supervisory authority should, with the input of the actuarial profession and the insurers, develop guidance on the nature of such tests and the reporting of their results. In the meantime, the supervisory authority should review the results of stress testing that is already should being performed by insurers. Enact legislation to empower the supervisory authority to require a solvency restoration plan if the solvency margin is currently satisfied but policyholders nevertheless appear to be at risk.
Markets and consumers i.e., CP 24 – 27	Enact legislation to require that all insurance intermediaries operating in Greece be subject to licensing, registration and supervision, regardless of their corporate form and country of domicile.

Table 2. Recommended Action Plan to Improve Observance of International Association of Insurance Supervisors Insurance Core Principles

Reference Principle	Recommended Action
	Enact legislation to provide that brokers may be compensated through commissions, fees or a combination thereof, with such compensation being disclosed to their clients. The supervisory authority should perform random on-site inspections of intermediaries, in order to ensure the prompt remittal of premium payments, and collect and analyze the financial statements of entities that are licensed intermediaries. Enact legislation to explicitly require insurers and intermediaries to act with due skill, care and diligence in their dealings with consumers, and to seek information from consumers that is appropriate in order to assess their insurance needs before giving advice or concluding a contract. Enact legislation to require insurers to deal with claims and complaints effectively, fairly and promptly and to provide that unreasonable delays or a pattern of unfair settlements would be grounds for revocation of an insurer's license. The supervisory authority should conduct on-site inspections of market conduct, particularly with respect to claims handling practices, and impose corrective measures and sanctions where appropriate. Enact legislation to empower the supervisory authority to require insurers to disclose information on their financial situation and the risks to which they are subject. Such requirements, to the extent practical, should be consistent with the disclosures required of listed companies. Enact legislation to require all insurers operating in Greece, not just those that are subject to the company law, to produce annual audited financial statements and make them available to stakeholders. The supervisory authority should publish more of the information provided to it by insurers in the returns. The information should include both year-end and interim data, be made available as soon as possible after the end of each reporting period, and be accessible over the Internet. The supervisory authority should require that insurers and intermediaries implement procedures and controls against fraud and assess their effectiveness periodically. The rules on the protection of personal information should specifically permit the exchange of information between insurers, including through the use of databases, to facilitate the detection

Table 2. Recommended Action Plan to Improve Observance of International Association of Insurance Supervisors Insurance Core Principles

Reference Principle	Recommended Action
	of fraud. Insurers should be encouraged, if not required, to report significant occurrences of fraud to the appropriate law enforcement authority.
Anti-money laundering/combating the financing of terrorism i.e., CP 28	Enact legislation in this area that is currently under development. The insurance supervisory authority, as an element of its on-site inspection activities, should assess the adequacy of insurers' controls for detecting money laundering and the financing of terrorism.

Authorities' response to the assessment

98. The authorities were happy with the assessment and had no comments.

International Organization of Securities Commissions Principles of Securities Regulation

Information and methodology used for assessment

99. This summary assessment was prepared in the IMF FSAP for Greece in February/March 2005. The assessor was John Farrell (formerly with the New Zealand Securities Commission).

100. The assessment was based on the rules of law and practice about the regulation of securities and investments, the constitution, functions and powers of the securities regulator, the HCMC, the regulatory and surveillance arrangements adopted by the HCMC in fulfilling its statutory mandate, market activity and procedures adopted by firms and institutions in complying with the law, and best practice. The assessment was based on the IOSCO Objectives and Principles of Securities Regulation.

101. The background documents reviewed in the course of the assessment included the IOSCO self-assessments prepared by the HCMC; annual reports and other publications of the HCMC and the ASE; annual reports and offer documents of listed companies and others; reports on market activity; selected Greek laws, presidential decrees, rules, and codes of conduct as available in English in unofficial translation; and IOSCO reports, resolutions, and news releases. The assessment was conducted in accordance with the IOSCO implementation methodology.

102. There were extensive discussions with HCMC Board members and officers, representatives of the listed companies, firms licensed to undertake securities and investment business including members of the ASE and derivatives markets, the Central Depository

Company, the Members' Guarantee Fund, the Derivatives Clearing House, the BoG, registered banks, mutual fund management companies, and independent professional advisers such as chartered accountants and lawyers. The mission did not meet with consumer groups or independent commentators.

Institutional and market structure

103. The HCMC is a statutory body responsible as a single regulator for the regulation in Greece of securities markets and market participants including investment firms, mutual funds management firms, portfolio investment companies, the ASE (with both stock and derivative markets and a derivatives clearing house), the Central Depository Company and Guarantee Fund, and listed companies. It is a member of IOSCO and as such was a party to the IOSCO resolution adopting the Statement of Objectives and Principles in September 1998.

104. The HCMC regulates the following markets, all of which are markets of the ASE (i) main market; (ii) parallel market; (iii) new market; (iv) market of emerging capital markets; (v) fixed income instruments market; and (vi) derivative instruments market.

105. These markets are fully owned either directly or indirectly by a single company, Hellenic Exchanges S.A. (HELEX). The principal markets are the ASE main market (ASEMM) and the ASE derivative instruments market (ASEDM). There is also a wholesale government bond market, the electronic secondary securities market, which is operated, regulated, and supervised by the BoG. The ASEMM market capitalization as of December 31, 2004 was euro 92.1 billion, equivalent to 56 percent of GDP, compared with euros 84.6 billion as of December 31, 2003 and euros 65.6 billion on December 31, 2002. The ASEMM trades listed company shares, listed company bonds, and Greek government bonds. Turnover in 2004 was euros 35.8 billion, compared with euros 34.9 billion in 2003 and euros 24.8 billion in 2002. Approximately euros 95 million of new capital was raised in 2004, a smaller amount than the euros 1,468 million raised in 2003 and euros 966 million in 2002. There is a central securities depository which is responsible for clearing and settling ASEMM transactions and registering title to listed securities. The system is paperless and securities are dematerialized. There is an ASE members' guarantee fund and an auxiliary fund. There are 360 listed securities and 80 firms licensed as members of the ASEMM. On average, in 2004 the four most active securities accounted for 46.6 percent of turnover by value.

106. Clearing and settlement of the ASEDM market is undertaken by the ASE derivatives clearing house, which is within the HELEX group of companies. This clearing house stands as counterparty to all market transactions. It holds letters of guarantee from clearing members and members' margin accounts in respect of market transactions. Average daily volumes of futures and options trades on ASEDM in 2004 were 19,343, compared with 19,708 in 2003 and 14,851 in 2002. There are 38 clearing members and 29 nonclearing members.

107. There are five listed corporate debt instruments (bonds) with a market value of euros 209 million.

108. There is no equivalent in practice in Greece to the unlisted company, which has offered securities to the public as in many other jurisdictions and there is effectively no grey market.

109. There were 262 open-ended mutual funds having assets valued at euros 31.6 billion as of December 31, 2004 (265 funds with assets of euros 30.4 at end 2003).

110. The registered banks play a significant role in the public securities markets. They underwrite securities issued to the public as well as tender offers for listed company shares. Banks also act as custodians for mutual funds and personal investment companies. In aggregate, banks hold nearly half the shares in the company that owns and operates the ASE. The banks routinely have subsidiaries that engage in the provision of investment services and mutual funds management. The banks provide access to investment in government bonds for nonbank investors.

111. There is only a limited range of products offered in the public markets. The core products are the ordinary share and the interest in the mutual fund with highly negotiable assets. At present, there do not appear to be convertible or preference shares in any volume. More importantly, as noted above, there are very few corporate bond issues and very little trade in corporate bonds.

General preconditions for effective securities regulation

112. The first precondition for effective securities regulation is a sound regulatory policy. Greece is a member of the EU and subject to its directives including in this context two directives on undertakings for collective investment schemes and one directive each on market abuse, prospectus, listed company transparency and investment services. It is a founding member of the EU's Committee of European Securities Regulators (CESR). Greece is also a member of IOSCO and a party to the IOSCO resolution adopting the statement of Objectives and Principles in September 1998.

113. Market institutions, market professionals, and investors should be committed to the principle of fair and honest dealing and to a culture of compliance with high standards of market practice. Market participants confirmed an improvement in the culture of market participants and an increasing familiarity with the risks as well as the rewards of investment in volatile markets.

114. The rules of law on due process and the rules of natural justice, or equivalent, should be firmly in place. There is an extensive body of administrative law bearing on this. The law courts should be accessible, efficient, reliable, skilled in commercial law matters, and unbiased. Some questions were raised with us about the effectiveness of court action.

115. Investors should be educated and generally alert to their rights. A strong commitment to investor education is necessary if securities and investment markets are to attract retail investors in increasing numbers. The financial press should be informed and responsible. The press in Athens takes an active interest in financial markets and a great deal of core information is available on the HCMC Web site. Nevertheless, there is widespread

recognition of the need to commit greater resources to investor education with particular emphasis on more prudent and more effective investment by retail investors.

116. The taxation system should be neutral with respect to financial products. If there are any concerns in this general area they relate to the differential effect of investing into Greece from offshore as compared to investing from within Greece. This appears to be affecting decisions about the optimum location for the registration of new prospectuses and the offer of securities.

117. There should be effective rules of law on access of new entrants to the market. There should be diversity of market participants and products. The impediments to market competition should generally only be those which are aimed at preventing unscrupulous individuals from participating as market professionals. There is a competitive market for investment services. The ASE in practice has a monopoly in the provision of exchange services; however, there are no restrictions on membership of the ASE by suitably qualified and authorized firms. Moreover the HCMC has power to issue new exchange licenses and, if an application was received, it would be required to consider it fairly and reasonably. Moreover Greek citizens are free to invest on exchanges in other countries.

Overview of Assessment

118. The HCMC is an active and energetic regulator. It has extensive powers to monitor market institutions and market practice. It has achieved a high degree of compliance with the IOSCO principles. The country is continuing a robust program of review of relevant law and practice, having particular regard to the applicable EU directives.

119. The HCMC has an immediate and important regulatory challenge, relating to financial reporting. Greece has adopted the IFRS and the international audit standards. Both will apply in Greece to final or interim statements with balance dates beginning March 31, 2005. The HCMC is involved with others in promoting the new standards and procedures and in establishing programs for surveillance and compliance. The HCMC acknowledges that the quality of published audited financial statements in the past have not been good. The HCMC will need to demonstrate great resolution in ensuring high standards of compliance with the new rules.

Principle by principle assessment

120. Regulator—Principles 1–5—The responsibilities of the HCMC as regulator are clear and objectively stated, generally in the law. There are certain respects in which the HCMC might be operationally more independent and more accountable in the exercise of its functions and powers. The HCMC has adequate powers to perform its functions and exercise its powers. HCMC adopts clear and consistent regulatory processes. The HCMC staff commitment to high professional standards should be more explicit.

121. Self-regulatory organizations (SROs)—Principles 6–7—The regulatory regime makes use of SROs. These are subject to the HCMC oversight and observe standards of fairness and confidentiality.

122. Enforcement—Principles 8–10—The HCMC has comprehensive inspection, investigation, and surveillance powers. It has comprehensive enforcement powers and appears able to demonstrate an effective and credible use of these powers. However, it should prepare an integrated formal program of work for each financial year, monitor progress against program and report on performance at the end of the year.

123. Cooperation—Principles 11–13—The HCMC has wide powers to share both public and nonpublic information in its possession with domestic and foreign counterparts. It has established the necessary mechanisms for sharing nonpublic information with domestic and foreign counterparts. In the past it has not had an explicit general power to undertake inspections or investigations at the request of foreign counterparts, merely to communicate information already in its possession from inspections or investigations already undertaken in accordance with its core law. This position has been changed by the newly enacted Law 3340/2005 that empowers the HCMC to take "the necessary measures to gather the required information."

124. Issuers—Principles 14–16—The law provides for full, accurate, and timely disclosure of financial results and other information to shareholders of companies and interest holders in collective investment schemes. The policy of the law is that shareholders of a company should be treated in a fair and equitable manner. However the powers of minority shareholders under the company law may be difficult to exercise and the company takeover laws are not always effective to regulate the transfer of control. There is some evidence of shareholding concentrations among listed companies. While accounting and auditing standards are of a high and internationally acceptable quality, the international financial reporting and auditing standards have only recently been adopted and there may be difficulties in ensuring compliance by all listed companies. Moreover there appear to be difficulties in administering the continuous disclosure rules for listed companies including the power of the ASE to grant exemptions in individual cases.

125. Collective investment schemes (CIS)—Principles 17–20—The regulatory system sets standards for the eligibility and regulation of those who wish to market or operate a CIS. There are rules governing the legal form and structure of CISs and the segregation and protection of client assets. The rules require disclosure as necessary for the particular investor to evaluate the suitability of a CIS for and the value of interests in it. They ensure a disclosed basis for asset valuation and the pricing and redemption of units.

126. Market intermediaries—Principles 21–24—Regulation provides for minimum entry standards for market intermediaries. There are initial and ongoing capital and other prudential requirements that reflect the risks that the intermediaries undertake. Market intermediaries must comply with standards for internal organization and operational conduct that aim to protect the interests of clients and ensure proper management of risk. However as noted above the HCMC does not have a mature integrated system for planning its monitoring and surveillance work and assessing its performance at the end of the planning period.

127. Secondary market—Principles 25–30—The establishment of trading systems is subject to regulatory authorization and oversight. There is ongoing supervision to ensure that the integrity of trading is maintained. Regulation promotes transparency of trading.

Regulation is designed to detect and deter manipulation and other unfair trading practices. In this connection, Greece will soon adopt the EU directive on market abuse. Regulation aims to ensure the proper management of large exposures, default risk, and market disruption. Systems for clearance and settlement of securities transactions are subject to regulatory oversight.

Recommended actions

128. The recommended plan of actions to improve observance of the IOSCO Objectives and Principles of Securities Regulation is set out in Table 3.

Table 3. Recommended Action Plan to Improve International Organization of Securities Commission' Principles of Security Regulations

Reference Principle	Recommended Action
Principles Relating to the Regulator (CP 1–5)	CP 1—The HCMC is a member of IOSCO and has subscribed to its Statement of Objectives. Any review of its own statement of objectives should take into account all aspects of the IOSCO statement. CP 2—The HCMC should be made more independent in planning the allocation of its staff and resources within an overall budget, subject to the obligation to report to government and parliament on the performance of its functions in accordance with established procedures. CP 2—The process of appointment of all members, the members of the very important executive committee in particular, should be subject to some form of public scrutiny, whether through parliament as in the case of the chairman or in some other way. CP 2—The HCMC should implement internal rules or code of conduct regulating the disclosure and management of conflicts of the Board members and these should be publicly available. CP 4—The HCMC should promote an increased commitment by securities market institutions to investor education with particular emphasis on more prudent and more effective investment by retail investors. CP 5—The HCMC should implement a code of conduct for staff establishing general policies and procedures for disclosing and managing conflicts of interest arising in their work.
Principles of Self-Regulation (CP 6–7)	
Principles for the Enforcement of Securities	CP 10—The HCMC should establish a practice of preparing

Table 3. Recommended Action Plan to Improve International Organization of Securities Commission' Principles of Security Regulations

Reference Principle	Recommended Action
Regulation (CP 8–10)	a forward program of work, particularly audit and surveillance work for each financial year, monitoring progress against budget, and reporting on performance at the end of the year. CP 10—The HCMC should complete the review of its electronic surveillance systems as a priority.
Principles for Cooperation in Regulation (CP 11–13)	
Principles for Issuers (CP 14–16)	CP 14 and CP 16—The regulators should continue their program of intensive work to complete the necessary legal and institutional arrangements for the supervision and oversight of the new financial reporting system, in particular those relating to the oversight of chartered accountants, and to ensure their reasonable effective implementation in practice. CP 15—The HCMC should review the law about tender offers and extend the law to protect investors better in relation to the transfer of control of a listed company. CP 15—The HCMC should review the operation of the rules relating to the disclosure of transactions in the listed securities of a company by the directors and other principal officers of the company.
Principles for Collective Investment Schemes (CP 17–20)	CP 15—See also under principle 4—investor education.
Principles for Market Intermediaries (CP 21–24)	CP 23—The HCMC should implement its standardized procedures for inspection work as a priority.
Principles for the Secondary Market (CP 25–30)	CP 28—See under Principle 14—continuous disclosure law.

Authorities' response to the assessment

129. The authorities were happy with the assessment and had no comments.

Financial Action Task Force Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism

Introduction

130. This Report on the Observance of Standards and Codes for the *FATF 40 Recommendations 2003 for Anti-Money Laundering (AML) and the 9 Special Recommendations on Combating the Financing of Terrorism* (CFT) was prepared by a team composed of Fund staff and an expert under the supervision of Fund staff using the AML/CFT Methodology 2004.[15] The report provides a summary of the level of observance with the Financial Action Task Force (FATF) 40+9 recommendations and provides recommendations to strengthen observance.

Information and methodology used for the assessment

131. In preparing the detailed assessment, Fund team reviewed the institutional framework; the relevant AML/CFT laws, regulations, guidelines and other requirements, and the regulatory and other systems in place to deter money laundering (ML) and the financing of terrorism (FT)—through financial institutions and designated nonfinancial business and professions (DNFBPs); and examined the capacity, implementation, and effectiveness of these systems. The assessment is based on the information available at the time of the on-site visit from May 9–25, 2005 and immediately thereafter.

Main findings

General

132. The current AML/CFT regime is not working in a cohesive manner consistent with the requirements of the FATF recommendations. Greece has put in place some essential components for an AML/CFT framework but much remains to be done, including compliance with the 2nd EU Directive which is long overdue. AML/CFT is not perceived by all stakeholders as a priority issue, the institutional arrangements are fragmented, and the resources devoted to AML/CFT activities are limited. The mission identified a number of legal, institutional, and structural issues that require urgent attention if Greece is to achieve compliance with the FATF recommendations. Key among these are, inter alia, (i) the need of a coordinated national AML/CFT strategy and institutional framework to implement the required legislative and institutional reforms; (ii) improved transparency and governance in key sectors (e.g., gaming and securities); (iii) enhanced public and private sector awareness of ML/FT risks particularly in the securities, insurance, and DNFBP sectors; (iv) implementation of measures to combat FT; (v) implementation of AML/CFT measures in the

[15] The mission comprised Messrs. Peter Csonka (LEG), team leader, Manuel Vasquez (MFD), Yehuda Shaffer (LEG Consultant, Head of the Israeli Financial Intelligence Unit (IMPA), and Mmes. Joy Smallwood (LEG) and Marlene Manuel (MFD).

DNFBP sector; and (vi) general improvement in efficiency, morale, and effectiveness in certain public sectors, notably the judiciary and law enforcement.

133. The Greek authorities concur on the need to strengthen AML/CFT compliance in the identified areas and have taken important steps to address some of them. They have drafted legislation to amend the primary AML Law (Law 2331/1995) which will strengthen existing AML measures, develop a framework for CFT, impose AML/CFT requirements on the DNFBP sector, and strengthen the role of the Financial Intelligence Unit (FIU). Enactment of this draft law, however, is facing strong opposition, particularly from the legal and accounting associations. Increased awareness and consultation with the private sector would support the authorities' efforts in this process.

Situation of money laundering and financing of terrorism

134. Greece, as most countries in the region, is vulnerable to ML and terrorist financing. Its geopolitical location, including its long coastal borders and many islands, makes it vulnerable to illegal traffic in human beings, illicit drugs, high-tax commodities, as well as smuggling of cash and monetary instruments. Its relatively large cash economy also encourages trading in the informal system.

135. Greek investigations have revealed the use of a wide array of financial institutions in ML operations including banks, investment firms, mutual funds, offshore companies, and bureaux de change. In most cases common money laundering schemes and instruments have been used involving domestic bank accounts, securities, and real estate. There have also been cases involving structured domestic and international transactions and the use of third parties. The use of government bonds for money laundering has also been observed.

136. Greece is perceived by the domestic authorities as a low risk country for terrorist financing. While the authorities have succeeded in dismantling two domestic terrorist organizations, no terrorist related assets or funds were confiscated in these cases. No assets of international terrorist groups or terrorists have been found in Greece and there appears to have been no systematic review of FT risks to date. Money remittance and currency exchange businesses are licensed but there are indications that some unlicensed bureau de change businesses exist raising the possibility of abuse for ML/FT purposes. No systematic review of the ML/FT risk has been conducted by the authorities to date which could confirm or dispel the existence of such unauthorized activities. Unauthorized alternative remittance systems have also been identified mainly involving cross-border cash transfers using tour buses raising the possibility of abuse for ML/FT purposes.

Overview of the financial sector and designated nonfinancial business and professions

137. AML supervision of banks and other financial institutions in Greece is not sufficiently risk-based and there is an urgent need to broaden and deepen the scope of AML supervision in key areas, including financial conglomerates. The Greek financial sector is dominated by banks, insurance, and securities companies, which comprise the principal ML/FT risk sectors in the financial system. The Bank of Greece (BoG) is responsible for the supervision of banks and other financial institutions (other than insurance and securities) but

so far it has only conducted AML inspections of banks and bureaux de change. Money remitters were not subject to a licensing regime until 2003 and prior to this they were only required to submit statistical information on all their activities to the BoG. There are plans to extend its AML supervision to money remittance and other credit institutions under its supervision starting in the latter half of 2005, which will require significant enhancement in the number of staff and in AML/CFT training.

138. The Hellenic Capital Markets Commission (HCMC) is the lead regulator for securities firms and the stock exchanges. It has conducted very few AML inspections in the past year and there are no concrete plans to expand and strengthen its AML supervisory capacity and examination program. There has been no AML supervision of insurance companies and brokers. Furthermore, agents are not licensed or supervised. A new insurance supervisory body has been created but is not yet operational.

139. DNFBPs are not covered by the AML Law and hence, they are not required to conduct customer due diligence and report suspicious activity to the FIU. This constitutes a major gap in AML controls which should be partly addressed by draft new legislation being proposed. Financial institutions and DNFBPs are not subject to customer due diligence (CDD) measures for CFT.

Legal systems and related institutional measures

140. While money laundering is criminalized in Greece, the scope of the main ML offense is narrow and its prosecution in practice has proved difficult. Greek judicial practice interprets the AML Law 2331/1995 as requiring substantial material proof of a predicate offense to establish that the property involved in the ML offense is the proceeds of crime. This is typically established only upon conviction. This interpretation therefore, puts a relatively high burden of proof on prosecutors who focus mainly on the predicate offense. Most ML cases prosecuted so far were self-laundering cases. The mission recommended that authorities expand the coverage of the ML offense to all serious offenses and ensure that they include all the FATF "designated categories of predicate offenses." In addition, the judicial authorities should consider a more flexible interpretation of the link between ML and the predicate offense to also enable prosecution of ML cases as autonomous offences.

141. The FT has been criminalized but it is not fully compliant with international standards. The FT was criminalized under Law 3251/2004 on the European Arrest Warrant, but its scope is limited to financing the "forming or joining" of a terrorist group. It does not cover the financing of individual terrorists or terrorist acts. In addition, while the offense does not require the actual commission of a terrorist act by the "terrorist group," there must be some preparatory acts to give rise to the offense of "forming or joining a terrorist group." This definition is not consistent with the FATF recommendations and relevant United Nations instruments. The FT should be an autonomous offense, whether or not a terrorist act has actually occurred, and whether or not funds were used to finance a particular act.

142. While financial institutions are required to file suspicious transaction reports (STRs), filings are often not timely and sometimes only filed regarding suspected ML in relation to a specific predicate offense under Article 1 of the AML Law. Emphasis should be placed on

creating an enforceable obligation to file an STR with the FIU whenever a financial institution (FI) suspects that a transaction is connected to any criminal proceeds, irrespective of what the underlying offence might be.

143. The FIU (Article 7 Committee) has significant shortcomings in its current institutional structure and resources, and lacks the ability to adequately analyze the STRs it has received and to fulfill its role as a central coordinating agency. The FIU is made up of temporary representatives from eight agencies which should enable sharing of information between all the institutions represented. A unique feature of the FIU is that a representative of the private sector also sits on the committee, raising important conflict of interest issues that should be resolved. None of the committee members are full-time staff and the entire analytical process for STRs received is conducted by them. No other specialized full time analytical staff has been assigned to the FIU and there are only five administrative support staff assigned to it.

144. In the context of ML investigations, Law 2331/1995 does not provide for temporary conservation measures by a competent authority for property that may be subject to confiscation. Conservation orders must be issued by a court and may take some time to be issued. In order to avoid any risk of dissipation of proceeds during this process, Law 2331/1995 should provide a competent authority with the power to require the temporary freeze of such property. Furthermore, existing seizure provisions in the Penal Code should require a lower standard of evidence than the current criminal standard. Administrative sanctions should also apply to all legal persons that hold proceeds of crime generated from ML or a predicate offense and not just in cases where the legal entity is part of organized crime. The FIU may be the appropriate competent authority to issue these temporary conservation measures upon becoming more functional and operational.

145. As a rule, confiscation is conviction-based and is considered to be a secondary penalty, and it is not available against legal persons unless they form part of an organized criminal group. The general confiscation regime is governed by Article 76, paragraph 1 of the Penal Code while Law 2331/1995 creates a specific regime for ML cases. Article 2 (6) of this Law imposes confiscation on all property which "is the product of criminal activity or is acquired in any way from a product of such criminal activity or the property which is used, partly or in total, for criminal activity" (the proceeds of crime laundered or to be laundered). Criminal activity is, however, narrowly defined. Confiscation from legal persons is not possible although administrative fines may be applied to legal entities but, as mentioned above, they must be part of organized crime.

146. For purposes of judicial proceedings, bank secrecy provisions are in force in Greece and can only be lifted if sufficient evidence of criminal activity is produced before a magistrate, or a competent judicial council. The process can be lengthy and can impede international requests for assistance. Once bank secrecy has been lifted, information on a bank account can be accessed and funds may be frozen. The examining magistrate or the Judicial Council may proceed on an ex parte basis but the consequent order is served on both the accused and the financial institution in question pursuant to Article 5 (1) of the AML Law. Separately, the FIU and the BoG have access to such information for their own purposes.

Preventive measures—Financial institutions

147. The Greek authorities have taken important but limited steps to implement AML controls in the financial system, mainly in the banking and currency exchange sectors. The BoG has formed a specialized, albeit small, team of AML supervisors authorized to conduct onsite AML inspections of banks and other institutions. There are plans to extend AML inspections beyond banks and bureaux de change to money remittance firms which only came under the supervision of the BoG in the second half of 2004.

148. After the adoption of the proposed new AML/CFT law, important measures are still required to improve the AML/CFT supervisory framework for banks and other FIs under the supervision of the BoG. These are, inter alia, (i) develop and implement requirements for CFT measures, in coordination with the other supervisory bodies, the FIU, and other stakeholders; (ii) develop a more risk-based approach to AML/CFT supervision that addresses the key risks identified in the Greek financial system—this would require a systemic review of ML/FT risks in the financial and other economic sectors; (iii) expand the scope and depth of AML/CFT supervision that also focuses on policies and controls at the institutional level, including at the head offices of FIs, and not only at branch level; (iv) develop an integrated approach for AML/CFT supervision of financial groups, in coordination with the other relevant regulators, namely the HCMC and new insurance regulator; and (v) review and strengthen industry guidelines and typologies in collaboration with the FIU, regulators, and other stakeholders. Under these new approaches there will be a need to enhance the AML/CFT skills and resources of the BoG's AML unit as well as for the other supervisory bodies.

149. Supervision of AML in the securities sector has only recently commenced and there is broad scope for improvement. The HCMC started on-site inspections for AML only in 2004—four inspections with AML elements—as part of its general prudential on-site program.[16] As for the BoG, there is a need to risk focus its examination program for AML/CFT and to significantly expand the scope of its examination procedures. Closer collaboration with the BoG and insurance regulators will also be required for consolidated AML/CFT risk supervision of financial groups, a key feature of the Greek financial system.

150. Perhaps the most significant gap in AML/CFT controls in the financial sector is the absence of AML/CFT supervision in the insurance sector. In addition, insurance agents and brokers are not subject to the AML law and agents are neither licensed nor supervised. It is estimated that between 80–95 percent of insurance business is generated through agents including high risk areas such as life insurance and investment-linked policies. FIs also market bancassurance products and there is increasing integration of these services with the banking and mutual funds sectors.

[16] Post mission, the HCMC has indicated that it has developed a special AML inspection program that became effective in July 2005, and that it has since conducted three special AML examinations.

151. Taken together, these weaknesses add up to a significant ML/FT vulnerability in the Greek financial system. This risk is heightened by the continuing expansion by some financial institutions into new markets in neighboring countries, even though these markets are considered by both the authorities and the private sector as presenting a higher degree of ML/FT risk. Going forward, the authorities should coordinate their efforts to improve AML and introduce CFT supervision of all relevant institutions, and develop common risk-based approaches across sectors, consistent with the continuing development of financial conglomerates. In addition, the AML and/or regulatory laws should be reviewed to provide all of the regulatory authorities with an explicit mandate to supervise and enforce AML/CFT compliance by FIs.

Preventive measures—Designated nonfinancial businesses and professions and nonprofit organizations

152. The Greek AML/CFT regime does not include DNFBPs and nonprofit organizations (NPOs). Draft amendments to the AML Law currently being considered, are expected to require all of these sectors to comply with international standards. The authorities have not conducted a review of the NPO sector to ascertain their vulnerability to ML/FT risk and the adequacy of controls.

153. Of particular importance is the need to develop a comprehensive regulatory and supervisory regime to minimize ML/FT abuse in the casino industry. Similar to the financial sector, there have been reports of at least one major Greek casino starting operations in a neighboring country which could increase the risk profile of this industry. Special attention also needs to be paid to the functions of lawyers and notaries in the formation and administration of offshore companies with offices in Greece. AML/CFT controls and enhanced transparency should also be considered with respect to the registration of these offshore companies as they present a particular challenge in the conduct of CDD on beneficial owners and controllers.

Legal persons and arrangements

154. The ability of nonlisted companies to issue bearer shares and the complicated and lengthy process to obtain information on shareholders, pose a constraint on CDD and AML/CFT controls generally. This could delay timely access by law enforcement and other competent authorities in the investigation of ML/FT crimes.

National and international cooperation

155. At a national level, policies have not been sufficiently established to provide the necessary mechanisms for cooperation between the FIU, law enforcement, supervisors, and other competent authorities. With its multi-agency representatives, the FIU does promote interagency cooperation among its members, though this is not sufficiently carried through to the agencies themselves. The authorities should put in place more effective mechanisms to enable all the relevant authorities to coordinate domestically, including the formulation of a comprehensive and coordinated national AML/CFT policy. Such a policy should be largely based on a risk assessment of the specific vulnerabilities and risks in the Greek system.

156. It is difficult to judge the timeliness and effectiveness of international cooperation provided by the Greek authorities due to the lack of data on incoming and outgoing mutual assistance requests. Mutual legal assistance is based on three types of instruments (i) bilateral mutual legal assistance treaties in force with 21 countries; (ii) multilateral conventions; and (iii) relevant provisions of Greek law, in particular Articles 457–461 of the Code of Criminal Procedure dealing with mutual legal assistance. Extradition is also governed by treaties and domestic law. While international cooperation has a sound legal basis, delays occur in practice.

Summary assessment against the financial action task force recommendations

157. Overall, the current framework in Greece is extensive but not yet sufficiently effective. The Table below summarizes recommended actions in areas related to the FATF 40+9 Recommendations.

Table 4. Recommended Action Plan to Improve the Anti-Money Laundering and Combating the Financing of Terrorism System

FATF 40+9 Recommendations	Recommended Action (Listed in Order of Priority)
1. General	
2. Legal System and Related Institutional Measures	
Criminalization of ML (R.1 & 2)	• Enact the bill amending Law 2331/1995 to expand the coverage of the ML offense to all serious offenses and ensure that they include all "designated categories of predicate offenses" as defined in the FATF recommendations. • Provide clarification on the law to ensure that a more flexible interpretation of the link between ML and the predicate offense can develop in judicial practice and that prosecutors understand that ML is not exclusively a phenomenon involving predicate offenders.
Criminalization of terrorist financing (SR.II)	• Ensure that the FT is designated as a predicate offense for ML and expand coverage of the financing of terrorism offense to include funding a terrorist, a terrorist group, or terrorism, whether or not a terrorist act has actually occurred and whether or not funds were used to finance a particular act.
Confiscation, freezing, and seizing of proceeds of crime (R.3)	• Provide for enhanced immediate freezing provisions, which could be issued on a temporary basis by an administrative body, perhaps the FIU, to avoid any risk of dissipation during the time it takes to obtain a court order. • Provide for seizure provisions to be employed on a lower standard of evidence than the current criminal standard, which is required.
Freezing of funds used for terrorist financing (SR.III)	• Designate a committee or agency to be the 1373 designation agency that can make a prompt and binding determination regarding terrorist targets designated by other countries. • Implement systems to disseminate notification of such a designation to all parties who may be holding terrorist funds or assets so that such funds or assets can be frozen without delay. • Confirm that there is a procedure for freezing and seizing terrorist funds and assets without delay and without a criminal case being instituted in Greece.
The FIU and its functions (R.26, 30, and 32)	• Consider restructuring the FIU so that only government officials are employed and it can perform proper analysis of all the STRs received. The members of the committee should be (i) full time representatives of their organizations; (ii) appointed for a sufficient term; and able to devote themselves fully to the task of the committee. Permanent professional staff of experienced financial analysts to assist the committee members should be employed. • The FIU should gain direct access to both commercial and governmental–relevant databases.
Law enforcement, prosecution, and other competent authorities (R.27, 28, 30, and 32)	• Preparation of a comprehensive AML interagency enforcement program, based on a risk assessment of potential ML, should be considered. ML and FT investigations should focus more on third party laundering by professional money launderers abusing the FI. Efforts

Table 4. Recommended Action Plan to Improve the Anti-Money Laundering and Combating the Financing of Terrorism System

FATF 40+9 Recommendations	Recommended Action (Listed in Order of Priority)
	should be made to improve coordination between different units and agencies and where authorities overlap, define the division of labor and responsibility between units.
Cash couriers (SR IX)	• Greece should implement a declaration/disclosure system to detect the physical cross-border transportation of currency and bearer negotiable instruments that are related to ML or FT
3. Preventive Measures– Financial Institutions	
Risk of ML or FT	
Customer due diligence, including enhanced or reduced measures (R.5 to 8)	• Require FIs to implement a more risk-based approach for customer identification and due diligence with enhanced procedures for higher risk customers and simplified or reduced procedures where there is proven low risk of ML/FT. • Enhance customer identification and verification guidelines on acceptable forms of customer identification. For example, drivers' licenses should not be allowed due to the risk of forgery and for verification e.g., copies of utility bills. • Require FIs to obtain, as appropriate, information on the purpose and expected use/turnover of accounts, especially for higher risk clients. • Provide specific guidelines for customer identification and due diligence procedures (including ultimate beneficial owners and controllers, nonresident clients, foreign intermediary clients, and complex corporate/legal structures (e.g., offshore investment vehicles). • Introduce requirements/guidelines where CDD is insufficient or inadequate, especially those involving corporate and offshore clients, and review the adequacy of paragraph 1.3.3 of BoG Circular 16 with respect to offshore companies (e.g., Emergency Law 89/67 companies). • Require FIs to periodically review and update customer data, esp. for higher risk customers. • FIs should consider obtaining from prospective clients, an explicit declaration as to whether they are acting on their own account or on behalf of others. • Enhance guidelines on the timing of verification of CDD and review the adequacy of existing procedures for internet services e.g., banking. • Clarify/specify whether the EUR 15,000 threshold in Article 4.1 of the AML Law and customer identification apply to one-off transactions, and if so, does it require a time period longer than 1 day for aggregating linked transactions below this amount? • Remove any legal impediments/uncertainty to allow inclusion of customer account numbers in cross-border wire transfers without the customers' consent, and reduce the EUR 15,000 threshold for customer identification in wire transfers to e.g., EUR 1,000. • Require enhanced due diligence of politically-exposed persons (PEPs) and for cross-border correspondent banking accounts, especially on respondent institutions from high risk countries. • Extend the requirement for nonface-to-face customers/transactions to sectors beyond banking.
Third parties and introduced business (R.9)	• Review the practice and where necessary, enhance CDD requirements regarding reliance on third parties particularly in the insurance and securities sectors. • Require insurance agents and brokers to comply with the AML Law and guidelines, consistent with FATF Recommendations and review contracting arrangements for AML compliance by insurance companies. • Review compliance arrangements in financial groups where a member of a group can perform CDD procedures for other members, both domestic and overseas.
Financial institution secrecy or confidentiality (R.4)	• Create more gateways to allow more cooperation between authorities and authority for the BoG/other supervisors to more adequately supervise their licensees re quality of STRs. • Clarify the legal position that banks and credit institutions which provide the account number on a wire transfer are not in breach of bank secrecy requirements under Law 1059/ 1971.
Record keeping and wire transfer rules (R.10 and SR.VII)	• Introduce general and sector-specific record-keeping requirements/guidelines to ensure the sufficiency of records for reconstructing transactions and prompt access by the authorities. • On-site inspection for all sectors should review the adequacy of record keeping. • Clarify the legal requirement for start of the retention period involving business relationships. • Require full originator information including account numbers (where these exist) to be recorded/retained for five years for all wire transfers, especially for cross-border transfers, and

Table 4. Recommended Action Plan to Improve the Anti-Money Laundering and Combating the Financing of Terrorism System

FATF 40+9 Recommendations	Recommended Action (Listed in Order of Priority)
	remove any restrictions on the inclusion of account numbers requiring customer consent. • Provide requirements/guidelines for the treatment of batch transfers, especially where they contain cross-border transfers by money remittance firms.
Monitoring of transactions and relationships (R.11 and 21)	• Issue guidelines requiring FIs, particularly those not under the supervision of the BoG to document/retain for five years the findings of examinations of unusual or complex patterns of transactions and make them available to the proper authorities. Consider implementing a system that reviews/takes into account the AML/CFT regimes in countries where Greek FIs conduct cross-border business to support the CDD process.
Suspicious transaction reports and other reporting (R.13–14, 19, 25, and SR.IV)	• The BoG should update its detailed list of guidelines in the annex to Circular 16. Other regulators should issue sector specific guidelines based on their accumulated experience. • The law should be amended to impose an obligatory duty to report an STR whenever indications of suspicious activity occur and whenever the FI believes the transaction is connected to any offense (including which is not a predicate offense). As FIs very rarely have explicit suspicion regarding a specific predicate offense, FIs should be obliged to report STRs even if they believe their suspicion is related to tax matters. • Ensure that written internal or regulatory guidelines exist regarding the conditions and situations in which a compliance officer may inquire at the branch level (which poses a higher risk of “tipping off”) when requested by the FIU for additional information. • The law should be amended to provide specific requirements for reporting suspicions of FT. • Oblige FI to report attempted transactions that are considered suspicious. • The law/regulations should specify the information that must be included in a STR. This information should include all relevant information obtained in the CDD process (e.g., different telephone numbers and addresses given by the client, names and details of connected persons, and accounts, etc.). The FIs should be required to use a standard format for submitting STRs, which would facilitate electronic and digital reporting. • The Law and regulations should specify the time frame in which FIs must file an STR. • Specific law or regulation should be in place to specifically ensure that the names and personal details of staff of financial institutions that make an STR are kept confidential by the FIU and the other government authorities exposed to the content of these STRs. • The authorities should implement, in law, feasible measures to detect or monitor the physical cross-border transportation of currency and bearer negotiable instruments, as well as measures to establish a systematic collection of data regarding cross border currency transactions, which are rarely randomly examined under current practice. • Consider the feasibility/utility of implementing a currency transaction reporting system. • All relevant authorities should enhance efforts to provide feedback regarding STRs using sanitized cases, examples of good or bad STRs, ML or TF typologies. • The Greek FIU should publish, in addition to its annual report, information on current ML techniques, methods, and trends (typologies), and examples of good and bad reporting, instead of sanitized examples of actual ML cases. The FIU should consider initiating periodical meetings with compliance officers or other forms of training to improve the quality of STRs.
Internal controls, compliance, audit, and foreign branches (R.15 and 22)	• CDD policies, procedures, and controls should be risk-based requiring for example, enhanced CDD for higher risk customers and activities. • Examination procedures should cover a review of the adequacy AML policies formulated by the Board of Directors and on their effective implementation. • Introduce for all sectors consistent requirements for AML internal audit, compliance, employee recruitment, and training programs. • Consider requiring that FIs apply AML policies, controls, and procedures on a group-wide basis including overseas branches and subsidiaries. • Require FIs to inform their Greek supervisors when they are unable to adequately implement their AML systems in their overseas operations and amend the AML Law to reflect this. • Review whether Greek FIs with overseas operations are able to adequately comply/implement the Greek AML requirements and internal systems in any of the countries they operate.

Table 4. Recommended Action Plan to Improve the Anti-Money Laundering and Combating the Financing of Terrorism System

FATF 40+9 Recommendations	Recommended Action (Listed in Order of Priority)
Shell banks (R.18)	NA
The supervisory and oversight system–competent authorities and SROs (R. 17, 23, 29, and 30).	• Introduce sanctions for breaches of AML Law provisions under Article 4.9–4.13. • Provide explicit sanctioning authority in the AML Law to the regulatory authorities for violations of AML requirements by covered entities. The regulators should have the authority to impose administrative sanctions directly without the need for ministerial involvement. • The sanctioning role (recommendation) of the FIU contained in Article 4.8 of the AML Law should be reconsidered if the FIU is not to have a supervisory role. • Review the adequacy of sanctions under the AML Law and regulatory laws for consistency and whether they are sufficiently dissuasive and proportional the offence or breach. • Introduce an explicit provision in the regulatory laws providing clear authority to the relevant regulators to both supervise for AML/CFT and sanction FIs covered for breaches of AML/CFT legal and regulatory requirements. • Define an explicit role in the AML Law for the "competent authorities" (the BoG, HCMC, and ministry of finance/new insurance regulatory agency) to supervise and enforce compliance with AML/CFT requirements. Review the relevant regulatory laws to ensure compatibility with this requirement and that there is a clear link to their general supervisory powers. • Insurance agents and brokers should be covered by the AML Law and related circulars to enable proper supervision and enforcement for AML purposes. • The BoG should commence, as early as possible, supervision of money remittance business for compliance with the AML requirements. [Post mission, the authorities have informed the assessment team that the BoG has developed an examination program for money remitters and that onsite inspections, including for AML, will start in September/October 2005.] • The BoG should expand its program of AML inspections to leasing firms consistent with a review of the degree of ML/FT risk in this sector. • (See R 23 above). Define a supervisory and enforcement role for the regulators "competent authorities" in the AML Law that is consistent with the banking and other regulatory laws. Introduce sanctions for breaches of AML Law provisions under Article 4.9–4.13. • Introduce an explicit provision in the AML Law providing a power for the competent authorities to prescribe and issue implementing instruments, as appropriate, e.g., regulations, rules, circulars, guidelines, and directives. • Clarify the enforceability of the existing regulatory AML guidelines that have been issued. (i.e., the BoG Circular 16, the HCMC Rule 108/Circular 8 and the MoDV Circulars). • Operationalize the insurance regulatory body and urgently commence AML supervision and the capacity both in numbers, training, and specialization of the BoG AML staff for consolidated AML supervision of financial groups, including their overseas operations. • The HCMC should enhance the adequacy of staff and resources devoted to AML issues.
Financial institutions-market entry/ownership/control (R.23)	• Introduce a licensing/registration requirement for insurance agents by the insurance regulator to enable application and enforcement of the AML legal requirements to this sub-sector.
AML/CFT guidelines (R.25)	• The competent authorities, including the FIU, should issue comprehensive and sector-specific guidelines for all covered sectors and in particular, to the insurance and securities sectors. • Review the applicable provision(s) under the AML and regulatory laws for issuing AML guidelines for all sectors, and make compliance with these enforceable by the regulators.
Ongoing supervision and monitoring (R.23, 29, and 32)	Bank of Greece • Enhance and introduce a risk-based AML supervisory program including consolidated supervision, which places more focus on the adequacy of AML risk-management policies and systems (as opposed to legal compliance and transaction testing), specialized procedures for certain institutions (e.g., nonbank institutions, financial groups, and cross-border supervision), greater focus on the role of the Board of Directors and top management. Examination procedures should be complemented with information from other sources e.g., the FIU, external auditors, off-site supervision staff, and other domestic supervisors as appropriate. • Require closer coordination with domestic and overseas supervisors of multinational groups. • Consider the feasibility of using external auditor's pre and/or post inspections and audits.

Table 4. Recommended Action Plan to Improve the Anti-Money Laundering and Combating the Financing of Terrorism System

FATF 40+9 Recommendations	Recommended Action (Listed in Order of Priority)
	• Enhance training for examination staff on the risk-based approach to the new FATF Recommendations, with a view to enhancing the examination procedures. • Consider introducing an explicit periodic reporting requirement on the volume and other details of transactions conducted by all money remittance firms (including bureaux de change) similar to the requirement for currency exchange business. HCMC • Develop comprehensive AML supervision procedures for securities firms consistent with those described above for the BoG, including financial groups. Ministry of economic development and ministry of finance • Develop a comprehensive AML supervisory framework for the new Financial Supervisory Committee for Private Insurance that would include both off-site and on-site procedures, including the early implementation of an on-site program. External auditors • Enhance the role of external auditors in AML, in the annual and three-yearly review, and report on internal controls. Require a copy of the auditors' management letter to review coverage of AML control issues. This information to be factored into the annual examination program. Access to information • Clarify the legal position and practice with respect to access by BoG examiners to suspicious activity reports filed with the FIU. Regulators should be able to review STRs and follow up on quality problems even in coordination with the FIU. • Enhance the supervisory process by reviewing during on-site inspections, the quality of STRs filed with the FIU and complement this process with statistics on the quality of STRs on an institution and system-wide basis. • Develop a statistical system that would allow for prompt production of at least the following information: (i) number of general and specialized inspections; (ii) number and type of deficiencies identified; (iii) number of recommendations made and their type; (iv) number of enforcement action taken and their type; and (v) status of compliance with recommendations and enforcement actions.
Money value transfer services (SR.VI)	• Enhance AML/CFT on-site inspections of all money transfer companies for AML/CFT. • Consider introducing a system that requires licensed money remitters to include basic AML/CFT conditions on their agents/sub-agents e.g., on customer due diligence. • Review the existence of informal remittance businesses for purposes of registration or licensing, and oversight for AML purposes.
4. Preventive Measures–Nonfinancial Businesses and Professions	
Customer due diligence and record-keeping (R.12)	• All DNFBPs should be subject to the preventive requirements of the AML Law. CDD guidance should be issued by each DNFBP regulator for enhanced and simplified measures.
Monitoring of transactions and relationships (R.12 & 16)	• DNFBP regulators should issue guidance for monitoring and documentation procedures. • Pay special attention to the ML risks posed by the extensive use of cash in the casinos and the ability of customers to purchase tokens for cash and redeem them for bankers' checks.
Suspicious transaction reporting (R.16)	• All DNFBPs should be subject to mandatory reporting requirements for suspicious activities. • Provide training to DNFBPs for identification of suspicious transactions and filing STRs. • Urgently address the matter of legal privilege and the impact it will have on lawyers' ability to file STRs under the proposed amendments to Law 2331/1995.
Internal controls, compliance, and audit (R.16)	• Preventive measures should include (i) internal policies, procedures, and controls; (ii) adequate employee screening procedures; (iii) ongoing employee training; and (iv) an internal audit function, paying special attention to the risk of ML and TF and the size of the business. • Guidance should be issued by each DNFBP regulator when they have been designated.
Regulation, supervision, and monitoring (R.17, 24-25)	• All DNFBPs should be subject to the preventive requirements of the AML Law, including designation of clear responsibility for monitoring and enforcing compliance with AML

Table 4. Recommended Action Plan to Improve the Anti-Money Laundering and Combating the Financing of Terrorism System

FATF 40+9 Recommendations	Recommended Action (Listed in Order of Priority)
	requirements, stronger sanctioning powers, and issuance and adoption of codes of conduct. • Tighten licensing requirements for casinos to make it mandatory that shareholders, and their associates, and the associates of operators and managers submit police certificates.
Other designated nonfinancial businesses and professions (R.20)	• Focus on how the shipping industry can be used for ML activities, particularly through the ownership, control, and management of the shipping companies where intermediaries, offshore jurisdictions, and complex corporate structures are used and issue guidance. • Include shipping companies and foreign shipping companies the AML Law.
5. Legal Persons and Arrangements and Nonprofit Organizations	
Legal Persons–access to beneficial ownership and control information (R.33)	• Implement statutory requirements for the inclusion of information on the ultimate beneficial ownership and control structure in the incorporation/registration documents, and for company formation providers to obtain, verify and keep accurate records of these. Create more gateways, other than through a court order, for timely access to these records.
Legal Arrangements–(R.34)	NA
Nonprofit organizations (SR.VIII)	• Conduct a review of the NPO sector for FT risk and vulnerabilities and, if necessary, introduce legislation and other measures to help prevent abuse for FT.
6. National and international cooperation	
National cooperation and coordination (R.31)	• The BoG, HCMC, and MOD/ID or the new insurance regulatory body should form a consultative committee to consider measures to implement the FATF Recommendations, an in particular, the provisions of the draft new AML Law. In light of the financial groups in Greece, coordinate efforts to develop broadly consistent regulations and guidelines to assist FIs with compliance. Conduct joint training programs and coordinate inspections of financial groups. • Consider preparation of a comprehensive AML interagency enforcement program, based on a risk assessment of potential ML and FT to improve coordination between different agencies.
The Conventions and U.N. Special Resolutions (R.35 & SR.I)	• Ratify the Palermo Convention as a matter of priority and ensure that comprehensive implementing legislation is enacted at the same time when the ratification law is passed. • Enact and implement the bill amending Law 2331/1995 and ensure full coverage for FT.
Mutual Legal Assistance (R.32, 36-38, SR.V)	• The ministry of justice's central unit should continue its efforts to compile comprehensive statistical data on international cooperation, including the time required for responding, the reasons for denial, and the obstacles encountered.
Extradition (R.32, 37 & 39, & SR.V)	• The current limitations on the definition of financing of terrorism may have a significant impact on Greece's ability to extradite persons sought for this offense, taking into account, the dual criminality requirement for extradition under Article 437 (a) of the Code of Criminal Procedure, should this requirement be applied in a narrow sense.
Other Forms of Cooperation (R.32 & 40, & SR.V)	• Greece should enact the law allowing international investigative teams and adopt several EU initiatives on international cooperation. • The FIU should answer foreign requests and provide appropriate feedback to requesting FIUs.
7. Other issues	
Other relevant AML/CFT measures or issues	NA

Authorities' response to the assessment

158. The Greek Authorities would like to thank the IMF assessment team, for all the work put in producing this very comprehensive report that should prove very helpful in our continuous efforts to improve the AML/CFT system in Greece. The authorities believe that

despite several weaknesses and shortcomings in the current AML/CFT system, significant progress has already been achieved and will continue in the near future.

159. As mentioned in the report, the Greek authorities have identified the major weaknesses of the system and have taken important steps to address them. The draft Law, which has already been introduced to the Greek Parliament, is expected to address a number of issues mentioned in the report and will undoubtedly provide the necessary framework for the authorities to move to a more risk based AML/CFT system.

160. A number of observations are in order:

- The report points to the increased AML/CFT risks in the region. Being fully aware of this kind of risk, the Greek authorities would like to emphasize a) the adoption of strict rules-based procedures and mechanisms which admittedly need to be further improved and b) closer and continuous cooperation with neighboring Balkan countries at all AML/CFT levels.

- Regarding the point on '… the use of a wide array of financial institutions in ML operations… "through a number of channels, the Greek authorities would like to draw attention to the fact that all financial institutions in Greece are actively confronting AML/CFT risks by applying effective monitoring procedures. This point reinforces, rather than refutes, the argument about the effectiveness of existing AML/CFT procedures in identifying ML cases in Greece. Moreover, it should be taken into account that a) due to adoption of tighter rules and regulations and b) due to continuous improvement of monitoring procedures in the Banking, Securities and Insurance sectors in Greece, money laundering operations gradually tend to swift to less supervised and monitored areas. This is an international trend pertaining not only to Greece and explicitly recognized also by FATF Typologies. Thus, the emphasis is now put also on the nonfinancial sector (real estate agents, lawyers, etc.), especially with regard to combating terrorism financing.

- Furthermore an objection should be recorded regarding the report's inaccurate statement that "…there has been no AML supervision of insurance companies and brokers. Furthermore, agents are not licensed or supervised." The legal basis for Insurance Companies supervision is articles 2, 3, 3a, 6 etc. of Decree Law 400/1970. As regards the AML supervision of Insurance Companies, Law 2331/1995, and Ministerial Decision ref. K3/9563 of 28-11-1997 determine the framework for the AML supervision of Insurance Companies. In addition, the legal basis that establishes licensing and operations of brokers and agents is given by law 1569/85 (articles 3, 7, 10, 13, 15a). We should also emphasize that the Independent Supervisory Authority for the Insurance Sector has already been established by law 3229/04 (Gov. Gazette 38/10-2-04). The Presidential Decree, currently in Parliament's Supreme Administrative Court, aims at materializing the law, otherwise to organize the new Independent Authority for which legal basis already exists.

- Regarding the report's observation that '…most ML cases prosecuted so far were self-laundering cases ...' it should be pointed out that the Draft Law currently at the

Greek Parliament provides explicitly for the punishment of self-laundering activities, which is not the case in most FATF countries' AML/CFT legislation so far. We would also like to underscore that under the provisions of the said Draft Law the definition of AML/CFT offences has been widened in scope including a) sixteen designated offences and b) any other serious offence (misdemeanor or felony) punishable by at least six months imprisonment, generating substantial proceeds. In this connection, the TF-related crimes mentioned on the report are included among the aforementioned sixteen designated offences, as well as terrorism and terrorist financing activities per se.

- Regarding "indications" that some unlicensed bureaux de change and money remittance business continue to operate, we would like to point out that, in Greece, and provision of such services without being licensed is illegal. We do not think that companies operating in the tourist sector (hotels, etc), which are explicitly allowed, because of the prohibition in all other cases, to provide limited services, only to their customers and for very small amounts should be considered "unlicensed bureaux de change businesses," as this is an international practice that applies to hotels. In addition, the exchange of large amounts of currency, not consistent with the customer's business and level of activity, is an indication of suspected money laundering according to the authorities' indicative list of suspicious transactions.

- Regarding the licensing regime of money remitters, we would like to point out that such a regime became obligatory only in late 2001, with the issuance of the FATF Special Recommendations. The procedures for transposing such a requirement in the legal system does take sometime and therefore the relevant law was passed in May 2003. However in Greece even before these companies were brought under the licensing regime they were subject to a regime of close monitoring by the authorities, which also conducted on-site inspections to monitor their compliance with a set of specific requirements. The requirements consisted not only of the obligations of remittance firms to provide the BoG with statistics and data on foreign exchange transactions but, most importantly, to remit customers' funds through credit institutions, which were subject to AML rules and applied them also on money remittance firms' customers (therefore, reporting cases of suspicious transactions to the Competent Body—Greek FIU at that time).

- Regarding the on site inspections of money remitters, although starting on site examinations immediately after the licensing of a business is not consistent with international practice, we acknowledge the issue and we are pleased to inform you that such examinations will be completed by the end of October.

- On the issue of reporting of transactions only regarding suspected ML in relation to a specific predicate offence we would like to note that the requirement and the widespread practice is that a transaction is reported when "there are any doubts about the legitimate origin of the funds involved." No linkage to a specific crime is required and generally no predicate offence is mentioned in the STR to the Greek FIU.

- Concerning the measures suggested that BoG should take; some of them have already been taken (or initiated). In particular, the AML unit at the BoG has been strengthened with new employees with increased qualifications and examinations, focusing on policies and controls have already started and respective guidelines are being drafted.

- Regarding the number of AML inspections undertaken by the Hellenic Capital Market Commission (HCMC), we would like to point out that, as already mentioned in our comments sent to the IMF team in June, since the establishment of the HCMC (1995) all, on site, full scope audits carried out by the HCMC inspectors includes an AML component. Therefore, it is considered inaccurate to state that supervision of AML in the securities sector has only recently commenced. Moreover, based on the comments made by the IMF team to the HCMC, the HCMC has developed special AML audit programs that became effective in July 2005 and up to date three special AML audits have already been carried out.

- Furthermore the HCMC can and has imposed sanctions based on HCMC's Rule 108 and the Codes of Conduct for Investment Firms and Institutional Investors (as previously notified). We also note for the record that any breaches of Law 2331/95 and HCMC Rule 108 may additionally lead to the revocation of license of supervised entities.

- During the AML assessment and based on exchange of views between the IMF team and the HCMC, we expected that the securities sector should have been included among the sectors that took important steps to implement AML controls in the financial system.

Table 16. Greece: Financial Soundness Indicators for the Banking Sector, 1998–2004

(In percent, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004
Capital adequacy							
Regulatory capital to risk-weighted assets 1/	10.2	16.2	13.6	12.4	10.5	12.0	12.8
Regulatory Tier I capital to risk-weighted assets 1/	9.7	15.3	13.5	10.9	8.8	9.8	10.0
Capital (net worth) to assets	6.5	10.6	9.2	8.6	7.0	6.9	6.8
Asset composition and quality							
Sectoral distribution of loans							
Insurance corporations and pension funds	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Other financial intermediaries	0.7	0.4	1.1	2.2	3.2	2.6	2.3
Nonfinancial corporations	75.0	72.2	70.5	65.7	60.4	57.7	54.4
Consumer credit	7.3	8.4	9.3	10.6	11.3	12.3	14.3
Lending for house purchase	17.0	18.8	18.8	21.0	24.3	26.1	27.6
Other lending to households and nonprofit institutions	0.1	0.2	0.3	0.4	0.6	1.2	1.2
Geographical distribution of loans to firms and households							
Domestic	95.3	90.8	93.9	94.7	95.6	96.3	96.6
Other euro area countries	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Non-euro area countries	4.4	9.1	5.9	5.1	4.2	3.5	3.2
Foreign exchange (FX) loans to total loans	24.8	27.0	28.4	10.0	7.5	5.5	4.5
FX assets to total assets	28.9	25.4	23.9	11.3	8.1	7.8	7.1
Loans to general government (billions of euros)	3.3	3.5	3.8	3.8	4.8	5.2	6.6
Loans to nonresidents (billions of euros)	12.0	16.3	19.8	22.0	23.5	26.2	26.5
Deposits from general government (billions of euros)	2.5	2.8	3.2	3.6	3.8	4.3	5.2
Deposits from nonresidents (billions of euros)	12.9	16.4	20.2	16.9	25.2	28.0	37.5
Off-balance sheet accounts (billions of euros)	229.9	233.3	289.7	251.8	287.5	333.8	412.9
NPLs to gross loans	13.6	15.9	9.9	8.2	7.3	7.0	7.0
NPLs to gross loans (excluding ABG)	8.7	11.2	7.2	5.6	5.5	5.1	5.4
NPLs net of provisions to capital	76.4	41.4	32.0	29.1	29.0	27.0	26.6
NPLs net of provisions to capital (excluding ABG)	32.3	24.1	23.2	17.4	18.7	16.1	16.4
Large exposures to capital	146.9	131.1	148.5	155.4	154.1	190.8	123.7
Earnings and profitability							
ROA (after taxes)	0.7	2.4	1.4	1.0	0.5	0.6	0.5
ROE (after taxes)	13.7	28.6	15.4	12.4	6.8	8.9	7.3
Interest margin to gross income	55.1	44.5	54.5	62.8	72.5	74.2	74.9
Noninterest expenses to gross income	61.9	48.1	52.8	58.8	69.3	62.3	61.8
Personnel expenses to noninterest expenses	66.8	63.6	61.8	59.8	58.0	58.2	59.1
Trading and fee income to total income	38.0	49.9	35.5	28.0	22.7	21.6	20.3
Average deposit rate	8.2	7.0	4.0	2.0	1.6	1.2	1.2
Average lending rate	17.0	14.8	10.5	8.1	6.4	6.0	6.0
Spread between reference loan and deposit rates	9.0	6.7	6.3	6.1	6.1	5.8	5.9
Liquidity							
Liquid assets (billions of euros)	70.4	80.4	88.2	82.6	79.8	78.9	77.0
Liquid assets to total assets	55.2	50.3	46.4	41.1	39.5	37.0	33.4
Liquid assets to total short-term liabilities	62.6	64.6	60.7	53.0	48.7	46.5	43.2

Table 16. Greece: Financial Soundness Indicators for the Banking Sector, 1998–2004

(In percent, unless otherwise indicated)

	1998	1999	2000	2001	2002	2003	2004
Short-term liabilities (billions of euros)	112.6	124.5	145.2	155.7	163.9	169.7	178.1
Customer deposits to total (noninterbank) loans	191.1	190.8	176.3	166.0	147.4	135.3	130.6
FX liabilities to total liabilities	34.5	25.7	24.5	16.6	12.8	13.2	12.9
FX liabilities (billions of euros)	44.0	41.2	46.6	33.3	27.3	28.2	29.8
Deposits from customers (billions of euros)	173.8	203.8	235.7	271.5	280.3	297.8	333.5
In local currency	62.7	77.1	89.3	108.8	117.9	126.2	142.8
In foreign currencies	24.2	24.8	28.5	27.0	22.2	22.7	23.9
From residents	84.9	97.2	112.4	129.5	134.3	139.3	149.6
From nonresidents	1.9	4.7	5.4	6.2	5.8	9.6	17.2
Deposit liabilities and bank bonds (domestic and euro area residents excluding central government) (billions of euros)	85.5	97.7	113.2	129.7	127.3	129.3	140.8
Sight deposits	49.2	56.5	61.0	70.4	71.4	79.1	91.1
Original maturity between 1 and 365 days	33.4	38.2	48.9	55.8	51.8	45.2	44.9
Original maturity of over one year	2.9	3.1	3.3	3.5	4.1	5.0	4.8
Loans by original maturity (domestic and other euro area residents) (billions of euros)	43.6	48.8	63.0	77.7	91.3	106.3	123.7
Up to one year	25.4	23.8	35.6	41.1	44.0	46.4	50.9
Between one year and five years	5.8	10.8	8.9	12.5	11.2	14.7	19.0
Over five years	12.4	14.2	18.5	24.1	36.1	45.3	53.9
Securities other than shares by original maturity (domestic and other euro area residents) (billions of euros)	77.1	59.7	56.1	53.0	52.9	46.5	42.5
Up to one year	2.9	1.6	2.2	2.3	2.4	1.2	1.0
Over one year	28.7	34.3	39.9	40.9	41.1	37.1	35.4
Average bid-ask spread in the securities market 2/	45.5	23.7	14.0	9.8	9.4	8.2	6.1
Sensitivity to market risk							
Estimated average repricing period of assets (in days)	...	...	...	79.0	80.0	83.0	82.0
Estimated average repricing period of liabilities (in days)	...	...	...	20.0	21.0	20.0	26.0
Net open positions in FX to capital 3/	...	...	...	3.5	7.4	5.5	3.4
Net open positions in equities to capital 3/	...	...	...	21.5	12.9	10.4	6.1

Source: Bank of Greece.

1/ On a consolidated basis; market risk is included.

2/ Or in other markets that are most relevant to bank liquidity, such as domestic foreign exchange markets.

3/ Approximate.

4/ On a consolidated basis.

Table 17. Greece: Financial System Structure, 1998–2004 1/

	December 1998			December 2000			December 2002			December 2004		
	Number	Assets In Millions of Euros	Percent of Total Assets	Number	Assets In Millions of Euros	Percent of Total Assets	Number	Assets In Millions of Euros	Percent of Total Assets	Number	Assets In Millions of Euros	Percent of Total Assets
Deposit taking institutions	60	128,695	79.8	57	181,634	81.2	62	199,494	83.3	62	233,537	82.8
Private	50	47,334	29.3	48	84,189	37.6	53	91,820	38.3	56	173,758	61.6
Domestic 2/	27	30,898	19.2	26	61,857	27.6	32	74,450	31.1	33	150,437	53.3
Foreign	23	16,436	10.2	22	22,332	10.0	21	17,370	7.3	23	23,321	8.3
State-owned 3/	10	81,361	50.4	9	97,445	43.5	9	107,674	44.9	6	59,779	21.2
Institutional investors	340	32,619	20.2	410	42,138	18.8	406	35,967	15.0	385	42,224	15.0
Insurance companies 4/	143	5,008	3.1	124	7,839	3.5	115	8,377	3.5	100	9,577	3.4
Pension funds												
Collective investment schemes	197	27,611	17.1	286	34,299	15.3	291	27,590	11.5	285	32,647	11.6
Money market mutual funds	44	17,567	10.9	49	15,360	6.9	41	10,747	4.5	39	15,430	5.5
Other nonbank	65	0	0.0	89	0	0.0	110	4,083	1.7	111	6,326	2.2
Finance companies	0	0	0.0	0	0	0.0	0	0	0.0	2	218	0.1
Securities firms 5/	65	...	...	89	...	...	90	...	...	91	...	...
Leasing	0	0	0.0	0	0	0.0	15	3,316	1.4	14	5,129	1.8
Factoring	0	0	0.0	0	0	0.0	5	767	0.3	4	979	0.3
Total financial system	465	161,314	100.0	556	223,772	100.0	578	239,544	100.0	558	282,087	100.0

Sources: Bank of Greece; and the Association of Insurance Companies.

1/ No data was available on the number and assets under management by pension funds.

2/ Includes cooperative banks.

3/ Includes Agricultural Bank of Greece, the Postal Savings Bank, the Loans and Consignment Fund and development banks (state-owned nonbank development finance corporations are included under "Other nonbank"). The Greek government sold its direct stake in the largest commercial bank (National Bank of Greece) in November 2004, changing its classification to "domestic private." Nonetheless, the state retains an indirect holding of 24.7 percent in NBG, mostly through pension funds, and effectively retains a veto over the appointment of management.

4/ Data refer to December 2003.

5/ No data was available on the assets managed by securities firms. These are considered to be small.

Table 18. Greece: Asset Market Share of the Commercial Banks

	On a Consolidated Basis								
				Percent of Assets					
	In Billions of Euros			Total			Excluding Specialized Public		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
Large private banks	139.7	144.6	152.9	67.6	67.2	65.0	73.0	72.7	70.8
NBG	54.1	53.9	53.1	26.2	25.0	22.6	28.3	27.1	24.6
Alpha	29.1	30.8	32.9	14.1	14.3	14.0	15.2	15.5	15.2
EFG Eurobank	24.7	28.2	31.9	12.0	13.1	13.6	12.9	14.2	14.8
Emporiki	17.0	17.0	18.3	8.2	7.9	7.8	8.9	8.5	8.5
Piraeus	14.8	14.7	16.6	7.2	6.8	7.1	7.7	7.4	7.7
ABG	16.7	17.6	19.5	8.1	8.2	8.3	8.7	8.9	9.0
Other quoted banks	8.7	10.0	10.7	4.2	4.6	4.6	4.5	5.0	5.0
Geniki	2.9	3.4	3.5	1.4	1.6	1.5	1.5	1.7	1.6
Egnatia	2.5	2.7	2.9	1.2	1.2	1.2	1.3	1.3	1.4
Attica	1.7	2.1	2.4	0.8	1.0	1.0	0.9	1.0	1.1
Aspis	1.6	1.8	1.9	0.8	0.9	0.8	0.8	0.9	0.9
Nonquoted and cooperatives	8.8	7.5	9.9	4.3	3.5	4.2	4.6	3.8	4.6
Foreign branches	17.4	19.2	23.0	8.4	8.9	9.8	9.1	9.6	10.7
Total	**191.2**	**198.8**	**216.0**	**92.5**	**92.4**	**91.8**	**100.0**	**100.0**	**100.0**
Specialized public	15.5	16.4	19.3	7.5	7.6	8.2	...	...	...
Postal Savings Bank	10.4	10.1	10.9	5.0	4.7	4.6	...	...	...
Loans and Consignments Fund	5.1	6.3	8.4	2.5	2.9	3.6	...	...	...
Total	**206.7**	**215.2**	**235.3**	**100.0**	**100.0**	**100.0**	...	...	...

Source: Bank of Greece.

Table 19. Composition and Holding of Nonfinancial Corporate Debt

	Loans				Securities				Total			
		Domestic Holders				Domestic Holders				Domestic Holders		
	Total	Banks	Others	Rest of the World	Total	Banks	Others	Rest of the World	**Grand Total**	Banks	Others	Rest of the World
Millions of euros												
1999	45,039	33,730	991	10,318	1,101	368	334	399	**46,140**	34,098	1,325	10,717
2000	53,077	41,676	1,459	9,942	4,838	493	408	3,937	**57,915**	42,169	1,867	13,879
2001	62,710	48,497	2,445	11,768	5,012	662	567	3,783	**67,722**	49,159	3,012	15,551
2002	67,129	52,141	3,041	11,947	4,998	780	611	3,607	**72,127**	52,921	3,652	15,554
2003	74,645	58,211	3,931	12,503	5,889	1,073	823	3,993	**80,534**	59,284	4,754	16,496
2004	80,023	62,872	4,706	12,445	7,838	3,358	818	3,662	**87,861**	66,230	5,524	16,107
Percent of subtotals												
1999	100.0	74.9	2.2	22.9	100.0	33.4	30.3	36.2	**100.0**	73.9	2.9	23.2
2000	100.0	78.5	2.7	18.7	100.0	10.2	8.4	81.4	**100.0**	72.8	3.2	24.0
2001	100.0	77.3	3.9	18.8	100.0	13.2	11.3	75.5	**100.0**	72.6	4.4	23.0
2002	100.0	77.7	4.5	17.8	100.0	15.6	12.2	72.2	**100.0**	73.4	5.1	21.6
2003	100.0	78.0	5.3	16.7	100.0	18.2	14.0	67.8	**100.0**	73.6	5.9	20.5
2004	100.0	78.6	5.9	15.6	100.0	42.8	10.4	46.7	**100.0**	75.4	6.3	18.3
Percent of grand total												
1999	97.6	73.1	2.1	22.4	2.4	0.8	0.7	0.9	**100.0**	73.9	2.9	23.2
2000	91.6	72.0	2.5	17.2	8.4	0.9	0.7	6.8	**100.0**	72.8	3.2	24.0
2001	92.6	71.6	3.6	17.4	7.4	1.0	0.8	5.6	**100.0**	72.6	4.4	23.0
2002	93.1	72.3	4.2	16.6	6.9	1.1	0.8	5.0	**100.0**	73.4	5.1	21.6
2003	92.7	72.3	4.9	15.5	7.3	1.3	1.0	5.0	**100.0**	73.6	5.9	20.5
2004	91.1	71.6	5.4	14.2	8.9	3.8	0.9	4.2	**100.0**	75.4	6.3	18.3

Source: Bank of Greece.

Table 20. Liquid Assets of the Banking System, 2004

(In percent of total assets)

	Cash	Treasury Bills	**Total**	Claims on Other Banks	**Total**
Large private banks 1/	3.5	1.5	**5.0**	11.5	**16.4**
Other banks 2/	4.2	2.1	**6.3**	12.7	**18.9**
All banks	3.6	2.3	**5.9**	11.0	**16.9**
Euro area 3/	1.4	0.9	**2.3**	17.5	**19.8**

Sources: Bank of Greece; and European Central Bank.

1/ NBG, Alpha, EFG Eurobank, Emporiki, and Piraeus.
2/ Excluding ABG.
3/ Data are for 2003.