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# GREECE

## FINANCIAL SECTOR ASSESSMENT PROGRAM

June 2026

## TECHNICAL NOTE ON REGULATION AND SUPERVISION OF LESS SIGNIFICANT INSTITUTIONS

This Technical Note on Regulation and Supervision of Less Significant Institutions for the Greece FSAP 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 May 21, 2026.

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# TECHNICAL NOTE

## REGULATION AND SUPERVISION OF LESS SIGNIFICANT INSTITUTIONS

Prepared By
**Monetary and Capital Markets Department**

This Technical Note was prepared by IMF staff in the context of the Financial Sector Assessment Program in Greece. It contains technical analysis and detailed information underpinning the FSAP's findings and recommendations. Further information on the FSAP can be found at http://www.imf.org/external/np/fsap/fssa.aspx

# CONTENTS

# Glossary

| | |
|---|---|
| AML | Anti-Money Laundering |
| BCBS | Basel Committee for Banking Supervision |
| BCP | Basel Core Principles for Effective Banking Supervision |
| CET1 | Common Equity Tier 1 |
| CRD | Capital Requirements Directive |
| CRR | Capital Requirements Regulation |
| DORA | Digital Operational Resilience Act |
| DTA | Deferred Tax Assets |
| DTC | Deferred Tax Credits |
| DSTI | Debt Service to income |
| EA | Euro Area |
| EBA | European Banking Authority |
| ECB | European Central Bank |
| ECL | Expected Credit Losses |
| ESFS | European System of Financial Supervisors |
| ESRB | European Systemic Risk Board |
| EU | European Union |
| FINREP | Financial Information Reporting Framework |
| FSAP | Financial System Assessment Program |
| FTE | Full-Time Equivalent |
| GFC | Global Financial Crisis |
| HAPS | Hellenic Asset Protection Scheme |
| HCAP | Hellenic Corporation of Assets and Participations |
| HCMC | Hellenic Capital Markets Commission |
| HQLA | High Quality Liquid Assets |
| ICAAP | Internal Capital Adequacy Assessment Process |
| ICT | Information Communication Technologies |
| IFRS | International Financial Reporting Standards |
| ILAAP | Internal Liquidity Adequacy Assessment Process |
| IMAS | ECB Information Management System |
| IMF | International Monetary Fund |
| IRRBB | Interest Rate in the Banking Book |
| IT | Information Technology |
| JST | Joint Supervisory Team |
| LCR | Liquidity Coverage Ratio |
| LGD | Loss Given Default |
| LSI | Less Significant Institution |
| LTV | Loan to Value Ratio |
| MoD | Ministry of Development |
| MoEF | Ministry of Economy and Finance |
| NCA | National Competent Authority |
| NPL | Nonperforming loan |

| | |
|---|---|
| NSFR | Net Stable Funding Ratio |
| P2R | Pillar 2 Requirement |
| P2G | Pillar 2 Guidance |
| PPP | Periodic Penalty Payments |
| RAS | Risk Assessment System |
| RTS | Reporting Technical Standards |
| RWA | Risk-Weighted Assets |
| SEP | Supervisory Engagement Plan |
| SI | Significant Institution |
| SRB | Single Resolution Board |
| SREP | Supervisory Review and Evaluation Process |
| SSM | Single Supervisory Mechanism |
| TCB | Third Country Branch |

# EXECUTIVE SUMMARY[1]

**Supervision of less significant institutions (LSIs) is effective in Greece.** The Bank of Greece (BoG) approach to LSI supervision is thorough, systematic and intrusive. The core of the supervisory approach is the Supervisory Review and Evaluation Process (SREP), an EU framework that BoG uses with adaptations for Greece, its local risks and environment. The process is transparent internally and to the LSIs themselves, with risks clearly identified and reflected in both supervisory actions and Pillar 2 capital add-ons. BoG benefits from robust independence and an ability to attract and retain staff with the desired skills and experience, as illustrated during the last recruitment process, and has increased resources to reflect changing needs (such as DORA implementation). However, there is a need for some medium-term resource planning and continued vigilance on emerging risks, such as Information Communication Technologies (ICT) and cyber, to ensure they are adequately resourced. Collaboration and coordination with other parties are effective, both internally (such as the AML supervisors) and externally (with other supervisors and authorities). One area where processes could be tighter and the framework better calibrated is the enforcement and sanctioning regime, where penalties might better reflect the offence and provide the right level of deterrence.

**BoG would benefit from articulating a risk tolerance framework for the supervision of LSIs.** Currently, there is no internal or external explanation of BoG's tolerance to risk in the supervision of LSIs. This could lead to a lack of clarity internally as to how far its supervisory actions should aim to reduce or eliminate risk and there is merit in a structured and measured review of BoG's risk tolerance in its supervisory approach to LSIs.

**The FSAP encourages BoG to maintain and build on its well-embedded supervisory approach and should review its resourcing needs in an agile manner.** In a rapidly changing environment, it is especially important for BoG to anticipate the resourcing pressure points going forward and to respond proactively. In order to do so, there is a need to establish processes that can identify resourcing needs and deliver any needed resources in a timely manner.

**Credit risk remains the most important risk for Greek LSIs and BoG should continue to monitor LSIs' non-performing loans (NPLs) and credit risk management closely.** Despite the decline in NPL ratios, some legacy NPLs remain outstanding and new NPLs have been increasing. BoG's analysis and supervisory actions around credit risk and problem assets are generally effective in both its off-site and on-site work. The implementation of the ECB's Guideline for the application of the prudential backstop to LSIs is leading to a more conservative approach to provisioning coverage for NPLs. Finally, the authorities need to address the issue that creditors in Greece often encounter significant delays in the judicial process, with realization of security often taking a very long time.

**The other risks that warrant ongoing and increased attention are interest rate risk in the banking book (IRRBB) and operational risk.** These are both significant for LSIs and may not be

[1] This technical note was prepared by Toby Fiennes (IMF External Expert). The author would like to thank the Greek authorities for their excellent engagement, open dialogue, and warm hospitality throughout the FSAP.

getting the required attention from the banks' Boards. Whilst market dynamics and the BoG's thorough approach to Pillar 2 capital add-ons are valuable mitigants, there remains a need for supervisors to push banks to fully recognize and manage these risks.

**While the requirements around both governance and risk management are comprehensive, and supervisory oversight and intensity are strong, it remains an area for continued focus given the inherent governance challenges facing small LSIs.** In support of the governance and risk management requirements, supervisors accord a high priority to assessing governance in practice and pushing for improvements. Supervisory actions have helped elevate the importance of sound governance in LSIs but governance challenges for small LSIs will likely persist. It is therefore vital for BoG supervisors to continue to accord priority to governance matters and to push for at least the larger LSIs to go beyond the minimum requirements.

**With the Greek economy growing and the banking system on a more stable footing, it is an opportune time for authorities to introduce regulations in areas where there is no applicable EU framework and to deal with legacy issues**. Three areas that warrant short-term attention are:

- *Reviewing some specific areas of regulation for compliance with the Basel Core Principles (BCPs).* These are matters where the EU itself does not have legislation that is fully compliant with the Basel Core Principles and thus where it is necessary for national authorities to introduce regulations. In particular, the definition of related parties, although in line with the CRD definition, does not comply with Basel standards and should include all affiliated companies and their directors and family and, given the risks attached to related party lending generally, BoG should introduce a limit on total exposures to related parties of 25 percent of CET1 Capital. Another gap is the absence of any requirement for bank Boards to sign off on concentration risk levels.

- *The legacy of Deferred Tax Credits (DTCs) on some banks' balance sheets*. DTCs are government guaranteed deferred tax assets and are a legacy of Greece's financial crisis during the 2010s. They are perceived as generating lower quality capital and exacerbating the Sovereign / bank nexus. SI banks are voluntarily phasing them out more quickly than is legally required and the FSAP supports to accelerate their legal amortization for all banks, including LSIs, to a timing aligned with the voluntary scheme currently in place for SI banks.

- *The special powers granted to the Hellenic Corporation of Assets and Participations (HCAP)*. This is fully owned by the Ministry of Economy and Finance (MoEF), and it retains the power to veto strategic decisions. This is a legacy issue which made sense in the historic context, but it is not clear what purpose the power now serves, and it could result in undue interference from the government in market operations and transactions.

Table 1 lists the main recommendations for Greece to enhance the supervision of LSIs and promote financial stability.

**Table 1. Greece: Main Recommendations***

| # | Recommendation | Authority | Timing |
|---|---|---|---|
| | **Organization of Supervision** | | |
| 1. | Review the merit of a distinct supervisory budget, along with an agile approach to changing staff needs, to provide additional safeguards to the independence and financial robustness of BoG supervisory function. | BoG | ST |
| | **Supervisory Approach and Tools** | | |
| 2. | Consider introducing a risk tolerance framework for the supervision of LSIs. | BoG | MT |
| 4. | Monitor whether EU intends to introduce rule changes to reverse or modify ownership transfers where they have not been properly notified, and BoG should review their processes to include an automatic suspension of voting rights if a change in control approval was based on false information or they had not been properly notified. | BoG | MT |
| 14. | Review and codify clearly the escalation process for sanctions and review the sanctions matrix so that all sanctions actions are timely, consistent and effective as deterrents. | BoG | ST |
| | **Governance and Risk Management** | | |
| 3. | Heighten supervision of governance, including through on-site inspections, and particularly for larger and riskier LSIs, including a focus on more high-quality independent directors. | BoG | ST |
| 9. | Introduce a requirement for Boards to sign off on all concentration risks. | BoG | MT |
| | **Supervision of Financial Risks** | | |
| 5. | Remove the special powers granted to HCAP in relation to its participation in the fifth largest bank. | Government | ST |
| 6. | Accelerate the legal amortization of DTCs to a timing aligned with the voluntary scheme currently in place for their prudential amortization in SI banks, given that the legal amortization would be applicable to all banks, including LSIs. | BoG, MoEF | MT |
| 7. | Greece should expedite legislative change to address delays in the judicial process for realizing security and addressing longstanding NPLs. | Government | ST |
| 8. | BoG should maintain a strong focus on credit risk and NPLs. | BoG | I |
| 10. | Align the definition of related parties with that of the BCPs by including all affiliated companies and their directors and family. | BoG | ST |
| 11. | Introduce a limit on total exposures to related parties of 25 percent of CET1 Capital. | BoG | ST |
| 12. | LSI supervisors should discuss with banks the magnitude of the risk, and ensure that they have a strong risk control framework commensurate with the risk profile, as well as continuing to apply appropriate P2R add-ons. | BoG | I |
| 13. | Undertake a full strategic review of resource requirements for ICT and other supervisory areas under the most pressure, and increase/reallocate resources as appropriate. | BoG | ST |

* I: immediate (I): less than one year; Short-term (ST): 1–2 years; and Medium-term (MT): 3–5 years.

# SCOPE

1. **There has been no FSAP for Greece since 2006, so this review has no recent findings to draw on.** The 2006 review predated the GFC and Greece's own crisis and its findings are therefore not relevant to the current environment. Instead, this review of Greece's regulation and supervision of LSIs is done from a fresh and first-principles perspective, within the EU context.

2. **BoG's LSI supervision is reviewed in the broader context of the EU regulatory environment.** The Greek system of supervision is framed by the EU legislation and measures taken by the EU institutions, including the European Banking Authority (EBA) and the European Central Bank (ECB), as a part of both the European System of Financial Supervisors (ESFS) and the Single Supervisory Mechanism (SSM). The BoG applies the EU regulatory and supervisory framework to its supervision of LSIs, with modifications for the local environment.

3. **The FSAP took into account the recent euro area (EA) Basel Core Principles (BCPs) Assessment and other relevant euro area regulatory developments**. The EA FSAP was completed in July 2025. Thus, one particular focus of this FSAP was on areas where there was no applicable EU framework, whether this was relevant for LSI supervision in Greece, and the extent to which BoG's LSI regulation and supervision compensated. The FSAP also coordinated closely with other EA FSAPs being progressed at the same time (Italy, Austria and Portugal).

4. **The FSAP looked in detail at regulation and supervision of LSIs, using selected BCPs as a guiding structure for the discussion.** The eight Greek LSIs do not have especially complex business models. Six offer basic banking services, largely to the SME and retail markets, while two target more niche markets: one specializing in the shipping industry and the other in digital banking. Thus, in deciding on areas of relative focus, the review took account of the relatively simple nature of most LSIs' business. The recommendations around the supervisory and sanctioning approaches, supervision of traditional financial risks or supervisory resources are intended to be applicable to the supervision of LSIs, and they do not consider the quality or resources of the SSM supervision. The discussion around BoG's institutional arrangements cannot apply such criteria as they are universal across activities of LSI and SI supervision. The mission selected the following core principles (CP) of the BCP to structure discussions with BoG about the pillars and quality of LSI supervision: CP1—Responsibilities, objectives and powers, CP2—Independence, accountability, resourcing and legal protection for supervisors, CP3—Cooperation and collaboration, CP7—Major acquisitions, CP8—Supervisory approach, CP9—Supervisory techniques and tools, CP10—Supervisory reporting, CP11—Corrective and sanctioning powers of supervisors, CP13—Home-host relationships, CP14—Corporate governance, CP15—Risk management process, CP16—Capital adequacy, CP17—Credit risk, CP18—Problem assets, provisions, and reserves, CP19—Concentration risk and large exposure limits, CP20—Transactions with related parties, CP23—Interest Rate Risk in the Banking Book, CP24—Operational risk, CP25—Liquidity risk and CP26—Internal control and audit. BoG completed a questionnaire and a supplement to the ECB's self-assessment against the BCPs. The mission also sought input from the ECB, including via a questionnaire and a virtual

meeting, regarding LSI supervision in Greece. This note uses these responses, as well as about 20 meetings held in Athens during the mission with BoG staff and third parties, and documents shared in virtual data rooms by BoG.

5. **The rest of the note is divided into two sections**: The first section provides a high-level summary of the banking sector in Greece. The second section examines the nature and effectiveness of Greek regulation and supervision of LSIs, stepping through the various BCPs that are the focus of this assessment.

# BANKING SECTOR IN GREECE

## A. Market Structure

6. **Banks dominate the financial sector in Greece and are highly concentrated, with the four largest banks (the SIs) accounting for about 94 percent of banking assets.** Banks hold approximately €300 billion in assets on a solo basis, comprising 85 percent of the financial sector. Overall, the banking sector is of middling size relative to many other advanced economies and amounts to approximately 128 percent of GDP as of December 2024. The credit-to-GDP ratio has fallen from a high of 136 percent in 2012 to under 100 percent today.

7. **The vast majority of banks (including the four SIs) all offer basic banking products and services.** Two recently authorized small banks (one of which is wholly owned by an SI) offer digital banking. One LSI specializes in services to the shipping industry while the other six, four of which are cooperative banks, offer traditional deposit-taking and lending services. There is only one active Third Country Branch (TCB) which is small and accounts for about 0.6 percent of banking assets. The table below describes the business model and presents some key metrics (total assets, total capital ratio and NPL ratio) from public sources for the LSIs.

8. **Banks, borrowers, supervisors and other Greek authorities have taken lessons from the crisis and have a generally conservative approach, but there are some important legacy and emerging issues.** This manifests itself in generally simple business models, low credit growth and strong prudential regulation and supervision. Financial stability risks from internal dynamics have thus been on a downward trend over the last decade. The majority of NPLs have been written off or securitized, largely to debt services (see Box 1 on HAPS), but some small LSIs still have a significant portion of their balance sheet in NPLs (in the region of 30 percent). It is also of note that new NPLs rose in H1 2025. While this increase was from a low base by recent historic standards, it is against a backdrop of conservative lending standards and an economy that shows reasonable growth.

9. **The Greek banking sector displays low cost to income ratios and high net interest margins.** This combination yields good base profits for the sector and underlies the return to financial health, good overall profitability and the ability to rebuild capital that has been seen over the course of the last five years. High net interest margins are driven

significantly by strong deposit franchises and low cost of deposit funding, which has remained low even through the rising rate environment of recent years.

**Table 2. Greece: List of LSIs**

| LSI Name | Description of Business Model | Assets (in € mil) consol. | Total Capital Ratio (consol) | NPL Ratio (consol) |
|---|---|---|---|---|
| **Cooperative Bank of Chania** | Cooperative Bank with a regional focus, focusing on the provisioning of financing to SMEs. Main sectoral focus is on construction, trade and accommodation. | 726 | 15,85% | 43,8% |
| **Credia Bank** | Banking Group mainly focuses on traditional banking activities, particularly on the provisioning of financing to SMEs. Main sectoral focus is on construction and energy. | 7,540 | 14,82% | 3,3% |
| **Cooperative Bank of Thessaly** | Cooperative Bank with a regional focus, focusing on the provisioning of financing to SMEs. Main sectoral focus is on manufacturing, trade, construction and energy. | 397 | 17,46% | 31,9% |
| **Optima Bank** | Banking Group which has exhibited above average credit growth rates during the last years, mainly towards corporates. | 5,541 | 14,40% | 0,5% |
| **Cooperative Bank of Epirus** | Cooperative Bank with a regional focus, focusing on the provisioning of financing to SMEs. Main sectoral focus is on trade, accommodation and manufacturing. | 354 | 17,02% | 26,8% |
| **Viva Bank (Werealize)** | Vivabank is a fintech institution focusing on facilitating payment transactions. | 734 | 9,31% | 0,3% |
| **Cooperative Bank of Karditsa** | Cooperative Bank with a regional focus, focusing on the provisioning of financing to SMEs. Main sectoral focus is on trade and agriculture. | 275 | 22,78% | 6,9% |
| **Aegean Baltic Bank** | Aegan Baltic Bank focuses on the provision of funding to shipping sector. The Bank relies on wholesale depositors for funding. | 1,151 | 27,28% | 0,6% |

*Data as of December 31, 2024*

**Table 3. Greece: Profitability Indicators**

| | ***Greece*** | | ***Banking Union**** |
|---|---|---|---|
| | *2023* | *2024* | *Dec 2024* |
| *Net interest margin* | *2.7%* | *2.6%* | *1.6%* |
| *Operating costs / total assets* | *1.2%* | *1.2%* | *1.3%* |
| *Cost to income ratio* | *35.4%* | *36.2 %* | *54.9%* |
| *Cost of credit risk* | *1.1%* | *0.7%* | *0.5%* |
| *Return on Assets* | *1.2%* | *1.3%* | *0.7%* |
| *Return on Equity* | *12.0%* | *12.2%* | *9.5%* |

Source: Bank of Greece Financial Stability Report May 2025.
* Banking groups in the Banking Union are directly supervised by the ECB.

**10. There has been a continuing process of banking consolidation since the crisis with the four large banks dominating the market.** Since 2015, many small banks have closed, merged or been taken over. Most recently two of the largest LSIs merged to form the fifth largest bank in the country. The system is dominated by the four large SIs who account for about 94 percent of banking sector assets.

**11. Capitalization of the Greek banking sector is moderate to good but there are still substantial Deferred Tax Credits (DTCs) in banks (especially the SIs).** The banking sector's weighted average CET1 Capital ratio was 15.9 percent and its total capital ratio 19.7 percent at end-2024, ratios that have been steadily improving over the last decade. Banks paid dividends in 2024 for the first time since the crisis. Most banks' prudential capital positions (including those of all the SIs) were significantly improved by 2015 regulations that provided an effective government guarantee to (what were then) Deferred Tax Assets (DTAs). DTCs do not need to be deducted from capital for prudential purposes, and the total amount is equivalent to roughly 50 percent of SIs' CET1 Capital. The market, banks and the authorities see DTCs as lower quality capital and exacerbating the Sovereign / bank nexus. This has led SIs to start amortizing them at a faster rate, and the intention is to eliminate them completely by 2031-33, as opposed to 2041 under the current legal amortization calendar. Please see Appendix 2 "DTA explainer" for more details.

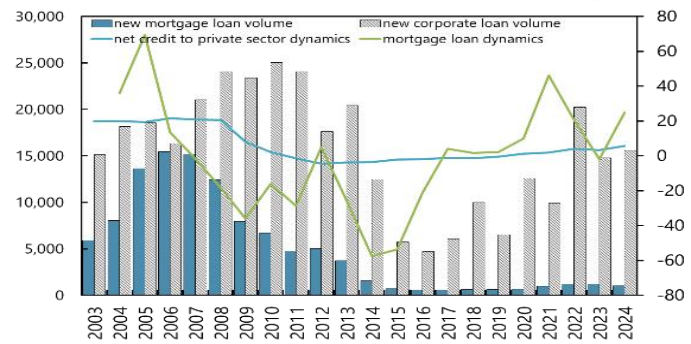
**12. Greek banks currently have good liquidity with healthy liquidity buffers.** All Greek banks have liquidity coverage ratios (LCRs) of more than 200 percent and a weighted average of 218 percent at end-2024. Net stable funding ratios (NSFRs) are well in excess of the regulatory minimum, with a weighted system average of 139 percent at end-2024. These healthy ratios are driven by two main factors. First, loan to deposit ratios have declined steadily and stood at 73 percent at end-2024, deposits having risen strongly in the last five years and loan growth being minimal. Secondly, banks have wanted to ensure a good stock of High Quality Liquid Assets (HQLA) as a buffer against future market stresses.

## B. Risks and Challenges

**13. Systemic risk remains contained with low private sector leverage, an improving sovereign balance sheet and strong banking sector liquidity.** In the aftermath of the crisis, private, public and financial sector participants have taken strong steps to improve their balance sheets and reduce their respective vulnerabilities. Credit growth has been low, tax compliance has improved, and banks have adopted generally conservative lending practices and built up their funding and liquidity buffers.

**Figure 1. Greece: Credit to Private Sector**

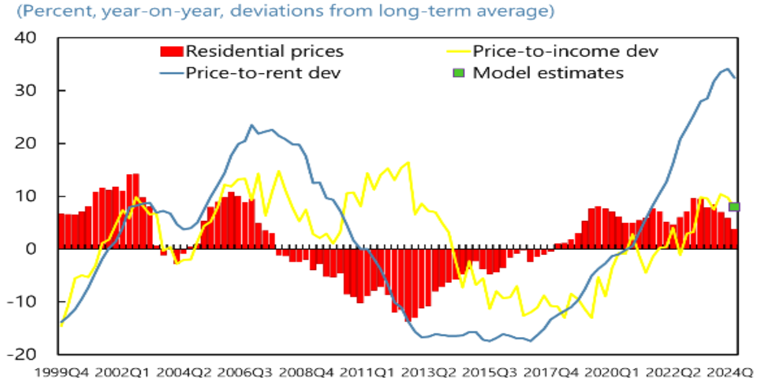
(LHS-volumes in milllions of Euro; RHS-dynamics in percentage change)




Sources: BoG, Haver Analytics.

**Figure 2. Greece: Residential Prices and Valuation**

(Percent, year-on-year, deviations from long-term average)




Sources: OECD, and IMF staff calcualtions.

**14. Nevertheless, some vulnerabilities remain, and the last two years have seen stronger credit and house price growth.** Credit to the private sector reached 9.4 percent (y/y) in Q4 2024, although the nominal volume remains below the pre-GFC period. Net growth in consumer and household credit remained low due to repayments but new mortgages increased by 20 percent in 2024, albeit from a very low base. Residential real estate prices have increased significantly this decade (see graph), but this has been largely financed by sources other than borrowed money, including investments by nonresidents.

**15. BoG has responded with the imposition of macroprudential tools.** BoG introduced Borrower based Measures (BBMs), setting limits for high Loan to Value (LTV) and high Debt Service to Income (DSTI) mortgage lending. The measures, which came into effect in January 2025, are set at 80 percent for LTVs and 40 percent for DSTIs with higher limits for first-time buyers to mitigate distributional impacts.

**16. Banks' NPLs have been materially reduced via a combination of securitizations to loan servicers and write-offs, but Greek bank ratios remain above the EU average.** The stock of NPLs declined by 84 percent from their high point of €107 bn in Q1 2016 to €6bn at end-Q2 2025. This equates to a reduction in the ratio from 46 percent to around 3 percent today, a figure which is still higher than the EU average of 2.1 percent. The main reason for the reduction is the series of securitizations of historic NPLs under the Hercules Asset Protection Scheme (HAPS), supported by €21.5 bn of government guarantees (none of which has yet been triggered). See Appendix III. Three LSIs remain with legacy NPLs and high NPL ratios in the region of 20 to 40 percent. There has also been a small uptick in the NPL stock in LSIs in the first half of 2025.

**17. Single counterparty concentration is an area of heightened concern.** Over the last five years, there has been an increased concentration in specific large corporate obligors. The proportion of large exposures relative to total credit rose from about 21 percent in 2021 to about 47 percent in Q2 2025, a number that is close to the EU average. Sectoral concentration remains unremarkable, with the HHI index at 1283 being very close to the EU average.

# BANKING SUPERVISION IN GREECE

## A. Introduction

**18. The legislative and institutional framework for banking supervision in the EA is the SSM.** SSM comprises the European Central Bank (ECB) and the National Competent Authorities (NCAs). The ECB, working closely with the NCAs and deploying staff situated withing the NCAs, is directly responsible for the supervision of SIs and oversees the supervision of LSIs, conducted by NCAs. In addition to this oversight role, the ECB is directly responsible for approval of licenses, withdrawal of licenses and approval of qualifying holdings in LSIs. Authorization and supervision of Third Country Branches (TCBs, those whose head offices are domiciled outside the European Economic Area) is the responsibility of the NCAs.

**19. Banking supervision in Greece is integrated into the EU regulatory and supervisory system**. BoG follows the EU regulatory framework embodied in the EU Single Rulebook and the SSM regulation, across banking supervision. BoG incorporates these frameworks and develops supervisory methodologies, building on the numerous lessons that they accumulated over the crisis. Since the crisis BoG has been diligent in adopting EU rules and SSM supervisory frameworks, understanding the critical importance of a sound and resilient banking system. BoG is an active participant in and contributor to SSM, EBC and EBA working groups. Their first-hand knowledge of dealing with a crisis is seen as particularly useful in crisis-related workstreams. European institutions see BoG as helpful, willing and cooperative.

**20. Within the EU, the European Banking Authority (EBA) is tasked with ensuring effective and consistent prudential regulation and supervision across the European banking sector.** EBA is an independent EU authority, governed by a Supervisory Board. The Board is composed of EBA's Chairperson and one representative of the national supervisory authority of every EU member (BoG in the case of Greece). The EBA main task is to develop the European Single Rulebook on banking supervision. The EU Commission may initiate proposals for EU banking regulations which then require the approval of the EU Council and EU Parliament. The Council consists of a representative of all EU member states. Parliament can review the Commission's proposals and propose amendments.

**21. The HCMC (Hellenic Capital Markets Commission) is responsible for financial markets oversight and is the only other authority with a substantive role in supervising the banking sector.** AML/CFT supervision is undertaken by two Divisions in the Banking Supervision Directorate (off-site) and the Supervised Institutions Inspectorate Directorate (on-site) within the BoG. Other Government Ministries, such as the Ministry of Economy and Finance (MoEF) and the Ministry of Development (MoD), have narrowly defined roles—for example, in the latter's case, approving bank mergers—but these are undertaken separately and at arm's length from the BoG's prudential role.

**22. The resources and expertise available for LSI supervision in Greece benefit from its location withing a full-service central bank and a larger overall supervisory function.** The interactions with SSM staff also adds to the knowledge base of BoG supervisors.

**23. BoG sets the priorities for LSI supervision on an annual basis, taking the SSM priorities into account.** The SSM sets supervisory high-level priorities that drive the supervisory activities for SIs, while supervisory priorities for LSIs are set by the NCAs. Thus, it is the BoG that sets the overall strategic priorities and, falling out of that, individual work plans for the LSIs, while taking account of the EU-wide context and consulting the ECB. Additionally, the ECB publishes annual and biennial reports[2] summarizing its activities in LSI supervision while identifying major themes relevant for the whole SSM.

**24. BoG is the designated macroprudential authority for Greece and implemented macroprudential tools for the first time in 2024.** BoG is empowered by Law 4261/2014 to implement a suite of macroprudential tools, including capital buffers (the countercyclical buffer—CCyB—and buffers on the basis of systemic importance) and borrower-based measures (BBMs). In 2024, the BoG adopted a positive neutral CCyB and set this at 0.5 percent, which will be effective from October 1st 2026. It was set at an intermediate level of 0.25 percent as of October 1st 2025. It also implemented BBMs, setting limits for high (loan to value) LTV and high Debt Service to Income (DSTI) mortgage lending[3]. Analysis of macroprudential risks is carried out by the Macroprudential Policy Division of the Financial Stability Directorate and deployment of tools is decided at the Executive Committee. Please see the separate macroprudential technical note for fuller information.

## B. Supervisory Independence, Powers, and Resources

**25. BoG's independence is enshrined in law and is evident in practice.** The operational independence, accountability and governance of BoG in its supervisory role is stated explicitly and clearly in primary legislation. Article 5A of its Statute states: "When carrying out the tasks conferred upon them, neither the Bank of Greece nor any member of its decision-making bodies shall seek or take instructions from the Government or any organization. Neither the Government nor any other political authority shall seek to influence the decision-making bodies of the Bank in the performance of their duties." In practice, too, the BoG operates independently of government, with no evidence of political pressure being applied in BoG's operational decisions. Whilst there

[2] https://www.bankingsupervision.europa.eu/ecb/pub/html/LSIreport/ssm.LSIreport2024~b8dd7cda4f.en.html

[3] The measures came into effect in January 2025 and are set at 80 percent for LTVs and 40 percent for DTIs with higher limits for first-time buyers to mitigate distributional impacts.

are occasions where BoG and an arm of government both have a decision-making role, such as bank mergers and takeovers, their respective roles and accountabilities are clear and respected.

**26. BoG has the necessary powers to conduct all supervisory activities.** Specifically, Article 55A of the BoG Statute[4] and Law 4261/2014 (commonly referred to as the Banking Law) respectively entrust banking supervision to the BoG and provide BoG with the powers to collect information, conduct supervisory activities, make regulations and impose sanctions.

**27. BoG is publicly listed, with the Government holding a 30 percent stake and otherwise widely held.** The Statute places a limit of 35 percent on the Government's holding and a 2 percent limit on all other shareholders. Supervised institutions, their affiliates and Board members are prohibited from owning shares. The General Meeting of shareholders is the ultimate decision-making body for the BoG. Whilst there is a theoretical risk that a group of shareholders could pass a mischievous motion at the General Meeting, the likelihood seems low and there are many other legal mitigants.

**28. BoG's income derives from its activities, dividends are payable when net income is positive, and the balance (net profits less dividends) is then usually paid to the Government.** Dividends are a fixed amount per share, so a predictable €13.3mn a year. The payment to the Government is discretionary but occurs in most years. Net profits amounted to €82.9mn in 2024.

**29. Recently, the BoG decided to levy supervisory fees on banks to cover the costs of its supervisory tasks for the first time.** The BoG Executive Committee Act 238/2/10.1.2025 on supervisory fees (effective as of January 2026) lays down a transparent methodology and the criteria for calculating annual supervisory costs & fees per bank, ensuring fairness and predictability for supervised entities. This act also establishes a fixed fee for assessing a banking license application of €20,000.

**30. The overall budget ceiling for the BoG is approved by its General Council (the governing body) with the Governor providing a top-down direction for its allocation.** This process helps to reduce the risk of an overall low budget for the BoG, for example because of temporary public sector spending constraints. Available financial resources include BoG's income from its activities and, going forward, from fees for supervision.

**31. The budget setting framework and the lack of a distinct budget for supervision creates some risk for resources for supervision in a medium-term context.** Supervisory functions need both certainty of financial resource availability over the medium term and a budgetary framework that can adapt nimbly to the emergence of new risks. As an example of the latter, DORA has created significant new demands for skilled ICT personnel, on top of the natural growth in this area with the speed of technological change. A framework that can deliver these goals, while still exerting sensible financial discipline, is desirable. As a mitigant, it should be noted

[4] https://www.bankofgreece.gr/en/the-bank/legal-framework/statute

that the budget setting framework allows deviation from the original budget (e.g. reprioritization of expenses and a buffer that provides some flexibility and mitigates the risk.

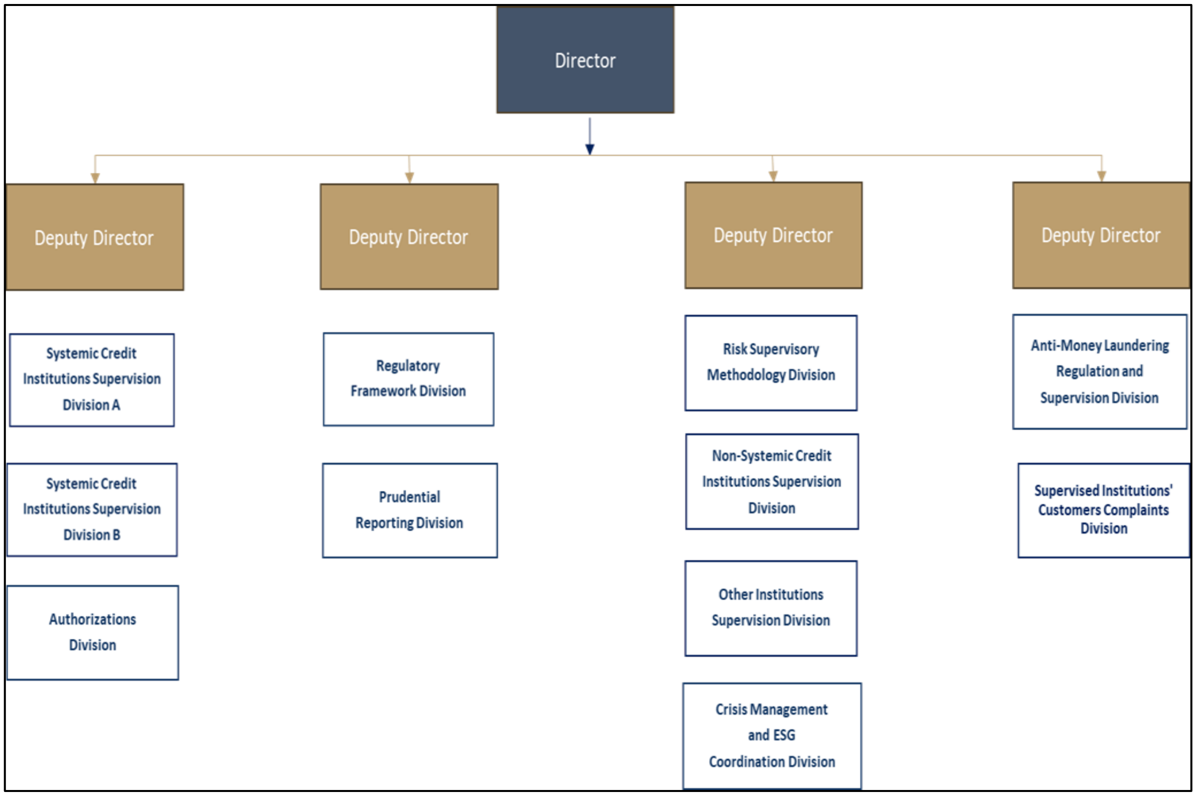
**Recommendation 1:** Review the merit of a distinct supervisory budget, along with an agile approach to changing staff needs, to provide additional safeguards to the independence and financial robustness of BoG's supervisory function.

**32. BoG recently published its first Annual report on Prudential Supervision and Resolution Activities.** This was published in June 2025 and covered its supervisory and resolution activities in 2024. This Report serves as an annual information tool on the BoG's activities in the fields of micro-prudential supervision of credit and financial institutions, occupational and private insurance, as well as macroprudential supervision and resolution. It also includes its activities in the AML / CFT field, the progress in liquidation proceedings, the sanctions imposed on legal and natural persons, as well as key developments in the legal and regulatory framework relating to prudential supervision and resolution. It is a welcome development, providing clarity as to the BoG's thinking and activities, and serves as a useful accountability document.

## C. Organization of Supervision

**33. Article 55A of the Bank of Greece Statute accords the supervisory powers of the BoG to the Executive Committee**. This Committee comprises the Governor and Deputy Governors. The Executive Committee has in turn delegated supervisory powers to the Credit and Insurance Committee (CIC), the body which, in practice, exercises authority over all supervisory and regulatory matters. The CIC's membership comprises the Governor and relevant Senior Management.

**34. The ICT Supervision function is divided into two Divisions.** Namely the "ICT Risk Assessment" that primarily delivers off-site evaluations and tasks and the "ICT Risk Inspections" that performs on-site Missions. Both sit within the Supervised Institutions Inspections Directorate, a move designed to ensure maximum use of the specialist skills of the staff. It should be noted that the BoG has strong horizontal review functions that provide a thorough check on consistency across supervised entities.




## D. Supervisory Cooperation

35. **Domestic supervisory cooperation works well, facilitated by an MoU with HCMC and the fact that many relevant functions sit within the BoG itself.** Other parts of the BoG coordinate closely with banking supervisors and their input factors into risk assessments and supervisory planning. AML / CFT supervisory findings are communicated to LSI prudential supervisors, both systematically as part of the regular SREPs and ad hoc when issues emerge; these are incorporated into the assessment of a bank's risk profile. The MoU with the other main financial sector supervisor, the HCMC, was recently updated.

36. **The Turkish Banking Supervisor is the only relevant overseas supervisor for LSIs and TCBs and BoG have an MoU.** No LSIs currently have an overseas presence. Of the two TCBs, one Is dormant as a result of sanctions. BoG have an MoU with the Banking Regulation and Supervision Agency of Turkey, the home supervisor of the other TCB. The MoU appears to operate effectively, with BoG providing support to an on-site inspection of the Greek operations by the home supervisor.

## E. Supervisory Process

37. **The SREP is the key tool used by the BoG offsite supervisors to assess LSI risks, determine their capital requirements and set the supervisory program.** The SREP tool is based on the SSM LSI methodology. The risk profile of each institution is assessed based on a score of one (lowest risk to four (highest risk). A recent innovation is the introduction of gradings within the two middle categories: a plus (+) or minus (-). This delivers a system with ten gradings. The SREP then

concludes with a determination of the Pillar 2 Capital surcharge (P2R) and the recommended additional capital surplus (P2G) for each LSI. See Appendix I for a diagram outlining the workings of the SREP.

38. **The frequency of SREPs is risk-based.** For high impact LSIs (determined according to a set of criteria set by the ECB), the process is annual, for others every two years (for higher risk entities) or every three years (for small lower-risk non-complex institutions and third country branches (TCBs)). As a backstop, in case the state of an LSI changes dramatically between assessments, all LSIs are subject to an automated summary assessment annually.

39. **SREP assesses risks facing the LSI in a structured and consistent manner.** The supervisor uses all available information to assess risk levels and risk controls in the LSI. This information includes prudential data, the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP)—both required ahead of the SREP—a stress test conducted by the BoG and a questionnaire about internal controls and processes completed by the LSI. The analysis also takes into account other information such as the results of on-site inspections, meetings with the bank and public sources. The SREP scores four elements: (i) business model; (ii) internal governance and risk management; (iii) risks to capital (credit, market risk, IRRBB, operational risk); and (iv) liquidity. The first three elements are used to determine the P2R. The liquidity risk profile does not feed through to the P2R but is used to determine supervisory actions around liquidity and funding. The scores are first calculated automatically from the data and a (constrained) supervisory judgement is overlaid. Risk levels and risk controls across the four areas are combined to produce the overall risk grade of one to four. The process is conducted thoroughly, with detailed memos to the CIC that analyze the information, the risk rating and the action plan. The CIC adopts the SREP decisions.

40. **Horizontal analysis and consistency checks form a key part of the process.** BoG's Methodology team and the Risk Analysis team conduct horizontal reviews of the SREP outputs, including key metrics (profitability, capital, asset quality etc.) and this facilitates benchmarking analysis, comparisons between LSIs and consistency of risk scores and supervisory programs.

41. **Supervisory action plans and P2R add-ons are the main actionable outcomes from the SREP process, with add-ons determined for each risk area**. The proportionate implementation of the framework helps contribute to an overall high level of consistency and robustness of supervisory approaches and supervisory actions. The Supervisory Review Process (SREP) outcomes are shared with banks transparently. The supervisory action plans, and LSI's compliance with the individual items are carefully monitored. The P2R add-ons are built up in a granular way with specific add-ons for each risk area. The overall outcome is a coherent and internally consistent set of actions and capital add-ons. The LSIs that the assessor met confirmed that the risk analysis and action plans are clear and supported by evidence.

42. **On-site inspections are part of supervisory plans, on a risk basis, or part of a horizontal review.** There is an annual planning process where the supervision teams submit their "bids" and discuss with the Inspection Directorate management the priorities for the next year. An on-site program is then developed for the year. Third parties are not used but in principle could be

commissioned to assist in a period of heavy demand for on-site work. The on-site inspection reports were reviewed and found to be thorough with the conclusions and action plans well-evidenced.

**43. Two separate Divisions under the Supervised Institutions Inspections Directorate cover ICT risks for both on-site and off-site supervision.** were A single division performing IT risk assessments and on-site inspections was originally established in 1998 until 2018 when the Division was split into its current form. The driver for this was that ICT skills are specialized and BoG judged it to be more efficient and effective to have the skills in one place and available for all types of ICT supervisory work, thus creating a pool of horizontal ICT Risk resources that can be allocated to resource intensive projects. The output of the teams is of a similar standard to that of the core supervision areas, but there are challenges in sourcing the skills needed and the demands on the team are high. See recommendations 1 and 13 which recommend allocating more resources to areas of growing importance such as this.

**44. Whilst the supervisory processes are thorough and well-executed, BoG would benefit from a careful review of its risk tolerance.** As the Greek economy and financial system are emerging to a more normal state following the crisis, and assuming an absence of major shocks over the next few years, the BoG should review its risk tolerance for supervisory issues in LSIs. The BoG does not currently articulate, externally or internally, the extent to which, for example, it is prepared to tolerate different types of bank distress. This lack of clarity could, at some future point, lead to (i) an effective zero tolerance with accompanying moral hazard or (ii) a premature tolerance of losses with risks to confidence and of contagion. The latter is currently unlikely given the BoG's intrusive supervision but a framework will help to futureproof the supervisory framework and ensure any change in risk appetite is well-considered. Overall, the lack of a framework could also lead to confusion and a lack of clarity internally as to how far its supervisory actions should aim to reduce or eliminate risk. Given the legacy of the crisis, such an analysis would need to be undertaken carefully and over the medium term, with full consideration of the sensitivities around public communications.

**Recommendation 2:** BoG to consider introducing a risk tolerance framework in its supervisory approach to LSIs.

## F. Supervision of Risk Management and Governance

**45. The Greek governance requirements were updated in July 2025, and they follow the EU regulations.** The Banking Law 4261/2014 sets the core governance requirements, transposing the relevant CRD provisions from EU law. The recent update (BoG Executive Committee Act 243/2/07.07.2025) enhances the internal governance arrangements of credit institutions introducing requirements mainly related to the role and composition of the board and its committees, the organizational framework and structure, the risk culture and business conduct, the internal control framework and mechanisms, the business continuity management, supervisory reporting and transparency. The recent Act introduced a requirement for a minimum number (two or 25 percent depending on the size of the bank) of independent non-executive directors.

**46. Similarly, the risk management framework is also robust with national legislation transposing and building on EU law.** The BoG Executive Committee Act 243/2/07.07.2025 that adopts the EBA guidelines on internal governance (EBA/GL/2021/05) requires credit institutions to have appropriate risk management strategies approved by the Board of Directors. The Board of Directors' responsibilities should include, among other things, the overall risk strategy, the institution's risk appetite and its risk management framework and measures to ensure that the management body devotes sufficient time to risk and risk management issues; a risk culture which addresses the institution's risk awareness and risk-taking behavior; an adequate and effective internal governance and internal control framework. The risk management and internal audit functions are required to be independent.

**47. Governance and risk management remains an area of continued focus given the inherent governance challenges facing LSIs.** In support of the governance and risk management requirements, supervisors accord a high priority to assessing governance in practice and pushing for improvements. As part of the SREP, offsite supervisors review, among other things, detailed questionnaires, the quality of the ICAAP and ILAAP, Board minutes, internal audit reports and information garnered through on-sites and meetings with Boards and management. BoG has also sanctioned and fined LSIs for governance failings. These actions have helped elevate the importance of sound governance in LSIs, but governance challenges will likely persist and supervisory action should follow a comprehensive proactive approach, and be more forceful and targeted including measures such as improving the number and quality of independent directors, enhancing board accountability, and fostering a strong risk culture. Supervisors have uncovered governance weaknesses through their regular monitoring, through on-site inspections and through specific issues that are disclosed to them. One theme behind many of these matters is the need for greater challenge to be exercised by independent directors. It is therefore vital for BoG supervisors to continue to accord priority to governance matters and to push for, at least the larger and riskier LSIs, to go beyond the minimum requirements.

**Recommendation 3:** Heighten supervision of governance, including through on-site inspections, and particularly for larger and riskier LSIs, including a focus on more high-quality independent directors.

## G. Change of Control and Significant Acquisitions

**48. Acquisitions of a qualifying holding in the share capital of non-bank financial companies by credit institutions is covered by the EU legislative framework as of 11 January 2026 and is meanwhile subject to the prior approval of the BoG.** Law 4261/2014 art. 15(2)(d) & BoG Governor's Act 2604/2008 accompanied by the clarifications provided with the decision of the BoG Banking and Credit Committee Decision 281/10/17.03.2009 provide the relevant powers and criteria. Article 24 of Law 4261/2014 sets out five criteria to consider in any application by a potential acquirer of a qualifying holding.

**49. EU law does not give authorities the power to automatically unwind a transfer of ownership of a bank where it takes place without the necessary notification or it was based on false information.** Under EU Law (Art 22(1) and 23(2) of CRD) the ECB can issue a negative decision and undertake actions such as freezing votes of shareholders based on national implementation of Art 26(2) of CRD. National authorities have an administrative role in administering the process. In the case of Greece, there is a good mitigant in place, that BoG can deprive the shareholder of voting rights. Nonetheless, the power to require unwinding of the transaction is powerful and a deterrent, and it is recommended that if a change in the EU regulations is not on the horizon, BoG's internal procedures include an automatic suspension of voting rights in such cases.

**Recommendation 4:** monitor whether EU intends to introduce these changes and BoG should review their processes and include an automatic suspension of voting rights if a change in control approval was based on false information or they had not been properly notified.

**50. Significant acquisitions or disposals of assets, including mergers of credit institutions, are required to be approved by the BoG under the provisions of Law 2515/1997**. Full information and business plans are required under the law. The mergers/divisions of credit institutions require prior approval of the BoG and the MoD. The BoG approves the merger from a prudential point of view, whereas the MoD approves the merger based on the provisions of the law applying to Sociétés Anonymes regarding corporate transformations (such as mergers). Both the competent authority's and the MoD's decisions are necessary for the merger/demerger to be valid, i.e. if BoG objects, MoD cannot approve the operation.

**51. In a recent example, BoG approved the merger of two LSIs that created the fifth largest bank in Greece.** The process included the securitization of the majority of the merging banks' historic NPL book. The BoG's process was thorough and included consideration of:

- The business plans of the merged entity.
- The impact of the securitization and capital injections on the merged bank's overall capital position and NPL prospects.
- That the securitization met the BoG's requirements for Significant Risk Transfer.[5]
- The suitability of the Board and governance arrangements of the merged entity.

The files made it clear that the roles of the BoG and MoD were carried out separately, each party focusing on its own objectives, and the independence of the BoG's decision-making for prudential purposes was not compromised.

**52. However, the Hellenic Corporation of Assets and Participations (HCAP), which is fully owned by the MoEF, keeps a veto power over any strategic decision of participated banks.** This is the case of the fifth largest bank, which resulted from the merger mentioned in the previous paragraph and on which HCAP still retains a 36.2 percent stake. Although HCAP can only nominate

[5] BoG assesses compliance of these transactions with SRT on the basis of respective CRR requirements, Executive Committee Act 113/03.02.2017 (ΠΕΕ_113_03_02_2017.pdf), which adopts EBA GL for SRT for securitization transactions (EBA/GL/2014/05), and EBA Report on Significant Risk Transfer in Securitization Under Articles 244(6) and 245(6) of the Capital Requirements (EBA/Rep/2020/32)).

non-executive board members, it retains the power to veto strategic decisions, including any transaction that would result in the dilution of its participation (e.g. a new merger). This is a legacy issue from the now dissolved Hellenic Financial Stability Fund (HFSF). While it made sense at the time for the HFSF to have such veto powers, it is not clear why HCAP should now still retain them as this could result in undue interference from the government in market operations and transactions. Also, HCAP does not seem to have a timeline or approved criteria clearly setting the conditions for completing the divestment in the two remaining banks in which it still holds an equity stake.

**Recommendation 5:** Remove the special powers granted to HCAP in relation to its participation in the fifth largest bank.

## H. Supervision of Core Financial Risks

### Capital

**53. Capital calculations are consistent with EU rules, with a defining feature of the Greek environment being the scale of Deferred Tax Credits (DTCs).** Given their adoption of EU rules for capital, Greece also has on paper the same deficiencies as described in the EA FSAP assessment. The most significant of these gaps are not relevant to Greece, as the banks do not use internal models for the calculation of credit risk. However, the issue of capital treatment of bancassurance conglomerates under the 'Danish compromise' may become relevant given the recent acquisition of an insurer by an SI bank. Some Greek LSIs hold DTCs (Deferred Tax Assets with a government guarantee—see explainer in Appendix 2), with the highest at 30 percent of CET1 Capital. DTCs are a legacy of the crisis and, while not deductible from capital under the EU regulatory framework, are seen as lowering the quality of banks' balance sheets, and as having a continued impact on the Sovereign / bank nexus. To address this issue, SI banks recently decided to accelerate their prudential amortization in proportion to their annual payout of dividends, so that they can reduce DTCs at a faster path than the 20-to-30 years originally envisaged.

**Recommendation 6:** Accelerate the legal amortization of DTCs to a timing aligned with the voluntary scheme currently in place for their prudential amortization in SI banks, given that the legal amortization would be applicable to all banks, including LSIs.

**54. BoG's Pillar 2 capital add-ons are well-supported and mitigate financial risks identified.** A key output of the SREP process is the P2R and P2G add-ons. The former is the Pillar 2 surcharge while the latter has the status of guidance, being a recommended additional capital surplus for LSIs. BoG run a systematic and thorough process to arrive at the add-ons.

### Credit Risk

**55. The EU framework contains a thorough approach to credit risk and BoG has implemented the full suite.** BoG's approach to credit risk supervision builds on the EU regulatory framework and is applied proportionately to LSIs. The CRR covers minimum requirements to measure credit risk for capital purposes. Importantly, it contains the definitions of forbearance, non-performing and defaulted loans (¶58). Additionally, the CRR describes the credit granting and monitoring process and contains capital requirements with respect to credit risk, including the usage of internal models, the need for stress testing (Chapter 3), and the use of credit risk mitigation techniques (Chapter 4). The CRD is transposed into Greek national law[6].

**56. Credit risk remains the most important financial risk facing LSIs and BoG give it due emphasis in both offsite and on-site supervision.** In the period 2022-25, four of BoG's six LSI inspections focused on credit risk (the other two examined ICT risk). The on-site inspection reports evidenced a comprehensive review of all relevant aspects of credit risk management and appropriate findings and action points. BoG has an appropriate focus on collateral valuation, given the length of time that it can take to realize collateral on NPLs. Rules around frequency of revaluation and a requirement to rotate appraisers are checked at on-site inspections.

**57. Greece has been particularly challenged by the persistence of high levels of NPLs, largely a legacy of the crisis, and although these have largely been securitized to loan servicers, some LSIs retain significant amounts on their balance sheets.** One contributing factor towards the long tail of legacy NPLs is that the judicial process can be very slow. This issue has been extensively traversed in the Article IV and is covered in the FSAP Technical Note on Insolvency Creditor Rights and Credit Servicers. Three LSIs have NPLs ranging between 25 and 45 percent.

**Recommendation 7:** Greece should expedite legislative change to address delays in the judicial process for realizing on security and addressing longstanding NPLs.

**58. NPL provisioning for longstanding NPLs is progressively increasing under EU regulations (the "prudential backstop").** EU Regulation 2019/630 of April 17, 2019, introduced minimum loss coverage for NPLs, with a sliding scale of minimum provisions depending on the time the exposure has not been performing. For legacy (pre-2016) Greek exposures, 100 percent coverage will be required by 2029. The three LSIs with high legacy NPLs had coverage ratios between 40 percent and 60 percent as of end-2024 so the prudential backstop would be expected to have an impact as it is progressively implemented.

**Recommendation 8:** BoG should maintain a strong focus on credit risk and NPLs.

### Concentration Risk and Related Parties

**59. BoG assesses single party, geographic and sectoral concentration risks in LSIs and these form important inputs to the SREP.** P2R add-ons are used when concentration risks are significant. The increase in single concentration risk over recent years points to continued vigilance in calibrating the P2R add-on. Greece has transposed the ECB regulations, so the EA FSAP findings are relevant. In that respect, the only gap in the EU / BoG rules is the absence of a specific requirement for Boards to sign off on all concentration risks. This gap creates a potential lack of supervisory leverage, but is mitigated by the fact that, via off-site questionnaires and on-site

[6] EBA BS 2017 (Final Guidelines on Accounting for ECL).docx

inspections, BoG insists in practice that Boards are fully appraised of and engaged with all relevant concentration risks. The recommendation should be seen in that context and BoG may wish to act only if the matter remains unaddressed at European level.

**Recommendation 9:** Introduce a requirement for Boards to sign-off on all concentration risks.

**60. The EU regulatory framework lacks a requirement to monitor and control separately and in aggregate related party exposures, as requested by the BCPs, and the Greek national framework lacks some core elements**. The recent EA BCP assessment found that the EU definitions of a related party are not aligned with the Basel standard and there are no limits or thresholds triggering supervisory notification or approval prescribed in EU law. The Greek law includes a broader definition of related parties but still falls short of the Basel definition.[7] Specifically, the Greek definition does not include all affiliates of the bank. Additionally, there is no limit on total exposures to related parties which the BCPs set at 25 percent of CET1 Capital, only on exposures to each related party.

**61. The EA FSAP also noted the absence of any horizontal or thematic reviews of related party transactions.** In the case of Greek LSIs, there is evidence of supervisory attention to related party transactions as part of both the SREP process and the on-site credit inspections. In one case, firm action has been taken. There is also formal regular reporting of related party exposures. Together, these elements add up to a good reporting, oversight and sanctioning approach, but the tightening of the regulatory framework, as noted in the previous paragraph, would ensure the totality of related exposures is fully identified and controlled.

**Recommendation 10:** align the definition of related parties with that of the BCPs by including all affiliated companies and their directors and family.

**Recommendation 11:** introduce a limit on total exposures to related parties of 25 percent of CET1 Capital.

**IRRBB**

**62. The Bank of Greece includes IRRBB in its SREP and imposes a full range of P2R add-ons but the scale of IRRBB risk in some LSIs warrants ongoing supervisory attention.** BoG has adopted the EBA guidelines and assesses IRRBB as part of the SREP process. Supervisors analyze IRRBB from both earnings (Net Interest Income), and an economic value (EVE) perspective. Some LSIs carry relatively high IRRBB, in the range of 30-40 percent of CET1 Capital at risk from a parallel 200bp upward shift. In practice, however, Greek banks have experienced low deposit betas and maintained consistently low rates on deposits, even during the recent period of rising interest rates. At present net interest margins are high; the weighted average interest rate on loans is 4.6 percent and on deposits 0.3 percent. Thus, the IRRBB risk is not as serious or immediate as the raw numbers would imply. Nevertheless, in the future the market dynamics may change quickly if, for example, aggressive new entrants offer much better deposit rates. A medium-term recommendation is that

[7] See footnote 68 of the revised 2024 Basel CP.

supervisors undertake dialogue with selected banks around reducing the magnitude of the risk, and ensuring a strong risk control framework, as well as continuing to apply appropriate P2R add-ons.

**Recommendation 12:** LSI supervisors should discuss with banks the magnitude of the risk, and ensure that they have a strong risk control framework commensurate with the risk profile, as well as continuing to apply appropriate P2R add-ons.

### Market Risk

**63. Greek LSIs have limited exposure to market risk and BoG's supervisory attention is therefore appropriately low.** Only two LSIs report limited trading portfolios and in both cases market RWAs are small (less than 1 percent and roughly 2.7 percent of total RWAs). Supervisors assess market risk as part of the SREP and, to date, have concluded that the low levels of market risk mean no specific supervisory action is warranted. The bank reporting and the quarterly analysis they undertake, which includes six KRIs, would alert them to any change in market risk exposures in individual LSIs.

### Operational Risk

**64. BoG's regulatory and supervisory framework for operational risk is generally comprehensive and effective, but the supervisory task is significant in terms of scope and resource requirements.** The EU framework for operational risk regulation is rooted in the CRD/CRR and Digital Operational Resilience Act (DORA)[8], and these are further elaborated it in the EBA technical standards and guidelines. BoG has incorporated these into their local regulations and references the SSM Manual to supervise operational risk. In 2018, BoG established a separate department focused exclusively on ICT risk, drawing together ICT skills for both offsite and on-site work. Staff numbers have grown from about 10 to 17 over the last five years. Offsite analysis includes the use of ICAAPs, self-assessment questionnaires, the team's analysis of other information (including on-site inspections), all of which feeds into the same SREP framework as is applied to all other risks to capital. SREPs are subjected to horizontal analysis to assure consistency. DORA has introduced significant demands on both banks and supervisors, and this presents an ongoing challenge of resource allocation with the risk of resources in the ICT department being further stretched.

**65. The small size and simple business models of most LSIs limit their exposure to some operational risks, but this is also a weakness given the need for ICT investment.** BoG are right to see ICT as a significant ongoing and growing risk for the sector. LSIs' simple business models mean they are not exposed to the full range of ICT risks, and outsourcing risk is less significant than for larger entities. On the other hand, they can find it difficult to attract the required expertise. BoG have been encouraging such expertise on their Boards, and this has also proven challenging but has had some success with perseverance. The SREPs and on-site inspections have highlighted ICT as a major risk factor for LSIs, with the on-sites generating numerous important recommendations.

[8] https://eur-lex.europa.eu/eli/reg/2022/2554/oj/eng

As noted above, DORA increases demands on both banks and supervisors. The fungibility of expertise between ICT supervisory skillsets and those of other areas in the BoG is low, so resource transfer can only happen over a longer period.

**Recommendation 13:** Undertake a full strategic review of resource requirements for ICT and in other areas of Supervision under the most pressure, and increase / reallocate resources as appropriate.

## I. Supervision of Liquidity Risk

**66. BoG has fully implemented LCR and NSFR in line with EU regulations.** The LSI SREP methodology (incorporated in the supervision of the Greek LSIs with Banking Supervision Directorate circular No. 40) covers the assessment of the full liquidity and funding risk profile of banks and includes (i) an assessment of an institution's capacity to meet its short-term financial obligations (short-term liquidity risk), (ii) a longer-term assessment of the sustainability of its funding profile (funding sustainability risk), and (iii) an assessment of liquidity and funding risk management. Third country branches (TCBs) are subject to the same liquidity requirements as locally incorporated banks.

**67. BoG's supervision of liquidity risk is comprehensive and includes a thorough review of banks' ILAAPs.** LSIs submit ILAAPs annually and these are reviewed thoroughly by the supervisory teams. A full analysis of risks and controls around liquidity and funding is undertaken for SREP. There is multiple evidence in the files that the offsite supervisors understand the risks, allocate appropriate scores and require appropriate action plans as necessary.

**68. LSIs' liquidity metrics have been relatively robust, so liquidity risk has not been a focus for on-site inspections.** Over the last five years, deposits have grown strongly in the Greek banking system while lending has grown more slowly. The banks have also ensured a healthy level of High Quality Liquid Assets (HQLAs), all of which factors have resulted in LCRs over 200 percent across the sector and NSFRs well above the regulatory minimum. Given the current position, liquidity is not a major priority. BoG will continue to monitor the situation and is equipped to focus more on liquidity if circumstances change or as a thematic review.

## J. Sanctions and Enforcement

**69. BoG has the powers to impose a wide range of administrative penalties, including financial, and this range is set to expand if CRD VI is transposed into national legislation as expected in January 2026.** The current framework is quite flexible, allowing for the imposition of sanctions and the adoption of measures for a wide variety of breaches. The new legislation will introduce the power to impose periodic penalty payments (PPPs), in addition to administrative penalties, and other administrative measures, in respect of breaches of relevant laws both at national (BoG decisions) and EU level. The application of PPPs will enhance the current sanctioning regime—they act as an ongoing deterrent and incentive for a bank to quickly remediate the issue for which they are being penalized.

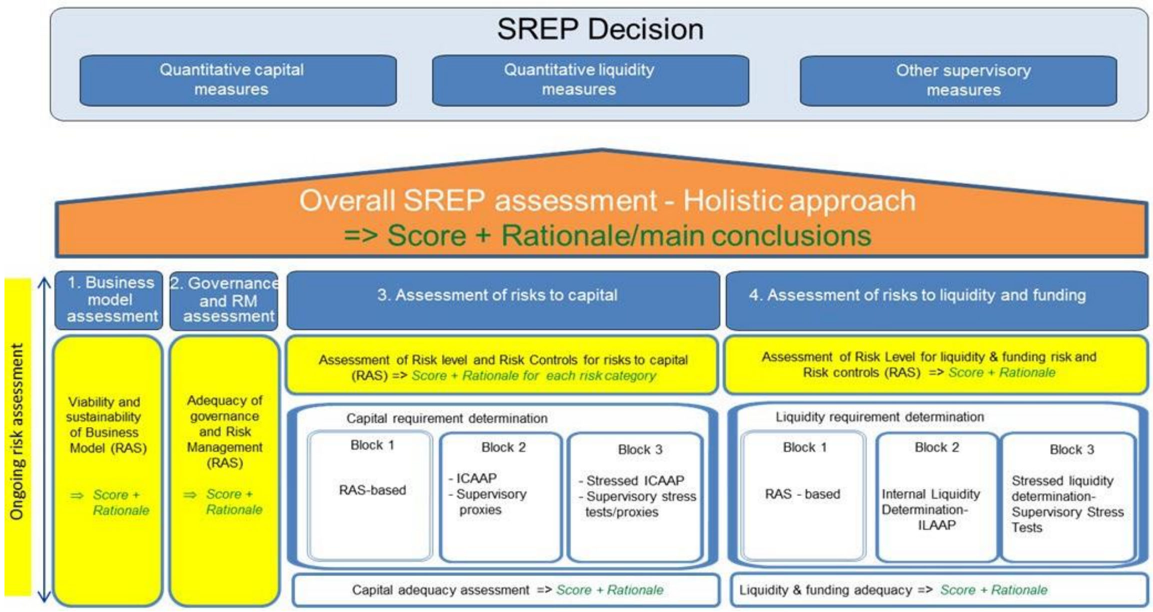
**70. BoG has imposed a range of sanctions over the last five years, for both AML/CFT and prudential breaches, but a more formal process with an updated sanctions matrix would be desirable.** The internal process has worked reasonably well in practice, with decisions taken at the CIC on the basis of thorough reasoned evidence with legal sign-off. However, a full formal escalation process is lacking. Before the final decision, the draft notice is communicated to the interested party (e.g., the LSI) and any objection is independently assessed. Administrative appeals are permitted but none have ever been lodged. In terms of actual sanctions imposed for prudential breaches, BoG have taken action to remove individual Board members and have also fined individual LSIs. One concern is the relatively low level of financial penalties imposed, and it is recommended that BoG review the criteria and level of penalties to ensure they are set at the right level for deterrent purposes.

**Recommendation 14:** review and codify clearly the escalation process and review the sanctions matrix so that all sanctions actions are timely, consistent and effective as deterrents.

# Appendix I. Overview of the SSM Supervisory Review Process

**1. The SREP methodology relies on quantitative and qualitative assessments, overlaid with supervisors' expert judgement, to derive SREP decisions that are tailored to a bank's specific risk profile.**

**Structure of SREP**




**2. The methodology is built on four elements.** These elements can be tailored for the specific situation of each institution:

- *Business model assessment*—including an assessment of business model viability and sustainability.
- *Internal governance and risk management assessment*—assesses group structure, internal governance framework, risk management framework, internal control environment and risk infrastructure.
- *Capital assessment*—includes a risk-by-risk assessment of risks to capital i.e., credit risk, market risk, operational risk and Interest Rate Risk in Banking Book (IRRBB). This assessment also includes an ICAAP outcome, encompassing ICAAP governance, capital planning, scenario design and stress testing, internal controls, independent reviews and ICAAP documentation, data and infrastructure, risk capture, management and aggregation.

- *Liquidity assessment*—includes a risk-by-risk assessment of risks to liquidity and funding, i.e., short-term liquidity, long-term funding sustainability and ILAAP reliability assessment, encompassing ILAAP governance, funding strategy and liquidity planning, scenario design, stress testing and contingency funding plan, internal controls, independent reviews and ILAAP documentation, data and infrastructure, risk capture, management and aggregation.

**3. Consideration is also given to developments in the sector and the wider economic environment that may impact the longer-term risk profiles of the banks.** This is achieved through quarterly risk analysis packs (analytical reports of supervision), financial stability reviews, quarterly bulletins, internal 'policy bites' information sessions, SSM priorities, and SSM horizontal assessments. Frequency of engagement with each LSI is based on the risk profile of the bank, business model changes, and the nature, scale, and complexity of the institution.

# Appendix II. Deferred Tax Credits

**1. Deferred Tax Credits (DTCs) have their origins in the Greek debt crisis of the early to mid-2010s.** As a result of their serious losses, Greek banks accumulated significant Deferred Tax Assets (DTAs). These DTAs were recorded as assets on the balance sheet but, under prudential rules, were required to be deducted from capital for the calculation of prudential capital adequacy. This deduction was required (under the Basel and EU frameworks) because DTAs only have value if the bank makes a profit. If the bank were to fail, they would likely be worthless.

**2. In order to support the banks' capital position, the Government passed a tax law, 4172/2013 that provided a government guarantee to eligible DTAs.** These DTAs were converted into DTCs. Only DTAs created before 23 November 2016 were considered (there have not been, and will not be, any new DTCs since that date). Eligibility criteria for conversion into DTCs allowed for DTAs stemming from three types of losses:

- Losses recognized due to the Greek banks' involvement in the Greek sovereign debt restructuring, which are amortized over 30 years.
- Losses due to write-offs and disposal of loans below par, which are amortized over 20 years.
- Accumulated provisions and other loan losses due to credit risk, which are amortized when realized.

**3. DTCs would convert into shares, via a government injection of funds, if a bank made a loss in any year.** The conversion would be calculated according to a set formula: the percentage of outstanding DTCs converted is equal to the year's losses as a percentage of year-end capital plus year's losses. If, during the year, there were no impacts on the capital number other than losses (e.g. no capital injections), then that percentage is simply the percent of starting capital that was lost. So, for example, if a bank suffered accounting losses of 20 percent of the capital that it held at the start of the year, the Government would inject capital of an amount equal to 20 percent of the outstanding DTCs.

$$\mathbf{DTC}_{\mathbf{converted}} = \mathbf{DTC}_{\mathbf{before\ conversion}}\ \mathbf{X}$$

$$\frac{Accounting\ loss\ after\ tax\ for\ the\ year}{Total\ equity\ at\ year\ end - Accounting\ loss\ after\ tax\ for\ the\ year}$$

**4. Unlike DTAs where repayment is uncertain, DTCs do not depend on banks' future profitability and thus do not need to be deducted from Common Equity for prudential purposes.** DTCs are thus purely a prudential concept and not an accounting or economic concept. It is important to be clear that DTCs do not in a technical sense "count as CET1 capital" as is often stated. Such framing implies they are a quasi-capital instrument. It is more accurate to say that they are not deducted, so in effect remain as assets on the balance sheet for prudential purposes; the bank's quantum of capital is therefore greater by the DTC amount than it would be if they were deducted.

**5. DTCs remain significant on SIs' balance sheets.** As of end-2024, DTCs stood at the equivalent of 50.1 percent of SIs' CET1 Capital. For LSIs, the ratio is much lower at 2.4 percent. Only three LSIs had DTCs, with the highest at 30 percent of CET1 Capital. The reason for this is that the biggest LSI (which recently merged with another LSI) monetized all of its DTCs because of recurrent losses recorded in past years.

**6. Despite the ruling that they do not need to be deducted from prudential capital, DTCs are perceived as lowering the quality of banks' capital.** Mainly, this is because of the Sovereign / bank nexus. Serious losses across the banking system would trigger DTC conversion and a proportion of those losses would flow straight through to the Sovereign. And there is also a risk of dilution in case of DTC conversion to a stake in the bank as a result of severe losses. They are also seen as a reputational risk, a reminder of the legacy of the crisis. The authorities, banks and market players alike are motivated to eliminate them so that banks have a more conventional balance sheet structure, less reliant on government guarantees.

**7. For these reasons, SI banks have started an accelerated non-linear prudential amortization of DTCs in proportion to their dividend payout every year.** This scheme would allow SI banks to accelerate the prudential derecognition of their DTCs by eight years (by 2031-33 instead of 2041). This is a voluntary initiative of the SIs that was agreed with the SSM and which has been welcomed by rating agencies and the market.

**8. This is, however, a temporary solution.** This solution is based on the underlying assumption that banks will remain profitable and pay out dividends in the coming years, while the accounting and tax treatment of DTCs has remained unchanged to date.

# Appendix III. Hellenic Asset Protection Schemes (HAPS)

1. **HAPS are state-sponsored securitization schemes.** Under HAPS, there have been 19 SPVs set up to date since 2019: HAPS I (2019-20) and HAPS II (2022-23) for the four SIs, and HAPS III (2024-25) for LSIs. Their purpose was to remove from banks' balance sheets NPLs, from before and during the crisis years. As a result, balance sheets of participating banks are cleaner and, without the significant energies needed to deal with legacy NPLs, they are better prepared to focus on servicing the economy and their current customers. HAPS enabled a substantial reduction in NPLs in Greece from €81 billion, a ratio of 40.6 percent in Q2 2019, to only €6 billion, a ratio of 3.0 percent in Q4 2024.

2. **Although HAPS has removed large volumes of NPLs from bank balance sheets, these NPLs remain in the economy, managed by Credit Servicers.** Under Greek law, credit servicers are exclusively responsible for servicing transferred NPLs. Each SPV issued three tranches of notes to fund the acquisition of the loans: senior, mezzanine and junior, with the structure ensuring that the senior bonds have a minimum rating of BB+. Under HAPS, the transferring bank purchases the entirety of the senior notes, and these are expected to be held to maturity. The transferring bank is also required to retain 5 percent of the mezzanine and junior bonds in order to comply with the risk retention requirement under the Securitization Regulation 2017 / 2402. The remaining mezzanine and junior bonds are largely purchased by third party investors, mainly overseas.

3. **The senior notes benefit from a government guarantee and this enables a zero percent risk weight for the transferring bank holding them.** The guarantee is only triggered if the SPV fails to pay interest when due or principal at final maturity date. In fact, one singular feature is that, under HAPS law, there is no contractual repayment schedule for the senior debt. The only contractual principal repayment is the final maturity date of each senior note, which itself is the final maturity date of the longest-dated underlying loan (usually a mortgage). Of the 19 deals, the final maturity varies between 24 years and 56 years as of Q2 2025. The senior notes may therefore be in existence for decades, though in practice, principal is being repaid in line with repayments on the underlying portfolio.

4. **The resolution of transferred NPLs by credit services is slower than initially planned.** As of Q2 2025, the total outstanding guaranteed amount was €16.2 billion. This represents a decrease of €4.2 billion (or 21 percent) over the lifetime of the structures, which, while welcome, is considerably less than the projected 36 percent at inception. Two major contributory factors to this are (i) the slow judicial process (see recommendation 6 in the report) and (ii) an underestimate of costs associated with recovery. While the NPLs sold to HAPS vehicles are now off the banks' balance sheets, it is important to note that they can pose a risk to economic growth and continue to present a risk to the sovereign.