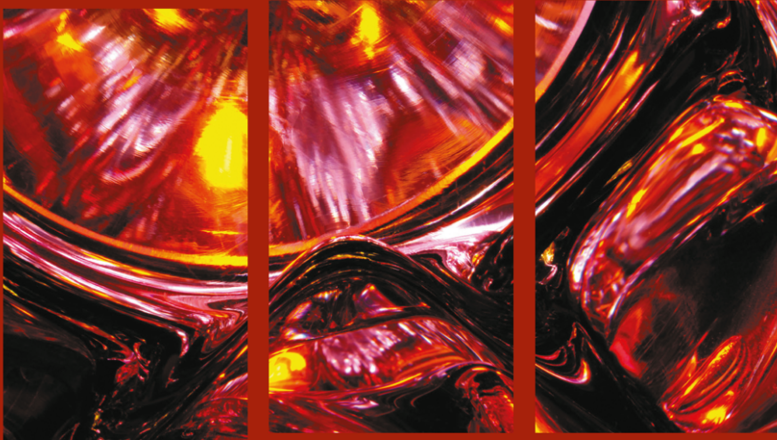
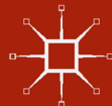
PALGRAVE MACMILLAN STUDIES IN BANKING AND FINANCIAL INSTITUTIONS
SERIES EDITOR: PHILIP MOLYNEUX

European Bank Restructuring During the Global Financial Crisis



Edited by Małgorzata Iwanicz-Drozdowska

With contributions from Jakub Kerlin
Elżbieta Malinowska-Misiąg
Paweł Smaga
Bartosz Witkowski
Agnieszka K. Nowak
Anna Kozłowska
Piotr Wiśniewski



Palgrave Macmillan Studies in Banking and Financial Institutions

Series Editor: Professor **Philip Molyneux**

The Palgrave Macmillan Studies in Banking and Financial Institutions are international in orientation and include studies of banking within particular countries or regions, and studies of particular themes such as Corporate Banking, Risk Management, Mergers and Acquisition. The books' focus is on research and practice, and they include up-to-date and innovative studies on contemporary topics in banking that will have global impact and influence.

Titles include:

Giuseppe Boccuzzi
THE EUROPEAN BANKING UNION
Supervision and Resolution

Vincenzo Formisano
NON-KNOWLEDGE RISK AND BANK-COMPANY MANAGEMENT
The Role of Intangibles in Rating Models

Bernardino Quattrociocchi
INTERNAL RATING SYSTEMS AND THE BANK-FIRM RELATIONSHIP
Valuing Company Networks

Miao Han
CENTRAL BANK REGULATION AND THE FINANCIAL CRISIS
A Comparative Analysis

Pierluigi Ciocca
STABILISING CAPITALISM
A Greater Role for Central Banks

Anabela Sérgio *(editor)*
BANKING IN PORTUGAL

Michele Modina
CREDIT RATING AND BANK-FIRM RELATIONSHIPS
New Models to Better Evaluate SMEs

Jes Villa
ETHICS IN BANKING
The Role of Moral Values and Judgements in Finance

Dimitrios D. Thomakos, Platon Monokroussos & Konstantinos I. Nikolopoulos *(editors)*
A FINANCIAL CRISIS MANUAL
Reflections and the Road Ahead

Elena Beccalli and Federica Poli *(editors)*
BANK RISK, GOVERNANCE AND REGULATION
LENDING, INVESTMENTS AND THE FINANCIAL CRISIS

Domenico Siclari *(editor)*
ITALIAN BANKING AND FINANCIAL LAW
Supervisory Authorities and Supervision

Intermediaries and Markets
Crisis Management Procedures, Sanctions, Alternative Dispute Resolution Systems and Tax Rules

Fayaz Ahmad Lone
ISLAMIC FINANCE
Its Objectives and Achievements

Valerio Lemma
THE SHADOW BANKING SYSTEM
Creating Transparency in the Financial Markets

Imad A. Moosa
GOOD REGULATION, BAD REGULATION

Elisa Menicucci
FAIR VALUE ACCOUNTING
Key Issues arising from the Financial Crisis

Anna Omarini
RETAIL BANKING
Business Transformation and Competitive Strategies for the Future

---

Palgrave Macmillan Studies in Banking and Financial Institutions
Series Standing Order ISBN: 978–1–403–94872–4
(*outside North America only*)

You can receive future titles in this series as they are published by placing a standing order. Please contact your bookseller or, in case of difficulty, write to us at the address below with your name and address, the title of the series and the ISBN quoted above.

Customer Services Department, Macmillan Distribution Ltd, Houndmills, Basingstoke, Hampshire RG21 6XS, England

---

European Bank Restructuring During the Global Financial Crisis

Małgorzata Iwanicz-Drozdowska
Professor, Warsaw School of Economics, Poland

Jakub Kerlin
Ph.D. Candidate, Warsaw School of Economics, Poland

Anna Kozłowska
Ph.D. Candidate, Warsaw School of Economics, Poland

Elżbieta Malinowska-Misiąg
Assistant Professor, Warsaw School of Economics, Poland

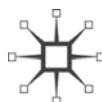
Agnieszka Nowak
Assistant Professor, Warsaw School of Economics, Poland

Paweł Smaga
Assistant Professor, Warsaw School of Economics, Poland

Piotr Wisniewski
Assistant Professor, Warsaw School of Economics, Poland

Bartosz Witkowski
Associate Professor, Warsaw School of Economics, Poland

palgrave
macmillan



© Warsaw School of Economics 2016
Softcover reprint of the hardcover 1st edition 2016 978-1-137-56023-0
All rights reserved. No reproduction, copy or transmission of this publication may be made without written permission.

No portion of this publication may be reproduced, copied or transmitted save with written permission or in accordance with the provisions of the Copyright, Designs and Patents Act 1988, or under the terms of any licence permitting limited copying issued by the Copyright Licensing Agency, Saffron House, 6–10 Kirby Street, London EC1N 8TS.

Any person who does any unauthorized act in relation to this publication may be liable to criminal prosecution and civil claims for damages.

The authors have asserted their rights to be identified as the authors of this work in accordance with the Copyright, Designs and Patents Act 1988.

First published 2016 by
PALGRAVE MACMILLAN

Palgrave Macmillan in the UK is an imprint of Macmillan Publishers Limited, registered in England, company number 785998, of Houndmills, Basingstoke, Hampshire RG21 6XS.

Palgrave Macmillan in the US is a division of St Martin's Press LLC, 175 Fifth Avenue, New York, NY 10010.

Palgrave Macmillan is the global academic imprint of the above companies and has companies and representatives throughout the world.

Palgrave® and Macmillan® are registered trademarks in the United States, the United Kingdom, Europe and other countries.

ISBN 978-1-349-56021-9 ISBN 978-1-137-56024-7 (eBook)
DOI 10.1057/9781137560247

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources. Logging, pulping and manufacturing processes are expected to conform to the environmental regulations of the country of origin.

A catalogue record for this book is available from the British Library.

Library of Congress Cataloging-in-Publication Data

Iwanicz-Drozdowska, Malgorzata (ed.).
European bank restructuring during the global financial crises / Malgorzata Iwanicz-Drozdowska [and 7 others].
pages cm.—(Palgrave Macmillan studies in banking and financial institutions)
Includes bibliographical references.
1. Banks and banking – European Union countries. 2. Financial institutions – European Union countries. 3. Global Financial Crisis, 2008–2009. 4. Financial crises – European Union countries. I. Title.

HG2974.I93 2015
332.1094—dc23 2015023899

Contents

List of Figures vii

List of Tables viii

Preface ix

About the Authors xii

1 Banking Crises and Restructuring Tools **1**
Małgorzata Iwanicz-Drozdowska
1.1 Short history and the scope of the analysis 1
1.2 Causes of banking crises – literature review 4
1.3 Types of financial support – historical perspective 11

2 Pre-Crisis Landscape **18**
Paweł Smaga
2.1 Economic environment 18
2.1.1 Macroeconomic conditions 18
2.1.2 Fiscal policy 21
2.1.3 Monetary policy 22
2.2 Pre-crisis financial standing of the EU banking sector 24
2.3 Pre-crisis legal and institutional arrangements for rescue operations in the EU 26

3 State Aid and Fiscal Costs **31**
Małgorzata Iwanicz-Drozdowska, Elżbieta Malinowska-Misiąg and Bartosz Witkowski
3.1 State aid for financial institutions during the crisis 31
3.1.1 General rules for granting state aid 31
3.1.2 Guidelines for granting state aid to financial institutions 32
3.1.3 Guarantees for liabilities of financial institutions 33
3.1.4 Recapitalization of financial institutions 34
3.1.5 Assistance related to impaired assets 36
3.1.6 Assistance for liquidation 36
3.2 European Stability Mechanism and assistance to EU countries 37
3.2.1 European Stability Mechanism 37
3.2.2 Assistance to countries 38

3.3 The impact of restructuring costs on public finance 44
3.3.1 Burden on public finance 44
3.3.2 Econometric model 50

4 Restructuring Tools and Their Costs 56
Małgorzata Iwanicz-Drozdowska, Paweł Smaga and Bartosz Witkowski
4.1 General assumptions 56
4.2 Comparative analysis 57
4.3 Econometric model 66
4.4 Cluster analysis 71

5 Landscape after the Lessons of the Crisis 74
Małgorzata Iwanicz-Drozdowska, Jakub Kerlin and Paweł Smaga
5.1 Economic situation and changes in EU banking sector after the outbreak of the crisis 74
5.2 Changes in prudential regulations and the financial safety net 77
5.2.1 Changes in prudential regulations 77
5.2.2 Changes in financial safety net 81
5.3 Banks' restructuring and resolution 84
5.3.1 The genesis of the restructuring and resolution regulations 84
5.3.2 Objectives and rules of the resolution process 86
5.3.3 Resolution authorities 89
5.3.4 Sequence of actions 91
5.3.5 Resolution tools 93
5.3.6 Funding the resolution procedure 96
5.3.7 Evaluation of solutions 97
5.4 Banking union 98
5.4.1 Construction of the banking union 98
5.4.2 Evaluation of the banking union 104

Summary 113
Małgorzata Iwanicz-Drozdowska

Appendix 115

Bibliography 334

Index 341

List of Figures

1.1	Restructuring tools applied before 2007 vs. tools used during the crisis in 2007–2009	14
2.1	Residential real estate prices in selected EU countries	20
2.2	Banking sector assets to GDP in EU countries before the crisis	24
3.1	Recapitalization by country in 2008–2013	46
3.2	Recapitalization of EU banks in 2008–2013	47
3.3	Recapitalization of EU banks in 2008–2013	49
4.1	Total net aid (in EUR million) and bank's share in banking sector assets	58
4.2	Total financial aid (net) to GDP (2009) vs. average size of rescued banks to GDP (2009)	59
5.1	Financial safety net on country level and cooperation in the EU for countries outside eurozone	84
5.2	Competence scopes in SSM	99

List of Tables

1.1 The list of banking crises in EU countries from 2007 to 2013 3
1.2 Variables for the analysis of the banking crises 7
2.1 GDP annual growth rate in 1999–2008 19
2.2 Public debt to GDP in 1999–2008 22
3.1 Financial support provided to banks in the EU in 2008–2013 45
3.2 Recapitalization of EU banks in 2008–2014 48
3.3 Determinants of scale of financial assistance (net) for banking sector 50
3.4 Descriptive statistics of potential determinants of scale of government support for banking sector 51
3.5 Results of estimation equation of scale of support for banking sector 52
4.1 Total financial assistance (net) vs. financial capacity of deposit guarantee scheme 60
4.2 Restructuring methods and their cost in EU countries 61
4.3 Restructuring methods depending on bank's size 66
4.4 Variables used in the model of financial assistance (net) to deposits ratio 67
4.5 Descriptive statistics of variables used in model of ratio of net financial aid to customer deposits 68
4.6 Results of ordered logit model estimation ASS_D level 69
4.7 Clusters of banks 71
5.1 Implementation of resolution in selected countries and responsible authorities 85
5.2 Stages of new resolution procedures for financial institutions 91
5.3 Resolution procedures in selected countries 95
5.4 Total amount of deposits and target amount of resolution funds in EU countries at 2012 year-end 97
5.5 Results of ECB'S comprehensive assessment for restructured banks with capital shortages 102

Preface

This book, to the best of our knowledge, is the first extensive work on the restructuring of banks in EU countries during the recent global financial crisis and the consequences of restructuring on both the macro- and micro-economic levels. In studies that we conducted during the period 1999–2002, culminating in two publications in Polish (Iwanicz-Drozdowska, 2000; Iwanicz-Drozdowska ed., 2002), our analysis covered 22 countries, including several that were undergoing political and economic transformations. Readers may consider this book a continuation of that earlier work. However, a prerequisite for this book has been the serious breakdown in financial markets, which, compared to earlier crises, has affected highly developed countries much more than developing countries. Our analysis covers 95 banks from 17 EU member states and, in addition, five institutions created during the crisis to take charge, above all, of managing 'bad' assets.

The purpose of our study is to demonstrate the diversity of the restructuring instruments applied in EU countries and to offer a critical, institutionalized analysis of the financial support provided to banks. In particular, our interest has focused on estimating the cost of that support and evaluating its effects. We bring to these considerations an analysis of the pre-crisis situation and of the numerous changes implemented because of the crisis. Our aim is to present the reader with a full context for the recovery actions implemented in the banking sector.

The book comprises five chapters and an Appendix. Chapter 1 presents a historical outline, discusses causes of crises and offers an overview of the restructuring instruments and their use for crisis management before 2007. We also sketch the scope of the analysis that we have conducted. The following four chapters focus on the situation in the EU before the crisis outbreak (Chapter 2), the crisis 'landscape', comprising a comprehensive description of the rescue actions (Chapters 3 and 4) and the 'landscape' after the changes that were the consequences of the crisis events (Chapter 5). We avoid using the term 'post-crisis landscape' because there are insufficient grounds for arguing that the crisis finally has ended.

Chapter 2 analyses macroeconomic factors in EU economies before the start of the crisis. It describes major tendencies shaping the environments in which banks were operating, focusing on the condition of the economy and the nature of the economic policies, in particular monetary and budgetary policies. After defining the main tendencies, we evaluate the impact of the above-mentioned factors on the condition of the banking sector in the EU.

Chapter 3 presents actions undertaken during the global financial crisis. We start by characterizing the rules for granting state aid, which the European Commission approved on a large scale, and which were in many cases used to rescue banks undergoing financial difficulties. In addition to examining the forms and scale of the support, we present an analysis of determinants of costs of banks' restructuring on the macroeconomic level. Chapter 4 analyses costs of individual forms of restructuring on the microeconomic level. The analyses in Chapters 3 and 4 derive from the rich empirical material we collected during our study. We present these data in detail in the Appendix.

Chapter 5 details the most important changes in the financial safety net and regulations, and are presented after an assessment of the situation in the real economy and the EU banking sectors. We pay particular attention to the bank resolution regime and the banking union because of the hopes that these measures evoked. The introduction of systemic regulations, enabling the application of new tools for the liquidation of financial institutions, was an important response to the global financial crisis. The chapter indicates reasons for introducing the resolution regime into the EU financial safety net, discussing its key objectives and tasks. The creation of the banking union has begun relatively quickly, although it is not yet complete. As early as May 2012, the European Commission called for the creation of the banking union. A month later (Van Rompuy, 2012, and subsequent reports) a road map was drawn for strengthening the Economic and Monetary Union through closer integration in the financial sphere, involving, among other actions, integration of banking supervision (Single Supervisory Mechanism, or SSM), creation of a pan-European restructuring and bank resolution regime (Single Resolution Mechanism, or SRM) as well as a single Pan-European deposit guarantee scheme. This integration involves the transfer of competence in the indicated three spheres from the national to pan-European level.

The authors have made every effort to collect data and information of the highest quality from a variety of sources, regarding the course of events, the standing of the banks undergoing financial distress and the amounts allocated to the various rescue actions. To the best of our knowledge, this is the first extensive work on the restructuring of banks in EU countries during the recent global financial crisis and its consequences on both the macro and microeconomic levels. It will be important to revisit the standing of the restructured banks in five to ten years, as well as the results of companies managing 'bad' assets and other entities involved in the crisis management. Such a timeframe will allow for evaluation of whether, for example, the restructuring actions have increased moral hazard in the banking sector and whether they have led in a longer perspective to gains or losses for state budgets.

A team of researchers and doctoral candidates conducted the research at the College of Management and Finance, Warsaw School of Economics (funding no. KZIF/S/14/14). I would like to thank all the members of the team most warmly for their research and organizational efforts.

About the Authors

Małgorzata Iwanicz-Drozdowska is Full Professor of Finance at Warsaw School of Economics, Poland and Head of the Financial System Unit in the Institute of Finance. She is a member of the supervisory boards for Alior Bank, the Insurance Guarantee Fund and the European Medical Fund. She cooperates with the Gdansk Institute for Market Economics and Warsaw Institute of Banking. She was a visiting researcher at New York University, Stern School of Business, and a visiting professor as part of the Erasmus program. She is the author of more than 130 publications on banking and financial services and a participant in numerous research projects. Her specializations include financial stability, management of financial institutions and financial education.

Jakub Kerlin is a doctoral candidate at the College of Management and Finance, Warsaw School of Economics, Poland. He holds a Master's in Finance and Accounting from Warsaw School of Economics. He is a Bank Guarantee Fund employee and is training as a legal articled clerk. His research interests include deposit insurance, bank recovery and resolution, financial safety net architecture and financial stability.

Anna Kozłowska is a doctoral candidate at the College of Management and Finance, Warsaw School of Economics, Poland. She has held professional positions within the Risk Management Division of ING Bank Śląski since 2010. Her research interests include financial stability, market risk and banking regulations.

Elżbieta Malinowska-Misiąg is an assistant professor at the Institute of Finance, Warsaw School of Economics, Poland. Graduating from the Faculty of Economic Sciences, University of Warsaw in 1997, from 1998 to 2012, she worked as a research assistant at the Gdansk Institute for Market Economics. Between November 2006 and June 2007, she was an advisor to the Ministry of Finance on the preparation of new laws on public finance. Her main area of interest is public finance, with particular emphasis on organizational and regulatory issues. She is the author and co-author of some 40 publications, including nearly 20 books. She has also provided reports and consultancy for *inter alia*, the Polish Parliament, the Ministry of Finance and the Ministry of Regional Development, and she has published articles in newspapers and specialist journals.

Agnieszka K. Nowak is an assistant professor at the Institute of Finance, Warsaw School of Economics, Poland. An author of publications on bank controlling, banking risk, bank management, and financial education, she also has practical experience in banking, having worked for financial institutions and been employed as a member of the supervisory board of a brokerage firm.

Paweł Smaga is an assistant professor at the Institute of Finance, Warsaw School of Economics, Poland. He is a senior economist at the National Bank of Poland, where he analyses financial stability issues, macroprudential supervision and the EU financial system regulations, which also are his research interests. For his Ph.D. thesis in 2014, he received the first Award of the President of the Bank Guarantee Fund and recognition from the Governor of the NBP (National Bank of Poland).

Piotr Wiśniewski is an assistant professor at the Institute of Finance, Warsaw School of Economics, Poland. He is also a visiting professor at various universities. He has held managerial positions at Crédit Lyonnais (now Crédit Agricole Group) in London and at Erste Securities, Wood & Company. His areas of interest include corporate finance, global capital markets and success factors of international financial institutions (including the context of intellectual capital).

Bartosz Witkowski is an associate professor at the Institute of Econometrics, Warsaw School of Economics, Poland. He graduated from Warsaw School of Economics in 2001. His research specialization includes panel data analysis and its application in economics and finance. He cooperated as lecturer and researcher with the Polish Academy of Science, the National Bank of Poland, the World Bank and the Bank Guarantee Fund. He is a participant in numerous research projects financed by the National Science Center and the National Bank of Poland, and is author and co-author of various research papers.

1
Banking Crises and Restructuring Tools

Małgorzata Iwanicz-Drozdowska

This chapter presents a brief history of banking crises and restructuring tools, with a particular focus on the recent global financial crisis (GFC). There always are questions about the causes of turmoil in the financial markets; therefore, the chapter explains how the current crisis is different from the previous ones. The conclusions from the research confirmed that the main causes remained the same all the time; however, the environment in which banks operate has been changing dynamically. A critical factor during the GFC was the contagion effect. In past crises, the most common restructuring tool, associated with government bailouts, was recapitalization (in addition to liquidity support), which allowed most banks to survive.

1.1 Short history and the scope of the analysis

Banks always have faced the threat of losing their safety and soundness because of the way they operate as entities that collect deposits and grant loans, risking the default of the debtor. According to G. Caprio and D. Klingebiel (1996), the first banking crisis occurred in Rome in 33 CE. Until the current global financial crisis, the Great Depression of the 1930s was the most severe breakdown in the banking (and financial) sector.

Political and academic analyses of the causes of the ongoing global financial crisis indicate irregularities in the banking sectors of many countries. One of the key irregularities was excessive lending and the corresponding inappropriate risk management, including risk assessment in the securitization process (Caprio jr. et al., 2008).

One may distinguish three waves of the global financial crisis. In May 2006, Merit Financial Inc. was the first US brokerage firm to go bankrupt, while in August 2006, default rates for subprime loans increased. Subsequent bankruptcies[1] of brokerage institutions began in early 2007. The failure of New Century Financial was particularly noteworthy. Because

of the American market's significant global role, the problems occurring in the United States began to spread to other countries and cause contagion. In July 2007, Bear Stearns announced that its two hedge funds investing on the subprime market had nearly lost their value. In July 2007 – beginning of the global financial crisis – financial institutions gradually started to reveal problems with their collateralized debt obligations, or CDOs. One of the first was Swiss UBS. The trouble started to spiral and other institutions declared significant profit falls (including Morgan Stanley, Goldman Sachs, Bear Stearns, Citigroup, Merrill Lynch, Bank of America, Barclays and HSBC) or serious financial problems (including IKB Deutsche Industrie Bank and Northern Rock). In March 2008, Bear Stearns lost access to short-term financing and ended up being taken over by JP Morgan in May that year.

In Europe, the first wave of the 2007 crisis did not wreak too much havoc on financial markets. But the second wave of the crisis, beginning with Lehman Brothers' failure, led to a slump in the banking sector and other segments of the financial markets because of losses from exposures to Lehman Brothers, but most of all, because of the loss of trust among the market players. The third phase of the crisis dates to the second quarter of 2010, when Greece's financial problems became evident. At that time, the banks started to suffer negative consequences of keeping in their portfolios securities issued by the governments of southern European countries.

Although the Great Depression and the current global financial crisis are historically the two greatest breakdowns in the banking sector, banking crises have occurred often. According to IMF statistics, there were 124 banking crises between 1970 and 2007[2]. In order to specify the number of crises, excluding the ongoing global financial crisis, we would have to exclude two cases taken into account by the IMF economists – the United Kingdom and the US (2007). As a result, in the 1970–2007 period 122 banking crises were identified (Laeven and Valencia, 2008, p. 5).Before the outbreak of the current global financial crisis, banking crises occurred in 12 EU countries, including nine in Central and Eastern Europe during the 1990s. (These were the so-called transformation crises – Bulgaria, Croatia, the Czech Republic, Estonia, Lithuania, Latvia, Poland, Romania and Hungary). Banking crises occurred earlier in Finland, Spain and Sweden.

According to the data gathered by the IMF economists (Costa Navajas and Thegeya, 2013, p. 28) over the 2007–2011 period one may identify 11 systemic banking crises in EU countries and additional six crises in other countries (Iceland, Kazakhstan, Mongolia, Nigeria, Ukraine and the United States). This number should be increased by the cases of Cyprus (2012–2013), Portugal (a systemic crisis since 2012) and Slovenia (a systemic crisis since 2013)[3]. In total, there have been 14 systemic banking crises in EU member states since 2007.

Table 1.1 The list of banking crises in EU countries from 2007 to 2013

Country	**Outbreak of the crisis (IMF)**	**Outbreak of the systemic crisis (IMF)**	**The number of banks restructured and the name of the asset management company**
Austria	2008	2008	7
Belgium	2008	2008	3
Cyprus	2012*	2013*	3
Denmark	2008	2009	12
Estonia			
France	2008		5
Greece	2008	2009	7
Spain	2008	2011	13+SAREB
The Netherlands	2008	2008	3
Ireland	2008	2009	6+NAMA
Lithuania	2013*		1
Luxemburg	2008	2008	–
Latvia	2008	2008	2
Germany	2008	2009	10+SocFin
Portugal	2008	2012*	7
Slovakia			–
Slovenia	2008	2013*	5 + BAMC
Sweden	2008		2
Hungary	2008		–
The United Kingdom	2007	2008	5 + UK Resolution
Italy	2008		4

Note: * According to our research (see Appendix).

Source: Based on Costa Navajas, Thegeya (2013, p. 28) and data collected by the authors.

In our analysis, we focus on the banks in EU countries (excluding Croatia, which, at the start of the financial crisis, was not a member state). Our study has covered 95 banks[4] from 17 EU countries that suffered a systemic crisis or disturbances on a smaller scale that still required government interventions, including the state aid procedure. Additionally, we have analysed five institutions[5] created during the crisis to manage bad assets[6]. Our analysis of the 14 systemic crises does not explicitly include Luxembourg. The issues of that country's banking sector resulted from 'importing' problems from Iceland and from cross-border operations of two banks from the Benelux states (Dexia and Fortis), whose restructuring was co-financed by the government of Luxembourg.

We also have identified cases of bank restructuring in countries that did not suffer systemic crises – France, Lithuania, Sweden and Italy – and we have included them in our analysis. We have not analysed the case of Hungary. The problems occurring there were mainly political and they affected all

banks that had granted loans in Swiss francs[7]. Our analysis has not addressed the consequences of the financial crisis in Iceland for banks and EU countries. Some of them (such as Belgium, the Netherlands, Luxembourg and the UK), through paying deposits to customers, were forced to allocate funds to resolve problems related to branches and/or subsidiaries of Icelandic banks. The major obstacle to analysis is the lack of financial data for those Icelandic institutions that contributed to the problems in EU countries.

1.2 Causes of banking crises – literature review

Over the ages, the main causes of bank failures have changed little. However, financial and organizational innovations undoubtedly make the same cause (for instance, a bad credit policy) have a different impact (usually stronger as the importance of financial operations is greater in the economy) and have a different scope (frequently global). Laeven and Valencia in 2008 described a systemic banking crisis as characterized by, a large number of defaults in the financial and corporate sectors. This results in the increase of non-performing loans and the exhaustion of all or most of the aggregate banking system capital. Massive financial problems on the microeconomic level generate a systemic problem. The decrease or, in extreme cases, exhaustion of banking system capital, requires public authorities to intervene to 'repair' the banking sector. There is a strong correlation between the causes of banking crises and the causes of bank defaults.

The tide of the global financial crisis recalled the financial instability hypothesis of H. Minsky (Minsky, 1992, pp. 6–7). Unlike other approaches, this hypothesis treats banking seriously as a profit-seeking activity, which is possible due to the introduction of innovation. H. Minsky distinguished three income-debt relations: hedge financing, speculative financing and Ponzi financing. (The last was named after the founder of the first financial pyramid scheme.) Hedge financing allows the borrowers to repay their debt out of their cash flows. In speculative financing, cash flows are not sufficient to repay the entire debt, but the borrowers may issue new debt or roll over their loans. Speculative borrowers show profits that stress their ability to repay their commitments. Ponzi borrowers do not generate sufficient cash flows to repay their debt or even the interest. Repayments may be made upon the sale of assets or by new borrowing, usually at a higher interest rate. H. Minsky used these three forms of financing to explain both economic stability and instability. When hedge financing dominates, the economy may be in balance. Otherwise, the balance is disturbed. Additionally, after a longer period of economic prosperity, hedge financing is given up, which causes instability[8]. Operations of banks are procyclical, which should be attributed to, among other things, managers' approach to risk-taking. During

the periods of prosperity, managers concentrate on increasing credit (and investment) activity, especially when prior transactions had proven profitable. This frequently results in a too liberal risk-taking approach, including the loosening of standards of creditworthiness assessment. According to Minsky's terminology, this represents a move away from hedge financing. Prosperity ends at a 'certain' moment and then some customers may fail to fulfil their commitments, which generates losses for the banks. Afterwards, the bank managers apply more restrictive standards when assessing their customers' creditworthiness, which suppresses increases in lending and makes loans less available in the economy. After some time, the managers change their approach to taking risks and liberalise the rules set earlier. Bergel and Udell (2003) named this phenomenon 'institutional memory.' Further, extensive research is required to determine how much profit and loss drive managers' behaviours, as well as the role of behavioural factors.

Earlier analyses of causes of crises (Iwanicz-Drozdowska ed., 2002; Lindgren et al., 1998; Ostalecka, 2009) pointed to such basic sources as:

- bad policies pursued by banks, mainly with regard to credit risk;
- gaps in regulations and supervision, which allowed for taking excessive risk;
- supervisors' delayed interventions;
- excessive optimism of market players.

In one of the first papers to analyse the current global financial crisis, the authors enumerate the following main causes (Dell'Ariccia et al., 2008, p. 8):

- more liberal requirements for borrowers due to the dynamic growth of the credits;
- significant, mainly speculative, growth of real estate prices;
- banks' growing interest in the sale of receivables and securitization, which in consequence led to the easing of the lending policy;
- easing of the monetary policy conditions and keeping low interest rates for long periods.

Here follows a brief review of the literature on the causes of crises and the contagion effect. The contagion effect has been treated as a separate issue because of the important role it has played in the ongoing global financial crisis.

Klomp (2010, pp. 72–87) analysed causes of banking crises and pointed to differences in comparison with prior studies. His literature review comprised, among other things, the variables applied in the studies and the methods

and the scope of the analysed cases, as presented in Table 1.2. Klomp conducted research on the period preceding the current crisis, 1970 to 2007, and on 110 countries (with 130 crises). The major differences compared to earlier studies involved application of different estimation techniques, and addition of independent variables that took into account such differences between the countries as the quality of the institutional environment, the financial regulations, independence of the central bank, history of democracy, instability of the government and instability of the regime. Klomp also introduced additional macroeconomic variables. In his conclusions, Klomp argued that the causes of banking crises are different, although one may identify frequently occurring variables, such as increased lending activity, GDP growth and real interest rates. However, none of these variables was significant in more than 60 per cent of crises covered by the analysis. The probability of crisis increased with the growing globalization and the growing ratio of M2 to foreign currency reserves. Klomp also identified differences in the impact of individual variables depending on the level of the economic development and differentiated between a systemic crisis and an 'ordinary' crisis. The three most important variables – the growth of lending activity, the GDP growth and the real interest rates – point to the contribution of loans flowing into the economy into generation of the crisis. The lending boom boosting the GDP and the rising real interest rates support H. Minsky's concept of moving away from hedge to Ponzi financing.

Sayek and Taskin (2014, pp. 447–493) have analysed two issues. First, they examined whether the factors that evoke financial crises have changed over time. The authors concluded that they had not and that there were no differences between highly developed and developing countries. The key factors that affected the probability of crisis were the GDP growth rate, current account changes, the stability of public finances, the level of loans to the private sector and the debt of the public sector. The factors that had a different influence were inflation and interest rates. Second, the authors examined how the experiences of individual countries differed from the average ones being observed. The authors demonstrated that the crisis in GIIPS[9] countries was different from a typical crisis.

Similar questions have also been asked by Claessens et al. (2010a, pp. 247–264), who also added the problem of costs related to the recession caused by the crises. The ongoing global financial crisis has revealed four features common to previous crises: a significant growth of asset prices before the crisis; a lending boom preceding the crisis; major expansion on the credit market, including mortgage loans, and regulations and supervision that lagged behind the market changes. The major four differences in comparison with the previous crises were a wide use of financial instruments, growing interrelations among financial markets, high leverage of financial

Table 1.2 Variables for the analysis of the banking crises

Authors	Period covered	Countries	Method	Variables statistically significant at the 10% level and their impact (– or +)
Demirgüc-Kunt, Detragiache (1997)	1980–1994	Industrialized countries and emerging markets	Probit	real GDP growth rate (–), real interest rate (+), inflation (+), M2 to reserves (+), private credit to GDP (+), credit growth rate (+), real GDP per capita (–), deposit guarantees (–), law and order (–)
Beck et al. (2006)	1980–1997	Industrialized countries and emerging markets	Logit	real GDP growth rate (–), real interest rate (+), M2 to reserves (+), credit growth rate (+), real GDP per capita (–)
Garcia Herrero, Del Rio (2003)	1970–1999	Industrialized countries and emerging markets (79 countries)	Logit	real GDP growth rate (–), bank reserves to assets (–), real GDP per capita (–)
Cihák (2007)	1980–2003	Industrialized countries and emerging markets (48 countries)	Logit	depreciation (–), real interest rate (+), credit growth rate (+)
Demirgüc-Kunt, Detragiache (1997)	1980–1995	Industrialized countries and emerging markets (53 countries)	Logit	real GDP growth rate (–), changes in terms of trade (–), real interest rate (+), inflation (+), M2 to reserves (+), credit growth rate (+), real GDP per capita (–)
Glick, Hutchison (2000)	1975–1995	Industrialized countries and emerging markets (90 countries)	Probit	real GDP growth rate (–)
Eichengreen, Arteta (2002)	1975–1995	Industrialized countries and emerging markets	Probit	government budget deficit (+), M2 to reserves (+), credit growth rate (+)
Domac, Martinez-Peria (2003)	1980–1997	Industrialized countries and emerging markets	Logit	credit growth rate (+), real GDP per capita (–)
Komulainen, Lukkarila (2003)	1980–2001	Emerging markets (31 countries)	Logit	depreciation (+), inflation (–), government budget deficit (+), M2 to reserves (+), private credit to GDP (–), bank reserves to assets (–), real GDP per capita (–)
Tanveer, De Haan (2008)	1981–2002	Emerging markets (33 countries)	Probit	real GDP growth rate (–), depreciation (+), real interest rate (+), M2 to reserves (–), real GDP per capita (–)

Note: Based on Klomp, 2010 (p. 3).

institutions and the role of households, mainly with regard to debt levels (evaluated through, among other things, DtI[10]). As for the recession costs, the ongoing financial crisis pulled the economies downwards to a greater extent than before.

Similar conclusions have been drawn by Claessens et al. (2011, pp. 5–7), who pointed to the following differences:

- previously, the crises primarily touched emerging markets and developing countries, while in the current crisis, they mainly affect the highly developed countries;
- the financial systems were bigger in relation to the GDP and were more concentrated; financial institutions had more complex organizational structures, which reduced supervision capabilities;
- the growth of credit and asset prices was stronger than before; in some cases this was accompanied by external imbalance;
- the leverage was higher both for financial institutions and for households (correlated with the growth of real estate prices);
- interrelations among financial institutions became stronger, which resulted from applying innovations and the growing role of non-banking institutions (the so-called shadow banking).

Caprio et al. (2014, pp. 114–129) have conducted research on factors determining the financial crisis in 2008 for 83 countries. They used data from the 1998–2006 period and they applied the probit model. According to the results of their study, the probability of the crisis was higher in banking sectors with a high loan-to-deposit ratio (which is evidence for unstable financing of the lending activity) but was lower for countries with a high interest margin, high concentration in the banking sector, significant constraints in the banking activity and strong private monitoring. The conclusions have proven correct also for the analysis conducted on the level of individual banks. The authors have distinguished two business models in banking – the originate-to-hold model, or OTH, and the 'new' originate-to-distribute model, or OTD. The traditional model allowed for generating a higher interest margin and demonstrated greater stability in the time of crisis. Further, the authors noticed that additional capital adequacy requirements for the banks following the traditional model would contribute to higher costs of loans and reduce lending. They also pointed to concerns regarding the banks' turning to new, riskier areas of operations.

Poghosyan and Čihak (2011, pp. 163–184) have conducted research on 25 EU countries, using Bankscope data for the 1996–2007 period, combining them with data regarding financial distress in banking sectors. The authors have identified 79 interventions in the 1997–2008 period (for example,

government guarantees, forced merger, financial support and liquidity support) for 54 banks out of 5,708 entities from the EU. One of their conclusions was that the EU integration policy had led to the convergence of risks in EU countries, which requires a centralized approach to regulation. The authors identified the contagion effect in the EU banking sector. Taking into account the concentration level, the research indicated that the banks operating in more concentrated banking sectors were more exposed to financial distress than banks operating in less concentrated banking sectors. The factor that contributed to financial distress was also the share of 'wholesale' financing.

Vallascas and Keasey (2011, pp. 37–68) have studied the monthly historical volatility of bank indexes (in 15 EU countries, Norway and Switzerland) from January 1988 through December 2010. Though they could not identify changes in the long-term volatility, they did identify a change in the factors that evoke the volatility. The significance of international and European non-financial factors increased, particularly in the case of large banking systems because of cross-border integration. However, this did not result from introducing the euro as a single currency. This resulted in a greater vulnerability of EU banking systems to external shock in the last part of the research period.

The ongoing crisis has spread rapidly on a global scale because of the contagion effect[11]: a situation in which there is a significant increase in cross-market connections after a shock occurs in one market (Longstaff, 2010, p. 348). 'Shock' is an important element and its nature may be either 'micro' or 'macro'. Having reviewed the literature, Longstaff (2010, p. 348) identified three channels that may propagate the contagion effect:

- the information channel,
- the liquidity channel,
- the risk-premium channel.

These channels are interrelated. Emergence of negative information may translate into limited liquidity of an instrument or a market, and into higher risk-premium.

The contagion transmission channels have also been indicated by Pritsker (2000), who identified linkage channels in:

- the real sector,
- the financial markets,
- the financial institutions,
- and the interaction between the financial markets and financial institutions.

The literature review performed by Hasman (2012) has identified two research streams and their diverse conclusions. First, in the theoretical stream there have been contradictory results. According to Hasman (2012, pp. 980–983), some authors say that stronger linkages among banks (defined as 'a complete banking structure') increase the probability of the contagion effect (this has been proven by: Brusco and Castiglionesi, 2007; Hasman and Samartin, 2008), while others argue that 'incomplete banking structures' contribute to a higher risk of contagion (proven by: Allen and Gale, 2000; Babus, 2006).

Second, the network theory and the event studies have been applied in the empirical research. The major difference between these two approaches is that network theory uses simulations while the event studies use actual bank problems. The literature on the event studies identifies pure contagion and information-induced contagion. The pure contagion effect occurs when deposits are withdrawn from an institution with good financial standing, while the information-induced contagion occurs when funds flow out from institutions in financial distress before the 'official' start of the crisis. The empirical studies indicate that depositors are able to differentiate banks in good condition from banks in distress and that the contagion effects are mainly induced by information. However, financial innovations increase the risk of 'pure' contagion. Additionally, the central bank's role as the lender of last resort makes it more difficult to use the event studies. Studies that have used the network theory show that the contagion effect may occur but it is not so obvious. The probability of contagion depends, e.g., on the size of the bank and the directions and types of the connections. Interdependencies analysis is performed at a specific moment, without any possibility to assess changes occurring over time. It also is based on the assumption that the linkages are spread among the banks and not on the actual data, as they are not available (Hasman, 2012, pp. 985–988).

Longstaff (2010, pp. 436–450) has examined the contagion effect using CDOs based on subprime loans. The author used the ABX indices from January 2006 through December 2008. The analysis shows that when the subprime crisis began, the interdependencies between the ABX indices and the profitability of US treasury bonds, corporate bond spreads, stock market returns and VIX indices grew stronger, which indicates that the contagion effect has occurred.

As regards the current crisis, the issue of problem propagation was analysed in a different manner by Frank et al. (2008), who concentrated on whether the loss of liquidity SIVs[12] could have led to solvency problems of financial institutions. During a crisis, the liquidity shock propagation may be intensified and create a systemic risk. Problems may be transmitted through direct exposures among financial institutions and through asset prices. The leverage applied by financial institutions may intensify the phenomenon by

increasing procyclicality. The authors have analysed only the US market and the 2007 situation, which limits the possibility to generalize conclusions. The authors have identified the contagion effect between various financial market segments in the US. A later study confirmed the presence of greater interdependencies between the US market and the emerging markets (Frank and Hesse, 2009).

Undoubtedly, the contagion effect is the factor that has emerged, with extraordinary force, during the ongoing global financial crisis. It is essential to continue research not only on the contagion effect but also on the causes of crises, which – although reoccurring for years – may break out with different intensities or in different forms. However, accomplishing this goal depends upon improvements in the quality and scope of the data published by banks and of the data available only to the financial safety net institutions. Special attention must be paid to the channel of exposures on the interbank market, which contributes to the contagion effect, and to the involvement in the same type of financial instruments, which stimulates the growth of systemic risk.

1.3 Types of financial support – historical perspective

When a financial crisis occurs, public authorities intervene to improve the situation and recover the banking sector. The following factors are essential to a comprehensive view of the tools that improve the banking sector's standing:

- the systemic or selective use of the tools,
- the tools allowing the bank (in whole or in part) to stay on the market,
- the tools separating bad assets.

Liquidity support may be deemed a systemic support instrument. Such actions undertaken by the central bank allow the banks to access liquid funds upon presenting collateral (for instance, government securities). With an outbreak of panic and the loss of trust on the interbank market, the banks do not want to lend funds to one another. This was the case, for instance, after the failure of Lehman Brothers. Central banks took actions that preserved liquidity of the banking sector, not only by granting collateralized liquidity loans, in compliance with W. Bagehot's central banking principles, but also by using non-standard tools, other than those used when the financial market does not suffer any problems. We are not focusing on central banks' actions as it would, in fact, require further comprehensive research.

Actions performed as programs or packages (like in France and Denmark in the ongoing crisis) are a similar type of support. The government announces

that it may (in the EU, upon the European Commission's approval) grant financial support, and the banks that are interested in it and fulfil the specified criteria are entitled to join the programs.

Selective instruments are all kinds of rescue operations aimed at resolving problems of a specific entity, such as recapitalization or nationalization.

A bank's continuation of market operations is possible when its restructuring is justified economically (and/or politically). This applies mainly to large banks on a given market whose bankruptcies could not be handled by the deposit guarantee institution (payment of funds to depositors) or the state treasury. Instruments allowing continuation of market operations include: recapitalization (or nationalization), guarantees for bond issue, open bank assistance (guarantees on assets and/or liabilities, loans), separation of bad assets from the bank (balance sheet 'cleaning'), sale of specific business units to improve the financial standing and limiting the range of operations of a given institution as well as covering losses not only out of equity but also out of money of a specific group of creditors (bail-in).

Resolution of a bank, in addition to the bankruptcy procedure, must be associated with such instruments as liquidation conducted by the bank itself or by a dedicated resolution authority. The resolution is accompanied by the sale of selected asset items, for example, a network of branches along with the customer accounts and the loan portfolio. Another instrument is a takeover of a bank in distress by a bank in a good financial position or setting up of a 'hospital' for banks by merging several banks in distress and granting support to the new institution.

Separation of bad assets usually takes one of two forms:

- the transfer of the loan portfolio to a dedicated institution, which will manage it (asset management company, or AMC); it is necessary to provide capital support and ensure financing of the AMC[13] so it could effectively operate on the market. Such a solution proved very successful during the crisis in Sweden in the 1990s;
- division of the bank into two parts: 'good' and 'bad'[14]; the 'good' part – most often upon obtaining financial support – continues to operate on the market and actions are undertaken to sell it, while for the 'bad' part, liquidation or bankruptcy is planned; the 'good' bank takes over liabilities, including the guaranteed deposits and the liabilities which are to be rescued, as well as the good assets. The 'bad' bank takes over the remaining liabilities and the bad assets.

The key objective of applying these instruments is to maximize income from the bad assets, 'to clean up' the bank's balance sheet and, to give 'another life' to the bank.

Taking into account the historical experiences before the ongoing global financial crisis, one can show not only the tools applied but also the frequency of their use. Laeven and Valencia (2008), who analysed 42 crises from the 1970–2007 period, have performed such a review. In addition to banking crises, they have considered currency crises and sovereign debt crises. Following the work of Honohan and Laeven (ed., 2005) and of Hoelscher and Quintyn (2003), Laeven and Valencia (2008, pp. 7–16 and 18–24) continued to distinguish between the tools used during the containment of the crisis and those used during its resolution. During the containment phase, the public authority uses instruments such as suspension of deposit payments, regulatory forbearance, liquidity support and government guarantees for the depositors. It must be stressed that the instruments are systemic. The resolution phase, whose purpose is to recover the banking system and restore its operations, may use (usually selectively) the following tools : conditional, backed by the government but decentralized management of non-performing loans, waiving of debts, creation of companies to manage non-performing loans, government-supported sale of the bank (to a foreign investor, for instance) and government capital support[15]. Capital support could be granted to banks in cash, in government bonds, as subordinated loans, through the acquisition of preferred or ordinary shares, by purchasing non-performing loans, by taking over the bank's liabilities, by opening a credit line or through other instruments.

Laeven and Valencia's analysis of 42 crises revealed a different range of individual tools. During the crisis containment stage, the most used tools were liquidity support (71 per cent of cases) and regulatory forbearance (67 per cent). The less frequently used instruments included unlimited government guarantees (29 per cent) with an average period of about four and a half years, and the least frequently used – freezing of deposits (12 per cent) and bank holidays[16] (9 per cent). During the crisis resolution stage, government intervened on a large scale in 86 per cent of cases. The most frequently used instruments included recapitalization (76 per cent), mergers (61 per cent) and nationalization (57 per cent). These instruments were not used one at a time, but in specific configurations. Banks were sold to foreign capital less often (51 per cent); however, such operations involved banks from the emerging markets, and not the developed economies. The companies in charge of managing bad assets were created in nearly 60 per cent of cases, while companies managing bank restructuring, in 48 per cent of cases.

One of the first attempts to diagnose the use of the restructuring tools in the ongoing global financial crisis were made by Claessens et al. (2011). Their analysis, however, ended in 2009 and covered 12 countries. Figure 1.1 presents the differences identified by Claessens et al.

Compared to the events before 2007, additional government guarantees (including guarantees on assets) and the increase of deposit guarantees became more important. Recapitalization and nationalization remained significant. However, the analysis is incomplete and covers only a short period.

According to Claessens et al. (2010, pp. 13–14), the typical intervention tools used during an ongoing financial crisis are:

- supporting liquidity through collateralized lending and other instruments (in the current crisis over ten per cent of GDP of the developed countries along with two tools specified below),
  - supporting short-term wholesale markets,
  - increasing guarantees for retail and other creditors,
- purchasing or exchanging non-performing or non-liquid assets (in the current crisis approximately 3.5 per cent of GDP),
- recapitalization of banks (in the current crisis approximately two per cent of GDP).

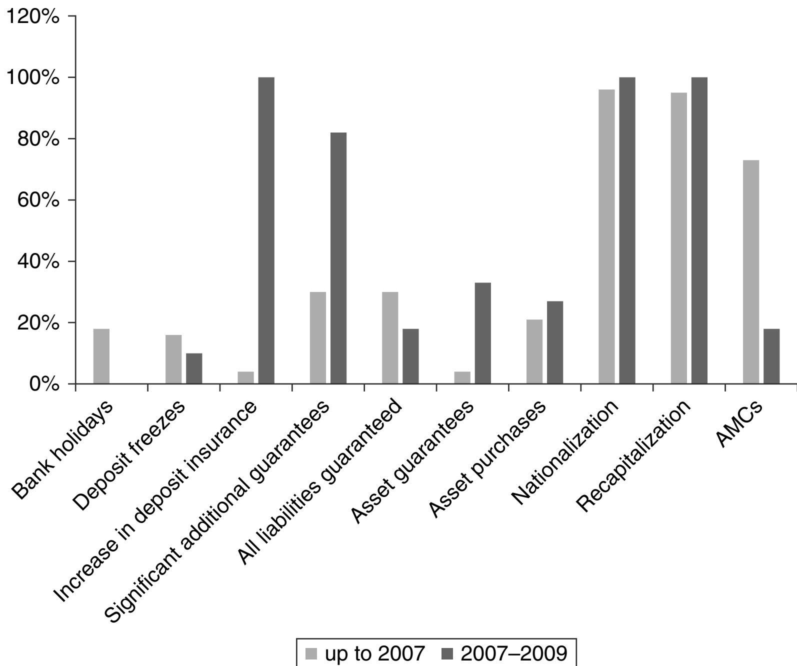


Figure 1.1 Restructuring tools applied before 2007 vs. tools used during the crisis in 2007–2009

Note: Based on Claessens et al., 2011 (p. 8).

In addition to the range of the tools used, attention should be given to the consequence of using the tools – fiscal consequences, related to the burden on public finances, and non-fiscal consequences, referring to moral hazard and risk attitudes of banks. Hryckiewicz performed a quantitative analysis of the consequences of rescuing banks during pre-2007 crises (2014, pp. 246–265). Her analysis covered 92 banks from 23 countries for crises in the 1991–2001 period. The author distinguished five recovery tools: guarantees, liquidity support, nationalization, mergers and asset management companies. The analysis focused on the attitude towards risk-taking over several years upon application of the recovery instrument in the banks covered by intervention against other banks. The author noted that the government intervention contributed to a higher risk during the period following the intervention, which may be attributed, for example, to poor market discipline, unsuitable management and/or lack of actual restructuring of the bank. The risk was particularly stimulated by unlimited guarantees, nationalization and use of 'bad asset' management companies. Hryckiewicz's is the first discussion of consequences to refer to the evaluation of individual banks. These conclusions, though valuable, are of a historical nature and have little application to EU countries. From the perspective of our research, it must be pointed out that Hryckiewicz's study covered six EU countries (four countries undergoing political and economic transformation and two Scandinavian countries), while the other cases are Asian and Latin American. One must not assume that her conclusions would prove accurate for the banks and the period that we have studied. This is not only because of a different economic situation and different regulatory solutions but also because the ongoing global financial crisis has affected mainly the highly developed countries, and government intervention was accompanied by significant changes to the financial regulations. The regulators were not lenient – just the opposite: they imposed stricter requirements on the banks.

Taking into account moral hazard, Claessens et al. (2011, p. 26) assessed four recovery instruments: liquidation, division into the 'good' and 'bad' banks, recapitalization by the government along with nationalization and open bank assistance[17]. Liquidation does not stimulate moral hazard and costs are incurred by the owners, the creditors not covered by guarantees and the deposit guarantee institution (in fact, by the entire banking sector, which pays contributions). Dividing banks into 'good' and 'bad' generates costs that are revealed upon liquidation, and which may additionally require public funds if non-guaranteed deposits are rescued. The increased moral hazard may be noticed only when rescuing non-guaranteed deposits. In the case of recapitalization and nationalization, the shareholders and public authorities incur the costs, while the creditors are usually protected from loss. This restructuring method may increase moral hazard in the case of

creditors not covered by guarantees. The result would have been similar if the shareholders had been granted compensation or if their shares only had been diluted. Open bank assistance long has been regarded as an instrument that contributes most to moral hazard. Its main feature is to maintain the current ownership structure, which means the absence of 'penalty' for those stakeholders who are responsible for a bank's bad financial standing.

In Chapters 3 and 4 and in the Appendix, we present instruments that were used to restructure banks in EU countries in the 2007–2013 period. We have also attempted to evaluate effects associated with those instruments, although currently we may analyse only the costs of the restructuring tools. We cannot yet evaluate long-term consequences of application of individual restructuring instruments (like A. Hryckiewicz) as longer timeframes are required for that purpose.

Notes

1. The term 'bankruptcy' is a simplification. The most frequently performed action was using protection from creditors (the so-called Chapter 11 in the USA).
2. We apply the following IMF definition of a systemic banking crisis: a country's corporate and financial sectors experience a large number of defaults and face great difficulties repaying contracts on time. As a result, non-performing loans increase sharply and all or most of the aggregate banking system capital is exhausted. This situation may be accompanied by depressed asset prices (such as equity and real estate prices) on the heels of run-ups before the crisis, sharp increases in real interest rates and a reversal in capital flows. In some cases, depositor runs on banks trigger the crisis, though in most cases it is a general realization that systemically important financial institutions are in distress (Laeven and Valencia, 2008, p. 5). Note that the definitions of crises, including systemic crises, in the IMF reports have been evolving. The same applies to the statistics (number) of crises.
3. It is worth pointing out the bankruptcy of Bulgarian KBT bank, whose licence was revoked on 4 November 2014.
4. This number includes 11 banks analysed within the framework of Danish packages: the bank package and the consolidation and exit package. The analysis of the restructuring effects and econometric modelling will cover fewer of them because of the lack of financial data from annual reports (the Danish banks covered by the packages as well as the banks that ceased their operations in other countries).
5. As regards the case of Danish Finansiel Stabilitet, we describe operations when discussing the bank rescue packages applied in that country. For the Portuguese institution of resolution and for the Austrian company managing the government's shares, we present a synthetic description in the introductory remarks in the Appendix, without an in-depth analysis.
6. They comprise companies that manage bad assets in Ireland, Spain, Slovenia and Great Britain, and a German company that is directly involved in managing bad assets.
7. The banking sector in Hungary suffered liquidity problems (necessity to renew CHF financing) and a small capital support of state aid was required (0.29 per cent of GDP in 2009). Events in that country resulted from political decisions. The Hungarian government introduced solutions to relieve households in repaying CHF loans (EEAG, 2012, p. 126–127).

8. Mishkin (1991), among others, has presented an alternative theory regarding financial crises.
9. GIIPS stands for: Greece, Ireland, Italy, Portugal and Spain.
10. Debt to Income ratio.
11. Earlier research on the contagion effect was conducted by, among others: for the Tequila Effect – Garcia, (1997); for the crisis in South-East Asia in 1997 – Gębka and Serwa (2006); Lee et al. (2007); for EU countries – Gropp and Moerman (2004); Gropp et al. (2006).
12. SIV – special investment vehicle.
13. Government-guaranteed bonds most often ensure financing..
14. In the US, this is called 'purchase and assumption' (P&A).
15. Laeven and Valencia focused on the three latter instruments.
16. Bank holidays – applied during the Great Depression on a very large scale – involve closing of bank outlets for a specific period. In the four observed cases, the average time was 4.75 of the day.
17. Open assistance to banks comprises preferential loans, guarantees for liabilities, preferential guarantees on assets or purchase of assets on preferential terms.

2
Pre-Crisis Landscape

Paweł Smaga

This chapter describes a pre-crisis economic environment – the landscape before 'the storm' – that is, the financial standing of the EU banking sectors and the legal framework for the financial support of banks. Economic growth in 'new' EU countries was noticeably faster than in 'old' ones, which stimulated expansion of banks from the 'old' EU countries on Central and Eastern European markets. Generally, developments in the economic environment had a positive impact on the pre-crisis financial standing of the EU banking sectors. The liquidity support was available from central banks, which acted as lenders of last resort. However, the legal framework did not allow for effective restructuring and liquidation of banks, especially in the case of cross-border banks.

2.1 Economic environment

2.1.1 Macroeconomic conditions

Before the crisis, the 'new' EU countries recorded higher GDP growth than the 'old' EU member states (Table 2.1). The EU's economic development was accelerating before the crisis. After the slowdown at the beginning of the 21st century, the GDP annual growth rate in the EU gradually increased, reaching 3.2 per cent in 2007 (the continuous economic growth ceased in 2008–2009). A similar tendency might be observed in the Eurozone. The fast-developing economies started to experience an equally severe breakdown because of the crisis in 2008.

Recovery was slower in the economies of the 'old' EU countries, Germany, France, Portugal and Italy, while the economies of the Baltic states (Lithuania, Latvia and Estonia) and of the Central and Eastern Europe countries (such as Bulgaria, Slovakia, Romania and Slovenia) developed noticeably faster. Faster economic development in these countries provided greater possibilities for expansion of banking services than in the 'old' EU states. The dynamic GDP

Table 2.1 GDP annual growth rate in 1999–2008 (%)

Countries	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
EU	2.9	3.9	2.0	1.3	1.5	2.6	2.2	3.4	3.2	0.4
Eurozone	2.9	3.8	2.0	0.9	0.7	2.2	1.7	3.2	2.9	0.4
Austria	3.5	3.7	0.9	1.7	0.9	2.6	2.4	3.7	3.7	1.4
Belgium	3.5	3.7	0.8	1.4	0.8	3.3	1.8	2.7	2.9	1.0
Bulgaria	2.0	5.7	4.2	4.7	5.5	6.7	6.4	6.5	6.4	6.2
Cyprus	4.8	5.0	4.0	2.1	1.9	4.2	3.9	4.1	5.1	3.6
Czech Republic	1.7	4.2	3.1	2.1	3.8	4.7	6.8	7.0	5.7	3.1
Denmark	2.6	3.5	0.7	0.5	0.4	2.3	2.4	3.4	1.6	–0.8
Estonia	–0.3	9.7	6.3	6.6	7.8	6.3	8.9	10.1	7.5	–4.2
Finland	3.9	5.3	2.3	1.8	2.0	4.1	2.9	4.4	5.3	0.3
France	3.3	3.7	1.8	0.9	0.9	2.5	1.8	2.5	2.3	–0.1
Germany	1.9	3.1	1.5	0.0	–0.4	1.2	0.7	3.7	3.3	1.1
Greece	3.4	4.5	4.2	3.4	5.9	4.4	2.3	5.5	3.5	–0.2
Hungary	3.2	4.2	3.7	4.5	3.9	4.8	4.0	3.9	0.1	0.9
Ireland	11.0	10.6	5.0	5.4	3.7	4.2	6.1	5.5	5.0	–2.2
Italy	1.5	3.7	1.9	0.5	0.0	1.7	0.9	2.2	1.7	–1.2
Latvia	2.9	5.3	7.3	7.1	7.7	8.8	10.1	11.0	10.0	–2.8
Lithuania	–1.0	3.6	6.7	6.8	10.3	7.4	7.8	7.8	9.8	2.9
Luxemburg	8.4	8.4	2.5	4.1	1.7	4.4	5.3	4.9	6.6	–0.7
Malta	n/a	n/a	0.0	2.4	0.7	–0.3	3.6	2.6	4.1	3.9
Poland	4.5	4.3	1.2	1.4	3.9	5.3	3.6	6.2	6.8	5.1
Portugal	4.1	3.9	2.0	0.8	–0.9	1.6	0.8	1.4	2.4	0.0
Romania	–0.4	2.4	5.7	5.1	5.2	8.5	4.2	7.9	6.3	7.3
Slovakia	0.0	1.4	3.5	4.6	4.8	5.1	6.7	8.3	10.5	5.8
Slovenia	5.3	4.3	2.9	3.8	2.9	4.4	4.0	5.8	7.0	3.4
Spain	4.7	5.0	3.7	2.7	3.1	3.3	3.6	4.1	3.5	0.9
Sweden	4.7	4.5	1.3	2.5	2.3	4.2	3.2	4.3	3.3	–0.6
Netherlands	4.7	3.9	1.9	0.1	0.3	2.2	2.0	3.4	3.9	1.8
United Kingdom	2.9	4.4	2.2	2.3	3.9	3.2	3.2	2.8	3.4	–0.8

Note: Based on Eurostat data.

growth supported increase in private consumption and positively affected the quality of banks' credit portfolio.

Before the crisis, the growth of consumer prices in the EU as a whole (measured by the HICP) remained on a stable level (slightly above 2 per cent). This tendency was also observed in the Eurozone and most EU economies. The inflation rate did not slow significantly until 2009. A noticeably faster inflation rate, above the EU average, was recorded in Latvia, Lithuania, Estonia and Bulgaria. In all of those countries the price growth accelerated before the start of the crisis. In Slovakia and Slovenia, inflation slowed before the crisis. Thus, the Baltic states experienced both high inflation and increasing GDP before the outbreak of the crisis. The stable level of

prices in the Eurozone bolstered economic activity and longer investment horizons. Additionally, there were few costs related to inflation. There was also less uncertainty about the future levels of inflation, which supported low market risk premium.

Real estate prices in the majority of EU states increased significantly before the crisis (residential real estate prices, Figure 2.1). The fastest growth rates of property prices were observed in Ireland, the UK, Denmark, Spain and Sweden. The crisis hampered price increases on the real estate market (except for the UK, Austria and Sweden). On the other hand, in Germany, residential property prices decreased in real terms (followed by a slight increase) from the creation of the Eurozone until 2008. Rising prices made investing in the property market (in the form of flat purchases) more attractive, which also increased the demand for mortgage loans. At the same time, this trend encouraged banks to invest in securities and derivative instruments, whose value was linked to real estate prices. The value of real estate as collateral also increased, which incentivized banks to further expand credit supply and, through the wealth effect, resulted in higher internal demand in the economy.

The unemployment rate in the EU was decreasing before the crisis. Although at the beginning of the 21st century the EU unemployment rate

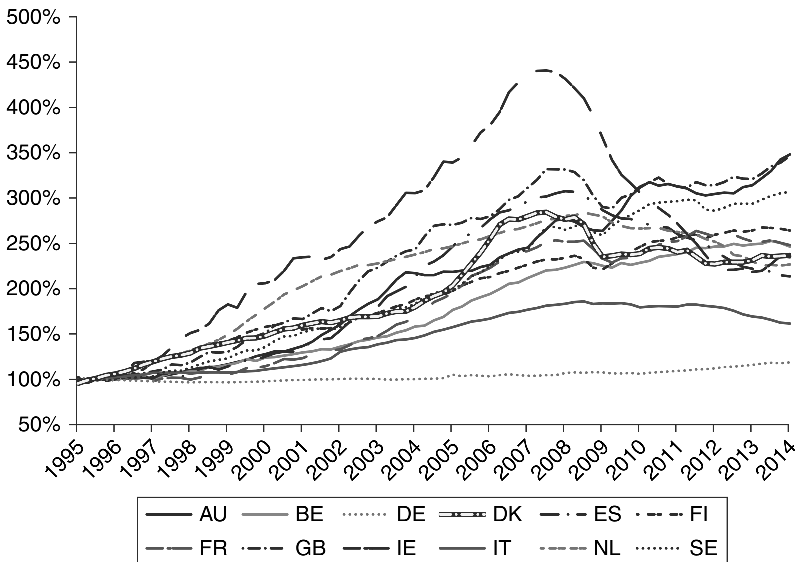


Figure 2.1 Residential real estate prices in selected EU countries (1995 = 100)

Note: Based on BIS Residential Property Price database.

was approximately 9 per cent, it dropped to 7 per cent in 2008. (However, after the outbreak of the crisis unemployment started to grow rapidly.) Such a tendency was characteristic of most EU countries. In Ireland, Denmark, Cyprus, the Netherlands, Austria and the UK, the unemployment rate was much lower than the EU average. At the same time, in the economies of the Baltics and CEE countries (including Latvia, Lithuania, Bulgaria, Slovakia and Poland) the unemployment rate was higher than the EU average. The decreasing unemployment rate supported internal demand growth and consumption increase, which positively affected the loan demand and in banks reduced the pressure on non-performing loans (NPL).

2.1.2 Fiscal policy

EU countries pursued their fiscal policies differently. A noticeable tendency in most EU states was improvement of the budget balance until 2007 (decrease in budget deficit). At the same time, there also were countries that had been pursuing expansive fiscal policies before the crisis (high, though decreasing deficits were reported in Greece, the Czech Republic, Italy, Hungary and Portugal), while others, mainly Denmark, Finland and Sweden, experienced budget surpluses. At the same time, thanks to the growing GDP, the public debt-to-GDP ratio did not reveal major changes in most EU countries before the crisis (the EU average was approximately 60 per cent. See Table 2.2). In Belgium, Greece and Italy, the debt-to-GDP ratio remained high, while in the Baltic states (Latvia, Lithuania and Estonia) and in the Czech Republic, Ireland and Romania, the pre-crisis ratio was clearly below average. The improvement of public finances resulted in fewer EU states being subjected to the excessive deficit procedure, and most countries were close to achieving medium-term budgetary objectives (EC, 2008, p. 1). The fiscal consolidation was also accompanied by the gradually decreasing share of government bonds in banks' assets in most EU countries since the creation of the Eurozone. Prior to the outbreak of the global financial crisis, one could observe an evident convergence of government bond yields within the range of 4 and 5 per cent in EU countries (excluding Ireland and Hungary, where yields were higher). However, the crisis caused significant divergence in government bond yields in EU countries.

The relatively good condition of public finances before the crisis had a positive impact on the banking sector in most EU countries. Gradual fiscal consolidation, along with faster GDP growth, did not reduce consumption in the majority of EU states, while sustaining the loan demand. This created conditions for automatic stabilizers to work during the economic slowdown and, where necessary, for public support for the banking sector. Before the crisis, there were no signs of negative feedback loop between the banking sector and public finances.[1] The lack of significant fluctuations of government

Table 2.2 Public debt to GDP in 1999–2008 (%)

Countries	2002	2003	2004	2005	2006	2007	2008
EU	60.3	61.8	62.1	62.6	61.4	58.8	62.0
Eurozone	68.0	69.1	69.6	70.2	68.5	66.2	70.1
Austria	66.2	65.3	64.7	64.2	62.3	60.2	63.8
Belgium	103.4	98.4	94.0	92.0	87.9	84.0	89.2
Bulgaria	52.4	44.4	37.0	27.5	21.6	17.2	13.7
Cyprus	65.1	69.7	70.9	69.4	64.7	58.8	48.9
Czech Republic	27.1	28.6	28.9	28.4	28.3	27.9	28.7
Denmark	49.5	47.2	45.1	37.8	32.1	27.1	33.4
Estonia	5.7	5.6	5.0	4.6	4.4	3.7	4.5
Finland	41.5	44.5	44.4	41.7	39.6	35.2	33.9
France	58.8	62.9	64.9	66.4	63.7	64.2	68.2
Germany	60.7	64.4	66.2	68.6	68.0	65.2	66.8
Greece	101.7	97.4	98.6	100.0	106.1	107.4	112.9
Hungary	55.9	58.6	59.5	61.7	65.9	67.0	73.0
Ireland	31.8	31.0	29.4	27.2	24.6	24.9	44.2
Italy	105.4	104.1	103.7	105.7	106.3	103.3	106.1
Latvia	13.6	14.7	15.0	12.5	10.7	9.0	19.8
Lithuania	22.2	21.0	19.3	18.3	17.9	16.8	15.5
Luxemburg	6.3	6.2	6.3	6.1	6.7	6.7	14.4
Malta	57.9	66	69.8	68	62.5	60.7	60.9
Poland	42.2	47.1	45.7	47.1	47.7	45	47.1
Portugal	56.8	59.4	61.9	67.7	69.4	68.4	71.7
Romania	24.9	21.5	18.7	15.8	12.4	12.8	13.4
Slovakia	43.4	42.4	41.5	34.2	30.5	29.6	27.9
Slovenia	27.8	27.2	27.3	26.7	26.4	23.1	22
Spain	52.6	48.8	46.3	43.2	39.7	36.3	40.2
Sweden	52.5	51.7	50.3	50.4	45.2	40.2	38.8
Netherlands	50.5	52	52.4	51.8	47.4	45.3	58.5
United Kingdom	37.1	38.7	40.3	41.7	42.7	43.7	51.9

Note: Based on Eurostat data.

bond prices did not generate losses for banks. Government bonds of EU states were used as high-quality liquid assets, carrying low risk, and could be used, without a high haircut, as collateral in interbank transactions, which fostered effective liquidity management in banks. Although government's high credibility contributed to moral hazard on the side of banks, which expected state aid during the turbulence period, this also translated into lower costs of financing (IMF, 2014) and higher bank ratings (as bank ratings were linked to sovereign ratings), encouraging the banks to take higher risks.

2.1.3 Monetary policy

The monetary policies of central banks of EU countries before the crisis were, in most cases, effective at reaching stable inflation. Since its inception in

1999, the ECB has been pursuing monetary policy by using the inflation targeting strategy (with the inflation target of below, but close to, 2 per cent). After initial tightening of monetary policy between 1990 and 2000, the ECB conducted an accommodative monetary policy until mid-2005 and reduced interest rates to foster economic growth in the Eurozone. However, because of the rapid increase in money supply and credit growth from mid-2005 to mid-2008, the ECB gradually started to pursue a more restrictive monetary policy (ECB, 2011a, pp. 117–118, 129). The effects of the ECB monetary policy are supported by the inflation rate (HICP) close to 2 per cent in 1999–2008 and stable inflation expectations during that period. The success of ECB monetary policy bolstered the role of the euro as an international currency (the nominal effective euro exchange rate, or NEER, was steadily growing from 2001 to mid-2008). From 1999 the Bank of England conducted an expansive monetary policy and from mid-2003 until early 2008, a restrictive monetary policy in line with the direct inflation targeting strategy. Due to the dynamic credit growth and the effective disinflation policy in CEE economies, the pre-crisis monetary policies were relatively more restrictive in those countries than in the Eurozone. Additionally, both the credit boom, as well as the interest rate disparities contributed to the growing stock of debt in foreign currencies (particularly FX mortgage loans).

Effective monetary policy positively affected the standing of banks. Not only did it reduce the inflation costs, it also strengthened confidence in the domestic currency, contributed to the growth of long-term investments and reduced uncertainty about the future interest rates. The absence of major disturbances on the pre-crisis money market contributed to the stabilization of the bank market cost of funding. The periods in which the central banks of EU countries did not apply excessively restrictive monetary policies contributed to credit demand and to a good quality of bank credit portfolio. Nevertheless, it has to be underlined that an expansive monetary policy and abundance of liquidity on global financial markets before the crisis contributed to creation of imbalanced asset price increases, growth of the risk appetite and, in consequence, accumulation of systemic risk.

To sum up, macroeconomic conditions created a good environment for expansion of banking activity before the crisis.[2] Faster economic growth in the EU, particularly in CEE countries, created attractive conditions for expansion of banking activity and allowed for increase in lending, for instance, in the mortgage loans segment. The success of ECB monetary policy and growing importance of the new currency – the euro – on international financial markets made it easier for banks to engage into investment banking and invest in innovative financial instruments. Additionally, the negative sovereign-bank nexus was not a visible threat to the EU banking system. Before the crisis, the prevailing view was that fluctuations in the economy

had been constrained and that stable conditions had been achieved for the development of both the economy and the financial sector.[3]

2.2 Pre-crisis financial standing of the EU banking sector

Before the crisis the banking systems in EU countries expanded significantly. ASC Report (2014, pp. 3–4) reveals that since the first half of the 1990s, using bank credit-to-GDP ratio, the banking sectors which have expanded the most are those in Cyprus, Ireland, Spain and Portugal. On the other hand, the slowest growth has been observed in Finland, Germany, France and Austria. Banking sector assets in many EU countries exceeded 100 per cent of the EU country's GDP (Figure 2.2). Not only did the banking systems expand, but also individual banks grew larger, which was accompanied by leverage increase. Banks in the EU were becoming more and more involved in derivatives transactions and expanded their credit activity outside their home countries.

Before the crisis, the number of credit institutions was slowly decreasing (among others because of mergers and acquisitions), which translated into a moderate increase of the concentration level (measured by Herfindahl-Hirschman Index – HHI) in most EU banking sectors. High concentration was visible in Estonia, the Netherlands, Finland, and Belgium, while it was relatively low in Germany, Luxembourg, Italy and Austria. In countries with bigger banking sectors, the concentration was relatively lower than in countries with less developed banking sectors (ECB, 2013, pp. 12–13).

Banks in the 'old' EU countries increased their presence in banking systems of the 'new' EU states. Whereas banking system assets in the 'old'

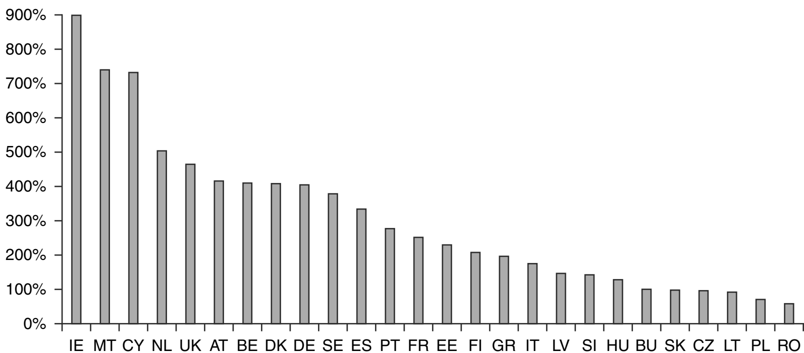


Figure 2.2 Assets to GDP in EU countries before the crisis

Note: Based on ECB consolidated banking data and IMF World Economic Outlook; the value for Luxemburg (2,696%) was dropped.

EU economies (mainly the Eurozone) were dominated by domestic capital (about two thirds), in CEE economies the same (or higher) portion of the assets belonged to banks owned by foreign capital. The ECB studies show that the expansion of the Eurozone banks to CEE banking systems was driven mainly (ECB, 2008, p. 12) by a higher potential of CEE economies. As a consequence, this provided opportunity for Eurozone banks to earn higher margins and was also driven by their strategy to internationalize the customer base as well as their willingness to achieve economies of scale and scope.

Foreign bank expansion in CEE banking systems translated into fast credit growth. Before the crisis, one could observe the growing credit to households and non-financial enterprises in the EU, with significantly higher credit growth rates in 'new' member states than in Eurozone countries, particularly in the case of mortgage loans (ECB, 2008, pp. 15–16). Increased lending was accompanied by growth of the deposit base, which before the crisis contributed to maintaining the average credit-to-deposit ratio on a stable level of about 115 per cent in the EU (with a slightly higher ratio of 120 per cent for the Eurozone countries). This ratio was higher in Sweden (above 230 per cent) and Denmark (above 270 per cent). Higher (above the EU average) ratios were observed in Estonia, Ireland, Italy, Latvia and Finland. Additionally, for the 'new' member states, mainly from CEE, this ratio accelerated before the crisis.

The growth of profitability in EU banking sectors was accompanied by the decreasing non-performing loans (NPL) and capital adequacy (measured by the capital adequacy ratio, or CAR) in CEE countries, while CAR remained stable in the 'old' EU countries. According to IMF data (2008, pp. 177–192), before the crisis, profitability measured by ROA in CEE banking systems amounted to about 1.5 per cent, while in the Eurozone and the UK this ratio was between 0.5–1 per cent. A similar tendency may be observed for ROE. Before the outbreak of the crisis, profitability ratios in the banking sectors of CEE countries (and Sweden) were growing rapidly, while the growth was slower in Eurozone countries. The NPL ratio decreased significantly in most EU countries before the crisis and just before the crisis outbreak, it was close to 5 per cent. However, the CAR was dropping in the CEE banking systems from nearly 17 per cent at the beginning of the 21st century. In the Eurozone countries and the UK, CAR remained on a similar level since the beginning of the 21st century. As a result, in most EU countries, directly before the crisis, CAR totalled 12.5 per cent on average. As the required minimum was 8 per cent, it was commonly assumed that banks were safe and equipped with sufficient capital.

Favourable conditions allowed banks to expand their operations, which resulted in the growth of the size of the banking sector. Before the crisis, in most EU countries, bank credit to GDP totalled more than 100 per

cent, which, according to several studies (Dabla-Norris and Srivisal, 2013; Cecchetti and Kharroubi, 2012; Arcand et al., 2012), is a borderline above which the banking system starts to negatively affect the economy. This is shown through contribution to credit booms and systemic risk, in increased economic fluctuations, excessive private sector indebtedness, ineffective allocation of resources in the economy, strengthening of procyclicality and a negative sovereign-bank feedback loop. Additionally, while the increasing profitability in EU banking sectors before the crisis was positive, the falling CAR in CEE banking systems somehow questioned their resistance to shocks.

It is difficult to evaluate the impact of a slight growth of concentration in EU banking sectors. In the literature, the influence of the competition level on financial stability is ambiguous (Pawłowska, 2012, pp. 288–289). On the one hand, smaller competition allows earning higher premiums and gaining economies of the scale and scope, which would contribute to the increase of profits. On the other hand, stronger competition between banks may exert pressure on margins and increase the risk appetite as well as moral hazard.

For CEE economies expansion of banks from Western Europe has become problematic.[4] It resulted in significant growth of foreign banks' participation in CEE banking sectors. This was one of the main reasons for the credit bubble, over-indebtedness of households (mainly FX mortgage loans financed with funds from foreign banks), which increased exposure to a sudden outflow of capital from CEE economies, the so-called *sudden stop* (Klingen, 2013, pp. 13–25). Along with high internal demand and GDP growth, those tendencies resulted in current account deficit, overheated economy and the asset price bubble. This was also reflected in the significant growth of the credit-to-deposit ratios, thus increasing the liquidity risk.

2.3 Pre-crisis legal and institutional arrangements for rescue operations in the EU

The main purpose of the financial safety net on the national level is to ensure financial stability. During crisis management, the financial safety net usually:

- acts as the lender of last resort,
- implements recovery programmes and resolution arrangements,
- guarantees deposits,
- provides state aid.

The central bank acts as the lender of last resort (LOLR). The central bank is the only financial safety net institution that may effectively perform this role. The central bank may decide to provide liquidity to banks when it is

not available from market sources, for example, when standard functioning of the interbank market is disturbed. The liquidity support should be granted to a bank that is temporarily illiquid but still solvent. This however, is difficult to evaluate in a turbulent market environment. The liquidity is provided in order to limit the domino effect in the payment system and the systemic risk in the banking sector.

The mandates of EU central banks usually do not explicitly regulate the role of the LOLR. This is a consequence of the constructive ambiguity strategy aiming at taming moral hazard among banks (particularly 'too big to fail' ones) which could have been caused by an *ex ante* defined liquidity support framework. This also provides the central bank with flexibility during the crisis, when the central bank is not bound by the previously defined liquidity support rules. The LOLR role is decentralized in the European System of Central Banks (ESCB) and understood as emergency liquidity assistance, which national central banks grant at their own risk and out of their own funds.[5] In the case of the Eurosystem, the scale of potential liquidity support is also limited to an undisclosed amount, above which the ECB may block it. Acts on national central banks usually do not expressly assign the LOLR function to them. They do, however, include relevant provisions that allow for injecting liquidity into the banking system and individual banks on terms different from those used for regular refinancing operations conducted within the monetary policy framework (Szczepańska, 2004, p. 13). This is frequently combined with the role of safeguarding financial stability specified in the central bank's mandate.

In the Eurosystem, only the ECB is able to effectively influence liquidity of the entire single market. The Treaty on the Functioning of the European Union (TFEU) does not provide the ECB with an explicit mandate to grant large-scale liquidity assistance. The ECB may perform this role by using monetary policy tools,[6] for instance, via open market operations, refinancing operations (if this is to contribute to achieving the inflation target in the medium term) or by performing non-standard asset purchasing programs. Central banks, either national or the ECB, inform – to a limited extent – about the scale of liquidity assistance granted. The results of the analyses of the liquidity assistance granted in EU countries are not disclosed.

Once financial problems are identified in a bank, it should be restructured. Restructuring of the bank is conducted either out of the bank's own initiative or it may result from intervention of the micro-prudential supervisor. Section 1.3 in Chapter 1 presents the major tools that enable 'restructuring' of a bank. When the restructuring actions prove ineffective, then the liquidation or bankruptcy procedure is started.

Before the crisis, there was limited regulation of bank resolution in the EU. Upon a major disturbance of a bank's financial standing, the government

and the supervisory authority (or institutions in charge of the restructuring) face a choice: either to recapitalize the bank using public funds or to start a formal bankruptcy procedure. In most EU countries, before the crisis, the legal procedures regulating bankruptcy on the national level had been designed for the liquidation of enterprises, without taking into account the specificities of the banks' functioning,[7] particularly, those of systemic importance. The effects of limiting negative consequences of bank's bankruptcy depend on the speed of decision making, which was more difficult in lengthy court procedures. Delays in a bank liquidation process may result in the contagion effect and banking panic, particularly when dealing with big banks. The lack of transparency in handling bank defaults also undermines confidence in the banking system, especially among individual depositors. Before the crisis, there were neither tools nor regulatory and legal procedures allowing maintaining the key functions of a defaulting bank and liquidating it in an orderly manner. The banks, too, lacked credible contingency planning and plans of the liquidation of complex banking structures and operations. Also on the EU level, this problem was not regulated and there was no common approach to the restructuring and resolution of banks, including mechanisms for the financing of the resolution process out of private rather than public sources (EC, 2012a, pp. 10–12).

The cross-border dimension of banking in the EU exposed the regulatory deficiencies regarding bank bankruptcy proceedings. Various approaches of individual countries to resolving the problem of bank's default, numerous legal regimes and the absence of institutional allocation of resolution within the financial safety net in EU countries did not create conditions for an effective and coordinated liquidation of a bank, especially in the case of a cross-border SIFI. The lack of official and transparent rules, agreed *ex ante*, for financing and burden sharing of a cross-border bank's default did not increase moral hazard, but it did put countries with sectors dominated by foreign capital in a worse position. Due to the significant expansion of cross-border operations of banks in the EU and the financial integration before the crisis (ECB, 2008a, pp. 11–20), leaving responsibility for financial stability within national authorities in EU countries, along with diverse national bank liquidation procedures, did not allow for effective crisis management in the entire EU. Memorandums of Understanding (MoUs) between EU countries before the crisis also proved ineffective, because these agreements provided only for information exchange and were not legally binding.

Before the crisis, national deposit guarantee systems (or DGSs) in the EU were significantly fragmented (in terms of the guarantee levels, scopes of responsibilities and financing arrangements).The DGSs were regulated by Directive 94/19/EC of the European Parliament and of the Council of 30 May 1994 on deposit guarantee schemes, which – according to the minimum

harmonization principle – required the member states to establish at least one mandatory deposit guarantee scheme, although it offered much freedom to arrange the rules for the functioning of the domestic DGSs (Stelmach, 2012, pp. 41–43). The deposit guarantee schemes, both before the crisis and now, could be regarded as the least harmonized element of the financial safety net in the EU. The directive was not changed until the global financial crisis, which revealed the need for its verification.

Differentiation of the national DGSs in the EU resulted in a number of unresolved issues:

1. The freedom to arrange financing resulted in an inadequate financial potential of the DGSs (EC, 2010a, p. 19).[8]
2. *Ex-post* financing adopted in some EU countries is procyclical and disturbs competition between banks.
3. The freedom to set the guarantee cap contributed to significant differences in guarantee levels among EU countries. Increasing the cap (without the proportionate increase of the financial capacity of the DGS) could be a tool only for short-term strengthening of confidence in the banking system. In addition, the original guarantee level of EUR 20,000, along with the growth of banking sectors' size, became inadequate in comparison to the stock of deposits held by depositors.
4. Too long payout periods of guaranteed deposits (three months) could induce panic and bank run among the depositors. Also different scopes of the guarantees, as well as terms of compensation of customer's deposits with liabilities, disturbed competition among banks in various EU countries.

Before the crisis, there was no detailed framework for granting state aid to banks in the EU. Article 107 of the TFEU provides for a general ban on granting state aid. In specific conditions, state intervention (such as capital support or granting of guarantees), however, is allowed; for instance, when the purpose of the assistance is to prevent severe distortion of the member state's economy or to facilitate development of certain economic activities, provided this assistance does not alter the terms of free trade to an extent that would be contrary to common interests. The TFEU imposes on EU member states an obligation to notify the European Commission of any plans to grant state aid or to change the terms of state aid already granted and forbids implementation of such plans without the Commission's approval. This issue is presented in greater detail in Chapter 3.

In conclusion, the institutional and legal regulations of bank bankruptcy before the crisis in the EU did not promote effective restructuring and liquidation. The possibility of banks becoming overly dependent on the central

banks' liquidity support, the absence of uniform regulations and procedures for managing defaulting banks and the lack of effective burden-sharing arrangements and coordination between the countries when liquidating a cross-border bank of systemic importance, as well as problematic granting of state aid, did not offer conditions for effective bank restructuring or liquidation.

Notes

1. See Angelini et al. (2014).
2. Stability of the banking system strongly depends on conditions in the real sphere of the economy, and any disturbance there results in higher risks in the banking system. One of the main channels is the growth of credit risk during recession.
3. Great Moderation was observed since the second half of 1980s (mainly in the developed countries). The period was characterized by the decreasing volatility of GDP and inflation (which remained low) in the developed countries before the global financial crisis, which was additionally accompanied by growing credibility of the central banks' actions.
4. The scale of the risks, however, differed in the banking systems of each CEE country; for instance in Poland these concerns were much milder than in the Baltics.
5. According to ECB guidelines, this is assistance to a solvent financial institution (or a group of solvent financial institutions) undergoing temporary liquidity problems, however, such an operation is not part of the single monetary policy (ECB, 2013a).
6. LOLR activity may be reflected both in the decisions made within the monetary policy area and in the decisions aimed to ensure conditions for safe functioning of individual institutions (Polański, 2012, p. 277).
7. This solution was lengthy, complicated, costly and ineffective (IMF, 2013, p. 30).
8. The EU27 average ratio of DGS funds to the eligible deposits totalled 0.20 per cent, and to the total covered deposits –0.33 per cent. Thus, before the crisis (data for 2007–2008), the DGS funds suffered a severe lack of capitalization (Iwanicz-Drozdowska, 2011, pp. 83–85).

3
State Aid and Fiscal Costs

Małgorzata Iwanicz-Drozdowska, Elżbieta Malinowska-Misiąg and Bartosz Witkowski

This chapter presents overall rules for the provision of state aid and the fiscal burden related to that aid. Soon after the collapse of Lehman Brothers, in October 2008, the European Commission issued the so-called 'first banking communication' to facilitate the financial support for banks. In 2010, it became necessary to provide financial support to countries. In 2012, the European Stability Mechanism was established. All in all, the net state aid (state aid less repayments) provided to banks in the form of recapitalization and capital provided for asset management companies from 2008 to 2013 equalled EUR 535.6 billion. The state aid imposed a heavy burden on public finance in some EU countries, with Ireland presenting the heaviest.

3.1 State aid for financial institutions during the crisis

3.1.1 General rules for granting state aid

The European Commission approved the original guidelines for state aid to rescue and restructure the enterprises in 1994. Further guidelines followed in 1999[1] and when the financial crisis started, the guidelines in force were those approved in 2004 (EC, 2004, p. 2). The European Commission, or EC, decided that supporting firms in difficulty could not become a general rule, thus the terms and rules for granting such aid were precisely defined. Two forms of assistance were provided: rescue aid and restructuring aid.

The rescue aid is temporary, and it should allow the firm to preserve its liquidity for the time necessary to prepare a restructuring and/or liquidation plan. Such aid should be limited to a necessary minimum. It takes the form of loan guarantees or loans. Once the restructuring (or liquidation) plan is approved and its implementation is started, any subsequent support is treated as the restructuring aid. In principle, the rescue aid is a one-off operation ('one time, last time' principle), however, the guidelines provide for exceptions to this principle in specific cases.

The restructuring aid is designed to recover the firm's long-term viability. Restructuring most often comprises reorganization and rationalization of operations. It cannot be limited solely to mitigation of losses, but must also eliminate their causes. According to the general principle, the restructuring aid should be granted only if it does not contradict the Community's interests – upon meeting the predefined requirements and only if distortion of competition is counterbalanced by advantages of the continued operations of the firm.

One of prerequisites for granting the aid is to implement a restructuring plan designed to restore the firm's long-term viability. This plan must describe the circumstances that have led to the difficult situation and present various future scenarios, depending on whether more or less positive assumptions are adopted.

The state aid amount should be limited to a minimum that corresponds to the costs required for firm's restructuring. The beneficiaries of the aid should make a significant contribution out of their own funds coming, for instance, from the sale of assets or external sources.

The EC controls implementation of the restructuring plans. Member states are obligated to regularly send documents allowing verification of accuracy of the plan's implementation.

3.1.2 Guidelines for granting state aid to financial institutions

The spill over of the crisis urged the Economic and Financial Affairs Council, or ECOFIN, to undertake actions, in the autumn of 2008, aiming to improve the standing and stability of the financial system. Thus, in October 2008, the European Commission issued the so-called 'first banking communication'.[2]

Since the state aid for financial institutions may distort competition, particular emphasis was placed on the definition of common EU terms and conditions for state interventions. Regular monitoring of state aid programs was deemed particularly important so that the aid was granted only if necessary. State aid should be limited to a minimum. Strict targeting of the aid funds was another measure to limit distortion of competition. The communication formulated guidelines for designing and implementing state aid in the form of recapitalization and guarantees for liabilities.

The EC concluded that banks with a generally good standing, whose liquidity problems resulted solely from crisis-related causes, should be treated differently from institutions characterized by inadequate management and excessive risk-taking.

Still in late 2008, once the EC approved recapitalization programmes in three member states and individual recapitalization measures, it was decided to issue more detailed guidelines for this form of state aid. Consequently, the EC issued such communication on 5 December 2008.

In 2009, once several member states announced they intended to extend the state aid measures by adding aid associated with bank's impaired assets, a new communication on this matter was issued. It was formulated in cooperation with the ECB and with the use of Eurosystem recommendations of 5 February 2009.[3]

Another communication, of 23 July 2009, supplemented the prior criteria for granting state aid, focusing primarily on the restructuring plan.

Further changes to the scope of state aid granted to financial institutions, which more precisely defined and updated certain regulatory issues, were introduced by two communications: on the application from 1 January 2011 and from 1 January 2012.

The lessons learned since 2008 and the change of market conditions urged the EC in 2013 to issue another communication, which significantly altered the guidelines for granting state aid to financial institutions. This communication replaced the first banking communication of 2008, and adjusted and supplemented further communications from the EC on that issue. Since 1 August 2013, the aid measures for recapitalization and impaired assets have been approved only upon the adoption of the bank's restructuring plan. Guarantees are still available, although the group of beneficiaries has been limited to institutions without capital shortages.

Based on the EC communications we have drawn up the following brief description of state aid measures in favour of financial institutions applied since 2008, in the context of the financial crisis.

3.1.3 Guarantees for liabilities of financial institutions

Guidelines for guarantees for liabilities of financial institutions were specified in the first banking communication, which found the guarantees protecting deposits and deposit-like financial instruments of retail customers justified. For other customers, the scope of the guarantees should be very limited. It was also observed that in some cases, it might be justified to grant guarantees for certain wholesale deposits and short- and medium-term debt securities, as well. As regards the guarantees for non-retail deposits, the time and scope should be limited to a necessary minimum. The aid volume should also be minimal.

The Commission decided that the system of guarantees must be treated as an extraordinary and temporary measure of assistance, the purpose of which will be to mitigate the severe consequences of the crisis. The fees for the guarantees were combined with the spreads of the credit default swaps (CDSs).

Guarantee should be an extraordinary rescue measure, which precedes the restructuring or liquidation of its beneficiary.

At the end of 2009, the ECOFIN decided to gradually withdraw the measures of public assistance for banks, concluding that the process should start

with expiration of the government guarantees. In July 2010, the guarantee fee was increased and the beneficiaries who use the new guarantees and exceed a predefined cap of total guaranteed outstanding liabilities were obligated to implement plans to restore long-term viability.

In 2012, the pricing and conditions for granting the guarantees were defined more precisely. Banks could use the guarantees when issuing new debt securities, except for instruments classified as tier 1 or tier 2 in bank's capital. In principle, state guarantees should cover only debt instruments with maturity of between one and five years (or seven years – for covered bonds).

Further changes to the terms and conditions of guarantee granting were implemented by the communication from the EC in 2013. As the liquidity assistance and guarantees for liabilities temporarily stabilized banks' funding, the Commission decided that the member states could notify such a form of assistance still before approving the restructuring plan.

The guarantees and liquidity assistance may be used for a particular financial institution or as programs targeting a wider group of entities. The communication set prerequisites for obtaining the Commission's approval for the assistance. These prerequisites specified the type of debt, maturity of instruments, and the minimum fee for the assistance granted. The communication also stipulated recommendations for the restructuring plan submission deadlines. For the guarantee programs and liquidity assistance it was also necessary to fulfil additional requirements related, among others, to reporting. These programs may apply only to banks without capital shortages.

3.1.4 Recapitalization of financial institutions

One of the key goals of applying recapitalization is to regain financial stability and increase confidence necessary to revitalize the interbank market. Recapitalization allows covering losses caused by economic downturns and reduces the risk of financial institutions' defaults. Another role of recapitalization is also to ensure financing to the real economy. Finally yet importantly, recapitalization may also constitute a rescue measure for insolvent banks, and in the longer run, a measure that supports banks in regaining long-term profitability or in the resolution process (EC, 2009, p. 2).

General guidelines for recapitalization of financial institutions were specified in the first banking communication and they largely overlapped with the guidelines for the guarantees. The EC's December 2008 communication provided for more details. The communication defined rules for calculating fees for recapitalization and underlined the necessity to monitor the standing of recapitalization beneficiaries.

The Commission also underlined the need to analyse the beneficiary's risk profile and thus differentiate approaches to granting assistance. Banks with

riskier profiles should generally pay more and fulfil more rigorous requirements. Such institutions may be recapitalized only on condition of undergoing liquidation or in-depth restructuring, which requires a restructuring plan. Until the assistance is repaid, there must be a mechanism to ensure appropriate management of the bank, such as a restrictive dividend payout policy or cutting salaries of top management.

The fourth communication from the EC issued in July 2009 explained how the Commission would examine the assistance for the restructuring of banks, referring, particularly, to the restructuring plans. The Commission decided that the restructuring plan had to comprise a precise diagnosis of problems and in order to restore long-term viability it would be necessary to run a stress test. The restructuring plan should provide for different scenarios and the planned restructuring period should be as short as possible and must not exceed five years. The Commission also underlined that when granting assistance, the member states and the benefiting banks will share the burdens.

In 2011, the division of banks into those with stable finances and those in difficulty was eliminated. All banks benefiting from recapitalization or support for impaired assets were obligated to present the Commission with their restructuring plans.

The communications from the European Commission valid until 2012 presented more detailed guidelines for fees for capital injections.

In order to limit moral hazard and distortion of competition, since the very beginning, a principle was introduced to limit the aid amount to a necessary minimum. The beneficiaries were also obligated to make their own contributions. However, subsequent years showed that the failure to predefine the level of burden to be borne by the beneficiary had led to significant differences between these contributions in individual EU states. In the banking communication in 2013, the Commission decided to increase the minimum burden sharing requirements – banks must exhaust all the other ways to raise capital. As assistance granted in the form of recapitalization is practically irreversible[4] and constitutes a significant burden on the state budget, the Commission will approve this measure only upon proving that all other recapitalization methods have been applied.

Member states were obligated to present the plan to increase capital before submitting the restructuring plan or as part of the restructuring plan. The potential beneficiary should specify what recapitalization measures are to be implemented (for instance, rights issue, sale of assets, securitization and retention of earnings). The Commission also stated that there should be measures to encourage management of banks to conduct restructuring activities during economic booms in order to prevent the need for state aid during economic slowdowns. Strict policies for remunerating top management had

to be applied until completion of the restructuring process or until repayment of state aid, if this took place before the restructuring process was finished.

Additionally, the banks that see the need for recapitalization must not pay dividends or buyback their own shares. Regarding hybrid capital instruments, they cannot pay coupons and redeem these instruments.

If, upon implementing the capital increase programmes and sharing the burden, the bank is still in need of recapitalization by public funds, it must submit a restructuring plan and obtain approval for such assistance.

The Commission also provided for a procedure for granting aid necessary to maintain financial stability and a simplified procedure applicable to small banks only.

3.1.5 Assistance related to impaired assets

The aid measures related to impaired assets are applied to protect financial stability and sustain banks' credit activity. Since the outbreak of the crisis, banks have faced the problem of impaired assets and uncertainty about their prices has weakened confidence in the banking sector and limited the efficiency of the granted public assistance. Banks' actions to resolve the problem of impaired assets[5] proved insufficient, so the state aid measures were extended by assistance applicable to such assets. As it became necessary to ensure a coordinated approach to state aid, rules for granting this form of assistance were formulated in February 2009. These rules regulated, among others, the issues of transparency and disclosure of information, burden sharing among the state, shareholders, and creditors, and the design of these aid measures focusing on the classification, evaluation and management of impaired assets.

It was underlined that state aid related to assets should take into account both short- and medium-term goals, so it became necessary to properly direct the interventions of public authorities and equip them with effective monitoring tools.

The scale of the aid granted should take into account the situation in public finances, so that it would not result in excessive deficit and high public debt. The budgetary situation should determine how to manage the assets (for example, purchase of assets, insurance of assets, asset swaps or mixed solutions) to be covered by the aid. Unconditional purchase of impaired assets affects the condition of the state budget in the most direct way.

As the asset-related aid is – similar to recapitalization – a structural operation, the same guidelines, such as necessity of preparing the restructuring plan or the adequate burden sharing, were formulated for both of them.

3.1.6 Assistance for liquidation

In some cases, member states may choose to liquidate the financial institution. This may be performed either as an action following the rescue aid or as

the only action. Liquidation of financial institutions may threaten financial stability; hence, it may require support from the state budget.

In its first banking communication, the Commission stressed the necessity to care for limiting moral hazard in the context of liquidation by, among others, excluding the shareholders as the beneficiaries of the support measures. The duration of liquidation and the amount of the aid should be limited to a necessary minimum.

The banking communication in 2013 also specified the issues related to assistance for liquidation. As the purpose of the resolution process must be to terminate the institution's operations within a specific timeframe, this institution cannot undertake any new business activities. If maintaining some business activities reduces the resolution costs, such operations may be continued. Liquidation must also lead to selling a portion of the company or its assets in a tender, while income from this sale must finance the liquidation.

EU member states were obligated to present plans for the orderly liquidation of the credit institutions and to prove that state aid enables the beneficiaries to perform effective liquidation. Member states must also submit (at least once a year) assessment reports of each programme, along with information on all the credit institutions undergoing liquidation. Additionally, they are obligated to present regular reports on the progress of bank liquidation and final reports upon the completion of this procedure.

3.2 European Stability Mechanism and assistance to EU countries

3.2.1 European Stability Mechanism

The European Stability Mechanism, or ESM, was created under the ESM Treaty,[6] which the Eurozone countries signed on 2 February 2012.[7] The ESM started functioning on 8 October 2012.

The European Stability Mechanism replaced two stabilization mechanisms established in 2010, namely:

- European Financial Stabilisation Mechanism, or EFSM, and
- European Financial Stability Facility, or EFSF.

Creation of the ESM did not instantly liquidate the EFSM. The role of the European Financial Stabilisation Mechanism is to continue the financing of the earlier assistance programmes (for Greece, Ireland and Portugal). Since July 2013, it may not be involved in operations.

The role of the European Stability Mechanism is to establish one of the main, permanent mechanisms to restore financial stability of the euro

zone countries. The ESM aid has already been granted to Spain and Cyprus. Assistance instruments offered by the ESM include:

- loans to countries affected or threatened by severe financial problems,
- purchase of bonds of ESM member states on primary and secondary markets,
- precautionary financial assistance in the form of a credit line: Precautionary Conditioned Credit Line, or PCCL, and Enhanced Conditions Credit Line, or ECCL,
- loans to countries for recapitalization of banks,
- direct recapitalization of banks upon fulfilment of specific conditions (ESM, 2015).[8]

The decisions to grant aid funds are made unanimously; in matters that require quick decisions affecting economic and financial stability of the euro zone, extraordinary procedures prevail (the majority of 85 per cent of votes is required).

The ESM capital now totals nearly EUR 705 billion, EUR 80.55 billion of which is paid-in capital, and the remaining portion is callable capital. Participation in the ESM (the subscription key) is calculated based on the given country's share in the European Union's GDP. The ESM now comprises 19 countries. In March 2014, Latvia joined and in 2015, Lithuania.

3.2.2 Assistance to countries

Both the aid granted by the ESM and assistance granted within the framework of the pervious mechanisms (EFSM, EFSF) influence the situation of the public finances of the countries being supported. Loans increase public debt, which in those countries vastly exceeds the EU reference level of 60 per cent of the GDP. The debt service costs increase state budget expenditures and consequently – budget deficit. This aid, however, is to support the attempts to achieve fiscal stability in the long run. An in-depth analysis of the situation in a given country and its fiscal consolidation plans precedes the granting of a loan. A refusal to grant an ESM (EFSM, EFSF) loan would undoubtedly represent serious problems for a given country due to the limited access to other sources of financing.

3.2.2.1 Assistance to Greece[9]

Since May 2010, the Eurozone member states and the International Monetary Fund have granted financial assistance to Greece in order to restore its fiscal balance and support the Greek government's actions to implement structural reforms aimed at increasing competitiveness of the Greek economy.

The first aid package for Greece was agreed on 2 May 2010. Then, the Eurogroup declared readiness for granting bilateral loans for a total of EUR 80 billion (the so-called Greek Loan Facility, GLF) between May 2010 and the end of June 2013 (this amount was reduced by EUR 2.7 billion). Moreover, the International Monetary Fund declared to grant aid of EUR 30 billion.

Further instability of the public finances of Greece forced additional financial aid. On 14 March 2012, the finance ministers of the euro zone countries approved the second aid package declaring additional loans of EUR 130 billion in 2012–2014. This assistance was in the form of EFSF loans. The total financial aid agreed within the second package amounted to EUR 164.5 billion (including the amount not yet transferred within the GLF), of which EUR 144.7 billion was to come from the EFSF, and EUR 19.8 billion from the International Monetary Fund. The private sector involvement, or PSI, is to constitute an additional portion of this package.

From March 2012 until the end of August 2014, within the second aid package, Greece received the total amount of EUR 153.88 billion, EUR 141.9 billion of which came from EFSF loans, and EUR 11.98 billion from the IMF. The aid was transferred in five tranches, comprising of numerous sub-tranches.

The European Commission is monitoring the situation in Greece and it prepares regular reviews of its achievements. The report of April 2014 stated that despite delays Greece had made significant progress in the consolidation activities performed. The country has been continuing reforms in the areas of tax administration, public finance management, privatization, public administration, health care, pensions, welfare, education, and the fight against corruption (EC, 2014a). The public finance deficit was slightly reduced: while in 2009 the deficit-to-GDP ratio totalled 15.2 per cent, in 2012 Greece reduced it to 8.6 per cent. However, in 2013 the country's deficit-to-GDP ratio increased to 12.2 per cent (more than four times the level agreed in the EU limits). The public debt level remains very high. For the past years, it has been growing almost continuously (with 2012 as an exception, when the ratio decreased). At the end of 2013, the public debt-to-GDP ratio totalled 174.5 per cent (based on Eurostat data).

Within the framework of the aid programs, the Greek government also conducted activities to restructure, consolidate and stabilize the Greek financial system. In July 2010, these activities resulted in establishing the Hellenic Financial Stability Fund, or HFSF. The HFSF is a private entity, the role of which is to maintain stability of the Greek banking system. Among others, the HFSF provides capital support to credit institutions and evaluates implementation of the restructuring plans by the recapitalized institutions.

In March 2012, the European Financial Stability Facility (EFSF), the Greek state, the Bank of Greece and the HFSF signed an agreement for recapitalization of credit institutions for an amount of up to EUR 109 billion. One month later, HFSF confirmed placement of EFSF deposits worth EUR 25 billion for recapitalization and revival of credit institutions. In December 2012, HSFS again was funded with EFSF bonds worth EUR 16 billion. The EFSM bonds were used (HFSF, 2014), *inter alia*, to recapitalize such banks as the National Bank of Greece, Eurobank, Alpha Bank and Piraeus Bank (2012–2013).

3.2.2.2 Assistance to Ireland[10]

From 2011 to March 2014, the European Union and the International Monetary Fund financed the Economic Adjustment Programme for Ireland. The key goals of the programme were:

- prompt strengthening and a comprehensive overhaul of the banking sector,
- fiscal consolidation to restore fiscal stability and correct an excessive deficit by 2015,
- reforms aiming at supporting economic growth.

The programme for Ireland was formally approved in December 2010. The amount for the financing of the programme was agreed at EUR 85 billion, of which EUR 17.5 billion was Ireland's contribution and the remaining amount came from:

1) EFSM (EUR 22.5 billion),
2) EFSF (EUR 17.7 billion) and additional bilateral loans from the UK (EUR 3.8 billion), Sweden (EUR 0.6 billion) and Denmark (EUR 0.4 billion),
3) International Monetary Fund (EUR 22.5 billion).

The last EFSM payment was made in March 2014.

Now Ireland is subject to post-programme surveillance, PPS, which will continue until at least 75 per cent of loans has been repaid, which will not occur earlier than 2031.[11] Within the PPS framework, the European Commission, in cooperation with the European Central Bank, will carry out regular surveillance visits to assess the economic and budgetary situations and the financial sector of Ireland. The review in spring 2014 revealed improvement of the financial sector's condition. Restructuring activities are well under way (for example Bank of Ireland, AIB) and the restructuring programme for Permanent TSB awaited the European Commission's approval. Outstanding payments of mortgage loans still remain an issue (EC, 2014a).

Public finances also improved. After the record-high deficit in 2010 (32.4 per cent of GDP), at the end of 2013 deficit equalled 5.7 per cent of GDP. At the end of 2013, public debt was twice the EU limits (it totalled 123.3 per cent of GDP) but its growth was hampered.[12]

3.2.2.3 Assistance to Portugal[13]

On 7 April 2011, Portugal requested financial assistance from the European Union, euro zone member states and the International Monetary Fund. In May 2011, the Economic Adjustment Programme for Portugal was formally adopted, which led to a loan agreement for EUR 78 billion.

The Programme presented actions to support economic growth, boost employment and competitiveness, as well as measures to reduce deficit and public debt and measures to ensure financial sector's stability.

The loan to Portugal was to come (2011 to mid-2014) from three sources: EUR 26 billion from the European Union/EFSM, EUR 26 billion from the EFSF and about EUR 26 billion from the International Monetary Fund.

By the end of June 2014, the EFSM transferred EUR 23.9 billion, the EFSF, 26 billion and the IMF, EUR 26.5 billion. The average maximum maturity of the EFSM loans is 19.5 years, and 20.8 years for the EFSF loans.

The Portuguese government decided to terminate the aid programme before receiving the total loan agreed from EFSM. The last tranche of the EFSM loan was transferred on 12 November 2014 (for a total amount of EUR 24.3 billion). Now Portugal is under supervision of the European Commission (post-Programme surveillance), which will last until at least 75 per cent of the aid has been repaid – by 2026 at the earliest, according to the repayment schedule. Recapitalization of banks and extended supervision over them significantly strengthened the financial sector. However, after accomplishment of the programme, the sector's achievements were obscured by the difficulties of Banco Espírito Santo (EC, 2014b), which required such radical measures as the creation of a bridge bank and recapitalization from a dedicated aid fund.

Portuguese public finances have been gradually improving. From the end of 2011 until the end of 2013, the deficit-to-GDP ratio decreased from 11.2 per cent to 4.9 per cent. However, the public debt level remains very high and is continuously growing. At the end of 2013, Portugal's public debt equalled 128 per cent of GDP (based on Eurostat data).

3.2.2.4 Assistance to Spain[14]

In 2010, the Spanish authorities started restructuring processes to improve the standing of the banking sector; however, the situation was so severe that it became necessary to use external sources for capital support for banks.

On 25 July 2012, the government of Spain requested the Eurogroup to provide financial assistance to the Spanish banking system. According to

an external expert evaluation performed upon the Spanish government's request, the need for bank recapitalization was estimated at the level of EUR 51–62 billion. Having taken the safety buffer into account, the Spanish government requested a loan of EUR 100 billion.

Financial assistance from the ESM funds was granted in two tranches:

- transfer of EUR 39,468 million on 11 December 2012 (maturing on 11 December 2027),
- transfer of EUR 1,865 million on 5 February 2013 (maturing on 11 December 2025).

The first tranche, in the form of securities issued by the ESM, was transferred to the government's Fund for Orderly Bank Restructuring, or FROB (*Fondo de Restructuración Ordenada Bancaria*). FROB recapitalize four banks – BFA-Bankia, Catalunya-Caixa, NCG Banco and Banco de Valencia – with a total amount of EUR 37 billion. Additionally, FROB transferred EUR 2.5 billion to SAREB, a company managing the assets of the restructured banks.

Another tranche was allocated to recapitalization of Banco Mare Nostrum, Banco Ceiss, Caja 3 and Liberbank. As with the previous tranche, the funds were transferred via FROB. The aid depended on the results of stress tests and reliable restructuring plans prepared by the banks. The second tranche was the last one requested by the Spanish government from the ESM to support Spanish banks. The aid programme expired at the end of 2013, so the disbursed aid (EUR 41.33 billion in total) turned out much lower than originally planned.

The Spanish government is responsible for repayment of the loan granted to the banking sector. According to the agreement, the loan will have been repaid by the end of 2027. Principal payments will start in 2022, while the repayment of interest and other fees has already started:

- EUR 1,304 million was repaid on 8 July 2014 (voluntary early repayment),
- EUR 308 million was repaid on 23 July 2014 (planned repayment of unused funds).

The ESM assistance improved the standing of the Spanish banking sector. As at the end of September 2013, the core tier 1 solvency ratio in all major banks exceeded 9 per cent (ESM, 2013).

Deficit of the Spanish general government sector still remains high – at the end of 2013, it totalled 6.8 per cent of GDP. However, one must acknowledge significant improvement compared to the years of 2009 and 2012, when this ratio was exceptionally high (11.0 per cent and 10.3 per cent of GDP, respectively). Public debt still remains very high and is continuously growing – at

the end of 2013, it exceeded 92 per cent of GDP (based on Eurostat data). Government actions have significantly reduced yields of government securities and extended their average maturity periods.

3.2.2.5 Assistance to Cyprus[15]

On 25 June 2012, the Cypriot government requested aid from the Eurogroup. The macroeconomic adjustment programme was agreed after long negotiations (25 March 2013), and on 24 April 2013 the ESM management board decided to grant financial assistance.

The adjustment programme for Cyprus aims to restore financial stability, downsize the financial sector and improve the condition of public finances in the forthcoming years. These goals have been described in detail in the European Commission's Memorandum of Understanding, which speaks of:

1) restoring the soundness of the banking sector and rebuilding depositors' confidence through restructuring and downsizing of the financial institutions,
2) continuation of fiscal consolidation to correct the excessive deficit by 2016, in particular through measures to cut current expenditure and maintain fiscal consolidation in the medium-term,
3) implementation of structural reforms to support competitiveness and sustainable and balanced economic growth.

The Eurogroup agreed to grant the aid for a total amount of EUR 10 billion, of which EUR 9 billion was to come from the ESM and EUR 1 billion from the International Monetary Fund. This assistance was to cover three-year financial needs of Cyprus (from 2Q2013 to 1Q2016).

Financial assistance to Cyprus has been transferred in tranches. By the end of 2014, the Cypriot government received six tranches of aid worth a total of EUR 6,120.5 million, of which EUR 5,700 million from the ESM. The average maturity of the ESM loans is 15 years, and the maximum, 20 years.

Out of the total assistance approved for Cyprus, the portion allocated to recapitalization of banks totals EUR 2.5 billion. Cyprus has been implementing restructuring processes and consolidation of cooperative banks. The decrease in non-performing loans is a top priority.

Public debt and its service costs remain a serious problem. Some of the ESM and IMF assistance will be used to repay due and payable loans. As at the end of 2013, public debt of Cyprus amounted to 102.1 per cent of the country's GDP, which is nearly twice the rate in 2009. Public finance deficit in 2013 equalled 4.9 per cent of GDP, which represents improvement by 9 percentage points in comparison to two previous years (based on Eurostat data).

3.3 The impact of restructuring costs on public finance

3.3.1 Burden on public finance

According to EC data, from the beginning of 2008 until 1 October 2014, the EC approved assistance to the financial sector for a total amount of EUR 5,762.7 billion. Most of this aid was approved in 2008, and it involved primarily guarantees for liabilities. After 2008, the aid focused more on bank *recapitalization* and assistance related to *impaired assets* (DG Competition, 2014).

Guarantees and other *liquidity* support measures peaked in 2009, totalling EUR 906.0 billion, or 7.68 per cent of EU countries' GDP in that year. The highest guarantees were for financial institutions in Ireland (EUR 284.3 billion), the UK (EUR 165.12 billion) and Germany (EUR 135.0 billion).

From the set-up of guarantee frameworks by the end of 2013, the amount of used guarantees was only EUR 3.13 billion, while the guarantee fees totalled EUR 38.16 billion (DG Competition, 2014). The governments gained on the provision of this aid.

In the 2008–2013 period, the size of recapitalization and asset relief measures amounted to EUR 661.42 billion (Table 3.1). For state aid provided (including liquidity means other than guarantees), EU governments received compensation for EUR 109.64 billion (DG Competition, 2014).

Slightly different figures represent state interventions in public finance statistics according to the Methodology of the European System of Accounts 2010 (ESA 2010), which – in September 2014 – replaced the former ESA'95 approach. In terms of ESA 2010, in 2010–2013 total income of EU countries from support measures granted to financial institutions was EUR 98.9 billion, almost half of which were interest payments. Expenditure related to state aid granted exceeded in total EUR 252 billion, which means that the net impact of government interventions on EU countries' budgets was an increase in deficit by EUR 153.2 billion. The highest increases were recorded in 2010 and 2012.

Since 2010, the impact of state aid for financial institutions on public debt has remained stable, slightly exceeding 5 per cent of GDP. Support measures had the greatest impact on public debt in 2010 and 2012, increasing it respectively by EUR 705.8 billion and EUR 742.4 billion.

EC documents presented these data. As they show values aggregated on the country level, they cannot be used to evaluate costs and (initial) effects[16] of individual bank rescuing. Therefore, we have analysed 95 cases of bank restructuring in EU countries, and five asset management companies (AMCs). Reports drawn upon the analysis of these cases have been included in the Appendix.

Table 3.1 Financial support provided to banks in the EU in 2008–2013

	Recapitalization		**Impaired assets relief**		**Guarantees (as of 2013)**		**Liquidity support other than guarantees (as of 2013)**	
	billion EUR	**% GDP (2013)**	**billion EUR**	**% GDP (2013)**	**billion EUR**	**% GDP (2013)**	**billion EUR**	**% GDP (2013)**
Austria	11.10	3.54	0.50	0.16	2.38	0.76	0.00	0.00
Belgium	23.32	6.09	21.83	5.70	36.87	9.63	0.00	0.00
Cyprus	1.80	10.91	0.00	0.00	1.00	6.06	0.00	0.00
Denmark	10.77	4.33	0.32	0.13	0.74	0.30	0.02	0.01
Finland	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
France	25.05	1.22	1.20	0.06	46.90	2.28	0.00	0.00
Germany	64.17	2.34	79.97	2.92	3.04	0.11	0.00	0.00
Greece	40.85	22.44	0.00	0.00	47.81	26.26	2.30	1.26
Hungary	0.21	0.22	0.00	0.00	0.00	0.00	0.00	0.00
Ireland	62.78	38.27	2.60	1.58	37.16	22.65	0.91	0.55
Italy	7.95	0.51	0.00	0.00	81.68	5.24	0.00	0.00
Latvia	0.54	1.63	0.41	1.23	0.00	0.00	0.57	1.70
Lithuania	0.23	0.67	0.00	0.00	0.00	0.00	0.00	0.00
Luxemburg	2.60	5.72	0.00	0.00	3.76	8.27	0.05	0.11
Portugal	7.85	4.74	3.10	1.87	14.41	8.70	0.00	0.00
Slovenia	3.15	8.94	0.00	0.00	0.13	0.36	0.00	0.00
Spain	61.85	6.05	32.90	3.22	53.61	5.24	0.20	0.02
Sweden	0.78	0.19	0.00	0.00	1.33	0.32	0.00	0.00
Netherlands	23.02	3.82	5.00	0.83	12.40	2.06	3.75	0.62
United Kingdom	100.14	5.27	40.41	2.13	9.08	0.48	26.76	1.41
Total EU	448.16	3.43	188.24	1.44	352.29	2.69	34.55	0.26

Note: Based on DG Competition (2014).

Originally, the analysed period was to cover 2008–2013, but as another big bank underwent restructuring in 2014 (Banco Espirito Santo, Portugal), and some of the granted assistance was repaid or further financial support was granted in 2014, we have extended the scope of data collection to include the events which took place in 2014. The case studies present all the information we have collected, but as the year 2014 was not yet 'closed' for public finances, we present data for the 2008–2013 for the fiscal burden analysis.

Using the case studies, we have estimated that net capital injections to banks (capital injections net of the repayments made) and to AMCs (their initial capital and additional capital used to cover losses) from public sources in 2008–2013 amounted to EUR 535.6 billion (in 2008–2014, EUR 536.4

billion), the majority of which (67 per cent) was granted in the first two years. For reference, Table 3.2 contains EC data for 2008–2013 divided by type of the restructuring tool. We offer a tentative explanation of differences in the presented amounts below. Differentiation of the state aid beneficiaries is clearly visible (see Figures 3.1 and 3.2). In 2008, state aid targeted primarily institutions operating in the UK. They received EUR 125.7 billion, which equalled 57.8 per cent of total capital injections provided in that year. In the following year, recapitalization was carried out mainly in German financial institutions, which received EUR 98.1 billion (71.7 per cent of all the assistance granted in that year). During the following two years, a significant part of the aid was granted to institutions in Ireland (55.1 per cent and 62.3 per cent, respectively), but those were much lower amounts as the scale of the support was greatly reduced. Since 2010, the major beneficiaries of state aid were financial institutions in Spain, which in total received capital injections of EUR 91.2 billion throughout the analysed period.

Not all EU countries had to recapitalize their financial institutions. Such assistance has not been used, among others, in the Czech Republic, Estonia, Poland or Malta. Latvia and Lithuania have supported their financial institutions only to a very limited extent.

EUR 535.6 billion (2008–2013) is the net recapitalization amount, which means that it was reduced by the repayments. Institutions in countries with the highest financial support (the UK, Germany) repaid some of the aid; nevertheless, state aid to institutions in those two countries equals more

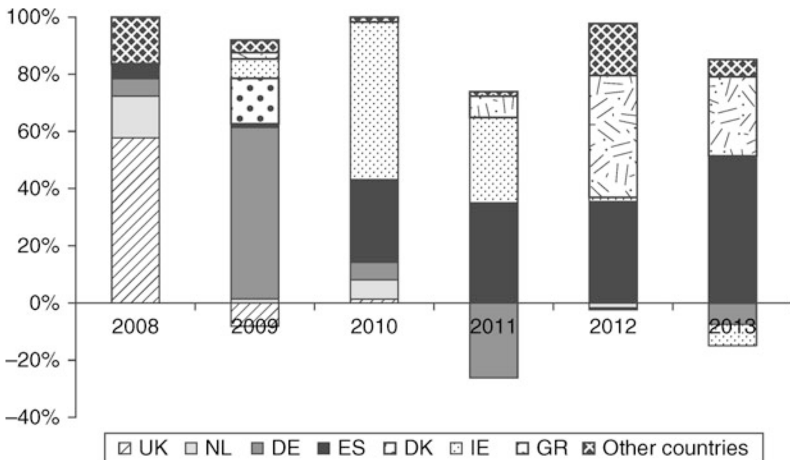


Figure 3.1 Recapitalization by country in 2008–2013

Notes: Negative figures represent repayment of recapitalization. Based on case studies.

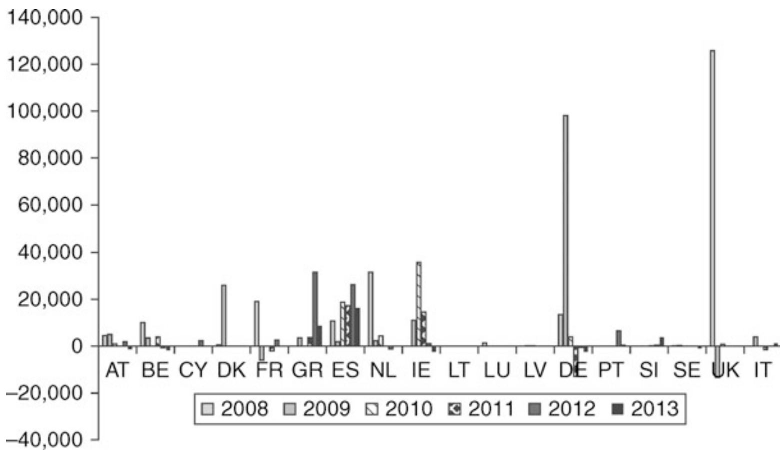


Figure 3.2 Recapitalization of EU banks in 2008–2013 (in EUR million)
Notes: Negative figures represent repayment of recapitalization. Based on case studies.

than 40 per cent of the total net financial support in 2008–2013. None of the financial institutions in Spain – the third largest beneficiary of state aid (EUR 91.3 billion) – had started repayment by the end of 2013. However, financial institutions operating in Ireland have made repayments, and in the analysed period, they account for 11.6 per cent of total net capital injections.

Recapitalization of financial institutions in Sweden proved profitable to this country's government – upon the successful sale of Nordea shares the Swedish budget earned more in 2013 than it had granted in the form of capital injections in 2008–2009 and also more than it provided to the previous restructuring during the crisis in the 1990s.

When analysing the relation of assistance for financial institutions to GDP (Figure 3.3), Ireland attracts the most attention. In 2008–2013, recapitalization of financial institutions in Ireland equalled 6.3 per cent of GDP, on average, while the record high was observed in 2010 (22.7 per cent of GDP). For banks in the UK and Germany, which in 2008 and 2009 received the highest recapitalization, this assistance equalled 6.8 per cent and 4.1 per cent of GDP, respectively. In 2009, the highest state aid to GDP was granted to institutions in Denmark (11.7 per cent). Financial institutions in Cyprus were recapitalized for the first and last time in 2012, and this aid amounted to 13.0 per cent of this country's GDP. High recapitalization of financial institutions measured against GDP was recorded in that same year in Greece – 16.3 per cent of GDP – while in the following year in Slovenia, 10.9 per cent of GDP.

Table 3.2 Recapitalization of EU banks in 2008–2014 (in EUR million)

Country	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Total (2008–2014)**	**Total (2008–2013)**	**EC report (2008–2013)**
Austria	4,550	5,025	1,000	0	1,970	–1,420	–1,350	9,775	11,125	11,097
Belgium	10,170	3,500	0	4,000	–585	–1,750	–500	14,835	15,335	23,315
Cyprus	0	0	0	0	2,300	0	120	2,420	2,300	1,800
Denmark	603	26,053	0	0	0	0	0	26,656	26,656	10,774
France	19,042	–5,900	0	–2,050	2,585	0	0	13,677	13,677	25,045
Germany	13,500	98,145	4,000	–12,795	–470	–2,350	–1,300	98,730	100,030	64,173
Greece	0	3,590	0	3,659	31,493	8,766	0	47,507	47,507	40,846
Ireland	0	11,000	35,811	14,614	1,092	–2,335	0	60,182	60,182	62,780
Italy	0	4,050	0	–1,450	0	1,300	0	3,900	3,900	7,950
Latvia	0	137	145	0	0	0	0	282	282	543
Lithuania	0	0	0	0	0	231	0	231	231	0
Luxemburg	1,352	0	0	0	0	0	0	1,352	1,352	2,600
Portugal	0	0	0	0	6,610	620	4,750	11,980	7,230	7,850
Slovenia	0	0	0	250	483	3,847	0	4,580	4,580	3,154
Spain	10,760	1,977	18,745	17,249	26,194	16,338	319	91,582	91,263	61,853
Sweden	237	281	0	0	0	–925	0	–407	–407	780
Netherlands	31,550	2,315	4,390	0	–1,225	–25	–1,225	35,780	37,005	23,016
United Kingdom	125,726	–13,250	870	0	0	0	0	113,346	113,346	100,137
Total:	217,490	136,923	64,961	23,476	70,447	22,297	814	536,408	535,594	447,712

Note: Based on case studies and DG Competition (2014).

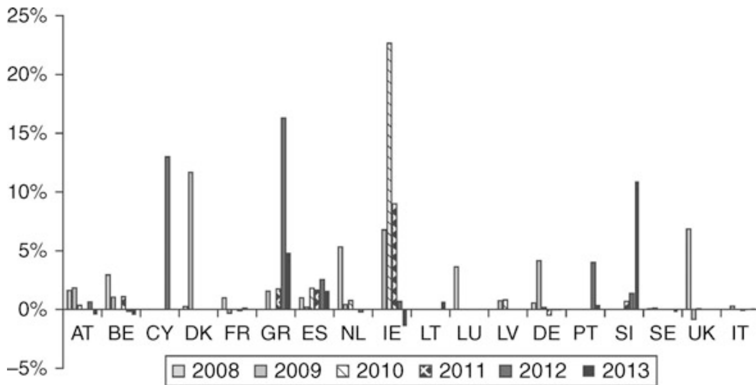


Figure 3.3 Recapitalization of EU banks in 2008–2013 (as % of GDP in given year)

Notes: Negative figures represent repayment of recapitalization. Based on case studies and Eurostat GDP data.

Data collected from the case studies reveal that in 2008–2013, EU countries earmarked EUR 535.6 billion EUR to recapitalize 84 banks analysed on an individual basis, banks benefiting from the Danish credit package[17] and five AMCs (Ireland, Spain, Germany, Slovenia and the UK). According to EC data, financial institutions received capital injections (a different concept than used by us, because EC does not take into account repayments) of EUR 447.7 billion. The difference stands at EUR 87.9 billion, or EUR 57.7 billion, if just the financial assistance granted to 84 banks is considered.

Looking at individual years (2008, 2009 and 2013) the aggregated amounts of assistance based on the case studies are higher than those of the EC, while the opposite is observed for 2010–2012. The website section of DG Competition explaining the methodology says that recapitalization figures present recapitalization amounts from the reporting year and do not include any repayments of financial assistance. This would suggest that the amounts in our analysis should be lower than those of the EC. However, the situation is quite opposite. Sources of the differences cannot be clearly identified, and we are left with conjectures. Perhaps not all the capital injections we have identified came explicitly from the government sources. These may have been funds designated by central government agencies or state governments (for example *Länder*) that had the power to perform such operations. Some capital injections might have been accounted for with delay. Finally, in the case of capital injections, the amount stated could be only the face value of shares, excluding share premiums. Our doubts reveal insufficient transparency of the state aid statistics presented to the public. This should be modified on the wave of forthcoming reforms so that the presented data become

more transparent. So far, however, this issue has not been addressed on the political agenda.

3.3.2 Econometric model

In this section we are looking for answers to the following research questions:

1) To what extent do macroeconomic factors determine the scale of assistance to the banking sector?
2) To what extent does the state aid depend on the condition of the economy and to what extent on the condition of the banking sector?

In the analysis we used macroeconomic data and data covering banking sectors of EU countries (excluding Croatia) from 2006–2013. They form a composite panel of n = 27 units and T = 8 periods, resulting in 216 observations. The data for the research came from various sources, including Eurostat (macroeconomic data), the European Central Bank and central banks and banking supervision authorities of EU countries. The amounts of the net state aid come from the case studies prepared by our research team.

The analysis of the impact of macroeconomic factors on the scale support to the banking sector has used the variables listed in Table 3.3.

Table 3.3 Determinants of scale of financial assistance (net) for banking sector

Variable	Definition	Source
C_GDP	Loans to customers granted by the banking sector/GDP	Central bank websites and Eurostat
CREDIT_GROWTH	Increase in lending (loans to customers granted by the banking $sector_n$/loans to customers granted by the banking $sector_{n-1}$) – 1	
ROE	Return on equity: profit after tax of the banking sector/capital of the banking sector	
LEV	Leverage: banking sector assets/capital of the banking sector	Central bank websites
D_C	Customer deposits in the banking sector/loans to customers in the banking sector	
CAR	Capital adequacy ratio of the banking sector	
CR5	Concentration ratio of 5 banks (share in banking sector assets)	
GDP_CH	Change in GDP	Eurostat

The equation uses SUPP_GDP as the dependent variable, defined as a ratio of net assistance granted in a given year to the country's banking sector to GDP, expressed as an amount in current prices in a given year in the particular country. Table 3.4 contains statistical descriptions of the variables used as explanatory variables and of the dependent variable.

One may easily notice that all of the analysed potential regressors, as well as the dependent variable, demonstrate significant variability, which enabled a reliable estimation. Equally important is their diversity over time. Given the panel nature of the data used for the analysis, a one-way was applied:

$$SUPP_GDP_{it} = \alpha_i + x'_{it}\,\beta + \varepsilon_{it}$$

where:

$SUPP_GDP_{it}$ – dependent variable for country *i* in year *t*,
x_{it} – vector of explanatory variables, consisting of variables C_GDP, CREDIT_GROWTH, ROE, LEV, D_C, CAR, CR5 defined in Table 3.3 of country *i* in year *t* and lagged by one period (year) variable GDP_CH, and the constant,
α_i – individual country effect *i*,
ε_{it} – error term,
β – vector of the model parameters.

The reason for including a one period lagged (rather than the current value) variable GDP_CH in the equation is economically justified, as the size of recapitalization of the banking sector depends on the potential condition of the economy, however a relevant response is not instantaneous. Additionally, such a structure allows eliminating the problem of endogeneity of variable GDP_CH. This, however, results in shortening the time series used in forming the panel by one (initial) period.

Table 3.4 Descriptive statistics of potential determinants of scale of government support for banking sector

Variable	**Mean**	**Standard deviation**	**Minimum**	**Maximum**
SUPP_GDP	0.0061	0.0244	–0.0142	0.2265
C_GDP	1.7830	2.6870	0.0005	17.9421
CREDIT_GROWTH	0.0683	0.1628	–0.9991	0.6667
ROE	0.0432	0.2039	–1.3753	0.3730
LEV	17.1782	16.2873	5.0974	132.5310
D_C	0.9370	0.2199	0.4819	1.4331
CAR	0.1469	0.0584	0.0665	0.5462
CR5	0.5940	0.1718	0.2199	0.9700
GDP_CH	0.0138	0.0646	–0.5200	0.3400

The static nature of the equation leads to the conclusion that it may be estimated using one of the standard approaches with fixed or random individual effects. Note that the data do not represent a random sample but, rather, a closed population of EU countries. Moreover, among the variables considered as potential regressors, there is none with zero variance in time. Consequently, it seems adequate to apply the fixed effects approach, which does not necessitate making additional assumptions about independence of individual effects from explanatory variables. Therefore, such a solution has been applied. The results of the estimation of the Equation (3.1) using the intra-group estimator (fixed effects) have been presented in Table 3.5. The error term is assumed to be spherical, which the results of the statistical tests confirm.

The results indicate that the list of the variables that can be considered as determinants of the scale of government support for the banking sector is very limited. Even assuming a liberal significance level of 0.1, only variables C_GDP (positive impact), ROE (negative impact), and CR5 (positive impact) show a statistically significant effect on the dependent variable. These three variables independently demonstrate parameters characterizing the banking sector and its size. The variable C_GDP with a positive impact shows the volume of credits and loans granted by the banking sector to the economy (excluding loans to other banks). The larger the volume of lending by the banking sector, the higher the potential credit losses and impairment. If the banking sector was very negatively impacted by provisioning, this would have contributed to a higher need of capital support. Our study confirmed this intuitive relationship.

The study also confirms the expected relationship as regards CR5. The higher the concentration measured by the share of five banks in the assets, the higher the costs of bank restructuring due to their sizes or the bigger

Table 3.5 Results of estimation equation of scale of support for banking sector

Variable	**Parameter estimate**	**Standard error**	***p* value**
C_GDP	0.0055	0.0033	0.099
CREDIT_GROWTH	0.0074	0.0140	0.600
ROE	–0.0677	0.0102	0.000
LEV	–0.0002	0.0002	0.167
D_C	–0.0099	0.0200	0.622
CAR	–0.0333	0.0514	0.518
CR5	0.0870	0.0511	0.091
GDP_CH(-1)*	0.0095	0.0276	0.730
Fixed	–0.0351	0.0396	0.377

Note: *Annual variable lag GDP_CH.

the side effect in the form of imposing competitive terms on smaller banks, which could fail to handle the consequences of aggressive risk-taking.

The ROE variable is one of the basic profitability measures. If the return on equity is positive, the banking sector is, at least to some extent, able to replenish its capital and improve solvency. This relationship has also been confirmed.

The solvency ratio (CAR), credit growth (CREDIT_GROWTH), the change of GDP with a time lag (GDP_CH), leverage (LEV), and the relation of deposits to credits (D_C) were statistically insignificant. The conclusion that CAR is not a good measure of bank's safety and capital adequacy would be too far-reaching. However, the reason for this absence of statistical significance is worth consideration. First, financial assistance was tapped not only by banks that did not maintain the required minimum level of CAR (8 per cent) but also by banks with CAR exceeding the minimum by several percentage points. Second, some of the items included in tier 1 capital could not be used to cover losses, thus making the actual solvency lower than reported. This shortcoming will be ultimately eliminated by Basel III regulations (CRD IV/CRR in the EU). Third, banks in the 'old' EU countries could, thanks to advanced credit risk management techniques, understate risk weights (denominator of CAR), which artificially increased their level of solvency.[18]

Credit growth and GDP change are usually regarded as important factors for the banks' financial standing. During an economic slump banks' results deteriorate. On the other hand, excessive growth of credit caused by a too liberal credit policy, during an economic slowdown, contributes to high impairment for bad loans. The lack of their statistical significance should be linked to the fact that credit portfolio was not the only source of losses. These were also 'toxic' financial instruments, government debt securities, and the Icelandic default. Additionally – as shown in Chapter 1 – the contagion effect was observed, and consequently, the economic situation in a given country could play a less important role.

Statistical insignificance of leverage (LEV) may be surprising. The higher the leverage, potentially, the higher the risk. How can this be explained? In general, we have calculated the leverage excluding off-balance sheet exposures (no such data was available), and thus we have based our analysis only on balance sheet items. This has naturally reduced leverage.

In the case of the deposits-to-loans ratio (D_C), we may explain the lack of statistical significance by the similar structure of financing among EU banking sectors. The inappropriate structure of financing, though treated as a serious problem observed during the ongoing global financial crisis, on the banking sectors' level, did not affect the scale of assistance, which may have resulted from central banks' effective provision of liquid funds to banks.

In conclusion, the more concentrated the banking sector (CR5) and the more developed the financial operations (C_GDP), the higher the costs of bank restructuring. Consequently, this brings back the frequently raised issue of 'financialisation' (*inter alia* Dembinski, 2011) of the economy and financial institutions which are too big comparing to the size of the real economy. This is not only a question of the 'philosophy' of the financial sector's functioning but also a question of its true importance to the economy. The problem of financial institutions which are 'too big (too complex, too interrelated) to fail' has been raised in the literature for years. So far, no solution has been found to limit the size of financial institutions except for deep restructuring. A certain counterbalance for such big institutions may be the additional capital requirements prepared for global, systemically important banks (BCBS, 2013) and other systemically important financial institutions.

Higher market concentration determines the level of competition and pricing terms. If banks price their loans taking into account the actually borne risk, they should maintain relevant levels of ROE, which – as demonstrated in the model – reduced recapitalization of the banking sector. However, if banks' policies are based on margins that improperly reflect the risk incurred in order to maximize the market share, ROE may not be sufficient to rebuild, at least partially, banks' equity during an economic recession. The right pricing policy allows building a buffer for the future loss absorption.

Notes

1. In 1997, detailed rules for agriculture were added.
2. This communication, as well as additional ones, are available on EC website (Europa, 2015).
3. These recommendations provide for the qualifying criteria, definition and evaluation of assets acceptable for state aid, distribution of risk (to reduce costs for the state budget), the periods of time for the application of the aid programs, management of institutions and evaluating the state aid programs with the use of measurable indexes.
4. Except for the option to sell shares that has been used also during the current financial crisis.
5. Such actions included, for instance, accounting for significant impairment losses, setting aside additional reserves, reclassification of the assets in the balance sheet.
6. Full name: Treaty establishing The European Stability Mechanism between The Kingdom of Belgium, the Federal Republic of Germany, the Republic of Estonia, Ireland, the Hellenic Republic, the Kingdom of Spain, the French Republic, the Italian Republic, the Republic Of Cyprus, the Grand Duchy of Luxembourg, Malta, the Kingdom of the Netherlands, the Republic of Austria, the Portuguese Republic, the Republic of Slovenia, the Slovak Republic and the Republic of Finland.
7. The original text of the Treaty was signed in July 2011; the text signed in February 2012 is an updated version.
8. More in: (Trzcińska, 2013, p. 16).

9. Based on EC data (Europa, 2015a).
10. Based on EC data (Europa, 2015b).
11. Unless earlier payments are made, in addition to the approved schedule.
12. In 2012, the debt-to-GDP ratio totalled 121.7 per cent, in 2011, 111.1 per cent, and in 2010, 87.4 per cent (based on Eurostat data).
13. Based on EC data (Europa 2015c).
14. Based on ESM data (ESM, 2015a).
15. Based on ESM data (ESM, 2015b).
16. Effects of bank restructuring may be evaluated only in the long run when banks are able to pay back the aid and/or the shares owned by the state treasury are sold to private investors.
17. Process carried out by Finansiel Stabilitet.
18. For instance: in Poland, in 1Q2014 the ratio of risk-weighted assets to assets totalled 63.8 per cent, while the average in EU countries was 37.5 per cent (NBP, 2014a).

4

Restructuring Tools and Their Costs

Małgorzata Iwanicz-Drozdowska, Paweł Smaga and Bartosz Witkowski

This chapter describes the *restructuring tools* applied during the recent crisis to the EU banks and the costs associated with them. The most typical tool was *recapitalization*, combined also with deep *restructuring* of a bank or a *merger*, or a *bailout*, in other words. *Liquidation* and *nationalization* were used rather rarely, mostly in the case of small and medium-sized banks. A new tool, *bail-in*, was used in Cyprus and Slovenia. This chapter is complemented by a comprehensive Appendix, offering descriptions of case studies of bank restructuring, presented together with 'bad' asset management companies and resolution processes applied in several EU countries.

4.1 General assumptions

We present results of analysis of the effects of rescue measures applied by EU countries toward banks in the 2007–2014 and costs of these measures. We extended the period used in Section 3.3 by 2014 because of repayments of the state aid in several countries as well as new rescue operation of one of Portugal's largest banks. As we are not examining the public finances in this chapter, the longer period of the analysis is justified.

The analysis has been based on macroeconomic country data, mesoeconomic data regarding the banking sector and microeconomic data for restructured banks. We have applied a comparative analysis to evaluate how individual countries handled banks rescue operations. We have carried out case studies for 84 banks, five asset management companies (in Ireland, Spain, Slovenia, the UK and a company from Germany indirectly involved in these operations), as well as three 'aid packages' (covering 11 banks) targeting banks in Denmark. Detailed analysis appears in the Appendix. The collected financial data allowed a quantitative analysis of 80 banks, taking into account not only the amount of the aid granted but also the banks' microeconomic data. Financial data were gathered for the 2006–2013 period

to examine banks' behaviours before the crisis. It was not always possible to obtain data for this entire period, as 'historical' financial reports were not available or banks' web sites had been deleted. In spite of these obstacles, the collected data are sufficient for an analysis of the scale of the banks' operations and solvency in the year the aid was granted or (in justified cases) in the preceding year. For the analysis, we have also defined the following types of restructuring instruments:

- CAP – bank recapitalization with public funds,
- CAP_MERGER – recapitalization or temporary nationalization of the bank and subsequent merger with another bank; the key point of this solution is a merger with another bank upon a capital injection from public funds,
- CAP_RES – recapitalization and significant restructuring of the bank,
- LIQ – liquidation of the bank, often preceded by capital support,
- GUAR – guarantee,
- NAT – nationalization of the bank and continuation of operations on the market; nationalization meant taking over full control of the bank, by the government or its agencies, and often significant restructuring of the bank.

These symbols indicate the leading instrument applied, as in most cases, the restructuring process was based on a combination of these measures.

The abovementioned five bad asset management companies and the 'packages' offered to banks in Denmark cannot be evaluated with the same methods as the banks. This is because the 'bad' assets recovery process is long and its real effects may be revealed approximately ten years after it begins, especially since a significant portion of loans was related to the real estate market and not, for instance, consumer loans.

We analysed the financial support banks received using the following criteria: the type of the instrument used, the size of the bank and the year the aid was granted.

4.2 Comparative analysis

Our comparative analysis covers the type of the restructuring instrument used in a given country and the size of the bank to which it was applied. We check whether the 'diagnosis' of the scale of the problems in the bank was correct, by comparing the first financial support granted to the bank with the total amount of the financial aid (net). If the latter is lower or equal, the 'diagnosis' is deemed correct.

The most expensive was the support granted to banks of relatively small and medium sizes, i.e. with less than 10 per cent of the banking sector assets

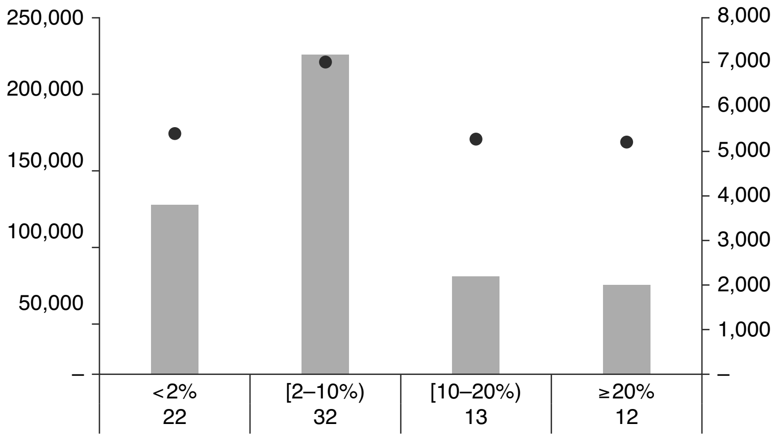


Figure 4.1 Total net aid (in EUR million) and bank's share in banking sector assets

Note: Total net financial assistance granted – left scale (columns); average net financial assistance granted to a bank in a given size range – right scale (dots). Based on case studies.

(in particular, between two and 10 per cent). This is also the biggest group comprising nearly three quarters of the rescued banks (Figure 4.1). As regards the average amount of support per bank, it was similar for small (less than 2 per cent), large (10–20 per cent) and systemic banks (more than 20 per cent). On average, rescuing medium-sized banks was noticeably more expensive. Thus, the total costs of rescuing medium-sized banks were higher than in the case of larger banks' restructuring.

Bank restructuring was the greatest burden in Ireland and involved relatively large banks (Figure 4.2). The biggest banks obtained support in Sweden, Belgium (including Fortis and Dexia cases), the Netherlands and Cyprus, although they did not represent as large burden as did in Ireland. It is difficult to group the cases in other countries. The smallest banks were the main beneficiaries of financial assistance in Denmark, Spain (*cajas*), Germany (*Landesbanken*), Italy, Lithuania and Latvia. The medium-sized banks were in turn rescued mainly in France, Austria, Portugal and the UK.

The analysis of data in Table 4.1 shows that in a vast majority of countries, financial resources of deposit guarantee schemes (DGS) would have been insufficient to meet the demand for deposit payouts, should the financial assistance not have been granted and the bank declared bankrupt.[1] Especially in the case of Germany, Slovenia and Ireland (and to a smaller extent also Greece, Austria and Latvia) the undercapitalization of DGSs was too large taking into account the possible needs of deposit payouts. As a result, it required the governments to provide very high amounts of

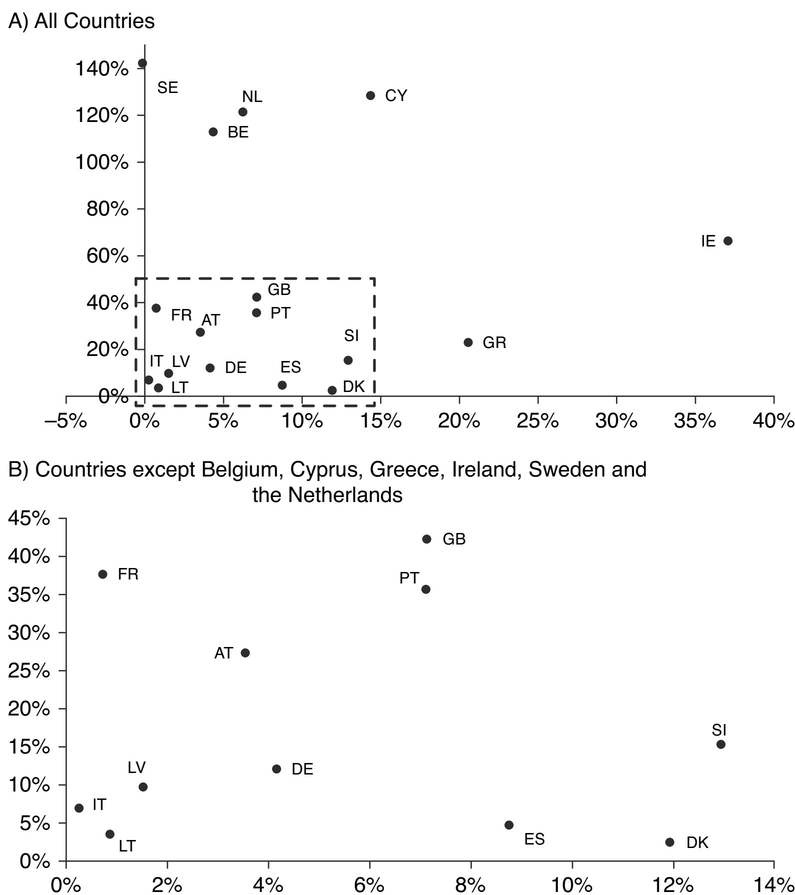


Figure 4.2 Total financial aid (net) to GDP (2009) vs. average size of rescued banks to GDP (2009)

Notes: Total Financial Aid (Net) to GDP (2009) – horizontal scale; average size of rescued banks to GDP (2009) – vertical scale. Based on case studies.

financial assistance to rescue banks. The exceptions include Spain, Portugal and Sweden, where the financial potential of DGS was high enough to – on average – pay out deposits of a bank, which would otherwise have defaulted without state aid. Most likely for political reasons the public authorities preferred to avoid application of such tools.

Problems in the banking sectors began at the 'core' of the EU – the UK, Belgium, France and the Netherlands – and were gradually manifested in 'periphery' countries, *inter alia* in Spain, Cyprus and Portugal. Banks in

Table 4.1 Total financial assistance (net) vs. financial capacity of deposit guarantee scheme

Country	**Average relation of total financial assistance (net) to customer deposits in rescued banks**	**Average relation of funds accumulated by DGS to customer deposits in rescued banks**
Germany	60.5%	14.8%
Greece	38.0%	17.5%
Slovenia	36.3%	0.0%
Latvia	35.5%	22.8%
Ireland	33.3%	3.2%
Spain	31.9%	61.8%
Denmark	25.9%	21.0%
Lithuania	22.7%	19.3%
Austria	15.6%	0.0%
Portugal	10.7%	16.1%
Belgium	7.9%	0.5%
Netherlands	6.3%	0.0%
United Kingdom	5.1%	0.0%
France	4.2%	2.4%
Cyprus	4.1%	0.3%
Italy	1.1%	0.0%
Sweden	0.0%	1.3%

Notes: In Belgium with Dexia and Fortis. Credit Immobilier de France and Bradford & Bingley (UK) were dropped as outliers. Based on case studies.

many countries kept committing the same mistake – they were pursuing overly aggressive lending policies and engaging in trading risky financial instruments. Although European banks suffered the consequences of the US subprime crisis, they also committed many mistakes in risk management, which has been presented in the Appendix.

Using the data from Table 4.2, one may analyse the tools and costs of rescuing banks.

In Austria, the *recapitalization* measure was gradually applied in 2008–2012, and amounts of the granted aid became lower over time, which means that the crisis did not escalate and was controlled in the first years. This is also confirmed by the relatively high level of correct 'diagnosis' (71.4 per cent). Recapitalization was applied to large banks (five) while smaller ones (two) were nationalized. Nationalization of smaller banks was more costly. Most of the rescued Austrian banks had recorded excessive credit growth.

In Belgium, the crisis escalated in 2008 and three banking groups required recapitalization and restructuring. Instability in the Belgian banking sector was intensified by the cross-border range of operations of the rescued banks

Table 4.2 Restructuring methods and their cost in EU countries

Country	Number of rescued banks	Number of rescued banks with credit expansion*	Average size of bank (assets/ GDP)**	Average relation of financial assistance (net) to customer deposits	Amount of the first assistance (in EUR million)	Total amount of assistance (net, in EUR million)
Austria	7	5	27.3%	15.6%	8,070	9,775
CAP	5	3	32.5%	4.5%	6,220	4,170
NAT	2	2	14.3%	43.2%	1,850	5,605
Belgium	1	0	96.8%	0.6%	3,500	1,250
CAP	1	0	96.8%	0.6%	3,500	1,250
Belgium/ France/ Luxemburg	1	1	72.6%	13.8%	3,000	9,915
CAP_RES (*Dexia*)	1	1	72.6%	13.8%	3,000	9,915
Belgium/ Netherlands/ Luxemburg	1	0	169.2%	9.3%	4,700	3,670
CAP_RES (*Fortis*)	1	0	169.2%	9.3%	4,700	3,670
Cyprus	3	2	128.4%	4.1%	2,300	2,420
CAP_RES	1	1	175.1%	2.2%	500	620
GUAR	1	0	38.7%	0.0%	0	0
LIQ	1	1	171.4%	10.1%	1,800	1,800
Denmark	1	1	2.5%	25.9%	603	603
LIQ	1	1	2.5%	25.9%	603	603
France	5	5	37.6%	4.2%	16,042	8,092
CAP	3	3	57.6%	0.5%	8,992	3,092
CAP_MERGER	1	1	13.6%	19.7%	7,050	5,000
LIQ	1	1	1.8%	0.0%	0	0
Greece	7	7	22.9%	38.0%	3,590	47,507
CAP	4	4	34.8%	23.5%	2,610	38,839
CAP_MERGER	1	1	12.3%	5.5%	675	1,145
LIQ	2	2	4.5%	82.3%	305	7,523
Spain	13	12	4.7%	31.9%	42,725	91,042
CAP_MERGER	10	9	3.6%	37.0%	27,922	55,450
CAP_RES	1	1	4.5%	14.1%	4,999	4,999
NAT	2	2	10.6%	15.3%	9,804	30,593
Netherlands	3	2	121.4%	6.3%	13,250	15,980
CAP	2	1	173.1%	2.3%	12,500	13,215
NAT	1	1	18.0%	14.4%	750	2,765
Ireland	6	2	66.3%	33.3%	21,075	57,675
CAP_MERGER	1	0	13.3%	8.9%	875	875
CAP_RES	2	1	109.5%	10.9%	7,000	18,300

Continued

Table 4.2 Continued

Country	Number of rescued banks	Number of rescued banks with credit expansion*	Average size of bank (assets/ GDP)**	Average relation of financial assistance (net) to customer deposits	Amount of the first assistance (in EUR million)	Total amount of assistance (net, in EUR million)
LIQ	2	1	52.5%	107.7%	9,400	34,700
NAT	1	0	46.6%	28.4%	3,800	3,800
Lithuania	1	1	3.5%	22.7%	231	231
LIQ	1	1	3.5%	22.7%	231	231
Latvia	2	2	9.7%	35.5%	137	282
CAP_RES	2	2	9.7%	35.5%	137	282
Germany	10	5	12.1%	60.5%	95,145	98,730
CAP	6	3	9.4%	10.1%	14,325	19,580
CAP_RES	1	0	25.3%	0.8%	8,200	1,300
LIQ	1	1	10.2%	7.2%	700	2,000
NAT	1	1	17.0%	476.0%	71,920	75,850
Portugal	6	4	35.7%	10.7%	12,610	11,980
CAP	2	1	40.3%	5.0%	4,400	3,920
CAP_MERGER	2	1	38.3%	12.9%	2,210	2,210
CAP_RES	1	1	48.6%	13.3%	4,900	4,900
NAT	1	1	8.2%	15.1%	1,100	950
Slovenia	5	5	15.3%	36.3%	1,992	4,376
LIQ	2	2	2.9%	56.7%	521	521
NAT	3	3	23.6%	22.7%	1,471	3,855
Sweden	1	1	142.3%	0.0%	518	–407
CAP	1	1	142.3%	0.0%	518	–407
UK	5	2	42.3%	1389.3%	125,726	112,476
CAP_MERGER	1	0	40.3%	0.6%	14,761	1,511
CAP_RES	3	2	55.9%	6.6%	50,751	50,751
NAT	1	0	3.2%	6926.0%	60,214	60,214
Italy	4	4	6.9%	1.1%	4,050	3,900
CAP	4	4	6.9%	1.1%	4,050	3,900

Notes: CAP – bank recapitalization; CAP_MERGER – recapitalization or temporary nationalization of the bank, and subsequent merger with another bank; CAP_RES – recapitalization and significant restructuring of the bank; LIQ – liquidation of the bank, preceded by capital support; GUAR – guarantee; NAT – nationalization of the bank. Based on case studies.

*We recognized credit expansion if in 2006–2008 credit growth exceeded 20%. **GDP as of 2009.

and the need to earmark very high amounts for restructuring. Dexia and Fortis – banking groups operating internationally – were rescued with the use of recapitalization, however, combined with deep restructuring. In the case of the smaller one, Dexia, which had been pursuing expansive credit policy, the cost of assistance was three times higher than the restructuring of

the Fortis Group, which is also reflected in Dexia's higher ratio of the granted net aid to customer deposits.

Cyprus experienced problems as late as 2012 and applied various restructuring instruments, including *bail-in*. One very large bank was recapitalized and restructured, while another – equally big – was liquidated. These banks had been pursuing aggressive lending policies. The aid granted was relatively small compared to other countries because of the bail-in tool applied to deposits of over EUR 100,000. This was the farthest-reaching decision among EU countries, stimulated by international 'helping hands'. The burden on public finances in this country was the second biggest (after Ireland). Had this operation not been performed, fiscal consequences would have been significantly more severe. The bail-in measure has also been applied to holders of shares and bonds in other countries (for instance, Slovenia, Ireland).

In Denmark, state aid granted to a small bank (Roskilde Bank) was a very heavy burden (in terms of the total net aid to customer deposits) and finally, Finansiel Stabilitet resolved this bank, like other Danish banks. The operations of Finansiel Stabilitet, thanks to an agreement between the government and the banking sector, were largely supported by private funds gathered by a company affiliated to the banks' association – Det Private Beredskab – Private Contingency Association (PCA).

Very high amounts were designated in France in 2008 to recapitalize the banks that had been pursuing expansive credit policies. The aid was granted to the largest banks (three) in the country; however, the French banking system represents low concentration. Assistance to a medium-sized bank was combined with a merger, and the smallest bank is undergoing *liquidation*. French banks have already repaid some recapitalization amounts.

The crisis in the Greek banking sector intensified in 2009, when most of the rescued banks were recapitalized (five), and others (two) – liquidated. This, however, was ineffective. The problems of the Greek banks were not correctly 'diagnosed'. The biggest banks benefited from *recapitalization*, and a medium-sized bank was merged with another one. Assistance to two liquidated smallest banks constituted the heaviest burden (total net aid to customer deposits).

The restructuring of banks in Spain took place between 2008 and 2012. The restructuring operations were mainly performed in 2010 (six), and in that year the banks were granted the highest financial support. The Spanish banking sector underwent restructuring mostly by way of mergers and takeovers, which were performed in each year of the 2008–2012 period. This was a consequence of bigger, financially strong banks taking over smaller banks. Out of 13 rescued Spanish banks, as many as 12 had been pursuing aggressive lending policies in 2006–2008. For banks recapitalized and then merged, restructuring was the most expensive in terms of total net aid

granted to customer deposits. This measure was applied to small banks. Two big banks (assets to GDP more than 10 per cent) were nationalized. This restructuring tool was slightly more costly than recapitalization combined with deep restructuring. In Spain, in addition to recapitalization, two entities were involved in crisis resolution: a resolution fund (FROB – Fondo de Reestructuración Ordenada Bancaria, established in 2009) and a bad asset management company (SAREB – Sociedad de Gestión de Activosprocedentes de la Reestructuración Bancaria, created in 2012). With the exception of two cases of bank restructuring FROB intervened in banks in difficulty and became their co-owner.

In the Netherlands, the crisis was visible in 2008 and 2009, when high recapitalization amounts were spent on assistance for banks. Two largest banks received capital injections, and a medium-sized bank was nationalized.

In Ireland, where bank restructuring put the greatest burden to public finances, the crisis lasted between 2009 and 2011 and various bank-rescuing strategies were implemented. Capital support combined with restructuring was offered to the largest banks (two) and other banks were either nationalized or liquidated. Amounts spent on the largest and liquidated banks turned out to be significantly higher than the first aid amount. In particular, in banks that were finally liquidated, the financial support represented a very heavy burden. An important role in the bank restructuring process was played by NAMA (National Asset Management Agency, created in 2009), which managed bad assets.

In Lithuania and Latvia, state aid was granted to relatively small banks that had been pursuing expansive lending policies. Though the aid amounts were similar, the applied restructuring tools differed. In Lithuania, a bank was liquidated, while Latvia carried out recapitalization combined with deep restructuring.

Germany's banking sector experienced problems in 2007–2011. Recapitalization was the most often used tool. Additionally, in 2009 decisions were made to liquidate and nationalize selected banks. In Germany, where half of the rescued banks had been carrying out aggressive credit activities, the highest state aid went to the smallest banks in the form of recapitalization alone or combined with restructuring. One medium-sized bank was liquidated, and another, nationalized. Germany also established SocFin, a company that managed impaired assets.

Portugal's banking sector suffered the crisis relatively late – in 2012–2014. Recapitalization was the most frequently used rescue tool. The majority of banks in Portugal had been conducting expansive credit activities. Banks that were granted state aid were relatively big and the assistance was usually costly compared to customer deposits. The authorities decided to nationalize the smallest banks.

Also in Slovenia, banks were rescued between 2011 and 2013 but unlike in other EU countries, here the prevailing tool was nationalization (in one case combined with liquidation). The choice of nationalization as the restructuring tool resulted from Slovenian state treasury's co-ownership of some banks before the crisis. All the rescued banks in Slovenia had been pursuing aggressive lending policies towards corporate customers. Smaller banks (two), for which the total state aid became too heavy a burden in relation to customer deposits, are now undergoing liquidation. Further, large banks (three) were nationalized and their stocks and subordinated loans were subject to bail-in. In 2013, Bank Asset Management Company, BAMC, was created (Družba za upravljanje terjatev bank – DUTB), which is gradually taking over bad assets of the nationalized banks.

The United Kingdom was the first country to experience the crisis in 2007–2008. The tools used included mainly recapitalization, combined with restructuring and mergers. The rescued banks in the United Kingdom, generally, had not been pursuing aggressive lending policies. Most banks that received recapitalization combined with mergers or restructuring were large. However, the total net aid amount was relatively low in relation to customer deposits. In 2008, an AMC called UK Asset Resolution was created to manage assets of two restructured banks (Bradford & Bingley and Northern Rock).

In 2009, recapitalization support was given also to banks in Italy (Tremonti bonds). Small Italian banks that had been pursuing aggressive credit policies were recapitalized, the first aid amount in most cases was sufficient, although one may doubt whether Italy's state budget deficit allowed further support to banks.

Using data obtained from banks, in 77 cases, we were able to evaluate whether the bank's standing improved because of restructuring. Our assessment shows that there was a recovery only in 40 out of 77 banks. Nevertheless, the macroeconomic situation in the eurozone did not provide a favourable environment for improvement of banks' performance during this whole period. Moreover, as of 2009 banks have been subjected to stricter regulatory requirements concerning capital adequacy, which has also negatively affected their profitability.

In conclusion, (Table 4.3) the most frequently applied form of financial assistance (in addition to various types of guarantees) was recapitalization (combined with restructuring and/or merger). It generally supported medium-sized and large banks. Nationalization and liquidation were applied only to medium-sized and small banks. Liquidation was hardly used for large and systemic banks (except Cyprus), which may indicate that during the crisis the dominating approach was to bailout the *too-big-to-fail* banks.

The 'diagnosis' of banks' problems, which is important for successful restructuring, was not always correct. We calculated the relation of correct

Table 4.3 Restructuring methods depending on bank's size

<2%			[2–10%)		
CAP+	***NAT***	***LIQ***	***CAP+***	***NAT***	***LIQ***
ES	UK	DK, GR, LT	IT, AT, IE, LV, DE	AT, ES, IE, PT, NL, DE	DE, SI, IE
[10–20%)			**≥20%**		
CAP+	***NAT***	***LIQ***	***CAP+***	***NAT***	***LIQ***
CY, FR, GR, PT, UK	SI		BE, NL, SE		CY

Note: Systemic banks are those banks whose average size of assets to country's GDP in 2009 was equal or more than 20%, large banks are banks with assets to country's GDP in the range of 10–20%, medium banks are banks with assets to country's GDP in the range of 2–10%, and small banks are banks with assets to country's GDP of less than 2% of GDP. Based on case studies.

'diagnosis' to the total number of cases to assess if actions were effective in EU countries. Effective actions towards all the restructured banks were performed in Denmark, France, Lithuania, Portugal, Sweden and the UK. Actions resulting in good and moderate efficiency were achieved by Italy, Austria, Belgium, Cyprus, Ireland, Germany and Slovenia. Poorer efficiency of the aid programs was observed in the Netherlands, Spain, Greece and Latvia. In Spain, the poor effects arose from the need to spend relatively high amounts of state aid, although the assistance mostly was to relatively small savings banks. As regards aid to cross-border banks, the assistance to Dexia proved ineffective. The 'diagnosis' was selected as independent variable in the model presented in the next section.

4.3 Econometric model

We have developed an econometric model describing the ratio of the net aid granted to customer deposits (variable **ASS_D**). We treat the ASS_D variable as the cost of bank rescuing. The higher the variable, the rescue cost may be found lower, and consequently, the restructuring – more efficient. The choice of the variable defined in this manner arises from the assumption that if the financial support had not been granted to restructure the bank, it would have defaulted and consequently, guaranteed deposit payouts would have had to follow. We assume that the goal of the public authority is to minimize the costs related to banks' financial difficulties. The explanatory variables applied have been listed in Table 4.4.

Table 4.4 Variables used in the model of financial assistance (net) to deposits ratio

Variable name	Variable definition
B_SHARE	Bank assets/sector assets
A_GDP	Bank assets/country GDP
D_GDP	Customer deposits/country GDP
LEV	Bank assets/bank capital
CAR	Capital adequacy ratio of the bank
DGS_D	DGS accumulated funds/customer deposits
DIAG	Correct diagnosis of the bank (Y = 1 if the amount of first capital support measure was not higher than the whole net state aid granted)
RESCUE	State aid method (descriptive variable)
CR_EXP	Credit expansion between 2006–2008 (Y = 1 if the growth rate of lending in 2006–2008 amounted at least to 20%)

Note: Data collected from case studies.

Note that RESCUE is a qualitative variable, hence in the model it must be replaced with a group of binary variables corresponding to individual possible options of the RESCUE variable. As a consequence, we have applied the following variables:[2]

- RESCUE-CAP – the value of one for banks that were rescued by recapitalization and zero otherwise,
- RESCUE-CAP_MERGER – the value of one for banks that were recapitalized or nationalized and then merged with another bank; zero otherwise,
- RESCUE-CAP_RES – the value of one for banks that were recapitalized and restructured with the use of different tools and zero otherwise,
- RESCUE-LIQ – the value of one in case the bank was liquidated and zero otherwise,
- RESCUE-NAT – the value of one in case the bank was nationalized and zero otherwise.

However, to avoid exact co-linearity in the model, we omitted variable RESCUE-CAP. In this way, the banks that were rescued through recapitalization are the reference group. The evaluation of parameters of other variables from the RESCUE class should be regarded as indicating the situation in this group of banks in relation to the banks belonging to the reference class.

To estimate the model, we have used data for 80 banks for which it was possible to access complete financial data.[3] The basic statistics for variables used in the study have been presented in Table 4.5. Statistics for variable A_GDP are not included, as it has a very strong correlation with the other variables (B_SHARE and D_GDP) and therefore had to be removed from the final model.

Among the analysed 80 cases of bank restructuring, the diagnosis was correct for nearly 59 per cent. In more than three quarters of cases, in 2006–2008

Table 4.5 Descriptive statistics of variables used in model of ratio of net financial aid to customer deposits

Variable	Mean	Standard deviation	Minimum	Maximum
Quantitative variables				
ASS_D	1.1155	7.7365	0	69.2596
B_SHARE	0.0922	0.1188	0.0012	0.6053
D_GDP	0.1575	0.2567	0.0002	1.6051
CAR	0.1007	0.0349	–0.0385	0.2170
LEV	34.3258	26.4290	9.1766	155.1250
DGS_D	0.2259	0.7104	0	5.3646
Qualitative variables				
DIAG	0: 41.25%. 1: 58.75%			
CR_EXP	0: 23.75%. 1: 76.25%			
RESCUE	CAP: 36.25%, CAP_MERGER: 20%, CAP_RES: 16.25%, LIQ: 12.5%, NAT: 15%			

the banks conducted expansive lending policies, which, in consequence, led to deterioration of assets and loan impairments. As for the restructuring tools, the leading instrument was 'pure' recapitalization and its variations (recapitalization plus merger and recapitalization plus restructuring), that is bailout. Liquidation was the least used tool in the analysed group.

A major dilemma was the selection of an adequate functional form of the final model. Certainly, it cannot be linear because of the untypical distribution of the dependent variable. First, for some banks the level of ASS_D was zero (which means that the financial assistance already has been repaid); while for one bank, it amounted to tens of per cent. In the other cases, it was within the range of a few per cent. Banks with either zero value or very high levels of ASS_D should rather be treated as outliers. This means the linear regression is inadequate, and further, as a significant percentage of variable ASS_D equals zero, the model based on logarithms of variables becomes unattractive (observations of zero values would then be excluded from the sample). However, it seems that the appropriate model for such structured data is, for instance, a logit model. Its use requires creation of a dependent variable determining inclusion in one of the categories in terms of ASS_D value, not the nominal value of assets. As it is difficult to determine the optimal number of categories, after several divisions, a dependent variable was created with values in 3–6 options assigning banks to groups of an equal size in terms of asset value. This procedure allowed the far-reaching conclusion about strong robustness of the results to the number of separate variants in terms of the asset level. In this chapter, we present the results for the dependent variable divided into four categories, while emphasizing that conclusions (particularly of the qualitative nature) do not differ significantly from those with a different number of options considering the dependent variable.

Table 4.6 Results of ordered logit model estimation ASS_D level

Variable	**Estimate**	**Standard error**	***p* value**
B_SHARE	−0.0911	3.3471	0.978
D_GDP	−4.7612	1.8019	0.008
CAR	−17.3671	8.1157	0.032
LEV	−0.0106	0.0091	0.246
DGS_D	−0.6555	0.3749	0.080
DIAG	−1.7680	0.5162	0.001
CR_EXP	−0.6436	0.6122	0.293
Binary variables for the RESCUE*			
CAP_MERGER	2.3382	0.7425	0.002
CAP_RES	2.0418	0.7081	0.004
LIQ	3.9234	0.9649	0.000
NAT	3.0063	0.7658	0.000

Note: *CAP is the reference category for the parameter estimates given in this group of variables.

In addition, the value of the McFadden pseudo-R^2 equals 0.29, which indicates that the model matches the data to a sufficient extent. Note that the model is estimated based on only 80 observations, making it easier to obtain such high values of this measure.

The estimation results (Table 4.6) show a statistically significant impact of most of the analysed variables on the level of state aid net in relation to customer deposits. Assuming 0.1 as the level of significance, D_GDP, CAR, DGS_D and DIAG, significant in the statistical sense, contributed to the reduction of the dependent variable level, while none of the variables contributed to a statistically significant increase.

Let us start the explanation from CAR, the capital adequacy ratio, which is the variable with the greatest impact. The higher the CAR, the lower the potential amount of aid needed in order to improve the financial standing of a bank. Capital (tier 1) serves as a buffer to absorb potential losses and determines the bank's safety. The ratio of customer deposits to GDP (D_GDP) shows the systemic size of the bank. One can assume that a large bank has a greater financial potential and human resources and thus is able to manage its risks better. Therefore, the amount of financial assistance that is needed for the rescue should be relatively lower than in the case of smaller banks with less financial potential. The correct diagnosis also plays an important role in the model, since it allows taking timely rescue actions on an adequate scale. In the case of an incorrect diagnosis, the identification of problems is postponed, so they may accumulate. A delayed reaction can raise the total costs of restructuring. The last statistically significant variable is the ratio of accumulated DGS funds to customer deposits of a bank. In the case of a DGS with *ex post* financing, the value of this variable is zero. This is the case in countries such as Austria, the Netherlands, Slovenia, the United Kingdom and Italy. In the other cases, the value of this variable was greater than zero.

With the exception of three countries, the ratio of the net amount of financial assistance granted to banks was higher than the average ratio of DGS funds to bank's customer deposits. This leads to the conclusion that the deposit guarantee scheme alone would not be able to cover the consequences of the bank's restructuring or bankruptcy. The significance of this variable in the model may be related to the behaviour of policymakers deliberately reducing the amount of financial assistance for individual restructured banks if the deposit guarantee system is well capitalized. One could also assume that banks, once obligated to make regular contributions to the deposit guarantee system, would be systematically disciplined to manage their risks better.

An analysis of the parameter estimates using binary variables used to categorize the RESCUE variable must be carried out taking into account the fact that the benchmark are banks for which the value of CAP = 1 (that is banks restructured through *recapitalization*). Positive and statistically significant parameter estimations of the other variables in this group indicate that *ceteris paribus* ASS_D level is the lowest in the group of the banks that were capitalized (CAP). The probability of being in a group with a higher value of ASS_D increases for the group of banks recapitalized and significantly restructured (CAP_RES). It is even higher among banks that merged after the *recapitalization* with another bank (CAP_MERGER), and then those that were nationalized (NAT). The maximum value of ASS_D is *ceteris paribus* in the group of banks that were liquidated (LIQ).This may be explained as follows: 'pure' recapitalization was applied to the bank when its financial standing was not very bad, and it only required support to recover. During the crisis, the possibility to raise capital quickly by issuing shares on the market is significantly limited. As demonstrated by the case studies – this would be a short-term support. If the bank's recovery was possible but required significant changes to the business model, management strategies or limitation of certain activities, decisions were made to either merge it with another bank or restructure deeply. The decision to nationalize was taken when the bank required extremely significant changes and extensive support from the government in order to continue operating in the market. *Liquidation* was applied when there was no economic justification for the bank's continued operations on the market. In order to carry out (ordered) liquidation, there was also a need for capital support (and in one case, for guarantees) and, as demonstrated by the analysed data, this was the most expensive form of bank rescue.

The variety of the instruments used to restructure banks and the diversity of the costs indicate that the recapitalization of banks (*bailout*) cannot be entirely written off the political agenda and fully replaced with the compensation of losses by the owners and creditors (*bail-in*). It would be purposeful to introduce predictable and clearly defined rules for bank owners to cover the losses as well as principles for the governments or their agencies to

purchase bank shares. Based on the examples of Denmark and Sweden, bank restructuring might be financially beneficial for state budgets.

4.4 Cluster analysis

To supplement the analyses described above, we have performed an analysis of clusters presented in Table 4.7. Here the k-means clustering method was applied based on seven main groups. The analysis employs variables B_SHARE, D_GDP, and ASS_D.

Table 4.7 Clusters of banks

Abbreviation	Year of intervention	B_SHARE	D_GDP	ASS_D	Cluster number
DE-IKB	2008	0.6%	0.2%	40.0%	1
FR-BP	2008	3.4%	1.3%	19.7%	1
DK-ROSK	2008	0.6%	1.0%	25.9%	1
NL-SNS	2008	4.8%	3.4%	14.4%	1
AT-KOM	2008	3.5%	0.4%	25.0%	1
GR-PIREUS	2009	11.0%	13.0%	50.1%	1
ES-CAJA3	2009	0.6%	1.2%	13.4%	1
ES-MANCHA	2009	0.8%	1.0%	16.6%	1
GR-POST	2009	3.6%	5.5%	42.4%	1
AT-VOLKS	2010	4.7%	2.6%	17.1%	1
ES-UNNIM	2010	0.8%	2.0%	18.1%	1
ES-NCG	2010	2.1%	3.6%	27.8%	1
ES-CEISS	2010	1.3%	2.0%	23.8%	1
ES-SUR	2010	0.5%	0.8%	26.1%	1
ES-MARE	2010	2.0%	5.0%	15.8%	1
ES-CAM	2011	1.9%	2.2%	26.0%	1
IE-ILP	2011	2.0%	8.2%	28.4%	1
PT-BPN	2012	0.7%	1.4%	23.4%	1
ES-GALLEGO	2012	0.1%	0.2%	40.8%	1
ES-LIBER	2012	1.3%	3.4%	14.1%	1
SI-NKBM	2012	10.5%	10.2%	26.9%	1
LT-UKIO	2013	1.5%	2.9%	22.7%	1
SI-PROB	2013	2.0%	1.6%	41.6%	1
SI-ABANKA	2013	7.1%	6.1%	16.3%	1
PT-BANIF	2013	2.6%	3.8%	15.1%	1
DE-HYPO	2009	5.3%	0.6%	476.0%	2
UK-BB	2008	0.7%	0.0%	6926.0%	3
UK-ROCK	2007	1.2%	2.9%	2.9%	4
FR-SG	2008	14.7%	14.6%	0.3%	4
FR-CM	2008	5.5%	4.6%	0.8%	4
DE-BAYERN	2008	5.3%	3.7%	9.7%	4
UK-HBOS	2008	8.5%	13.6%	0.6%	4
DE-COMMERZ	2008	7.9%	6.9%	0.8%	4
TRANS-DEXIA	2008	18.4%	12.8%	13.8%	4

Continued

Table 4.7 Continued

Abbreviation	Year of intervention	B_SHARE	D_GDP	ASS_D	Cluster number
UK-LLOYDS	2008	5.2%	9.8%	13.1%	4
GR-EFG	2009	17.1%	20.3%	16.6%	4
AT-RAIFF	2009	14.8%	20.9%	0.0%	4
IT-POPOLARE	2009	3.6%	6.9%	0.0%	4
IT-VALTE	2009	0.7%	0.9%	0.0%	4
IT-SIENA	2009	6.0%	6.0%	4.3%	4
GR-ALPHA	2009	14.1%	18.6%	12.1%	4
AT-BAWAG	2009	3.9%	8.0%	0.0%	4
DE-AEREAL	2009	0.5%	0.8%	0.0%	4
IT-MILANO	2009	1.0%	1.2%	0.0%	4
DE-BADEN	2009	5.7%	4.2%	3.9%	4
DE-HSH	2009	2.6%	2.1%	5.7%	4
GR-ATE	2009	5.8%	9.1%	5.5%	4
LV-PAREX	2009	10.8%	8.8%	3.9%	4
DE-WEST	2009	3.3%	1.2%	7.2%	4
IE-EBS	2010	1.3%	6.1%	8.9%	4
ES-BANKIA	2010	4.4%	14.3%	15.0%	4
DE-NORD	2011	2.8%	4.9%	1.1%	4
PT-BPI	2012	7.7%	14.4%	3.7%	4
AT-TIROL	2012	1.1%	1.0%	3.0%	4
FR-CIF	2013	0.5%	0.0%	0.0%	4
PT-BES	2014	15.6%	22.2%	13.3%	4
BE-KBC	2008	26.3%	56.8%	0.6%	5
AT-ERSTE	2008	19.0%	38.7%	2.5%	5
FR-CA	2008	23.1%	27.3%	0.3%	5
UK-RBS	2008	28.9%	36.6%	3.8%	5
TRANS-FORTIS	2008	43.6%	50.9%	9.3%	5
SE-NORDEA	2009	52.2%	44.6%	0.0%	5
NL-ABN	2009	30.8%	36.6%	3.3%	5
GR-NBG	2009	23.0%	30.8%	15.2%	5
IE-BOI	2009	11.1%	52.3%	3.3%	5
IE-AIB	2009	10.7%	51.7%	18.5%	5
SI-NLB	2011	31.4%	28.2%	24.9%	5
PT-BCP	2012	16.3%	27.8%	6.3%	5
PT-CAIXA	2012	22.1%	41.2%	2.3%	5
CY-HEL	2013	7.1%	33.4%	0.0%	5
ES-CAIXA	2008	1.9%	1.9%	79.5%	6
AT-HYPO	2008	4.1%	3.1%	61.4%	6
LV-LHZB	2009	3.0%	1.3%	67.0%	6
GR-PROTON	2009	0.6%	0.8%	124.0%	6
IE-AIB	2009	5.2%	16.8%	107.7%	6
ES-VALENCIA	2011	0.6%	0.7%	97.5%	6
SI-FACTOR	2013	2.0%	1.1%	71.8%	6
NL-ING	2008	60.5%	91.9%	1.2%	7
CY-BOC	2012	24.2%	160.5%	2.2%	7
CY-LAIKI	2012	23.7%	100.8%	10.1%	7

Clusters 2 and 3 consist of one element each and comprise cases that significantly depart from the others. Both these banks were nationalized, and the costs of rescuing them were horrendous. Cluster 1 contains 25 banks. Their shares in the banking sector assets were low to medium, just like their deposit-to-GDP ratios. The costs of restructuring, measured by ASS_D, were relatively high and varied from 13 to 42 per cent.

Cluster 4 groups 29 banks with low to medium shares in the banking sector assets and similar deposit-to-GDP ratios. However, unlike in cluster 1, the costs of restructuring were lower and remained below 17 per cent.

Cluster 5 comprises 14 banks with medium to high shares in the banking sector and medium to high deposit-to-GDP ratios. The costs of restructuring of these banks did not exceed 25 per cent.

Cluster 6 groups seven relatively small banks, whose restructuring costs, however, were high, ranging between 61.4 to 124 per cent of the ratio of net aid to customer deposits.

Cluster 7 comprises three large banks of systemic importance, the restructuring of which was relatively cheap considering the ratio of the net aid granted to customer deposits. This group contains two Cypriot banks, to which extensive bail-in was applied.

We may conclude that various 'cures' were applied to similar cases. The restructuring costs close to the amount of customer deposits, treated as an approximate amount to be paid out should the bank default, may hardly be justified in economic terms. In such cases, the decision to restructure the bank is most likely made based on non-economic (including political) grounds.

Further research into bank restructuring should ask about the restructuring tool that should be applied depending on the costs of this process. Following the experiences with the Asset Quality Review (AQR), it seems justified to expect that the bank's standing be diagnosed using a similar standard, so that the amount of the required funds can be estimated at the start of the potential restructuring process. Additionally, a set of restructuring methods needs to be developed to properly apply them after a diligent diagnosis.

Notes

1. For systems with *expost* financing, the amount of accumulated funds equalled 0.
2. Guarantee (GUAR) was used only in one bank as a leading form of restructuring, so for modelling purposes this variable was replaced with CAP.
3. This was not possible in only four restructured banks.

5
Landscape after the Lessons of the Crisis

Małgorzata Iwanicz-Drozdowska, Jakub Kerlin and Paweł Smaga

This chapter characterizes the changes caused by the recent global financial crisis (GFC). The starting point is the macroeconomic situation combined with the situation in the EU banking sectors. Because the GFC forced the decision-makers to rebuild the financial safety net, the most significant changes for the EU banking sectors have been also elaborated. These include more restrictive capital regulations, liquidity regulations, responsibilities of the financial safety net players and the resolution authority and tools. The chapter also emphasizes the banking union, which is a new concept implemented gradually for the Eurozone. On 4 November 2014, the Single Supervisory Mechanism (SSM) started to operate as the first pillar of the banking union.

5.1 Economic situation and changes in EU banking sector after the outbreak of the crisis

The condition of the European economy significantly deteriorated after the outbreak of the crisis. Eurostat data show that in 2009 nearly all EU countries experienced recession (in EU-28 GDP dropped by 4.4 per cent Y/Y). Although the decreasing trend reversed and GDP increased in 2010 and 2011, in 2012 GDP dropped again and no economic growth was recorded in 2013. In 2013, GDP was still lower than in 2008 in Greece, Spain, Portugal, and Cyprus. As a result, most EU countries after 2008 recorded a significant increase of the unemployment rate, which led to the growth of non-performing loans and limited the prospects of improving banks' standing, as credit demand diminished. On the other hand, a relatively high GDP increase was observed in Sweden, the Baltic states, and some CEE countries. Nevertheless, these countries also recorded a higher unemployment rate. In most EU countries, the Y/Y inflation rate during the 2008–2013 period revolved around inflation targets of set by central banks. However, since 2014 the dynamics of

consumer prices in EU countries has clearly slowed down (below 1 per cent). Because of the central banks decreasing the interest rates, banks' opportunities to generate interest income have been shrinking. Real estate prices, following serious drops in 2007–2009 (mainly in Ireland, the UK and Spain), since 2010 have become stable in most EU countries (except for the UK, Austria and Sweden, where the prices were growing).

The worsening economic situation and the aid to the banking sector resulted in the growth of budget deficits and public debt in virtually all EU countries after the outbreak of the crisis. This was the case both in the Eurozone (mainly in southern European countries and Ireland) and in CEE. Public debt to GDP doubled in 2008–2013 (for instance, in Slovenia, Romania, Lithuania, Ireland and Spain). Problems in the banking sector and significant deterioration of the fiscal condition of EU countries revealed negative feedback loops between the banking sector and public finance (mainly in the South of Europe). This limited the possibility to improve the standing of both banks holding government bonds in their portfolios and countries financing rescue packages for the banking sector. The correlated prices of banks' and governments' CDSs increased significantly, which resulted in more difficult access to sources of financing and in impaired liquidity in the interbank market.

During the crisis, the ECB, like other central banks, undertook non-standard actions to clear the channels transmitting monetary impulses and support liquidity in the banking sector for a longer period. In addition to making the existing instruments more flexible and to reducing interest rates to very low levels, the ECB performed non-standard actions and implemented programmes to purchase various types of assets. While in the short term they allowed taming the panic on the European markets, their efficiency in recovering the credit activity and stimulating the economy was limited and posed numerous threats in the medium term. Interventions of central banks (mainly the ECB) partly improved liquidity in the European banking system. Nevertheless, the limited confidence in the sector and low credit supply and demand are still lingering problems.

The financial crisis hampered the growth of the size of banking systems in the EU (EU banking sector's assets practically did not change in 2008–2013), while shadow banking has been gradually increasing. However, differences may be observed on the levels of individual countries. The banking sector has shrunk significantly in EU 'periphery' countries, in particular, those most intensively affected by the crisis, namely Ireland, Belgium, Cyprus and Greece. For the rescued banks, reducing their operations (mainly by limiting the riskiest business lines and/or sale of foreign subsidiaries) was frequently a prerequisite for receiving state aid. Banks which had been granted public assistance reduced their sizes by about one fourth, while some of the banks

which had not required state aid increased in size (Schoenmaker and Peek, 2014, p. 9).

The crisis also contributed to limiting financial integration in Europe. Fragmentation and segmentation increased, particularly in the government bonds' and interbank markets (ECB, 2012, pp. 8–10). First, to improve capital adequacy banks limited their foreign exposures, which – in the Eurozone – resulted in deleveraging, limited credit supply and outflow of foreign capital from the banking sectors of the Baltics and CEE countries (Eidenberger et al., 2014, pp. 50–63). The financial crisis reversed the earlier trend towards developing cross-border operations and expansion of the Eurozone banks outside the Eurozone.

Consolidation of the banking sector as well as mergers and takeovers of defaulting banks did not significantly change the concentration level upon the outbreak of the banking crisis in the EU (measured by HHI), despite the decrease of the number of credit institutions. Major concentration growth has been, however, recorded particularly in 'periphery' countries (*inter alia* Ireland, Greece and Spain).

Lending to private customers in the Eurozone, upon the slump in 2008, has remained stagnant. ECB data (2014, pp. 16–27) show that in the balance sheets of the Eurozone banks, the decreasing volume of loans in assets is accompanied by the growing importance of debt securities, and in liabilities – a gradual increase of the deposit base. As a result, LtV (*loan to value*) was gradually dropping to about 110 per cent in 2013. Profitability ratios in the Eurozone banks have been very low (close to zero) since 2008, while non-performing loans (NPL) increased significantly. Gradual improvement of capital adequacy ratio since 2008 resulted primarily from deleveraging (decrease of risk-weighted assets) in the Eurozone banks, and to a smaller extent, from stronger capital base.

Summing up, the macroeconomic environment and the fiscal policy did not positively contribute to the standing of the restructured banks. Paradoxically, because of the relationships with the public finance, the high amounts designated for bank rescuing, in addition to ad hoc financial support, caused such side effects as weakening of the condition of the countries, and consequently, of banks. Monetary policy with non-standard actions of central banks only partly limited the scale of the liquidity crisis in the short run, but the actions to stimulate the credit activity are still ineffective. Low profitability in the Eurozone banking sector and growing non-performing loans limit the prospects of quick improvement of the standing of the rescued banks, in particular. Additionally, banks are facing new challenges of stricter prudential requirements and macroprudential instruments implemented, since 2014, by newly created macroprudential authorities in some EU countries in order to limit the systemic risk. These

new requirements are imposing constraints on the loan policies carried out by banks.[1] Note that credit activity is in most cases the major source of profits for banks.

5.2 Changes in prudential regulations and the financial safety net

A financial (or banking) crisis usually constitutes an impulse for public authorities to undertake actions to reduce the probability of a similar crisis in the future. The ongoing global financial crisis was the first event in the 21st century that drove the decision-makers[2] to undertake numerous actions to rearrange the financial safety net and prudential regulations in order to fill the identified gaps. At the EU level, an important publication was a report of the de Larosiere Group published in February 2009 (The de Larosière Group, 2009), which – in addition to the diagnosis of the crisis causes – presented proposals of reforms. The most important postulates include:

- standardization of supervision and regulation, including, for instance, definition of capital, particularly in the aspect of loss absorption,
- more demanding capital requirements, mainly for trading book,
- ensuring sustainable financing of banks' operations (alignment of maturity of loans and deposits),
- counter-cyclical changes in capital and loan loss provisions,
- standardization of deposit guarantee schemes' (among others, regarding *ex ante* financing),
- establishment of the European System of Financial Supervision (ESFS), which, *inter alia*, would improve cooperation between individual national supervision authorities,
- introduction of macroprudential supervision, also within ESFS,
- formulation of crisis management and resolution rules,[3]
- extension of supervision to cover shadow banking,
- reforms of credit rating agencies to eliminate the conflict of interest.

In the next section, we describe the implementation of these postulates, except for the last two, which we find less significant for the subject of this book.

5.2.1 Changes in prudential regulations

The flagship changes in prudential regulations on the global level were called Basel 2.5 (2009) and Basel 3 (2010), while in the EU – CRD III and CRD IV/CRR package, adopted on 16 April 2013 by the European Parliament.[4] CRD IV/CRR is accompanied by binding technical standards, or BTS[5] prepared by taskforces of the European Banking Authority (EBA). Our aim is not to

analyse the adopted solutions in detail, but to present them in a synthetic manner and to evaluate whether they could meet the expectations that accompanied their adoption.

In July 2009 (BCBS, 2009), changes to the treatment of the market risk (following earlier consultation documents) were published and updated in December 2010 (BCBS, 2011) – Basel 2.5. Major decreases in prices of financial instruments of the trading portfolio in selected periods of 2007–2008 showed that classification of the market risks still requires significant improvements. Basel 2.5 addressed this particular problem. Losses actually incurred exceeded (often vastly) the capital requirements included in the solvency ratio. Thus, a decision was made to include, in the regulations, obligatory classification of the consequences of the risk of correlation between instruments and of setting the stressed *VaR*. An amended approach was implemented for setting the components of the trading portfolio. It specified that the instruments that constitute exposures to hedge funds, private equity, securitization vehicle and to the real estate market may not be deemed components of the trading portfolio due to their limited liquidity. Previously, classification of these positions as the trading portfolio represented benefits to the banks in the form of lower capital requirements.

The key purpose of Basel 3 was to reduce the weaknesses in the regulations of banks' solvency and liquidity and, consequently, to improve their safety. Implementation of individual solutions is spread over time and should be completed by 2019. Such a long period – nine years – arises from the fact that many international banks were not able to comply with Basel 3 standards. According to QIS survey conducted by CEBS (2010) and the Basel Committee on Banking Supervision (2010), smaller banks (the so-called group 2), which also feature lower internationalization of operations, revealed less non-compliance with the standards set than big banks pursuing international operations (the so-called group 1). The status of banks' preparations is being monitored by supervision authorities as part of their responsibilities in individual countries, and – on a semi-annual basis – by EBA for the EU banking sector.

Major changes introduced by Basel 3:

- more restrictive capital requirements,
- introduction of capital buffers (conservation buffer, counter-cyclical buffer, buffer for G-SIBs,[6] buffer for other systemically important institutions, systemic risk buffer),
- implementation of the leverage ratio, which is a relation of tier 1 capital to total exposure,
- regulation of liquidity (LCR – liquidity coverage ratio; NSFR – net stable funding ratio).

Two of the previous three categories of capital were kept, specifically:

- tier I capital, also referred to as going concern capital, which should constitute at least 75 per cent of total capital,
- tier II capital, or gone concern capital,
- in addition, *common equity tier 1* (CET I) was distinguished within tier I, which constitutes capital of top quality.

CET I, which should make up at least 75 of tier I, comprises mainly:

- ordinary shares issued by the bank,
- share premium arising from instruments classified as *CET I*,
- profits earned and other accumulated profits and disclosed reserves.

The global crisis urged the regulators to assign bigger roles to tier I, particularly to its most reliable components, to make sure that banks have sufficient capital to cover losses. The first wave of the global financial crisis revealed that some hybrid instruments, classified as tier I, could not be used to cover losses and consequently, they did not fulfil the basic requirements of tier I capital. This resulted from a too liberal approach applied by supervision authorities in some countries to the classification of hybrid instruments as components of this category of capital.

Due to the more restrictive approach of the regulators represented by Basel 3, contingent convertible capital instruments or bonds, referred to as ‘Cocos’, are becoming more important as a component of tier I (or tier II). These are financial instruments convertible to bonds (or written off as losses) when certain conditions (*triggers)* are fulfilled. They may be classified as supplementary tier I (so-called *high-trigger Cocos*) or as tier 2 (*low-trigger Cocos*). When a given condition is fulfilled, the loss absorption mechanism is launched (find more in: Avdjiev et al., 2013). Such a construction of the instrument fulfils the regulators’ expectations.

Basel 3 regulations provided only for implementation of two first buffers: conservation and counter-cyclical buffers. The buffer for G-SIBs was also designed by the Basel Committee but was set up beyond Basel 3. The CRD IV/CRR package introduced two additional buffers. The conservation buffer is identical for all the banks, and it will gradually increase as of 2016 from 0.625 per cent to 2.5 per cent of the denominator of CET 1 solvency ratio. The others include: the counter-cyclical buffer (up to 2.5 per cent of CET 1) implemented to cool down banks’ credit activity, the buffer for G-SIBS (1–3.5 per cent), the buffer for other systemically important institutions (up to 2 per cent) and the systemic risk buffer (between 1 and 5 per cent), set at least for a group of banks (a subset of the financial sector).[7] Each of these buffers requires that the banks gather additional capital of top quality. The buffers will constitute a part of capital that will first cover the generated

losses. With those buffers, the minimum value of the solvency ratio (8 per cent) should remain untouched after covering the losses.

Changes in the structure, quality of capital components, and implementation of capital buffers should positively contribute to the banks' ability to absorb the losses, which is a typical role of equity. This forced the banks to alter their profit accumulation and dividend payment policies. However, on the other hand, the significant increase of capital of banks will limit the possibilities to improve the return on equity (ROE), which is one of the basic measures of attractiveness of a given sector for investors. Additionally, the literature contains no clear indications that the growth of equity contributes solely to greater safety. It may also stimulate banks to increase the risk of their assets, the consequences of which would be far from expectations (Iwanicz-Drozdowska, 2014).

As one of the identified causes of the crisis was too high leverage, the regulators decided to introduce (now for observation purposes only) the leverage ratio, which has been defined as a monthly average, within one quarter, calculated as a relation of tier I to the total exposure. The Basel Committee set the ratio test level at 3 per cent; it has been subject to observation since 1 January 2013 and will be observed for four years. The deleveraging of banks is gradually progressing. This will most likely be a slow and long-lasting process. Its effects will depend – as there are no final rulings in this respect – on the policies of banks and investors' expectations. The effects of the proposed but not finalized solutions may hardly be evaluated.

The issue of liquidity of banks has long awaited the Basel Committee's attention. Only identification of serious shortages of current and structural liquidity in banks urged the regulators to implement specific, global standardized solutions. The Basel Committee addressed two key mistakes committed by banks:

- failure to ensure the proper quality of liquid assets,[8] to be able to rescue liquidity in case of emergency (this is the role of LCR),
- the lack of structural alignment of sources of financing to bank needs for financing of long-term assets with interbank deposits[9] (this is the role of NSFR).

Implementation of these two measures should significantly improve the banks' liquidity position and increase their stability during potential market turbulences.

In addition to the abovementioned regulatory changes, there were also others arising from the crisis. They include increased safety of trading derivative instruments on the OTC market (European Market Infrastructure Regulation, or EMIR[10]) and regulation on credit rating agencies.[11] These and

other implemented changes are to strengthen the safety of financial institutions and consumers using their services. As past lessons show, regulatory changes not always fulfilled the expectations. The major changes labelled as Basel 3 may be deemed regulation of liquidity and improvement of the quality of capital. These changes should improve the safety of the banking sector.

5.2.2 Changes in financial safety net

The financial safety net is mainly responsible for safeguarding the safety of financial institutions. After the start of the global financial crisis, the financial safety net consisted of such institutions as: (1) the *ministry of finance* (or sometimes the ministry of state treasury), (2) *central bank*, (3) *supervision authority (or authorities)*, (4) deposit guarantee institution and other guarantee institutions (compensation for investors and, in some countries, compensations upon bankruptcy of insurance companies).

Each of these institutions was assigned a specific scope of competence. The ministry of finance most often was given regulations for the financial sector and performance of (indirect or direct) supervision of other institutions of the safety net (excluding the central bank). The central bank played the role of a lender of last resort and, in some countries, was responsible for supervision. The supervision authority (or authorities) cooperated on preparation of regulations and analysed standing at each supervised institution (microprudential supervision). The deposit guarantee schemes (and related institutions) paid compensations to the customers of the bankrupt banks. Sometimes the guarantee scheme had wider scopes of competence comprising the financing of bank restructuring.

Within the financial safety net architecture, before the crisis, the following three deficiencies may be identified:

- the lack of clear assignment of responsibility for financial stability,
- the lack of the macroprudential supervision authority,
- the lack of an authority responsible for restructuring and resolution.

This situation gradually started to change upon the first wave of the crisis. The central banks were directly assigned responsibility for financial stability, for instance, the bank of England was granted such a mandate in 2009. The division into microprudential and microprudential supervision, which was in fact non-existent prior to the crisis, became popular. High costs of bank rescuing and burdens imposed on state budgets (and in the case of bankruptcies, also on deposit guarantee institutions) revealed that there was a need for a mechanism other than bailout for resolving bank problems. On the global forum, a tool that started to be promoted was the resolution regime,

a mechanism known from the 1980s in the US, which allowed reducing the costs of bank restructuring. European solutions regarding resolution will be presented in Section 5.3. The target model of the safety net at the country level will be supplemented by these three elements, which were missing before.

In addition to institutional and competence extension of the financial safety net, one may observe other changes. When the crisis revealed the weaknesses of the financial safety net, particularly the insufficient prudential supervision, the decision makers drew attention to the purposefulness of increasing the central bank's involvement in supervision of financial institutions because analytical resources and systemic risk assessment capabilities are serious strengths of central banks. The 'twin peaks' model, which engages two institutions in supervision, was gradually gaining in popularity. One of these institutions concentrates on prudential supervision and the other – on the conduct of business supervision, that is, customer relationships and market behaviours. Until the outbreak of the global financial crisis, the 'twin peaks' model functioned only in the Netherlands (prudential supervision was within the central bank). In 2010, this model was implemented in France, in 2011, in Belgium (which gave up integrated supervision), and in 2013, in the United Kingdom (giving up integrated supervision). In these three cases, the position of the central bank became stronger. Changes were implemented also in supervisory structures in other EU countries.

The second stage of the global financial crisis made EU authorities to rapidly increase the guarantee level to EUR 50,000 (October 2008) and afterwards to EUR 100,000 (since 1 January 2011) to rebuild (or maintain) the depositors' confidence in the banking sector. These and other key changes were implemented in the amended directive on deposit guarantee schemes of March 2009 (Directive of the European Parliament and of the Council 2009/14/EC).[12] Payouts to depositors should be made within 20 business days upon fulfilling the guarantee conditions (meaning mainly upon filing for bankruptcy), with an option to extend it by a maximum of ten business days. Prior to the amendment, this period was three months, with an option to extend it by three months twice.

Another challenge that the decision-makers faced was to extend harmonization of the rules for financing the deposit guarantee schemes. Two key issues involve decision on the financing rules (*ex ante* vs. *ex post*) and setting the target level of accumulated funds. Before the crisis 15 EU countries chose *ex ante* financing, five[13] chose *ex post*, while the others, mixed. In the documents of 2010, the EC (EC, 2010) concluded that it was purposeful to introduce *ex ante* financing, with an option of *ex post* support. According to the moderate scenario, the deposit guarantee schemes, using *ex ante* financing, should accumulate 1.5 per cent of deposits covered by

guarantees. These funds should be collected within 10 years. Additionally, the guarantee scheme could increase the accumulated funds by 0.5 per cent of deposits protected by guarantees, using *ex post* financing. Such a volume of funds (2 per cent in total) would be enough to finance deposit payouts in a bank of a medium size. Works to resolve this problem were finalized in 2014 by adoption of the directive on deposit guarantee schemes (2014/49/EC).[14] A decision was made that the deposit guarantee institutions will be financed*ex ante*. The target amount of accumulated funds was set to 0.8 per cent of the guarantee deposits (10-year period for gathering funds). As the banks had to carry new burdens, the 1.5 per cent value was given up to reduce the burden on the banking sector. Now the average relation of accumulated funds to guaranteed deposits in the EU totals 0.31 per cent (with 0.15 per cent coverage in Germany), while in the Eurozone – 0.23 per cent. EU operating banks would additionally need to pay premiums of approximately EUR 4.3 billion to reach the target level of 0.8 per cent (Iwanicz-Drozdowska et al., 2015). Additionally, a possibility of voluntary borrowing of funds between the deposit guarantee schemes was introduced. Finally, by 2024 the payout period should be no longer than seven business days.

Following de Larosiere Group's report, microprudential and macroprudential supervision was implemented at the EU level, which started to operate since the beginning of 2011. The European Systemic Risk Board hosted by the European Central Bank performs the macroprudential supervision. Microprudential supervision has been assigned to three bodies at the EU level:[15]

- European Banking Authority (EBA),
- European Insurance and Occupational Pensions Authority (EIOPA),
- European Securities and Markets Authority (ESMA).

These bodies perform mainly coordinating and consulting roles. Along with national supervision authorities, the above-listed agencies form up the European System of Financial Supervision.

At the country level, in the case of non-Eurozone countries, the financial safety net executes the abovementioned roles in four, three or two separate institutions (see Figure 5.1). The supervision authority may be associated with the central bank, while the resolution body, with the deposit guarantee institution. The situation is different in the Eurozone countries that are members of the banking union. Its key concepts of banking union have been presented in Section 5.4.

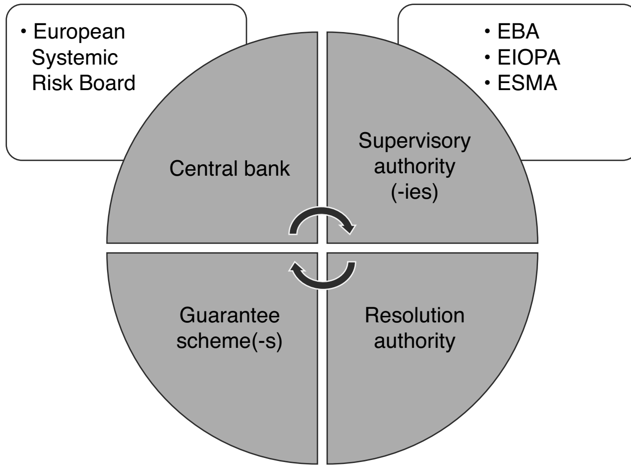


Figure 5.1 Financial safety net on country level and cooperation in the EU for countries outside eurozone

5.3 Banks' restructuring and resolution

5.3.1 The genesis of the restructuring and resolution regulations

The financial crisis has exposed numerous gaps of the legal and regulatory instruments at various levels of crisis management. First, there were no good tools that could ensure effective and efficient actions of public authorities to resolve problems of financial institutions. Regulatory deficiencies revealed in 2007–2013 and their severe consequences for state budgets, presented in Section 3.3, resulted in sufficient political motivation to change the *status quo* in many countries. As a result, proposals were presented to develop tools that could prevent defaults of financial institutions regardless of the range of their operations and mitigate their negative consequences (assuming, though, the default may happen).[16]

In many countries, the regulators arrived at the conclusion that standard procedures for bankruptcy or restructuring applied towards financial institutions were ineffective. This lack of effectiveness most often resulted from lengthy court supervision of the bankruptcy procedure and a significant decrease of the value of assets of the defaulting company, which in court proceedings is very hard to prevent. This overlaps with the nature of the court proceedings, which lack the capability of fast decision-making and quick interventions. Such a situation does not contribute to preserving continuity of critical functions of a financial institution and destabilizes the market. Thus, it became necessary to develop a new approach that could

allow smooth elimination of financial institutions from the market, regardless of their sizes or relations with other entities.

Therefore, the G-20 Group produced a document specifying the basic rules for the effective functioning of the liquidation regime dedicated to financial institutions (FSB, 2011). Another milestone was a document developed together by the FDIC and the Bank of England (2012), which provided for possible approaches to resolving systemically important financial institutions. Documents by various taskforces and a number of reports of the financial safety net institutions led to the establishment of binding legal frameworks of a new financial architecture and provided a solid theoretical foundation. It may be assumed that roughly as of 2010 modern (post-crisis) institutional frameworks for restructuring and resolution of financial institutions started to be implemented in national legal regimes. Some of the most important regulations are the Dodd-Frank Act in the USA, the amended banking act in the UK, or adoption of the Bank Restructuring and Resolution Directive

Table 5.1 Implementation of resolution in selected countries and responsible authorities

Country	**Authority responsible for resolution**	**Implementation of resolution regulation or its amendments**
Argentina	central bank, supervisor	1997, 2003
Australia	supervisor	2008, 2010
Brazil	central bank, supervisor	2010
Canada	guarantee scheme	2012
China	central bank, supervisor	2012, 2014
Denmark	resolution authority	2010
France	supervisor	2013
Germany	supervisor	2011, 2013
Hong Kong	supervisor	2012
India	central bank, supervisor	2013
Indonesia	resolution authority	2008, 2009
Italy	central bank, supervisor	2008, 2009
Japan	guarantee scheme	2013, 2014
Mexico	guarantee scheme	2006, 2013, 2014
Netherlands	central bank, supervisor	2012
Russia	central bank, supervisor, guarantee scheme	2010, 2011
Singapore	central bank, supervisor	2013
South Africa	supervisor	2012
South Korea	supervisor, guarantee scheme	2013
Spain	resolution authority	2009, 2012
Switzerland	supervisor	2011, 2012
Turkey	supervisor, guarantee scheme	2005, 2007
UK	central bank, ministry of finance	2009, 2012, 2014
USA	guarantee scheme	2010

Note: Prepared by R. Juszkiewicz, J. Kerlin; based on IMF (2015) and FSB (2013).

(BRRD) in the EU.[17] For details about preparation of relevant legal acts introducing resolution and choosing the resolution authority, see Table 5.1.

The data presented in Table 5.1 show that the need for consistent implementation of resolution procedures in national legal frameworks arose mainly during the post-crisis period, although according to declarations of some countries, certain extraordinary mechanisms for resolution of financial institutions had been implemented earlier (for instance, in Mexico, Argentina and Indonesia). The leaders in regulation implementation are countries with the most developed banking sectors (mainly Europe, the USA and some Asian countries). The process of selecting the entity responsible for the resolution process is arranged differently all over the world. In the European Union, the prevailing concept is to appoint an independent resolution authority or the central bank, still leaving some of the supervision competence with the supervisory authority, while outside the European continent this role is often awarded to the deposit guarantee scheme.

5.3.2 Objectives and rules of the resolution process

Because of the crisis, the EU political decision-makers and regulators concluded that it was required to implement a set of systemic solutions that would ensure the functioning of effective and quick instruments allowing the application of a full range of actions in the financial institution in difficulty. For this reason, general objectives were set for the restructuring and resolution of financial institutions.[18] The most important objectives to be achieved during the proceedings included:

- ensuring continuous performance of key functions of the financial institution (the so-called critical functions),
- elimination of negative consequences to the financial stability (through, *inter alia*, prevention of the domino effect and caring for market discipline),
- protection of public finance by minimizing the necessity to grant state aid,
- protection of depositors' interests (at least up to the guaranteed amounts),
- protection of financial funds and assets of customers of the financial institution in difficulty.

Thus, the objectives of restructuring and resolution should comprise ensuring continuity of the financial institution's critical functions and should not destabilize the market situation. This, in turn, in the long run, allows avoiding negative consequences to the financial stability and protection of public funds (stemming from the lack of extraordinary financial support for institutions facing default), and protection of depositors and investors included in the guarantee schemes. Upon setting the objectives of restructuring and resolution of financial institutions, decisions were made also to

regulate the catalogue of the basic rules for conducting such a procedure. As a result of creating the new legal and administrative path, in order to implement the resolution process, it was necessary to design general, universal rules to regulate such a process and to justify application of those rules.[19] The basic principles of procedure, which were designed as a result of the legislative work in the European Union, include:

- preserving a strict hierarchy of incurrence of loss and costs of proceedings,[20]
- necessity to replace the management board and top management,
- support from the management board and top management,
- bearing personal liability for the default of a financial institution,
- no creditor worse off, known as the NCWO principle, which means that the creditors will not incur higher costs than those they would incur if the financial institution was liquidated as part of standard bankruptcy proceedings,
- ultimate protection of the guaranteed deposits,
- application of collaterals and limiting the impact of the proceedings on other entities and on financial stability,
- providing information to and consulting the employees.

Although most of the rules mentioned above raise no doubts, the NCWO principle requires further explanation. As the actions undertaken as part of the resolution process are frequently final and irreversible or may not be appealed, a rule to protect the interests of creditors, including shareholders, was introduced. It provides that in the resolution process, on no condition should they incur higher losses than they would incur in a standard bankruptcy procedure. Thus, a comparison is made of the creditors' situation in the resolution process and in a hypothetical standard liquidation procedure. The situation of the creditors may be evaluated through estimation.[21] Here, particular attention should be drawn to the privileged position of the deposit guarantee scheme. In most cases when deposits are paid out within the deposit guarantee framework (either in resolution or in a standard procedure), special privileges will be assigned to the deposit guarantee fund in the hierarchy of claims. These privileges will involve a recourse claim of the deposit guarantee scheme towards the bankruptcy estate (or the restructured bank). The claim will be so high that the shareholders and creditors from the other categories will not be satisfied. Implementation of these rules allows undertaking all measures to limit the costs to the minimum and to treat the creditors of the same claim category in a fair manner. Goals and rules of procedure defined in this way allow achievement of positive results, which may hardly be achieved in a standard court procedure.

Works on new solutions also pointed to the need for determining the course of operational activities, which should be undertaken to ensure smooth functioning of the new procedure. First, it was decided that a set of tools needed to be introduced to enable sufficiently early and quick intervention towards institutions in financial difficulty or at the verge of bankruptcy. A state intervention in these circumstances should allow continuation of critical functions and should mitigate the potential negative impact of these problems on the financial sector and the economy. Further, it was decided that as part of extraordinary actions, special protection would be applied to certain categories of creditors or customers. They would include, among others, small depositors or people using the payment system, or employees of the financial institutions in difficulty, which should be the last to suffer the consequences of the interventions.

Second, it was concluded that due to the so-far budget burdens (staid aid granted on a large scale), it will be necessary to set new criteria to specify the hierarchy of losses to be incurred by specific people or entities. In the new hierarchy, mainly the people and entities responsible for the bad situation of the financial institution should carry the burden of restructuring or resolving it. Thus, losses should first be incurred by the shareholders of the companies in difficulty, and then by their creditors (starting with professional market players). Such an approach allows predicting the distribution of the losses (known *a priori* and determined still before the actions are taken), for which one may prepare in advance.[22]

Third, EU regulators, through the BRRD, implement and communicate in advance universal, operational tools for the restructuring or liquidation of financial institutions. They have been developed taking into account various circumstances and scenarios. To ensure their effectiveness, it was also necessary to implement relevant financing mechanisms. The deadline for application of new regulations in the legislation of individual countries was 1 January 2015, providing for gradual fulfilment of certain requirements, particularly those related to burdens for the financial sector and those most intensively interfering with ownership rights (bail-in).[23]

By the end of the works on the final wording of the directive, the effective scope of the BRRD remained an unresolved issue. On the one hand, the original solutions were prepared with banks (credit institutions) in mind, because of the specificity of their operations and the highest risk of lengthy bankruptcy proceedings. However, later a wider scope of the BRRD was taken into consideration and other entities were included – ones that may potentially strongly destabilize the market and expose individual customers to significant losses. These entities included, among others, investment firms as defined in the EU law[24] and insurance companies, which have finally not been included in the scope of the regulation because of the different

nature of operations and lower risk of bankruptcy consequences.[25] Finally, the BRRD shall apply to institutions that are subject to prudential requirements and to various configurations of holdings. The scope defined in this way may be deemed safe because it provides for procedures to be applied not only to credit institutions but to diverse groups (for instance, multi-level institutions pursuing mixed operations including cross-border activities).

5.3.3 Resolution authorities

The works on new regulations revealed that it would be necessary to prepare many new solutions, which should be supported by numerous administrative powers. Introduction of new tools and legal frameworks for the elimination of financial institutions from the market first requires appropriate institutional preparation. Thus, it became necessary to appoint one of the financial safety net entities to become responsible for conducting the resolution procedure. For these reasons, also the BRRD requires that the member states appoint public administration authorities, which would be authorized to perform functions and tasks related to restructuring and resolution of financial institutions. Because of the legal complexity of the issues and protection of interests of many participants of this process, no standardized decision was made, at the EU level, as to which entity of the financial safety net should perform this function. Standardization would facilitate coordination of works and improve the process. However, the required level of interference with the system of legal protection of creditors in individual member states arising from such an appointment might be a too bold decision, which could in fact block the possibility to quickly implement the proposed solutions in the national law. Therefore, this dilemma was vaguely resolved by deciding that the appropriate scope of coordination may also be achieved through a less interfering requirement. According to the BRRD, 'restructuring and resolution authorities may be national central banks, competent ministries or other public administrative authorities'. This set of entities is not a closed list; however, the regulators require that these should be state authorities (which have been entrusted with public administrative powers). In other publications, recommendations for governments comprise a similar catalogue of entities that may be appointed to perform the resolution process (FSB, 2012; Pollner, 2012; IADI, 2014).

Further regulations precisely stipulating the establishment of resolution authorities provided for several additional reservations. First, the member states may appoint the supervision institution to be the resolution authority only as an exception to the rule. This arises from the risk of forbearance, which is the highest on the part of the supervision authority.[26] This option, however, is regulated by additional conditions

that require application of specific measures. If one entity performs the role of a supervisor and a resolution authority, it is necessary to ensure operational independence of the resolution function and operate in a manner that eliminates the conflict of interest between the resolution and supervision functions. The BRRD also introduces a direct requirement for the government or the finance minister to participate in the resolution process, if state aid is necessary.

The resolution function may be assigned to the following institutions:

- the central bank,
- the supervisor,
- an independent resolution authority,
- the ministry of finance,
- a deposit guarantee scheme.

When appointing the resolution authority, the member states should take into account the regulatory environment and the conditions of the internal financial market. For this reason, the decision should be preceded by an analysis of possible solutions regarding the institutional system in the forced restructuring and crisis management process. The key issues that facilitate the choice of the right authority include:

- experience of the authority (for instance, in providing financial support or compulsory administration),
- financial resources of the authority (for example, bank contributions collected by deposit guarantee schemes),
- competence to pursue specific administrative powers (for instance, audit performance),
- a strong position and independence within the country's economic and political system (regulated by an act).

The appointed resolution authority should be equipped with necessary authorizations (tools) provided for in the BRRD and be responsible for following a relevant sequence of actions in the procedure and for collection of financial resources for restructuring. Additionally, the Directive points to the fact that the resolution authorities should be granted such authorizations and powers that may be applied in various configurations. This includes their independence and strong position in the political and economic system, allowing them to apply far-reaching administrative powers. Among others, they comprise a unilateral transfer of shares or assets of the institution being on the verge of bankruptcy to another entity and the right to deprive third parties (for instance, owners) of their rights, and the right to terminate contracts or waive liabilities of the restructured institution.

5.3.4 Sequence of actions

The directive introduces several action paths when using the BRR tools. First, the prudential standards and banking business principles supported by supervision should allow avoiding threats in banking operations (stage one). In spite of that, upon occurrence of a situation that impairs the financial condition of a given institution, the public authority should start coordinated restructuring actions and an early intervention (stage two). The critical aspect here are actions undertaken by relevant financial safety net bodies to prevent further deterioration of the entity's financial and economic standing, before it finds itself in a situation where the authorities will have no other alternative and will be forced to perform the resolution process. If there are no effects, if such an action fails or if the early intervention is not performed at the right time, it will be necessary to eliminate a given institution from the market (in a resolution or standard procedure). Examples of actions performed at given stages have been presented in Table 5.2.

According to the assumptions, stage three of the procedure is started only if the other two have failed to produce the desired outcome. Before the restructuring and resolution tools are used, one must always consider performing

Table 5.2 Stages of new resolution procedures for financial institutions

Undisturbed operations stage	**Early intervention stage**	**Restructuring and resolution process**
Supervision: • capital and liquidity requirements • reporting Preparatory measures: • supervision programmes • individual restructuring plans • stress tests Preventive measures: • individual resolution plans • orders to limit operations	Measures undertaken by supervision authority: • orders to increase capital • replacement of management board • order to introduce the restructuring plan provisions • introduction of compulsory administration	Decision to select the type of procedure: • decision to start resolution or standard bankruptcy procedure Resolution: • choosing the right tools • waiving and conversion of debt • sale of the bank • bridge institution • separation of assets Standard bankruptcy procedure: • notifying relevant authorities of the standard action procedure • liquidation of the institution

Note: Based on EC (2012b, p. 13).

a standard bankruptcy procedure. However, if application of the standard procedure threatened financial stability, disturbed critical functions and significantly affected, for instance, the protection of depositors, then the resolution path must be chosen. According to the detailed requirements of the BRRD, the decision to follow the resolution process may be made when the resolution authority concludes that:

- the institution is on the verge of bankruptcy or faces a threat of bankruptcy,
- it is not very likely that any alternative actions of the private sector towards the institution in difficulty could prevent its bankruptcy within a reasonable time,
- the action is necessary for the public good.

Once the first two conditions are met, the resolution authorities should instantaneously undertake relevant and coordinated actions to protect the public interest.

The recommended BRRD approach to setting the moment of starting stage three (meaning starting the resolution procedure) is prudent. The procedure should be started without delay, however, even before insolvency occurs, as defined in the accounting standards, and before the capital of the institution in difficulty runs out.[27] The premises for classifying an institution as an entity on the verge of bankruptcy or under threat of bankruptcy are vague. The first is deemed fulfilled when, among other things, the resolution authority believes the institution violates or is likely to violate, in the near future, the requirements the fulfilment of which is necessary for preserving the licence for a given activity (for instance, bank or brokerage house operations). An institution on the verge of bankruptcy should continue its operations with the support of restructuring and resolution tools and with the use of private funds (to a maximum extent). The other conditions for starting the resolution procedure require another prerequisite, specifically, exhausting the possibilities to find financial support in the private sector. It is sufficient to demonstrate that there are no entities that are ready to offer capital injections to a given institution for amounts at least allowing restoration of viability and stable operations. Third, to start the resolution procedure it is necessary to prove the public interest, which will speak in favour of applying the restructuring and resolution procedure to the institution instead of standard bankruptcy proceedings. The public interest is broadly understood and may represent the necessity to minimize costs of the procedure or to guarantee preservation of the value of the financial institution's assets. Significant limitation of the rights of the shareholders and creditors has been possible thanks to the protection of the public interest.

5.3.5 Resolution tools

If the financial institution fulfils the prerequisites for starting the procedure, the resolution authorities should undertake an individual decision on the type and scope of the tools to be applied. The tools were standardized to a minimum extent and they are subject to joint terms, objectives, and rules common for the entire Union. The restructuring and resolution instruments stipulated in the BRRD include:

- the sale of business,
- establishment of a bridge institution,
- asset separation,
- waiver or conversion of debt, known as bail-in.

The traditional bankruptcy or liquidation proceedings aim to terminate the entity's operations and usually end with the disposal of the company's assets and final accounting for its accounts receivable and payable. The instrument to sell the company's business is to enable the resolution authority to carry out functional sale of the institution or its specific part, to a private buyer.

The takeover instrument allows transferring the operations, in part or in whole, to a private entity, which is going to continue the operations. This helps to avoid negative consequences that the customers of the liquidated company could suffer if the services they received were terminated. Such a takeover may be carried out even without the shareholders' approval for the whole operation. For the use of this tool, the BRRD requires application of diligence in the entire process, so that the sale procedure could be based on openness, transparency and the lack of discrimination. The purpose of the tool is not only to find an entity willing to take over the enterprise in difficulty (in part or in whole), but also to achieve the highest possible price for the transaction. The company takeover instrument secures the interests of the customers of the enterprise being taken over, but it should also be advantageous for other creditors as the destruction of value is stopped. This solution was applied when restructuring banks in EU countries during the current crisis (for instance, in Denmark and Belgium).

Another tool is establishment of a bridge institution. This mechanism provides for creating a specific purpose company, which a public authority should own, or at least control. The bridge institution is established to ensure continuous provision of basic financial services to its customers and continuous performance of other basic activities. The effective period of operations of the bridge institution should be limited. Upon the lapse of the period set for finding the buyer, the institution should be sold or liquidated. Such a solution was rarely used when restructuring banks in the EU during the current crisis, but was fairly common in the US in the 1990s.

The role of asset separation is similar. This instrument enables the authority to transfer assets or rights and liabilities of a financial institution to another entity. The asset management vehicle is obligated to manage the transferred assets in a way that maximizes their value until the institution has been finally sold or liquidated. This is an auxiliary instrument, which should be combined with other tools. Such a solution was applied to restructure banks in the EU during the current crisis (for instance, in Ireland, the UK and Slovenia).

The most controversial instrument stipulated in the BRRD is the write-down or conversion of debt, which severely interferes with ownership rights (Zhou et al., 2012). This instrument may be used to restore the appropriate level of the institution's capital, so that it may continue its operations. The first category of people entitled to the waiver includes the entity's shareholders and unsecured creditors. The risk of incurring major losses should encourage this group to monitor more strictly the condition of the institution in an ordinary situation. However, this instrument may be used only while fully respecting the collaterals granted for certain claims. Additionally, certain categories of non-collateralized liabilities (for example guaranteed deposits) were excluded from the scope of application of the debt waiver or conversion instrument. However, because of protection of the depositors, the deposit guarantee scheme should contribute to financing the restructuring and resolution procedure. This contribution was designed as the possibility of covering the losses up to the net amount of losses that the deposit guarantee scheme would have to incur when making payments to depositors in a standard bankruptcy procedure. Interference, if any, in ownership rights must be proportionate, and the creditors and shareholders affected by the procedure should not incur higher losses than they would incur in a traditional bankruptcy process. Such a solution was applied to bank restructuring in EU countries during the current crisis (mainly in Cyprus, Slovenia and Denmark).

The EU regulators decided that it was not necessary to determine the detailed measures that the resolution authorities should apply towards the restructured bank. The measures used should always depend on individual circumstances. Thus, the directive imposes an obligation to prepare individualized resolution plans for financial institutions (the so-called living wills). It was concluded that there was a need for prior preparation of plans for potential recovery and restructuring and resolution plans. The plans should provide for critical information that determines the rules for performing the procedure and adjusting it to the specific institution, however, detailed rules are beyond the scope of this book.

In addition to the BRRD tools directly affecting EU countries, similar regulations were formulated in other parts of the world. Some of them were solving the above-described dilemmas related to entities covered by the restructuring procedure, the choice of the tools or the scheme of funding the procedure. Detailed information is presented in Table 5.3.

Table 5.3 Resolution procedures in selected countries

Country	Scope of entities covered	Resolution tools	Funding of resolution regime
Argentina	2	9, 12	18
Australia	2	8, 9, 10, 11, 12	19
Brazil	2, 3, 6, 7	8, 9, 10, 11	18
Canada	2	8, 9, 10, 11, 12, 14	18, 19
China	2, 3	9, 11, 12	19
EU (BRRD)	1, 3, 6, 7	8, 9, 10, 11, 12, 13, 14, 15, 16	17, 19, 20
France	2, 3, 4, 5, 6	11	18, 19
Germany	1, 2, 3, 4, 5, 6	8, 9, 10, 12	17, 19
Hong Kong	2	9, 10, 11	19
Indonesia	1	8, 9, 11, 12,	18
Italy	2, 3, 4, 6, 7	9, 10, 12	18, 19
Japan	1, 2	8, 9, 10, 11, 12	17, 18, 19
Mexico	2	8, 9, 10, 11, 12	18
Netherlands	1, 2, 3, 4, 6	8, 9, 10, 12	18
Russia	1, 2, 3, 4	9, 10, 11, 12	18
Saudi Arabia	2, 3, 7	8, 9, 10, 11, 12	-
Singapore	2	8, 9, 10, 11, 12,	19
South Korea	2, 3, 6	8, 9, 10, 11, 12	18, 19
Spain	2, 3, 7	8, 9, 10, 11, 12, 13, 14, 16	18, 19, 20
Switzerland	1, 2, 3, 4, 5, 7	8, 9, 10, 11, 12, 13, 14, 16	-
Turkey	2	9, 10, 11, 12	18, 19
USA	1, 2, 3, 4, 6, 7	8, 9, 10, 11, 12, 13, 14, 16	17, 18, 19
UK	1, 2, 3, 4, 6, 7	8, 9, 11, 12, 16	18, 19

Note: Prepared by R. Juszkiewicz; based on IMF (2015) and FSB (2013).

Figures in the table represent the following:

- Entities covered by the resolution procedure:
  - Banks (1)
  - Insurance companies (2)
  - Investment firms and brokerage houses (3)
  - Financial market infrastructure entities (4)
  - Financial market infrastructures registered as banks (5)
  - Insurance and bank holdings (6)
  - Holdings which comprise banks or insurance companies (7)
- Resolution tools:
  - Bridge institution (8)
  - Asset separation (9)
  - Asset management company (10)
  - Taking over the entity (11)
  - Limitation of ownership rights (12)

- Debt waiver and conversion through:
  - Conversion of debt into capital (13)
  - Termination of agreements or stopping of agreement execution (14)
  - Other collaterals (15)
  - Restructuring and resolution planning (16)
- Funding of the resolution regime:
  - Private funding (17)
  - Deposit guarantee scheme (18)
  - Protection fund (19)
  - Resolution fund (20)

With the use of the presented data one could distinguish countries with narrow scopes of the procedures (for example, Indonesia, Japan and Australia) and countries with broadly designed regulations, which were to be applied to as many entities as possible (EU, US regulations). This is similar as regards the variety and spectrum of the planned restructuring mechanisms. Financing of the procedures was most often planned through creation of a dedicated resolution fund supported, in specific conditions, by the deposit guarantee scheme. Combination of these two functions, in the light of cost savings made, may be deemed recommended and justified in certain situations.[28]

5.3.6 Funding the resolution procedure

Generally, the member states should ensure sufficient funding of the resolution procedures. This should be done through national financing mechanisms and it is a responsibility of the resolution authorities. Private institutions (covered by the scope of the Directive) should finance the resolution fund. However, the algorithm for contribution calculation has not yet been determined. Contributions should be charged before starting any restructuring or resolution activities (the funds should be accumulated *ex ante*). To build the financial potential, the Directive set a certain minimum target level that the funds should aim to collect. This level was set as 1 per cent of the guaranteed deposits, which should allow accumulating, for the entire European Union, a fund of EUR 57 billion (EC data for 2009).[29] The member states should reach the assumed target by the end of 2024.

Table 5.4, in column two and column five, presents total volumes of deposits in billion EUR collected in EU banks as at the end of 2012. Column three and column six present target values of resolution funds, set up by the directive, amounting to 1 per cent of the guaranteed deposits in the banking sector (data as at 2012 year-end). Due to the sizes of their banking sectors, the highest nominal amounts will need to be collected in Germany, France, and the UK, which will set up the biggest funds in the future. As the minimum accumulation amount of the resolution fund will be indexed against the

Table 5.4 Total amount of deposits and target amount of resolution funds in EU countries at 2012 year-end (in EUR billion)

Country	Total amount of deposits	1% of guaranteed deposits	Country	Total amount of deposits	1% of guaranteed deposits
Austria	324,900	1,734	Italy	1,511,600	4,905
Belgium	529,000	2,291	Latvia	17,765	60
Bulgaria	28,972	184	Lithuania	13,400	67
Croatia	37,496	375*	Luxemburg	215,900	304
Cyprus	104,392	519	Malta	28,004	70
Czech Republic	123,620	653	Netherlands	863,684	4,470
Denmark	166,900	1,055	Poland	278,563	1,032
Estonia	10,825	53	Portugal	221,500	1,102
Finland	136,538	778	Romania	64,295	274
France	1,577,301	11,035	Slovakia	45,940	242
Germany	3,171,800	15,752	Slovenia	23,512	149
Greece	175,000	1,048	Spain	1,568,800	6,749
Hungary	60,048	303	Sweden	267,100	1,409
Ireland	194,000	800	UK	2,922,200	12,188

Notes: Based on EC data (2012b, 2014c).
* For Croatia – 1 per cent of total deposits.

guaranteed deposits, each year the target total amount is likely to increase. While in 2009 the anticipated total amount was estimated at approximately EUR 57 billion, in 2012 this amount is close to EUR 65 billion.

To boost the financial potential, the deposit guarantee schemes may support the resolution funds with capital. However, this may be done only on condition that upon contributing this support, access to the guaranteed deposits will be preserved. In such a situation, the schemes will be obligated to make contributions of up to the amount of net losses that would be incurred if the bank were liquidated as part of a standard bankruptcy procedure.[30]

5.3.7 Evaluation of solutions

Although the resolution instrument dates back to the times before the crisis, only after the outbreak of the current financial crisis were the works on new solutions intensified. The developed assumptions, principles and objectives of the resolution process seem to be correct and universal. One of the key provisions is that the restructuring and resolution procedures should be carried out to protect public finances and in the interest of the public. After years of granting state aid by many countries, this is the first sanctioning of a solution that states that the public interest will be protected at the cost of the banks' creditors who put it in the threatening situation. Changing the institutional and legal frameworks of the safety net, by providing its institutional

participants with new tools, may be deemed a proper step. However, the limited experience in using those tools, as they have so far been applied to small institutions, raises certain concerns.

5.4 Banking union

5.4.1 Construction of the banking union

In the case of the first pillar of the banking union – the Single Supervisory Mechanism, or SSM – the regulation conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions was adopted on 15 October 2013, and the SSM started to operate on 4 November 2014. The legal basis for the SSM is art. 127 section 6 of the TFEU.[31] In July 2014, the regulation on the second pillar, that is the Single Resolution Mechanism, or SRM, based on art. 114 of the TFEU, was finally adopted. The SRM will fully come into force on 2016. Although the logic of constructing the first and second pillars is similar (centralization of powers at the pan-European level), the reform of the deposit guarantee schemes strengthened only the harmonization of the network of national deposit guarantee schemes. There are still no specific plans to build a common deposit guarantee scheme, although such intentions originally had been declared.

The first pillar of the banking union confers, upon the ECB, specific – most important – powers of the microprudential supervision[32] over banks from participating countries, that is at least the Eurozone countries. The ECB and national supervisory authorities share responsibility for supervisory activities (Figure 5.2).

The ECB directly supervises systemic banks, classified according to specific criteria.[33] Altogether it supervises 120 banking groups holding approximately 85 per cent of the Eurozone banking sector assets (ECB, 2014b). National competent authorities perform supervision of smaller banks (indirect supervision, about 3,700 banks), however, still complying with the ECB methodology and guidelines.[34] They follow the instructions of the ECB and actively support it in carrying out supervisory functions by, among others, participating in Joint Supervisory Teams (JST). However, regardless of whether a bank is systemic or not, the national competent authorities' are still responsible for selected supervisory tasks.[35] Thus, supervision within the SSM covers about 4,900 banks in the Eurozone countries. The decision-making process falls into the responsibility of the Supervisory Board. This, however, is not an ECB body provided for in the TFEU, but a collegial entity consisting of a chair, vice chair, representatives of national microprudential authorities and four ECB representatives. The role of the Supervisory Board is to prepare

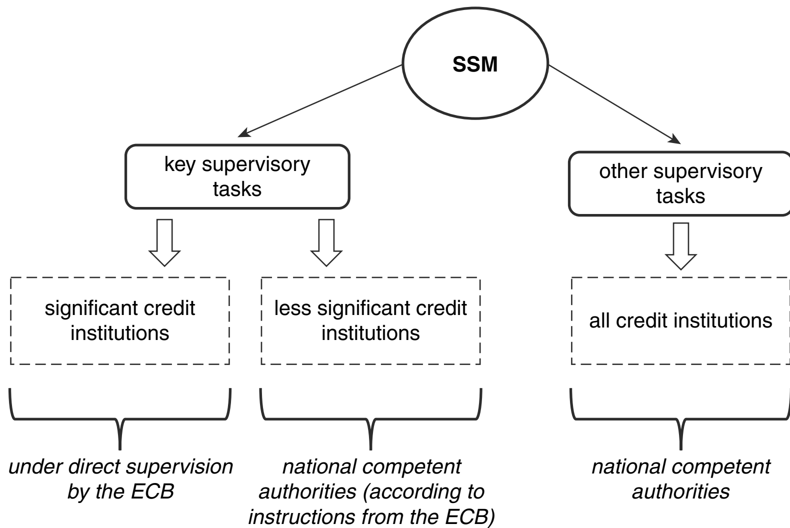


Figure 5.2 Competence scopes in SSM

supervisory decisions for the Governing Council. The Supervisory Board adopts the drafts of decisions by simple majority vote (each member has one vote). The decision drafts then are presented to the ECB Governing Council for approval, which is granted when the Council does not object within a required period (usually no longer than ten business days). The macroprudential policy in the SSM remains within the competence of national authorities. The ECB may top-up the parameters of the macroprudential policy tools only with regard to instruments harmonized by EU regulations (CRDIV/CRR).[36] A novelty is the necessity to coordinate macroprudential tools applied by individual countries and the ECB, through the mechanism of prior mutual notification and the need to duly consider objections of the other party prior to proceeding with the decision. The Eurozone countries automatically joined the SSM, while non-Eurozone EU countries may, upon request, voluntarily join the mechanism by establishing a close cooperation with the ECB. The country must declare to provide supervisory information and to implement, in the national law, relevant changes confirming that the national supervisor follows the ECB guidelines and instructions.

Preparations before the SSM were properly conducted. Quarterly reports (ECB, 2014d) on the functioning of the SSM confirmed significant progress in operational preparations before the launch of the SSM. The ECB points out that the procedure for approval of draft decisions of the Supervisory Board by the ECB Governing Council functions efficiently and that a

significant number of employees were hired still before the start of the SSM as well as necessary JSTs were set up. When pursuing its functions the ECB attempts to apply top quality supervision standards in compliance with the international guidelines (BCBS, 2012). The declared priorities in the construction of effective supervision within the SSM include (ECB, 2014b, pp. 5–7):

- the use of best practices,
- integrity and decentralization,
- homogeneity within the SSM,
- consistency with the single market,
- independence and accountability,
- risk-based approach,
- proportionality,
- adequate levels of supervisory activity for all credit institutions,
- effective and timely corrective measures.

Within the SSM, banks are obligated to pay annual fees for the supervision. An additional fee paid to the ECB does not exclude the possibility for the national supervision authority to charge further fees. Regulation of the ECB on supervisory fees came into force on 1 November 2014 and was adopted by the Governing Council following public consultations. The regulation stipulates the rules for ECB imposing of the annual supervisory fee to cover the expenditures incurred. In particular, the regulation specifies the methodology of calculating the total annual supervisory fee and the amounts allocated to individual supervised banks and banking groups as well as terms of charging the annual supervisory fee (ECB, 2014e, p. 16). The fee for execution of supervisory tasks by the ECB must be paid by all the supervised banks and branches opened in the participating country by a bank domiciled in a non-SSM country. The directly supervised banks incur a significantly bigger portion of the total fee than the indirectly supervised banks. The ECB first calculates the annual cost of performing its direct and indirect supervision tasks (estimated at about EUR 260 million in 2015). Afterwards, based on an algorithm, it allocates annual costs to burdens that the banks are obligated to carry. The fee calculation algorithm takes into account the size and profile of the bank's operations.

Prior to the establishment of the SSM, the ECB performed a comprehensive assessment of banks' balance sheets in cooperation with the national supervisors from the SSM. This comprised reviewing major risk types within the Asset Quality Review (AQR) and a stress test conducted in cooperation with the European Banking Authority. The assessment covered 130 banks and banking groups from the Eurozone and Lithuania, making up approximately

82 per cent of all the assets of the SSM banking sector. On 26 October 2014, the results of the comprehensive assessment were published. Twenty-five banking groups 'failed the exam' (mainly in Italy, Cyprus and Greece) and they had to supplement their capital shortages. Just the very announcement of conducting the assessment made the banks collect capital in advance,[37] which stresses the importance of the ECB's role of moral suasion and its supervisory authority. The purpose of the comprehensive assessment was to enhance transparency of banks' balance sheets and to present a reliable assessment of their financial standing, which was intended to translate into greater trust in the banking sector in the SSM countries and consequently, in the increased credit activity, although this was not observed right after publishing the results.

Having analysed the restructured banks which we studied and which were at the same time subject to the comprehensive assessment, one may come to certain conclusions. Only slightly more than half of the banks evaluated by the ECB, which had also been granted financial support during the crisis, were found systemically important in the SSM. The set of banks that were both rescued and subject to the comprehensive assessment of the ECB was divided into two subgroups: banks that revealed capital shortages and banks that fulfilled the requirements of the comprehensive assessment (Table 5.5).

The biggest capital shortages were identified in banks (which had been granted financial aid) from Italy, Cyprus, Portugal, Greece and Slovenia. In nearly a half of these 'deficit' banks, the diagnosis was not correct and those were relatively big and overleveraged banks (with the leverage ratio of over 33). In addition, three quarters of them pursued expansive credit policies in 2006–2008. The capital shortages still were identified in these banks despite the fact that most of them, during the crisis, had been rescued by recapitalization, had not been nationalized, and had improved their financial standing. Moreover, the majority of these banks were and still are listed on the stock exchange.

On the other hand, in the group of the rescued banks that did not reveal capital shortages in the comprehensive assessment, nearly all of them are covered by the ECB direct supervision. This is a definitely bigger group of banks than those in which capital shortages were revealed. These are banks mainly from Germany, the Netherlands, France and Austria. One third of these banks have been nationalized, and the financial standing of nearly a half of them has improved. The total amount of net aid granted to these banks was over twice the amount granted to the banks which 'did not pass' the extensive review. Just like in the previous group, these were large banks with very similar leverage levels (leverage ratio of about 35). Unlike in the previous group, for nearly a half of these banks the diagnosis was correct, but

Table 5.5 Results of ECB'S comprehensive assessment for restructured banks with capital shortages

Country	Name of the bank	Shortage of capital after AQR (in EUR million)	Shortage of capital in basic scenario (in EUR million)	Shortage of capital in stress scenario (in EUR million)	Total financial aid (net, in EUR million)
Austria	Österreichische Volksbanken AG		191	865	1,250
Belgium	Dexia	–	–	339	9,915
Cyprus	Bank of Cyprus	168	69	919	620
Cyprus	Hellenic Bank	126	85	277	0
Greece	EFG Eurobank Ergasias S.A	71	–	18	7,752
Greece	National Bank of Greece (NBG)	273	–	–	10,834
Spain	Liberbank	32	–	–	4,999
Ireland	Irish Life & Permanent Group Holdings (IL&P)	–	–	855	3,800
Portugal	Banco Comercial Português (BCP)	–	–	1,137	3,000
Italy	Banca Monte dei Paschi di Siena (MPS)	845	1,516	4,250	3,900
Italy	Banca Popolare di Milano (BPM)	482	647	684	0
Italy	Banco Popolare	34	693	427	0
Slovenia	Nova Ljubljanska Banka (NLB)	–	–	34	2,534
Slovenia	Nova Kreditna Banka Maribor (NKBM)	–	–	31	973

Notes: Based on (ECB, 2014a) and (ECB, 2014c).

only more than a half of them had been pursuing aggressive credit policies before the crisis. Also in this group, most banks were restructured by recapitalization during the crisis.

When comparing the basic features of both these groups, it may be concluded that:

- banks from countries where problems in the banking sector emerged relatively earlier (mostly the EU 'core' countries) obtained better results in the comprehensive assessment than banks from the South of Europe,

- banks that during the crisis were recapitalized to a greater extent (higher state aid amount) and for which the diagnosis proved correct later revealed smaller capital shortages in the comprehensive assessment,
- the relative size of the rescued bank (in relation to GDP) and the level of risk taken by the bank (measured by the leverage ratio) did not have any major impact on the result of the comprehensive assessment.

The second pillar of the banking union is a single pan-European mechanism for the restructuring and resolution of banks (SRM). The SRM is to be activated during the crisis management stage to limit the scale of the crisis in the banking sector. The SRM integrates and centralizes the decision-making process regarding the resolution procedure and introduces common principles of handling banks in the banking union when they are under threat of bankruptcy. The resolution principles in the SRM supplement and expand the solutions applicable to all EU countries, arising from the BRRD, which provided for partial harmonization of the resolution process at the national level (see more in Section 5.3).[38]

Within the SRM the Single Resolution Fund, or SRF, will be created. It will consist of combined national funds undergoing gradual mutualization for an eight-year transitional period, until it reaches the target level of at least 1 per cent of the guaranteed deposits, which should take place by 2024.[39] The SRF will be financed from private sources (*ex ante* contributions of banks calculated on the basis of their risk profiles). Establishment of the SRF is to minimize the necessity to use public funds. Should the collected amounts be not sufficient, the fund may be additionally financed out of further fees charged from banks, by the market or out of loans from the fiscal aid mechanism.

The SRM decision-making body is supranational Single Resolution Board, SRB, consisting mainly of representatives of national resolution authorities, in addition to a chair, vice-chair and four permanent members. Based on information from the ECB acting as the supervisor (or out of SRB initiative) about a bank being threatened by bankruptcy, the SRB will decide on the restructuring plans (which may afterwards be rejected by the European Commission and the Council of the European Union) and the potential use of SRF funds. The SRB may be convened in either executive or plenary sessions. The SRB in the executive session undertakes decisions about the method of restructuring a given bank and on the use of the SRF (up to EUR 5 billion), while national authorities' participation in the session is limited only to representatives of those countries in which the threatened bank operates. On the other hand, decisions are made at plenary sessions whenever they require the use of the SRF funds of over EUR 5 billion. The SRB makes decisions by simple majority vote (while the votes are measured by the amount of the SRF contribution, if the decision concerns using the SRF).

To ensure a level playing field, the scopes of entities covered by the SRM and SSM are identical – all banks from countries participating in the banking union. However, the restructuring rules do not differ depending on the systemic importance of the bank, as is the case with supervision within the SSM. In addition, a similar division of resolution responsibilities functions at the national and European levels. The SRB is directly in charge of resolution of systemic banks (similarly in the SSM) and cross-border banking groups, while national resolution authorities are responsible for smaller banks, unless it becomes necessary to use the SRF funds. The SRB, however, may take over the resolution of any bank, at any time (just like the ECB with regard to supervision) and out of its own initiative. Like in the SSM, also in the SRM the national resolution authorities are obligated to follow the SRB instructions and support SRB operations. They, too, implement the restructuring plans according to the national law. The functioning of the SRM, like the SSM, is financed out of banks' contributions.

5.4.2 Evaluation of the banking union

The purpose of establishing the banking union was to mitigate at least partly the deficiencies of the regulation and supervision of banks as well as to contain the financial crisis in the Eurozone.

While the Emergency Liquidity Assistance, ELA, is provided by national central banks, the crisis clearly revealed that only the ECB is able to effectively ensure liquidity for the entire banking system within the Eurozone and prevent the collapse of financial markets. Creation of the SSM offered an opportunity to increase efficiency of the function of the Lender of Last Resort. This opportunity arises from the fact that the ECB now has supervisory data of the banks. This should enable the ECB to adjust the offered scope of liquidity support to the actual standing of the bank more precisely than before, when the ECB did not have data from individual banks. Combining results of the analysis from the micro and macro perspectives should make it easier for the ECB to determine the demand for liquidity, both in individual banks and within the entire system. Nevertheless, there is still a problem of evaluating the true condition of banks at the particular moment when the liquidity support is needed, which is possible in a reliable manner only *ex post*. Goodhart and Schoenmaker (2014) argue that the liquidity support function should be fully transferred from the national to EU level in the banking union for systemic banks. However, they point to the problem that the ECB and the SRB may make their decisions considering stability at the pan-European level even if it increased the costs of bankruptcy of a given bank at the national level. The ECB may be too restrictive and may choose not to grant liquidity support to a bank, if it is deemed insolvent, and to start

the resolution procedure and the resulting cost of deposit pay-outs will be borne by the national DGS.

Centralizing supervisory powers in the ECB alone does not guarantee better supervision. In the case of the SSM, the problematic may be[40] not only the scope of the supervisory tasks, but also the geographical range and the number of banks the SSM covers. Another challenge is smooth cooperation between the central level (the ECB) and the national level (national supervisors) as well as the distribution of tasks regarding the microprudential supervision in practice. If the ECB's supervisory standards and the SSM functioning result in synergy effects (popularization of 'best practices'), this provides an opportunity to limit the mistakes of national supervision authorities and the favouring of national banks. It might also limit the national authorities' inaction bias and contribute to faster identification of problems in banks and to objective evaluation of the scale of these problems. It would, as well, enable quicker interventions during the crisis, improve the diagnosis of the bank's standing, and consequently, effectiveness of public support measures or even limit the need for applying such support. Taking into account the very high costs of support programmes analysed in the previous chapters, this is the key aspect of introducing the banking union.

The institutional structure of the macroprudential supervision became even more complex after establishing the banking union. Firstly, the national competent supervisory authorities in the Eurozone, as a rule, may freely exercise the macroprudential policy. Second, the ECB has the powers to tighten the parameters of macroprudential tools from the CRDIV/CRR package. Third, the ESRB performs the role of an institution that issues recommendations and forms the macroprudential policy framework.

Further aspects that must be taken into consideration include the different geographical range (the SSM – the Eurozone plus opt-in countries, the ESRB – the entire EU) and the subject scope (the SSM – the banking sector, ESRB – all the financial system sectors). This poses the risks of task duplication and competence overlapping and consequently, the dilution of responsibility. Thus, in practice it may be difficult to ensure effective performance of the macroprudential policy in the EU and, at the same time, to limit the negative cross-border spillovers of applying supervisory tools at the national level. This becomes even more important as the role of the macroprudential policy is to strengthen the financial system's resistance to future crises. Additionally, the ECB – unlike the national supervisor – may underestimate the systemic risk at the national level, if it is not significant from the perspective of the SSM as a whole. A standardized approach to supervision to a limited extent, may take into account the specificities of banking sectors in individual SSM countries.

Additionally, the ECB in the SSM may provide favourable conditions for centralized capital and liquidity management at the consolidated level within the SSM. This means that prudential standards may be executed only at the consolidated level, and that the holding companies are expected to guarantee transfers of assets and liquidity to their subsidiaries should their solvency or liquidity be under threat. As regards the Eurozone banks, such a situation should not increase the risk due to their access to the ECB liquidity facility and potential financing from the ESM. This, however, may pose a threat to subsidiaries of banks from the Eurozone and for opt-in countries, which do not have access to the abovementioned mechanisms (NBP, 2014, p. 86).

The possibility of developing effective coordination between the ECB's macroprudential policy and independent monetary policy of a non-Eurozone central bank, which has established close cooperation with the ECB within the SSM, remains an open issue. Given the similar transmission channels and the significant role of banks in the monetary transmission mechanism, it will be necessary to make sure that the actions undertaken within both these policies are not contradictory.

Although the BRRD may be evaluated positively, the deficiencies in the construction of the SRM may limit effective functioning of this mechanism during the crisis. The National Bank of Poland (NBP, 2014) points out the dilemmas related to the creation of the SRM and those features of the SRM construction that may impair the effectiveness of the resolution process at the pan-European level. The SRB's decision-making process should take into account the need for prompt reaction and ensure smooth performance of the resolution process. This is particularly important when deciding on and undertaking, during the crisis, restructuring activities towards a large bank pursuing cross-border operations, when delayed support may undermine the effects of the aid, and a faulty diagnosis frequently increases the costs of support. The procedure of activating the resolution process in the SRM seems too complicated, overly time-consuming and engages too many institutions at the EU level (including the Council of the EU and the European Commission) to implement aid activities 'over the weekend' and contain the panic in the financial markets. The modifications of the resolution plans also require a time-consuming procedure. Finally, it will be difficult to centralize the process and at the same time, ensure appropriate balance between the home and host countries.

The NBP also points to the need for appropriate funding of the resolution process in the SRM. The key is to make sure that the SRF funds are mutualized since the beginning of the SRM functioning. Should this not be ensured, some of the costs of the aid to banks will still be incurred at the national level, while the decisions will be centralized, which will result in

the conflicts of interest and the risk of imposing further burdens of restructuring costs on the state budgets. The Single Resolution Fund would have at its disposal potentially higher amounts than the individual national sub-funds, which would partly limit the problem of burden sharing among the countries in the case of resolution of a large cross-border bank and the issue of mutual loans between the sub-funds. The present formula does not clearly specify the mechanism of emergency financing of the SRM and the source of the financing, which may limit the efficiency of the pan-European resolution procedure, particularly at an early stage of the mutualization.

The identified deficiencies limit the potential operational efficiency of the pan-European resolution process, which may, however, be evaluated *ex post* only when the bank defaults upon a full launch of the SRM in 2016.

Right after completion of the SSM and the SRM, no work was done to create a pan-European Single Deposit Guarantee Scheme, or SDGS. The SDGS would not only supplement the currently incomplete structure of the banking union, but would also contribute to solving problems arising from excessive fragmentation of national DGS networks and relationships between the countries upon a bankruptcy of a cross-border bank. Additionally, having fully standardized the rules for and levels of guarantees, the single scheme would limit regulatory arbitrage and ensure level playing field within the banking union. However, one must be aware that today's financial potential of national DGSs is low. Thus, mutualization of funds within the SDGS would be a long-lasting process, also when taking into account the new burdens imposed on the EU banking sector since the outbreak of the crisis. Until a sufficiently capitalized SDGS is created, the transfer of the financial safety net powers to the European level in the banking union will not be accompanied by a full transfer of responsibility for financial stability and costs of the crisis, leaving some of that responsibility still at the national level (e.g. deposit pay-outs from national DGSs).

The main purpose of creating the banking union (EC, 2012) was to limit or even eliminate the negative feedback loop between banks and sovereigns (visible, for instance, in the correlation of bank and sovereign CDSs in crisis, Acharya et al., 2012, pp. 54–56). To evaluate feasibility of this goal, one must first identify the causes and channels of the sovereign-bank nexus. The reason why banks have government bonds in their portfolios is, among others, their zero risk weight, exclusion of government securities from concentration limits, the possibility to use them as collateral for interbank transactions and transactions with the central bank. Additionally, banks tend to hold more home than foreign bonds in their portfolio (home bias).[41] Due to the high home bias, the banks that are particularly exposed to the consequences of the negative feedback loop are those that operate in the Eurozone periphery countries.

The key channels[42] via which risks are transferred between the public finance and the banking sectors are:

- a higher sovereign risk results in a decrease in the value of government bonds and thus their quality in banks' portfolios deteriorates, which in turn increases banks' market funding costs; banks must rely more on liquidity from the central bank,
- a decrease in sovereign credit rating is frequently accompanied by lower credit ratings of banks operating in the country, which further increases the costs of funding and limits access to the market,
- an increased number of government bond issues may result in crowding out banks' bonds and increasing the cost of placing them in the market.

The banking union limits the abovementioned links of the feedback loop to a very limited extent, and it may even strengthen them. Among others, this is the result of the incomplete mutualization of the SRM (before 2024) or the absence of an SDGS, which makes the trust in the deposit guarantee system still determined by the possibility of receiving national government support in case of emergency. Even if there is SRM emergency financing from the ESM, the feedback loop is not actually broken but is transferred from the national to pan-European level and a solidarity mechanism is created involving joint financing of the ESM, still from the Eurozone counties' budgets, and not only from banks' contributions.

Neutralization of the main causes of the feedback loop described above will take a long time and will require major regulatory changes, but most of all, the political will. In a short time the ECB, being the supervision authority (Huertas, 2013, p. 37), may attempt, for instance, to limit home bias by imposing national concentration and diversification limits for government bonds and encourage banks to hold them in the trading book (which would result in *mark-to-market* valuation and increased capital requirements). Consequently, this should weaken the abovementioned links, improve the assessment of risk associated with government bonds held by banks and increase banks' resistance to shocks in the bonds market due to the higher capital adequacy level.

The crisis has revealed the problems of too-big-to-fail (TBTF) banks and the need for structural separation in banks (separation of the deposit and credit activities from the investment operations). Although solving these problems is not a direct objective of the banking union, it does not significantly contribute to finding solutions to them, either. The ECB directly supervises some of the largest banks, while supervision of the smaller ones falls into the scope of responsibilities of national supervisors. Even the fact of classifying the banks as 'systemically important' within the SSM may contribute

to perceiving them as TBTF. On the other hand, the fact that they are directly supervised by the ECB, on condition a high quality of supervision is ensured, may make the market perceive those institutions as less risky. However, the research presented in this book shows that the highest amounts of state aid were granted to relatively smaller banks, which means that the banks that are not systemically important may become distressed to the point that they threaten the stability of the banking system and that they, too, should be subject to high quality supervision. The banking union does not also have solutions to the problems arising from excessive development and the growing size of whole banking sectors in the EU.[43] Internationalization and further increase in quality of the supervisory process as well as political neutrality of the ECB may discourage the ECB (unlike the national supervision authorities) from adhering to the TBTF principle (Rogowski, 2013, p. 57).

As the history of the banking union still remains short, one may hardly evaluate to what extent the identified deficiencies will affect its efficiency. The efficiency may be understood as improvement of quality of supervision in the SSM and strengthening of confidence in the banking sector. The banking union is certainly not a cure for all diseases of the banking sector in the Eurozone. The banking union is an attempt to resolve the financial trilemma formulated by Schoenmaker (2011), namely, that it is not possible to achieve at the same time more than two of the three objectives: a stable financial system, an integrated financial system and national authorities' responsibility for financial stability. Theoretically, centralization of the supervision powers at the pan-European level, given the integrated EU financial system, is to make a positive contribution to the financial stability – the public good of the entire EU. However, the evaluation of the banking union project largely depends on the point of view. Paradoxically, the success of the complete banking union (high quality supervisory standards, sufficiently capitalized SRM and SDGSs, access to ESM support and good reputation of the ECB) may prove, in the end, disadvantageous to the countries and banking sectors outside the SSM. This may be the case if the risk premium decreases for SSM banks, and increases for those outside the SSM. This would translate into potential growth of bank financing costs and lower attractiveness of the banking sectors outside the SSM as directions for pursuing banking activities by, for instance, establishing and holding subsidiaries.

Notes

1. A regularly updated overview of instruments applied in EU countries, along with brief descriptions is available at the ESRB web site (ESRB, 2015).
2. For instance, G-20 summit in Washington in 2008, in London and Pittsburgh in 2009 and in Toronto in 2010.
3. These issues have been presented in Section 5.3.

4. CRD IV – Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ EU L 176 of 27 June 2013, p. 338). CRR – Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ EU L 176 of 27 June 2013, p. 1).
5. These are very detailed regulations on the execution of supervision practice (regulatory technical standards) and execution of provisions of CRD IV/CRR by the supervised entities (implementing technical standards).
6. According to BCBS methodology (2013).
7. Upon relevant justification and observance of information standards, the supervision authorities may set higher buffers.
8. Liquid top quality assets are assets that may be disposed of quickly and at a good price even in market turbulences.
9. In this context, deposits of individual customers and small and medium enterprises are treated as a better source of financing, which was reflected in the run-off rate in NSFR.
10. Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (OJ EU L 201 of 27 July 2012, p. 1).
11. Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (OJ EU L 302 of 17 November 2009, p. 1).
12. Directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009 amending Directive 94/19/EC on deposit guarantee schemes as regards the coverage level and the payout delay (Text with EEA relevance) (OJ EU L 68 of 13 March 2009, p. 3).
13. These are Italy, Slovenia, the Netherlands, Austria and Luxembourg.
14. It will come into force on 4 July 2015.
15. There is also Joint Committee of the European Supervisory Authorities.
16. The purpose of the work was to design a procedure allowing, first of all, preservation of important systemic functions of a given institution (for instance, servicing of individual customers, execution of payments and settlements) while generating no burden for the state budget.
17. Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (EU OJ L 173 of 12 June 2014, p. 190).
18. The objectives of the actions were directly set forth in art. 31 of the BRRD, however, a significant portion of the objectives is specified indirectly and has been included at the beginning of the act (*inter alia*, in the recitals) and in other articles.
19. The rules of procedure have been specified in detail in art. 34 of the BRRD.
20. According to this principle, losses should first be attributed to shareholders, and then, to creditors of the institution undergoing restructuring and resolution (according to the hierarchy of claim satisfaction in ordinary bankruptcy proceedings).

21. Compare for instance with art. 36 of the BRRD regarding the procedure of and rules for pricing for restructuring and resolution purposes.
22. The BRRD provides for a possibility to produce plans of resolution in the financial institution still before fulfilling the prerequisites for the procedure.
23. Except for regulations on waiver and conversion of liabilities (From 1 January 2016) and target resolution fund levels (accumulation planned for the end of 2012).
24. Some of the countries do not have classical representatives of such entities, e.g. in Poland they are most often brokerage houses.
25. However, holdings and conglomerates with insurance companies in their structures are subjected to the BRRD regulations in entirety.
26. The supervisor is the most interested in delaying the resolution process. Leaving the decision to start the resolution process solely to the supervisor is risky as, because of the reluctance to accept a failure when performing supervision activities, the supervisor may delay the decision to start the procedure.
27. The directive literally regulates this issue by specifying it should occur *before a financial institution is balance sheet insolvent* (recital 41 of BRRD).
28. BRRD in art. 109 provides for the involvement of the deposit guarantee scheme in the resolution procedures. This view is also supported, among others, by IADI (2014) – Principle 14.
29. Data as at 2009 year-end. (EC, 2012b, p. 203).
30. The detailed rules for capital contributions of the deposit guarantee scheme in funding the resolution procedure have been presented in art. 109 of the BRRD.
31. 'The Council (of the European Union – author), acting by means of regulations in accordance with a special legislative procedure, may unanimously, and after consulting the European Parliament and the European Central Bank, confer specific tasks upon the European Central Bank concerning policies relating to the prudential supervision of credit institutions and other financial institutions with the exception of insurance undertakings.'
32. The key supervisory tasks include: granting and withdrawal of banking licences; assessing notifications of the acquisition and disposal of qualifying holdings; ensuring that banks comply with prudential regulations and implementation of sound governance arrangements, including risk management, remuneration policy, and internal capital adequacy evaluation processes; conducting supervisory reviews and stress tests; carrying out supervision on a consolidated basis; performance of supervisory tasks with respect to recovery plans and early intervention.
33. These criteria include the face value of bank assets to country's GDP, a significant scale of cross-border operations and the bank's use of ESFS or ESM aid. The ECB, out of its own initiative or upon request of the national authority, may take over direct supervision of the bank. The ECB, regardless of the indicated criteria, directly supervises at least three banks in the country.
34. Regulation (EU) No 468/2014 of the European Central Bank of 16 April 2014 establishing the framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities (SSM Framework Regulation) (ECB/2014/17) (EU OJ L 141 of 14 May 2014, p. 1), pp. 9–12.
35. They are related, among others, to supervision of credit institutions from third party countries that open branches or provide cross-border services in the EU; supervision of payment services; execution of supervision of financial instrument markets; combating money laundering and terrorism financing and performance of consumer protection tasks.

36. Harmonized instruments include capital buffers and risk weights, and non-harmonized instruments include, for instance, LtV, DtI and leverage ratio.
37. The ECB, in its announcement of the results, informed that since July 2013 when the tests were announced, 30 largest banks have increased their capital by EUR 60 billion.
38. Additionally, due to the limitations imposed on by the treaty, the SRM is supplemented with the *Intergovernmental Agreement*, IGA, which, among others, regulates the rules for transfers and mutualization of national funds for the SRF, the sequence of using the funds' sources, terms of mutual loans granted among national compartments and the rules for participation of opt-in countries in the SRF.
39. According to the IGA, initially, from 2016 the SRF will consist of national compartments, which will be gradually mutualized for an eight-year transitional period (in the first year the mutualization of the funds will total 40 per cent, in the second – 60 per cent, and afterwards will be growing gradually).
40. Another challenge is the operational efficiency of SSM supervisory structures as well as calibration and implementation of micro- and macroprudential tools in different legislative systems and by different types of authorities in individual SSM countries.
41. This may also result from the state financial repression (Becker and Ivashina, 2014).
42. The public debt management and financing strategies and the structure of the public debt also affect these.
43. More in ASC (2014).

Summary

Małgorzata Iwanicz-Drozdowska

Historia est magistra vitae (?)

In this book, we have presented an analysis of the situation before the outbreak of the crisis and of its sources, approaches to crisis management and bank restructuring in EU countries and the implemented changes.

The history of banking crises and bank rescues shows that for years the market players have been making similar mistakes, although their context might have been different. Globalization, growing financialization, dynamic growth of financial innovations, deficiencies of the financial safety net and banks' own policies contributed to the biggest crisis since the Great Depression. Unlike previous crises dating back to the 1970s, the current one mainly affected highly developed countries, giving an impulse to implement major changes to the functioning of the banking sector. These changes – just like before – should make future crises less likely. The major changes include development of standards for additional capital requirements for global systemically important banks (G-SIBs), formulation of bank resolution rules and a new approach to bank supervision that distinguishes macroprudential from microprudential supervision. Additionally, the European Union decided to centralize supervision of banks (and finally other elements of the financial safety net) of the Eurozone countries within the banking union. Limiting the possibility of future crises is an objective of these changes. But if a crisis actually occurs, then banks should demonstrate greater capacity to absorb losses, and potential costs incurred should be lower.

As mentioned in the Introduction, it is advisable to verify, in five to ten years, the standing of the restructured banks, the financial results of bad asset management companies and other entities involved in crisis management. This will enable us to assess the long-term cost of this crisis and the effectiveness of the restructuring actions. Verification also will provide an opportunity to evaluate the changes implemented on the wave of the crisis

and the consequences of rescuing the banks, mainly in the context of moral hazard.

The efforts of the decision makers, financial safety net institutions and the academic world to analyse the causes of the crisis should produce real, positive effects. However, Kane's regulatory dialectic raises doubts about the policies of banks in the new reality and about how intensively they will seek opportunities to enter new spheres that are not covered at all or are less restrictively regulated. This question may be answered not earlier than in few years' time. Stakeholders, including financial safety net institutions, should analyse banks' activities to create possibilities for quick reactions and to implement – if needed – changes to regulations or to modify the financial safety net.

Appendix

Case Studies of Restructured Banks and Asset Management Companies

Małgorzata Iwanicz-Drozdowska (Denmark, Slovenia, Sweden)
Jakub Kerlin (Cyprus, Spain, United Kingdom)
Anna Kozłowska (Ireland, Latvia, Lithuania, Portugal)
Elżbieta Malinowska-Misiąg (Italy, Greece)
Agnieszka K. Nowak (Belgium)
Paweł Smaga (Austria, Germany, Netherlands)
Piotr Wiśniewski (France)

AUSTRIA 118
  BAWAG P.S.K. 119
  Erste Bank Group 121
  Hypo Alpe-Adria Bank AG 124
  Hypo Tirol Bank Aktiengesellschaft 126
  Komunalkredit Austria AG 128
  Österreichische Volksbanken AG 130
  Raiffeisen Bank International AG 132
BELGIUM 134
  Dexia 134
  FORTIS Group 137
  KBC 140
CYPRUS 146
  Bank of Cyprus 146
  Cyprus Popular Bank (Laiki Bank) 148
  Hellenic Bank 150
DENMARK 152
  Bank package 152
  Credit package 157
  Exit package and consolidation package 160
  Roskilde Bank 163
FRANCE 166
  Crédit Agricole 167
  Crédit Immobilier de France 169
  Crédit Mutuel 172
  Groupe Banque Populaire 174
  Société Générale 176

GERMANY 178
Aareal Bank Group 178
Bayerische Landesbank 180
Commerzbank 182
HSH Nordbank 184
Hypo Real Estate Holding AG 186
IKB Deutsche Industriebank AG 188
Landesbank Baden Württemberg 192
Landesbank Sachsen AG 194
Norddeutsche Landesbank 195
Sonderfonds Finanzmarktstabilisierung 197
WestLB 200
GREECE 202
Agricultural Bank of Greece 203
Alpha Bank 205
EFG Eurobank Ergasias S.A 208
National Bank of Greece 210
Piraeus Bank 213
Proton Bank/Nea Proton Bank 215
TT Hellenic Postbank SA 217
IRELAND 219
Allied Irish Bank 219
Anglo-Irish Bank 222
Bank of Ireland 225
Educational Building Society 229
Irish Life & Permanent Group Holdings 231
Irish Nationwide Building Society 233
National Asset Management Agency 235
ITALY 237
Banca Monte dei Paschi di Siena 238
Banca Popolare di Milano 241
Banco Popolare 242
Credito Valtellinese 244
LATVIA 245
Mortgage and Land Bank 245
Parex Bank 246
LITHUANIA 251
AB Ukio Bankas 251
PORTUGAL 253
Banco BPI 255
Banco Comercial Português 256
Banco Espirito Santo 257

Banco Internacional do Funchal S.A. 259
Banco Privado Português 260
Banco Portugues de Negocios 262
Caixa Geral de Depósitos 264
SLOVENIA 266
Abanka Vipa 266
Bank Asset Management Company (BAMC) 268
Factor Banka 270
Nova Kreditna Banka Maribor 272
Nova Ljubljanska Banka 274
Probanka 277
SPAIN 279
Banco CAM 280
Banco Ceiss 282
Banco de Valencia 284
Banco Gallego 286
Banco Mare Nostrum 288
Bankia-BFA 290
Caja3 292
Caja Castilla La Mancha 294
Caja Sur 296
Catalunya Banc (Caixa) 298
Liberbank 300
NCG Banco 302
SAREB 304
UNNIM Banc 306
SWEDEN 308
Carnegie Investment Bank AB and Max Matthiessen Holding AB 308
Nordea 311
THE NETHERLANDS 313
ABN Amro Group 313
ING Groep N.V. 316
SNS REAAL 319
UNITED KINGDOM 322
Bradford & Bingley 322
HBOS 324
Lloyd's 326
Northern Rock 328
RBS 330
UK Asset Resolution 332

AUSTRIA

Introduction

FIMBAG (Federal Corporation of Financial Market Participation) was established on 11 November 2008 under the Act of the Parliament and the decision of the Minister of Finance to manage government shares in rescued financial institutions (banks and insurance companies) and support to government rescue operations in the banking sector. One of the prerequisites for the bank to use a 'rescue package' of EUR 15 billion (from 26 October 2008) was to sell part of the bank shares to the government through FIMBAG

FIMBAG has been established with an initial capital of EUR 7,000 paid by the government and is a fully owned subsidiary of Österreichischen Industrieholding AG (a government institution managing partly or fully nationalized companies in Austria). FIMBAG acts on behalf of the government and exercises the rights attached to the shares in the rescued institutions and controls obligations imposed on the rescued institutions. FIMBAG periodically reports the results of its activities to the Ministry of Finance. FIMBAG also provides the flow of dividends and revenues available to the government from the rescued banks. Moreover, FIMBAG is responsible for the privatization of state-owned shares, e.g. as in the case of rescued Kommunalkredit Austria AG.

As of 30 June 2014, FIMBAG's share in rescued institutions equalled 99.78 per cent in Kommunalkredit Austria AG and 100 per cent in KA Finanz AG.

Prerequisites for granting the aid usually include about 9.3–10 per cent interest per annum on capital support from the government. The interest gradually increases from the sixth year after the aid is granted, but up to a limit of 12M EURIBOR + 10 bps. Also, 10 years after granting state aid, the capital conversion rate on the outstanding aid increases. Moreover, payment of dividends to shareholders is limited to 17.5 per cent of annual earnings of the rescued institutions.

FIMBAG reviews mandatory reports prepared by the rescued institutions on sustainable business model (so-called Viability Report) and recovery plans. The rescued institution is also required to provide credit to the Austrian economy, change the remuneration scheme and maintain the level of employment, which is also subject to FIMBAG supervision on pain of fine.

By the end of 2013, some of the rescued institutions repaid part of the aid (ERSTE Group Bank AG – repaid in full, BAWAG PSK and Österreichische Postsparkasse AG – EUR 350 million outstanding, Hypo Alpe-Adria Bank AG – EUR 275.111 million outstanding, Oesterreichische Volksbank AG – EUR 300 million outstanding, Raiffeisen Bank International AG – EUR 1,750 million outstanding).

BAWAG P.S.K.

1. Name :
BAWAG P.S.K.

2. Country of registration:
Austria

3. Activity abroad:
BAWAG banking group has subsidiaries, *inter alia*, in Hungary, Slovenia, the Czech Republic, and Malta.

4. Date of disclosure of financial difficulties and main reasons:
24 March 2006: losses on the investment portfolio (securitized instruments in the US subprime market) through related hedge funds.

5. Intervention initiator:
Government.

6. Intervention start date:
5 June 2006.

7. Course of intervention and financial support:
a) guarantee from the government of Austria (from 5 June 2006)
b) bank recapitalization from the government of Austria (from 18 November 2009)
c) guarantee from the government of Austria (18 November 2009 – 22 June 2010)

8. Financial support amounts:
a) EUR 900 million
b) EUR 550 million
c) EUR 400 million

9. Prerequisites for financial support:
- bank's focus on retail and corporate clients
- Austrian government's right to convert equity shares into ordinary shares
- annual dividend of 9.3 per cent for the recapitalization, gradually increasing until 2017
- monthly payments for the guarantee with interest based on market spreads
- prohibition of acquisitions and advertising the benefits of the aid
- restrictions on dividend payments to shareholders

10. Market reaction to granting financial support:
No change in Moody's ratings immediately after applying state aid measures. BAWAG P.S.K. is not quoted on the stock exchange.

Continued

BAWAG P.S.K. continued

11. Repayment of financial support and market reaction:

Repayment of EUR 50 million on 7 June 2013.

Repayment of EUR 150 million on 2 December 2013.

Repayment of EUR 350 million on 13 March 2014 (total recapitalization repaid).

BAWAG P.S.K. is not quoted on the stock exchange.

No rating response from Moody's –_ only confirmation of Baa2 rating on 16 April 2014.

12. Did the bank manage to improve its financial standing?

Yes. The condition of the bank is gradually improving. Despite the reduction of total assets, the bank is profitable. Reserves and write-offs of the bank are gradually decreasing. The bank recorded a net profit in 2008. The ratio of deposits/credits remained at about 100 per cent until 2013. Capital adequacy ratio improved significantly during the analysed period.

13. Additional remarks and comments:

BAWAG was created on 1 October 2005 through a merger of two Austrian banks, and, as a consequence, became Austria's fifth largest banking group. It is a universal bank that offers corporate banking services. The bank has the largest number of branches/offices in Austria and plays an important role in the country's payment system.

Selected ratios of BAWAG P.S.K.

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.1%	–1.0%	1.7%	0.4%	0.3%	0.3%	0.3%	0.6%
ROE	2.4%	–25.8%	62.8%	9.0%	6.2%	6.5%	3.8%	8.2%
CAR	10.9%	11.8%	9.8%	12.9%	11.8%	12.3%	13.8%	18.7%
deposits/credits	97.7%	98.4%	104.0%	105.1%	100.5%	102.7%	93.8%	76.2%

Erste Bank Group

1. Name: Erste Bank Group	**2. Country of registration**: Austria
3. Activity abroad: Czech Republic – subsidiary (98.97 per cent share), Romania – subsidiary (93.5732 per cent share) Slovakia – subsidiary (100 per cent share) Hungary – subsidiary (100 per cent share) Croatia – subsidiary (59 per cent share) Serbia – subsidiary (74 per cent share) Erste Bank Group also has subsidiaries in Montenegro and Moldova (100 per cent share)	**4. Date of disclosure of financial difficulties and main reasons:** 7 October 2008: significant exposure to CDS/ABS/CDO and an increase in the risk premium (US subprime), credit risk (crisis in CEE countries – losses from retail banking)
5. Intervention initiator: Government	**6. Intervention start date:** 30 October 2008
7. Course of intervention and financial support: a) Bank recapitalization from the government of Austria on 30 October 2008 b) A scheme for guaranteeing issues of bank's bonds by the government of Austria established on 14 January 2009 c) Bank recapitalization from the government of Austria on 30 April 2009	**8. Financial support amounts:** a) EUR 2,700 million b) EUR 6,000 million c) EUR 1,220 million

Continued

9. Prerequisites for financial support:

- interest of 8 per cent per annum on the amount of recapitalization (rate increasing every year)
- government without voting rights because of recapitalization and without 'dilution' of shareholders
- the need to repay recapitalization after 5 years at the earliest
- commitment to provide loans to nonfinancial companies and individuals in the amount of EUR 3 billion
- for the government-guaranteed bonds the bank pays a premium and they cannot be used for pursuing aggressive investment policies and expose the bank to excessive risks

10. Market reaction to granting financial support:

Overview of rating C of Erste Group Bank AG for downgrade by Moody's on 11 December 2008 and rating downgraded to C on 1 April 2009.

Fitch Ratings lowered the outlook from positive to stable and maintained the rating of A on 30 October 2008.

S&P confirmed the rating of A/A-1 for Erste Group Bank AG on 18 March 2009.

From July 2007, the share price was on a downward trend and decreased by almost 45 per cent until February 2008. After a short rebound, from June 2008 until March 2009 (In the disclosure issues and support) the share price collapsed (a decrease of 85 per cent).

11. Repayment of financial support and market reaction:

Repayment of the aid for EUR 1,220 million was made on 8 August 2013. No change in ratings, nor a significant change in the share price in response to the repayment.

12. Did the bank manage to improve its financial standing?

No. The bank's financial results are deteriorating. Impairment costs significantly burdened the profit during the analysed period. In addition, the revaluation of CDS/ABS/CDO portfolio is adversely affecting the bank's financial standing.

Profitability ratios therefore remain on a low level, close to zero (with decreasing ROE).

Only a gradual improvement in capital adequacy is observed. The bank is not developing and total assets remain at a similar level, just like the deposits/credits ratio (about 90 per cent).

Also changes in the Hungarian law related to granted foreign currency loans have had a negative impact on the condition of Erste Group (risk cost at the level of 350–400 EUR million). Moreover, a further increase in NPL and a decrease in interest margin have contributed to a net loss at the consolidated level of EUR 1.4–1.6 billion in 2014.

13. Additional remarks and comments:

Erste Bank Group is one of the largest banks in Austria and focuses its activities on CEE countries. It provides mainly retail and corporate banking services and the number of customers exceeds 16 million. The bank also offers consulting and investment banking products. In many CEE countries, the bank plays a leading role in the market.

Due to the expansion in mid-2008, the group underwent reorganization and a holding company of Erste Group Bank AG was created to perform coordinating functions and provide infrastructure for subsidiaries that focus on local activities in each country. Approximately half of the shareholders in the ownership structure are institutional investors.

Erste Bank Group declared that after the recapitalization (end of 2008) it would review remuneration policy and resign from payment of bonuses and dividends for 2008. Since 2009, the bank started to pay out dividend.

Erste Bank Group had planned early repayment of government assistance as early as in 2011, but the deteriorating market conditions prevented it. Final repayment is scheduled for 2015.

On 20 December 2012, Erste Bank Group sold its subsidiary in Ukraine. It is part of a plan to reduce costs and downsize employment. Erste Bank Group achieved positive results in EBA/ECB stress tests in 2014 i.e. above the required minimums (CET level of 11.2 per cent in the baseline scenario and 7.6 per cent in the shock scenario).

Selected ratios of Erste Bank Group

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.5%	0.6%	0.51%	0.48%	5.07%	–0.27%	0.30%	0.10%
ROE	11.7%	13.9%	9.4%	6.2%	6.3%	–3.7%	3.9%	1.3%
CAR	10.30%	10.50%	9.80%	12.70%	13.50%	14.40%	15.50%	16.30%
deposits/credits	113.0%	105.0%	84.6%	94.8%	88.4%	88.2%	93.3%	95.9%

Hypo Alpe-Adria Bank AG

1. Name:
Hypo Alpe-Adria Bank AG ('Hypo in Kärnten')

2. Country of registration:
Austria

3. Activity abroad:
Apart from Austria, the group carries out activities, *inter alia,* in Italy, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Germany, Hungary, Bulgaria, Macedonia, and Ukraine. In a vast majority of cases, these are subsidiaries with Hypo Alpe-starring-Adria Bank AG's stake close to 100 per cent.

4. Date of disclosure of financial difficulties and main reasons:
10 November 2009: disclosing the need to create high provisions (high NPL), materialisation of credit risk

5. Intervention initiator:
Government of Austria

6. Intervention start date:
14 December 2009 (recapitalisation agreement)

7. Course of intervention and financial support:
a) Guarantee on bond's issuance (10 December 2008)
b) Recapitalization (29 December 2008)
c) Recapitalization (23 December 2009)
d) Government guarantees (23 December 2009)
e) Nationalization on 30 December 2009 – government of Austria buys all shares of Hypo Alpe-Adria Bank AG from BayernLB, GRAWE and Land of Carinthia
f) Government guarantees (31 December 2010 – 30 June 2013)
g) Recapitalization (3 December 2012)
h) Recapitalization (3 April 2014)

8. Financial support amounts:
a) EUR 200 million (government of Austria)
b) EUR 900 million (government of Austria) EUR 700 million (BayernLB)
c) EUR 450 million (government of Austria), EUR 200 million (Carinthia), EUR 30 million (GRAWE), EUR 825 million (BayernLB)
d) EUR 100 million
e) EUR 1 for all shares of Hypo Alpe-Adria Bank AG
f) EUR 1,350 million
g) EUR 1,500 million (government of Austria)
h) EUR 750 million (government of Austria)

9. Prerequisites for financial support:
- obligation to repay recapitalization
- focusing activities on key markets and improvements in risk management
- lack of dividend payment
- the need to pay 10 per cent per annum of the value of assets covered by the guarantee from the government of Austria
- restrictions on lending
- ensuring improvement in liquidity and credit risk management

10. Market reaction to granting financial support:
Moody's downgraded Hypo Alpe-Adria from D– to E+ on 9 June 2009 and to E on 4 December 2009. On 29 November 2011, Moody's withdrew from rating most instruments issued by Hypo Alpe- Adria Bank.

Hypo Alpe-Adria Bank is not subject to rating assessment by S&P and Fitch.

Hypo Alpe-Adria Bank's shares are not listed on the stock exchange.

11. Repayment of financial support and market reaction:

No.

12. Did the bank manage to improve its financial standing?

No. The condition of the bank is deteriorating. Net profits and the profitability ratios are below zero for the majority of the analysed years. Net interest income is decreasing and provision charges significantly burden financial results. The ratio of deposits to credits stood at around 30 per cent over the whole period. The level of capital adequacy is slightly improving through recapitalizations, but still remains at a low level. The balance sheet total is systematically reduced.

13. Additional remarks and comments:

Hypo Alpe-Adria Bank AG has substantial operations in the countries of Eastern and Southern Europe (Alps and Adriatic regions). Its activities focus on banking and leasing services.

Based on financing guaranteed by the local government the bank pursued an aggressive growth strategy in the Balkan economies. When those countries plunged into recession, it resulted in the bank experiencing major losses due to credit risk.

Previous co-owner, BayernLB, on 18 December 2008 received financial assistance from the state of Bavaria in the form of a capital injection of EUR 10 billion.

Hypo Alpe-Adria Bank AG is in the process of liquidation. On 3 September 2013, the European Commission approved the state aid plan and the plan to sell the 'healthy' part of Hypo Alpe-Adria Bank AG, while orderly liquidating the rest of activities by 30 June 2015 at the latest. The liquidation plan for 2013 – 2017 provides for the need for additional capital injection for EUR 2.6 billion to 5.4 billion. The balance sheet total is to be reduced by 85 per cent and some of the subsidiaries are to be sold.

Since 11 March 2014, Hypo Alpe-Adria-Bank International AG functions as Heta Asset Resolution AG, which, after the withdrawal of the banking license, has not been conducting banking activities – its activity is winding down.

Selected ratios of Hypo Alpe-Adria Bank AG

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	n/a	n/a	–1.58%	–3.55%	–2.94%	0.03%	0.18%	–7.03%
ROE	n/a	n/a	–27.03%	–73.30%	–80.02%	0.77%	3.14%	99.17%
CAR (tier 1)	n/a	n/a	7.8%	6.6%	6.6%	6.2%	8.6%	9.8%
deposits/credits	n/a	n/a	28.5%	25.4%	28.8%	30.7%	34.4%	31.7%

Hypo Tirol Bank Aktiengesellschaft

1. Name:
Hypo Tirol Bank Aktiengesellschaft

2. Country of registration:
Austria

3. Activity abroad:
No.

Activity outside Austria is limited – mainly through subsidiaries (Italy, Germany, Switzerland)

4. Date of disclosure of financial difficulties and main reasons:
13 December 2008: losses due to credit risk that required creating high provisions and reduced capital

5. Intervention initiator:
Government

6. Intervention start date:
25 February 2009

7. Course of intervention and financial support:
a) Guarantee from the government of Austria on the issue of hybrid Tier 1 capital for 10 years (1.6 per cent of RWA, from 25 February 2009)
b) Recapitalization by the government of Austria (from 1 December 2012)

8. Financial support amounts:
a) EUR 100 million
b) EUR 220 million

9. Prerequisites for financial support:
Guarantee:
- annual fee for the guarantee (with progressive rate from 3.9 per cent to 6.6 per cent)
- dividends for owners of hybrid capital (limiting bonuses in the absence of dividend payment)
- restrictions on payment of 'ordinary' dividends
- commitment to lend to the economy and run non-aggressive advertising campaigns

Recapitalization:
- withdrawal from foreign markets
- reduction of total assets
- restrictions on lending
- increasing the number of independent experts on the supervisory board
- focus on profitable activities

10. Market reaction to granting financial support:
The bank is not quoted on the stock exchange. No direct rating response from Moody's for granting the guarantee, but downgrade in 2010 from Aa1 to A2. In response to recapitalization downgrade to Baa2 on 29 November 2012.

11. Repayment of financial support and market reaction:
No.

12. Did the bank manage to improve its financial standing?
No. The bank is limiting its activities and is deleveraging. Lending activity is not developing. Profitability ratios are at very low levels. The deposits are decreasing and the bank maintains the ratio of deposits/credits at a low level (about 50 per cent). Only capital adequacy ratio is improving.

13. Additional remarks and comments:
Hypo Tirol Bank Aktiengesellschaft is a universal bank. Established in 1901, it has always been 100 per cent – owned by the State of Tyrol. It also offers insurance, leasing, and private banking services. Considering its size, its rank is in the middle of Austria's largest banks. However, it plays a key role in western regions of Austria. The guarantee on the issue of capital was to enable the bank to meet the minimum capital adequacy requirements.

Selected ratios of Hypo Tirol Bank Aktiengesellschaft

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.3%	0.2%	0.1%	0.0%	0.0%	–0.8%	0.2%	0.2%
ROE	9.2%	6.7%	3.2%	0.9%	0.5%	–26.4%	3.6%	2.7%
CAR	11.4%	10.9%	10.2%	11.3%	11.4%	10.3%	13.0%	13.2%
deposits/credits	47.7%	47.3%	54.5%	51.9%	47.9%	50.5%	53.8%	53.5%

Komunalkredit Austria AG

1. Name:
Komunalkredit Austria AG

2. Country of registration:
Austria

3. Activity abroad:
Through its subsidiary, DEXIA-COM (co-owned by Dexia Crédit Local), it is present in countries of the CEE region (including Slovakia, Romania, Hungary, Czech Republic, Bulgaria, Croatia, and Poland).

4. Date of disclosure of financial difficulties and main reasons:
26 October 2008: problems with refinancing on the interbank market (limited funding from deposits), low liquidity, high exposure to Greek government bonds, losses on the CDS portfolio

5. Intervention initiator:
Government

6. Intervention start date:
3 November 2008

7. Course of intervention and financial support:
a) Nationalization – purchase of Kommunalkredit Austria AG by the government of Austria from Oesterreichische Volksbank AG and Dexia SA on 3 November 2008
b) Recapitalization by the government of Austria on 19 June 2009
c) Government guarantees on 19 June 2009
d) Separation (from Kommunalkredit) of SPV Kommunalkredit Finanz ('bad bank'), which manages the portfolio of 'non-core', largely illiquid securities (on 28 November 2009)

8. Financial support amounts:
a) EUR 1 for 49 per cent shares of Dexia SA, 1 EUR per share for 50.78 per cent of shares of the Oesterreichische Volksbank AG
b) EUR 250 million
c) in total about EUR 10,000 million
d) transfer to KA Finanz assets of EUR 441 million and a loan of EUR 1,000 million for KA Finanz

9. Prerequisites for financial support:
- Kommunalkredit Austria AG's debt due to the Oesterreichische Volksbanken AG and Dexia SA was converted into (non-voting) equity and Kommunalkredit was obliged to pay interest of 8 per cent per annum for at least five years.
- government of Austria took over the ownership stake of 99.78 per cent
- two government representatives in the supervisory board
- focusing Kommunalkredit activities on financing infrastructure projects and project finance
- reduction in the annual growth rate of assets to 2 per cent and ultimately a decrease in total assets by 60 per cent
- ban on engaging in trading securities and derivative instruments, except for risk management purposes
- restrictions on new lending (a total ban later)
- transferring all profits to the government of Austria, ban on dividend payments

10. Market reaction to granting financial support:
Moody's downgraded Kommunalkredit Austria from B– to C on 3 November 2008 (with negative outlook). On 1 December 2009 (separation of KA Finanz) Moody's issued rating E+ for Kommunalkredit.

Fitch lowered rating from AA– to A+ for Kommunalkredit on 6 October 2008. On 1 December 2009 (separation of KA Finanz), Fitch gave Kommunalkredit rating A.

Kommunalkredit is not rated by S&P.

Kommunalkredit shares are not listed on the stock exchange.

11. Repayment of financial support and market reaction:
No.

12. Did the bank manage to improve its financial standing?
No. Kommunalkredit is limiting its lending activity and involvement in financial market operations. It is gradually reducing its total assets. Profitability is very low, close to zero (ROE and ROA in particular). The level of capital adequacy ratio is fluctuating but remains above 12 per cent (CT1). The ratio of deposits to credits is not significantly improving.

13. Additional remarks and comments:

Kommunalkredit offers long-term financing of infrastructure projects and local government projects (energy and environment). Its activity (in the form of joint projects) focuses on German-speaking markets (apart from AT, also DE and CH). The main customers are municipalities.

On 8 February 2011, for the first time since receiving state aid, Komunalkredit issued bonds worth EUR 500 million. On 31 March 2011, the European Commission approved state aid granted by the government of Austria and Komunalkredit's restructuring plan.

KA Finanz is gradually reducing the level of risk associated with the securities portfolio it manages, ultimately aiming to sale it completely.

The government of Austria was initially required to sell its stake in Kommunalkredit, but it was not possible due to the turbulent market environment. Therefore, in agreement with the European Commission, Komunalkredit is gradually reducing its operations and is to be liquidated.

On 20 June 2014, Komunalkredit resigned from obtaining rating from Moody's (except for rating for covered bonds), as a result of a disagreement with the agency regarding the possibility of the government of Austria granting further support to the banking sector.

Selected ratios of Komunalkredit Austria AG

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.2%	0.2%	1.23%	0.02%	0.15%	–0.89%	0.11%	0.04%
ROE	17.10%	14.80%	11.81%	2.30%	2.57%	1.43%	1.82%	2.63%
CAR	13.20%	13.20%	84.50%	17.70%	19.50%	14.60%	17.40%	25.80%
deposits/credits	23.0%	68.4%	58.1%	27.9%	27.8%	35.8%	50.4%	50.5%

Österreichische Volksbanken AG

1. Name:
Österreichische Volksbanken AG

2. Country of registration:
Austria

3. Activity abroad:
The bank's activities are focused in Austria. The bank has small-sized subsidiaries, *inter alia*, in Romania, the Czech Republic, Slovakia, Slovenia, Croatia, Hungary, Serbia, Bosnia and Herzegovina, Ukraine, Malta, and Germany.

4. Date of disclosure of financial difficulties and main reasons:
7 April 2009: exposure to credit risk in CEE countries, involvement in financing infrastructure projects, real estate market activity and investments in speculative securities

5. Intervention initiator:
Government

6. Intervention start date:
7 April 2009

7. Course of intervention and financial support:
a) Recapitalization by the government of Austria (7 April 2009)
b) Guarantees from the government of Austria for issuance of bank's bonds (9 February 2009, 13 March 2009, 14 September 2009)
c) Recapitalization by the government of Austria (27 February 2012)
d) Guarantees from the government of Austria for asset portfolio (27 February 2012 until 1 January 2016)

8. Financial support amounts:
a) EUR 1,000 million
b) EUR 3,000 million (3 x 1,000 million)
c) EUR 250 million
d) EUR 100 million

9. Prerequisites for financial support:
- payment of an annual coupon at rate of 9.3 per cent increasing to 10 per cent
- ability to convert recapitalization from the government to own shares
- reducing the scale of operations (mainly abroad) and the complexity of business model
- reducing operating costs
- partial nationalization (49 per cent of shares held by the government of Austria)

10. Market reaction to granting financial support:
Moody's downgraded on 24 July 2009 to E+ from C– and then to E (on 11 March 2012).

Confirmation of rating A on 13 January 2012, 6 March 2012 and 21 December 2009 by Fitch.

The collapse of the share price by 25 per cent after the recapitalization on 27 February 2012.

11. Repayment of financial support and market reaction:

No.

12. Did the bank manage to improve its financial standing?

No. The condition of the bank is not improving. Profitability ratios are very low or even negative. High provisions considerably burden financial results. The bank is significantly reducing its activity (decreases in total assets and lending). The ratio of deposits/credits does not improving and stays at a low level (approx. 70 per cent). Only capital adequacy ratio is improving, but it is due to recapitalization.

13. Additional remarks and comments:

Österreichische Volksbanken AG is a key associated bank for cooperative banks in Austria, providing universal banking services.

Selected ratios of Österreichische Volksbanken AG

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.2%	0.3%	–0.4%	–2.3%	0.0%	–2.3%	1.5%	–0.5%
ROE	5.5%	7.5%	–9.5%	–52.9%	0.5%	–201.5%	32.4%	–8.2%
CAR	12.1%	11.1%	9.7%	12.5%	12.8%	12.7%	15.7%	19.1%
deposits/credits	57.8%	69.5%	89.9%	77.6%	72.2%	69.5%	71.5%	76.5%

Raiffeisen Bank International AG

1. Name:
Raiffeisen Bank International AG

2. Country of registration:
Austria

3. Activity abroad:
Yes.
The Bank has built a strong cross-border presence. Raiffeisen Bank International has subsidiaries in CEE countries (with stock equal or close to 100 per cent), *inter alia*, in Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Czech Republic, Ukraine and Hungary. Raiffeisen Bank International has branches and offices in other parts of the world, including in Asia, the US, France, Germany and the UK.

4. Date of disclosure of financial difficulties and main reasons:
6 November 2008: high provisions (credit risk) on exposures in CEE countries, problems with refinancing on the interbank market

5. Intervention initiator:
Government

6. Intervention start date:
29 January 2009

7. Course of intervention and financial support:
a) government of Austria guarantees bank's bonds issued on 29 January 2009, 15 March 2009 and 24 April 2009
b) recapitalization from the government of Austria by purchase of RBI shares on 30 January 2009 to increase RBI equity

8. Financial support amounts:
a) value of issued bonds EUR 1,500 million, EUR 1,250 million and EUR 1,500 million
b) EUR 1,750 million

9. Prerequisites for financial support:
- need to pay interest of 8 per cent (8.5 per cent from 2014 and ultimately 10 per cent in 2017) per annum from the amount of recapitalization
- recapitalization is without voting right for the government of Austria

10. Market reaction to granting financial support:

Moody's downgraded RBI's rating from C to D+ on 1 April 2009.

Moody's assigned Aaa rating to RBI bonds guaranteed by the government of Austria on 1 February 2009.

S&P confirmed the rating of A/A–1+ for RBI on 18 March 2009.

The downward trend in the share price started in June 2008 and lasted until February 2009 (a decrease by almost 80 per cent). After this period and provision of state aid, a gradual rebound in the share price is observed until September 2009.

11. Repayment of financial support and market reaction:

With the approval of the supervisory authority, aid amounting to EUR 1,750 million was repaid on 6 June 2014. Lack of changes in ratings and significant changes in the share price.

12. Did the bank manage to improve its financial standing?

No. Condition of the bank is not improving significantly. The financial result is decreasing, which results in low profitability ratios – ROA is around zero, while ROE is also going down. Result is significantly burdened by the provisioning costs. Assets are gradually shrinking and a slight improvement is observed only in the capital adequacy level. There is no significant growth in lending activity or in the deposit base. The ratio of deposits/credits remains at all times at about 90 per cent.

13. Additional remarks and comments:

RBI Group operates mainly in Austria, throughout the CEE region (retail and corporate banking services) and in Russia. RBI is the third largest banking group in Austria. The majority owner of RBI (87.7 per cent) is the R-Landesbanken-Beteiligung GmbH, which in turn is owned by nine regional banks in Austria. On 10 October 2010, part of RZB operations merged with Raiffeisen International and Raiffeisen Bank International AG was created. Despite being granted state aid, the bank pays out dividend.

On 23 September 2009, EBRD allocated EUR 150 million through the RBI to support lending to the economies of Russia, Ukraine, and Romania. On 27 June 2013, RBI bought part of the corporate loan portfolio of approximately EUR 1 billion, within the framework of Österreichische Volksbanken AG's restructuring.

An important part of the group's assets is exposures to Ukraine and Russia. Due to the geopolitical turmoil and increased volatility in foreign exchange rates (Ukrainian hryvnia and Russian ruble), RBI 20014 results were negatively affected by an increase in credit risk in Ukraine (higher provisions) and Russia. The situation in Ukraine, where RBI's subsidiary operates (Raiffeisen Bank Aval), is likely to result in losses for Raiffeisen, but they probably will not be relevant from the consolidated perspective. The bank is considering limiting its presence in the region.

RBI has achieved positive results in stress tests EBA/ECB in 2014 i.e. above the required minimum levels (CET level of 9.5 per cent in the baseline scenario and 7.7 per cent in the shock scenario).

Selected ratios of Raiffeisen Bank International AG

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	1.1%	1.2%	1.1%	0.3%	0.8%	0.7%	0.5%	0.4%
ROE	21.0%	20.2%	16.6%	4.5%	12.5%	9.7%	7.0%	5.7%
CAR	11.0%	12.4%	9.7%	13.0%	13.3%	13.5%	15.6%	15.9%
deposits/credits	108.6%	100.8%	105.2%	94.0%	93.9%	97.6%	91.3%	93.8%

BELGIUM

Dexia

1. Name:

Dexia

A Belgian-French financial institution, mainly servicing the public finance sector, government and local institutions). It is one of the world's largest lenders to local governments. Dexia served approx. 5.5 million customers.

Shareholders:

Shareholders	2009(%)	2010 (%)
Institutional and private investors	26.7	28.2
Caisse des dépôts et consignations	17.6	17.6
Communal Holding (nl)	14.1	14.1
ARCO Group	13.9	13.8
The French government	5.7	5.7
The Federal Government of Belgium	5.7	5.7
The three regions of Belgium	5.7	5.7
Ethias (fr)	5	5
CNP Assurances	3	3
Dexia employee shares	2.6	1.1

3. Activity abroad:

The bank operated in many countries including Belgium, France, Luxembourg, Turkey, Slovakia and Poland.

2. Country of registration:

Belgium (Brussels)

4. Date of disclosure of financial difficulties and main reasons:

(i) 2008 – (a) significant involvement in subprime mortgage assets in the United States, (b) Dexia and Fortis – limited mutual financing, (c) decision to launch the government assistance resulted from the need to ensure 'continuity' of the local governments' financing, (d) Dexia's problems also stemmed from the loan for German-Irish DEPFA Bank, (e) since September 2008 Dexia Group's share price began to decline – from approx. EUR 10 to EUR 1.9 (the lowest rate – 5 March 2009); the fall resulted from Dexia's announcement of the net loss for 2008 (EUR 3.3 billion), (f) the credit rating agency Moody's downgraded the long-term debt and deposits from Aa1 to Aa3

(ii) 2011 – crisis in Greece

(iii) October 2011 – 'too big to fail'

(1) (a) Aug 2008 – asset review of the US company – subsidiary (Financial Security Assistance), engaged in asset management and debt issuance. Due to the subprime crisis, the company had a negative financial result (approx. USD 330 million loss in 2Q2008, (b) the collapse of the US investment bank Lehman Brothers – estimated losses of Dexia Group – EUR 350 million

(2) (a) in 2Q and 3Q of 2011 the negative impact of the Greek crisis (in 31 December 2010 Dexia had a portfolio of Greek bonds worth 4.3 billion; Italian bonds worth 13.5 billion; bonds of Portugal (9.8 per cent); Spain (7.8 per cent) and Ireland (1.6 per cent). The total value of the bonds portfolio was approx. EUR 22 billion)

(3) October 2011 – 4 October 2011 – because of negative information, within one day Dexia's clients withdrew EUR 300 million. To stop the panic and run on Dexia, the Belgian and French governments declared a guarantee for Dexia and announced the plans of its division into a good and a bad bank.

5. Intervention initiator: A common action of three governments of: Belgium, France and Luxembourg. **7. Course of intervention and financial support:** a) 30 September 2008 – Belgium, France and Luxembourg – government financial aid (liquidity support) and guarantees for creditors b) 30 October 2009 – (a) financial help of government aid, (b) EC acceptance to extend the debt guarantee by the governments of Belgium, France and Luxembourg; reduction of the guarantees level from EUR 150 billion to EUR 100 billion c) 2010 – Dexia received the European Commission's approval of a restructuring plan: by 2014 Group reduction by approx. 25 per cent (including the withdrawal of shares of Dexia Crediop, Dexia Sabadell, Dexia Banka Slovensko), a preservation of investment activity in Turkey to 2010 – resignation of government guarantees d) 17 October 2011 – financial aid of the government; guarantees for creditors, with the approval of the European Commission: (i) the federal government of Belgium bought Dexia Bank (EUR 3.73 billion), changing the name to Belfius, (ii) other good subsidiaries have been also sold, (iii) bad assets moved to Dexia Holding. The largest bank in Europe, it is a 'bad bank'. Its task is, with the help of the guarantees of Belgian and French governments, to minimize losses on bad assets. The Holding is still generating losses e) July 2012 – losses generated by Dexia Holding led to the decision to grant additional support from Belgium and France governments for further bank restructuring (after overly optimistic estimates of the costs of restructuring in October 2011) f) 28 December 2012 – the EC's decision to put the Dexia Group for sale. No inquiry up to 15 July 2014.	The separated assets were transferred to the bad bank – approx. EUR 90–95 billion (out of a total amount of approx. EUR 520 billion). The Belgian government plans to sell these assets within 10 years, assuming that it will manage to recover 66 per cent of their value. **6. Intervention start date:** 30 September 2008 **8. Financial support amounts:** a) 30 September 2008 – EUR 6.4 billion (Belgium and France – EUR 3 billion each and Luxembourg – EUR 0.4 billion); the government guarantee – EUR 150 billion: Belgium – 60.5 per cent of the funding, France – 36.5 per cent, Luxembourg – 3 per cent b) October 2009 – EUR 3 billion and a reduction in the level of government guarantees from EUR 150 billion to EUR 100 billion October 2011 – EUR 3.73 billion (the government of Belgium, in the form of stake acquisition of 60.5 per cent in the Belgian part of the bank – nationalization). EUR 90 billion guarantee for the new Group (i.e. after the division of the bank, whereby: Belgium 60.5 per cent, France 36.5 per cent and Luxembourg – 3 per cent) c) July 2012 – governments of Belgium and France spend an additional EUR 5.5 billion on further restructuring of the Bank, by increasing the Group's capital (53 per cent by Belgium (EUR 2.915 billion) and 47 per cent by France (EUR 2.585 billion)) – by the coverage of the preference shares issue with the voting rights

Continued

9. Prerequisites for financial support:

a) in 4Q 2008 – announcement of a deep restructuring plan
b) January 2009 – Group announcement of downsizing 900 jobs (out of 36,500 employees), by the end of 2009 – 1,500 staff
c) 2009 – no dividend paid, reduced salaries for top managers
d) 2010 – the EC's consent to further restructuring plan, by 2014 Group reduction by approx. 25 per cent
e) 17 October 2011 – the EC's consent to temporary nationalization of Dexia, provided to obtain the long-term profitability of the subsidiary, which will continue to run the business and to respond appropriately to compensate for distortions of competition.

10. Market reaction to granting financial support:

a) September 2008 – decline in Dexia Group share price – from approx. EUR 10 to EUR 1.9 (5 March 2009)
b) 19 January 2009 – Moody's agency reduced the credit rating for long-term liabilities of Dexia from Aa3 to A1 and the financial strength rating – from C– to D+
c) at the end of 2009, i.e. after the announcement of the state support obtaining and the government guarantees to creditors, the share price rose to EUR 4.5
d) after the announcement of a further restructuring plan (2010) – the share price rose to EUR 7.50
e) after Dexia's announcement of 4 billion losses for 2Q 2011 – October 2011 – fall in the price of shares at the stock exchange in Brussels to EUR 1.01 (4 October 2011)
f) 30 June 2014 – the price of the share was EUR 0.029

11. Repayment of financial support and market reaction:

No. Nationalization of the bank; the Belgian Finance Minister assured that the country would continue to own the bank for several years.

12. Did the bank manage to improve its financial standing?

No. Evidence of this is, among others, the fact of deterioration of and ROA and ROE levels and the need to recapitalize the Bank financial results:
2011: EUR –11.6 4 billion
2012: EUR –3.87 billion
2013: EUR –1.08 billion
1Q and 2Q 2014: EUR –145 million

13. Additional remarks and comments:

The main causes of the problems: (a) 2008 – crisis in the US, and the collapse of the Lehman Brothers, (b) 2011 – crisis in Greece.
Dexia's problems were deepened by the fact that Fortis operated at the Belgian market, where problems also started in 2008 (Dexia and Fortis – the two main rivals on the financial market in Belgium – in a situation of the impending crisis limited cross-financing, which has further exacerbated the bad situation of both banks).
The decision to launch government aid for Dexia resulted from the need to ensure the 'continuity' of financing by the local governments.
Actions by the governments of: Belgium, France and Luxembourg gained the support and approval of the European Commission.

Selected ratios of Dexia

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.50%	0.44%	–0.50%	0.19%	0.14%	–2.82%	–0.80%	–0.49%
ROE	15.39%	16.08%	–57.81%	9.08%	7.43%	*	–86.59%	–27.36%
CAR	10.30%	9.60%	11.80%	14.10%	14.70%	10.30%	20.90%	22.40%
deposits/credits	51.29%	52.21%	31.10%	34.17%	36.07%	11.19%	7.17%	6.66%

* Equity decreased 33 times.

FORTIS Group

1. Name: FORTIS Group Fortis Group – an international financial institution operating in banking and insurance markets. December 31 2007 – market valuation of the Group – EUR 42.4 billion, employment – approx. 60,000 employees worldwide.	**2. Country of registration:** Belgium
3. Activity abroad: International activities in Benelux, Spain, Portugal, Great Britain, Turkey, on the markets in Africa, Australia, China, Malaysia, Indiam and Thailand.	**4. Date of disclosure of financial difficulties and main reasons:** • the portfolio of the US securities, issued under the pledge of subprime mortgages – EUR 41.7 billion (September 2008) • the need to repay the loan taken for the purchase of ABN Amro (in 2009 – EUR 2 billion, in 2010 – EUR 5 billion) • government assistance, in accordance with the 'too big to fail' principle
5. Intervention initiator: The common action of three governments and regulators in Belgium, Luxembourg, and the Netherlands	**6. Intervention start date:** 29 September 2008
7. Course of intervention and financial support: a) 29 September 2008 – government financial aid – governments of Belgium, Luxembourg and the Netherlands, in exchange for: • the government of Belgium – 49 per cent share of capital • the Dutch government – 49 per cent share of capital • the Luxembourg government – in the form of a mandatory convertible loan; right, after conversion, to 49 per cent share of Fortis Banque Luxembourg b) 3 October 2008 • the Dutch government bought the Dutch banking and insurance division of Fortis (NAT) • the Belgian government acquired the remaining shares (50 per cent + 1 share) of the Fortis Bank SA/NV and 100 per cent of the shares in Fortis Insurance International • BNP Paribas bought the 75 per cent stake in the retail banking division of Fortis in Belgium and Luxembourg; governments of Belgium and Luxembourg remained minority shareholders (25 per cent of shares each). The agreement did not include the parent company, only the subsidiary — and did not include Fortis Insurance International (100 per cent NAT)	**8. Financial support amounts:** a) 29 September 2008 – EUR 11.2 billion – governments of Benelux countries (Belgium, Luxembourg and the Netherlands) invest EUR 11.2 billion in Fortis Bank in each country (the Belgian government – EUR 4.7 billion, the Dutch government EUR 4 billion in Fortis Bank Nederland (Holding) NV, the Luxembourg government – EUR 2.5 billion in Fortis Banque Luxembourg) b) 3 October 2008 • EUR 16.8 billion – amount spent by the Dutch Government for the acquisition of the Dutch banking and insurance division, • EUR 4.7 billion – amount spent by the Belgian government for the acquisition of the remaining shares (50 per cent + 1 share) of Fortis Bank SA/NV and 100 per cent of the shares of Fortis Insurance International • EUR 5.73 billion – the Belgian government signed an agreement with BNP Paribas for the resale of the 75 per cent share in Fortis Bank SA/NV (the owner of 25 per cent – the Belgian government) d) April 2013 • EUR 2.3 billion – the purchase of the Royal Park Investments by Lone Star (EUR 1 billion – the government of Belgium and EUR 1.3 billion – Ageas)

Continued

c) April 2010
- The bad assets portfolio – EUR 10.4 billion transferred by Fortis Bank to the bad bank – Royal Park Investments (share ownership: 44.7 per cent – Fortis (Ageas SA/NV), 43.5 per cent – the Belgian Government and 11.8 per cent BNP Paribas).
- Other assets of the company (insurance business and the bad assets) – Fortis Holding renamed – Ageas SA/NV.
- September 2012 — Ageas purchase by Groupama.

d) April 2013
- Thanks to the Belgian government guarantees and the correct management – Royal Park Investments reached good results and a buyer was found – Lone Star (American investment company), which bought the bad bank.

9. Prerequisites for financial support:

a) 29 September 2008
- sale of shares in ABN AMRO (RFS Holdings)
- the President (Maurice Lippens) resigned from the Fortis Board; the new president must obtain consent after consultation with the Belgian government; governments of Belgium, the Netherlands and Luxembourg received significant representation in supervisory boards of Fortis Bank in particular countries
- 3Q 2008 – earnings after tax – approx. EUR 5 billion (estimated Fortis core capital – about EUR 30 billion, the capital adequacy ratio – 13 per cent)
- impairment of EUR 1.2 billion of deferred tax assets in the US

b) October 2008 – sale of the government shares in Belgium and Luxembourg BNP Paribas Bank

10. Market reaction to granting financial support:

a) April 2007 – high stock prices – almost EUR 30
b) July 2008 – decline in the share price – EUR 15
c) August 2008 – the share price – EUR 10
d) September 2008 – panic and sale of shares
e) 26 September 2008 – the exchange rate declined by 20 per cent (to the lowest level since 1995) – EUR 5.6

11. Repayment of financial support and market reaction:

NO. The bank was nationalized.

12. Did the bank manage to improve its financial standing?

Yes. Thanks to Belgian government's guarantees and proper management, the bad bank (Royal Park Investments) had achieved good results and was bought by Lone Star (American investment company).
Other assets of the company (mainly insurance activity) – renamed to Fortis Holding, then to Ageas SA/NV. September 2012 – Ageas purchased by Groupama.

13. Additional remarks and comments:

The main causes of the problems in 2008: a takeover of ABN Amro in 2007 (together with Santander and Royal Bank of Scotland, the cost of the transaction – EUR 71 billion) and the high cost of the repaid loans taken in respect of this acquisition.

The decision of the governments of Belgium, Luxembourg and the Netherlands to launch state support resulted from the necessity to counteract the possibility of a panic explosion on financial markets and the runs on banks in these countries.

Fortis' problems were deepened by the fact that Dexia operated at the Belgian market, whose problems also started in 2008 (Dexia and Fortis – the two main rivals at the financial market in Belgium – in a situation of impending crisis – limited the cross-financing, which has further exacerbated a bad situation of both banks).

Selected ratios of Fortis

Ratios	2006	2007	2008	2009[1]
ROA	0.56%	0.02%	–6.30%	1.41%
ROE	20.19%	0.42%	–80.03%	13.11%
CAR	11.10%	10.10%	n/a	n/a
deposits/credits	88.75%	82.92%	5.89%	4.15%

[1] 2008–2009 – with the participation of the government, the bank was taken over by BNP Paribas, and an insurance part remained in the company under the name of Ageas.

KBC

1. Name:

KBC Bank

A Belgian bank that supports mainly retail customers as well as clients from the SME sector.

Before the global financial crisis, the parent company – KBC – was the second largest banking and insurance institution in Belgium, the 18th largest bank in Europe. It had been dynamically developing business not only in Central Europe, but also in Eastern Europe. At the end of 2007, it employed approx. 56,700 employees (of which 19,200 – in Belgium and 31,000 in Central and Eastern Europe and Russia). It serviced 11 million customers (including approx. 8.2 million in Central and Eastern Europe).

Shareholders (2008):

Shareholder	Share (%)
KBC Group Ancora	23%
Cera	7%
MRBB	13%
Group of industrial families	11%
Shares on the Stock Exchange (owned by many different international institutional investors, including approx. 45% from the UK or the USA)	46%

Shareholders (2013):

Shareholder	Share (%)
KBC Group Ancora	20%
Cera	7%
MRBB	13%
Others	21%

2. Country of registration:

Belgium

3. Activity abroad: Yes. Before the crisis: Belgian Congo, USA (New York), United Kingdom (London), Cayman Islands, Switzerland (Geneva), Poland, Hungary, the Czech Republic, Slovakia, Bulgaria, Romania, Russia and Serbia	**4. Date of disclosure of financial difficulties and main reasons:** The 1st part of the financial support – 11 December 2008 Main reasons: a) loss in the 3Q 2008 – EUR 906 million, resulting mainly from the bank's risk exposure associated with such instruments as CDO, Lehman Brothers and Washington Mutual, b) since the beginning of October 2008 – NCB's share price dropped by more than 50 per cent c) turbulences on the international financial markets and the government intervention in two largest competitors (Fortis and Dexia) d) fear of the extension of the crisis on the financial markets of the Central and Eastern Europe (e.g. the Czech Republic, Slovakia, Hungary, Russia and Bulgaria) e) the need to strengthen the capital Government support – by capital from the Belgian government. The recapitalization was endorsed by the EC (not as rescue aid but as restructuring aid) The 2nd part of the financial support – January and May 2009 (2a) January 2009 15 January 2009 – Moody's announced that it had revised certain key assumptions for the rating of the corporate CDOs and decided to downgrade several categories of CDOs (although it did not specify which instruments were concerned). Consequently, KBC decided to make write-downs of all collateralied debt in its portfolio, other than the bonds issued by KBC Financial Products (KBC FP, a fully owned subsidiary of KBC), as well as to strengthen the capital base – by the second recapitalization by the Belgian government. (2b) May 2009 Purpose – to cover KBC's exposure to the risk of CDO Collateralized.

Continued

5. Intervention initiator:

- The 1st part of the financial support – the Federal government of Belgium
- The 2nd part of the financial support – the Flemish regional government (because KBC was seen as a bank of Flanders, the federal government did not want to directly participate in the second tranche of the aid)

6. Intervention start date:

11 December 2008 (EC report – 18 December 2008)

7. Course of intervention and financial support:

a) 11 December 2008 – EUR 3.5 billion – the Belgian government – the first recapitalization of KBC Group NV using a special issue of securities that could be classified as the tier 1.

The Belgian authorities had granted protection against the credit losses incurred in relation to a portfolio of CDOs – a period corresponding to the maturity of each CDO. The value of the CDO portfolio – confidential information constitutes a trade secret.

b) 18 June 2009 – the 2nd recapitalization of KBC Group NV (in two tranches) by the issue of the special securities which can be classified into Tier 1. The second recapitalization in two tranches:

22 Jan 2009 – EUR 2 billion – the recapitalization by the Flemish Government which committed to provide an additional SBA – EUR 1.5 billion – 18 June 2009.

30 June 2009 – the EC approved the second recapitalization for 6 months under the condition of providing a restructuring plan and temporarily approved the State Protection. Support (the 1st and the 2nd tranche) in accordance with the decisions of the EC of 18 December 2008 and 30 June 2009 constitutes state aid but the rescue aid will be converted into restructuring aid.

30 September 2009 The European Commission approved the restructuring plan for KBC Group submitted by Belgian authorities (the 2nd version of the revised restructuring plan of 18 June 2009)

8. Financial support amounts:

TOTAL: EUR 7 **billion**

The 1st part of the financial support – 11 December 2008 – EUR 3.5 billion

The 2nd part of the financial support – EUR 3.5 billion – in two parts:

22 January 2009 – EUR 2 billion

18 June 2009 – EUR 1.5 billion (payment when rating MBIA (American insurer, specializing in insurance bonds) was reduced to junk bonds, which again reduced the value of risky assets of KBC Group)

According to the declaration of the government of Belgium, KBC will not receive any additional support.

9. Prerequisites for financial support:	10. Market reaction to granting financial support:
The 1st part of the financial support: The terms of annual interest on securities (the highest value of the following size): – EUR 2.51 per security, payable annually in arrears (the equivalent coupon of 8.5 per cent) – 110 per cent of dividends from ordinary shares for the year 2008 – 120 per cent of dividends from ordinary shares for the financial year 2009 – 125 per cent of dividends from ordinary shares for the financial year 2010 and subsequent years. KBC is required to redeem the securities at a price corresponding to 150 per cent of the issue price (IRR for the state – 13.9 per cent). 18 December 2008 – The European Commission asked Belgian authorities to submit within six months the restructuring plan. The restructuring plan was submitted to the EC on 18 June 2009 and – as amended was accepted 30 September 2009. As part of the restructuring plan, KBC was to reduce operations and reduce the total assets in relation to risk-weighted assets by 20 per cent (i.e. 1 per cent of the total assets). The 2nd part of the financial support: Terms of the annual coupons – the same as in December 2008. Protection does not cover the equity tranche, a junior tranche, and the majority of the mezzanine tranches of CDOs. KBC itself will cover the losses on these tranches before tranches secured by the state suffer. Fees: KBC will pay the Belgian Government a fee – approx. EUR 2.04 billion, that is (1) the fee for underwriting (EUR 718 million) and (2) a cash guarantee (EUR 1.33 billion). The fees are payable in 12 equal semi-annual parts: in the period December 2009 – June 2015.	The 1st part of the financial support – NO 15 January 2009 – after Moody's rating decrease of the several categories of CDOs – KBC's share price fell by approx. 6 per cent. There had been rumours that the KBC may be taken over by Rabobank. The 2nd part of the financial support – YES Following the information about the planned second tranche of the government aid – in January 2009 KBC share price on the stock exchange in Brussels increased by approx. 50 per cent.

Continued

11. Repayment of financial support and market reaction:

NO, only partially:

a) The federal Belgian government – EUR 3.5 billion – 100 per cent – 2012

b) The Government of Flanders region – EUR 1.5 billion from EUR 3.5 billion (to repay EUR 2 billion) in two tranches:

- 3 July 2013 – EUR 1.17 billion of the public subsidiary and a penalty of 50 per cent of the repaid tranche (EUR 0.58 billion – penalty), total EUR 1.75 billion
- 8 January 2014 – EUR 0.33 billion of the public subsidiary and a penalty of 50 per cent of the repaid tranche (EUR 0.17 billion – penalty), total EUR 0.5 billion.

The Central Bank of Belgium agreed to repay the debt due to the well-being of KBC Group.The agreement with the European Commission envisages payment of EUR 2.33 billion in 2014–2020, in seven equal instalments of EUR 0.33 billion (and a penalty of 50 per cent repayable in instalments). Maturity date – to 31 December of each year. The repayment can take place earlier if the Central Bank positively assesses the condition of the KBC Group.

12. Did the bank manage to improve its financial standing?

NO (in the period 2008–2009)

YES (in the period 2010–2013) – the possibility of partial repayment of governmental financial aid

2008 – loss of approx. EUR 2.48 billion
2009 – loss of approx. EUR 2.47 billion
2010 – profit of approx. EUR 1.56 billion
2011 – profit of approx. EUR 13 million
2012 – profit of approx. EUR 612 million
2013 – profit of approx. EUR 1.02 billion

13. Additional remarks and comments:

NCB was considered one of the most cautious of Belgian banks and the last (after Fortis and Dexia) asked for government help.

KBC, according to the restructuring plan approved by the EC, committed itself to reduce its forecasted total assets by 17 per cent, by liquidation of KBC Financial Products and the sale of the part of the subsidiaries, which allowed improving its financial results and partly drawing the obtained government aid:

1) March 2011 – sale of Centea (retail banking) to Credit Agricole

2) October 2011 sale of KBL European Private Bankers to Precision Capital

3) March 2012 – sale of Fidea (insurance) to JC Flowers & Co

4) July 2012 – sale of TUiR Warta (Poland) to Talanx International AG

5) January 2013 – sale of Kredyt Bank S.A. to BZ WBK S.A. (Santander Group)

6) March 2013 – sale of 16.17 per cent of BZ WBK S.A. to the institutional investors

7) December 2013 – sale of Absolut Bank to Russian Pension Asset Managers

8) October 2014 – sale of KBC Deutschland to Teacher Retirement System of Texas, Apollo Global Management und Apollo Commercial Real Estate Finance

Despite the initial decision concerning the sale of their shares in Hungarian, Czech and Slovak financial markets, transactions have not been held.

Selected ratios of KBC

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA								
ROE	24%	21%	–18%	–23%	12%	–6%	1%	9%
CAR	9.60%	8.80%	8.90%	10.80%	12.60%	12.30%	13.80%	15.80%
deposits/credits	141.16%	130.66%	125.07%	126.26%	131.33%	119.48%	124.23%	133.68%

CYPRUS

Bank of Cyprus

1. Name:
Bank of Cyprus

2. Country of registration:
Cyprus

3. Activity abroad:
It operates under the form of branches and subsidiaries in Russia and the UK.

4. Date of disclosure of financial difficulties and main reasons:
- December 2011: EBA revealed the need for recapitalization in the amount of EUR 1.56 billion
- Large portfolio of bad loans in Greece
- Exposure to Greek bonds

5. Intervention initiator:
Parliament and central bank

6. Intervention start date:
27 March 2013

7. Course of intervention and financial support:
a) 27 June 2012 – recapitalization
b) 25 March 2013 – *bail-in* (write down part of liabilities including deposits, conversion for capital)
c) 27 March 2013 – replacement of the bank's board and CEO. Introduction of compulsory administrator for four months. Reduction of salaries of employees by 30 per cent
d) 29 July 2014 – recapitalization by the acquisition of shares by the EBRD

8. Financial support amounts:
a) EUR 500 million
b) –
c) –
d) EUR 120 million

9. Prerequisites for financial support:
Bail-in of deposits exceeding EUR 100 thousand in the following way:
- 37.5 per cent converted into shares of the bank (type A) with the right to dividends and voting,
- 22.5 per cent frozen in order to have an opportunity to convert them into shares in the future,
- Remaining 40 per cent temporarily frozen for liquidity purposes.

10. Market reaction to granting financial support:
Fitch long-term:
27 June 2013 downgrade to BB
26 March 2013 downgrade to RD (withdrawal from rating)
Moody's long-term:
12 June 2012 downgrade to B2
22 March 2013 downgrade to Caa3

11. Repayment of financial support and market reaction:
Aid has not been repaid. Settlements resulting from bail-in are progressing steadily. Large creditors and depositors suffered a major loss. Acquisition of shares took place in 2014. In this form, EBRD recapitalized the bank.

12. Did the bank manage to improve its financial standing?
No. The bank, despite restructuring and resolution tools (including bail-in), has not significantly improved its financial position. The bank continues to incur losses. However, the solvency ratio has improved. After the crisis in 2012, in 2013 it returned to the demanded levels. Ratio of deposits to loans significantly has decreased compared to previous years (due to the applied bail-in tool).

13. Additional remarks and comments:

Bank of Cyprus is one of the largest banks in Cyprus. Its market capitalization amounted close to 350 million in March 2013. In September 2012, the bank's share of deposits in the local market accounted nearly for 28 per cent and in the loan market – 23 per cent. Significant part of the bank (almost half of the branches) is located in Russia. The problems of the bank began in 2011, with unfavourable results of stress tests carried out by EBA. Following the publication of negative news about the situation of the bank, Bank of Cyprus shared the fate of other banks: it was cut off from external financing. In 2012, the bank was not able to achieve a solvency ratio of 9 per cent. On 27 March 2013, the Greek part of the bank was sold to Bank of Piraeus. Despite the troubles in 2013, Bank of Cyprus took over a good part of Cyprus Popular Bank (which was also subject to restructuring processes). In relation to Bank of Cyprus, restructuring measures also were applied in order to recover the right financial balance. The creditors of Bank of Cyprus were bailed-in. The aim was, as in the case of Cyprus Popular Bank, to write down the shares and capital as well as the bondholders. Part of the depositors also participated in the losses (depositors with savings of more than EUR 100 thousand). The following mechanism to participate in the losses by bank depositors was assumed:

- 37.5 per cent of the deposit liabilities of over EUR 100 thousand were converted into shares of the bank,
- 22.5 per cent of the deposit liabilities of over EUR 100 thousand have been frozen with the ability to convert them into shares when the bank capital requirements would increase,
- the remaining 40 per cent were completely frozen and planned to be released later.

These measures allowed continuing operation of the bank, restoring its key features, customer service and restoration of the appropriate capital adequacy ratios in the following year. With the resolution process and state aid, the capital adequacy ratio of Bank of Cyprus could return to the levels previously assumed. However, the situation has not improved the bank in terms of profitability, and the bank continues to record losses (approx. 2 billion in 2012 and 2013).

Selected ratios of Bank of Cyprus

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	1.26%	1.53%	1.39%	0.79%	0.72%	–3.63%	–7.13%	–6.76%
ROE	20.24%	24.20%	24.43%	12.60%	10.83%	–58.04%	–660.35%	–75.08%
CAR	12.10%	12.70%	11.20%	11.70%	11.90%	7.80%	0.90%	10.50%
deposits/credits	144.57%	133.07%	114.38%	111.50%	118.85%	108.36%	116.69%	68.79%

Cyprus Popular Bank (Laiki Bank)

1. Name:
Cyprus Popular Bank (Laiki Bank)

2. Country of registration:
Cyprus

3. Activity abroad:
Operated under the form of branches and subsidiaries in Russia, Ukraine, Romania, Serbia, the UK, and Malta (approx. 285 foreign offices).

4. Date of disclosure of financial difficulties and main reasons:
- December 2011: EBA revealed the need for recapitalization in the amount of EUR 1.97 billion
- Large portfolio of bad loans in Greece
- Involvement in Greek bonds
- The lack of ability to raise capital on the market

5. Intervention initiator:
Parliament and central bank

6. Intervention start date:
21 May 2012 – notification to the European Commission to provide state aid

7. Course of intervention and financial support:
a) 21 May 2012 – recapitalization by the Government of Cyprus
b) 25 March 2013 – Sale of the company in Greece and Greek Piraeus Bank
c) 25 March 2013 – sale of Cyprus Popular Bank to Bank of Cyprus (except for foreign branches and subsidiaries) – division into two banks ('good' and 'bad' bank)
d) 25 March 2013 – introduction of restrictions on withdrawals from an ATMs and foreign transfers

8. Financial support amounts:
a) EUR 1.8 billion (the bank was not able to raise capital on the market)
b) –
c) –
d) –

9. Prerequisites for financial support:
- No dividend payment
- Transfer of guaranteed deposits up to the limit of EUR 100 thousand to Bank of Cyprus dated 26 March 2013
- Protection and transfer of all deposits of financial institutions, government and local governments, insurers, charities, etc.
- Leaving the other deposits in Laiki Bank (in the amount exceeding the guarantee)
- The transfer of receivables to Bank of Cyprus

10. Market reaction to granting financial support:
Fitch long-term:
27 June 2012 downgrade to BB
26 March 2013 downgrade to D (withdrawal from rating)
Moody's long-term:
9 October 2012 downgrade to Caa1
28 March 2013 downgrade to C and withdrawal from rating in July 2013

11. Repayment of financial support and market reaction:
The aid has not been repaid. The Government of Cyprus still holds shares corresponding to its involvement in the so-called 'bad' bank. The bank has been liquidated and withdrawn from the stock exchange listing.

12. Did the bank manage to improve its financial standing?
No. The financial assistance improved the situation of the bank only in the short term in 2012. In 2013, the bank failed to achieve appropriate capital adequacy ratios and it was put into the resolution procedures. The chosen strategy assumed the formation of the 'good' and 'bad' bank. The good part was taken over by another bank, along with some of the customers (mainly depositors). Bigger creditors and holders of deposits more than EUR 100 thousand remained in the bad bank with little chance to recover.

13. Additional remarks and comments:

Cyprus Popular Bank has been functioning on the market for more than 100 years. Before the crisis events of 2012, the bank was the second-largest bank based in Cyprus (it held 18 per cent market share in deposits and 19 per cent of the market for loans and credits). The majority of the bank's shareholders were private companies, insurance companies, and local governments (in total their share was nearly 54 per cent). The Bank was listed on the stock markets in Cyprus and Greece. At the end of 2011, the bank reported a loss excessing EUR 3.5 billion (mainly through its involvement in the Greek securities). The bank initially tried to acquire the missing capital (approx. EUR 2 billion) from private investors. However, this plan proved impossible to implement due to the lack of interested parties. In the second half of 2012, stock market capitalization of the bank significantly decreased, reaching only EUR 200 million. The Cypriot government decided to acquire shares of the bank by taking a controlling 84 per cent stake in the bank. Public support for Cyprus Popular Bank relied mainly on bank recapitalization in 2012 followed by the introduction of the *ad hoc* reforms. In 2013, as part of the bank's restructuring, a plan was prepared which assumed the bail-in of capital and shares belonging to the owners of the bank and creditors holding claims arising from bonds. Within the framework of the bank resolution, also the owners of deposits of more than EUR 100 thousand suffered some losses.

At first, the foreign part of the bank (branches of Cyprus Popular) was sold to Piraeus Bank. Then, there was a sale of the Cypriot part of Cyprus Popular Bank to another entity, Bank of Cyprus. As part of that sale of the bank, it was a split into 'good' and 'bad' banks. All the deposits of up the guaranteed amount (EUR 100 thousand) were transferred to Bank of Cyprus. In addition, the full amount of deposits belonging to selected entities, such as local authorities, government, financial institutions, also have been transferred to Bank of Cyprus. Other deposits remained in the 'bad' part of the bank (called Legacy Laiki). The 'bad' bank, in exchange for the transfer of the deposits to the Bank of Cyprus, has been paid in the form of its shares. Creditors that remained in Laiki bank have some chance of recovering their claims through the process of bank liquidation.

Selected ratios of Cyprus Popular Bank (Laiki Bank)

Ratios	2006	2007	2008	2009	2010	2011	2012
ROA	0.79%	1.56%	0.69%	–0.09%	–8.24%	–0.68%	–5.15%
ROE	5.82%	13.54%	7.43%	–0.97%	–96.36%	–38.25%	–161.92%
CAR	14.39%	11.17%	10.10%	11.50%	11.60%	n/a	9.00%
deposits/credits	134.85%	117.48%	105.98%	95.23%	96.56%	81.36%	79.69%

Hellenic Bank

1. **Name**:
   Hellenic Bank
2. **Country of registration**:
   Cyprus
3. **Activity abroad:**
   Yes. Subsidiaries including those in Russia and Greece.
4. **Date of disclosure of financial difficulties and main reasons:**
   - Problems with doubtful debts in Greece
   - Bad loans in Cyprus
5. **Intervention initiator:**
   Parliament and central bank
6. **Intervention start date:**
   25 March 2013
7. **Course of intervention and financial support:**
   Cyprus government guarantees for bank bonds
8. **Financial support amounts:**
   EUR 2.9 billion
9. **Prerequisites for financial support:**
   - Bank was attempting to raise equity capital in the market
   - Bank tried to find private investors
10. **Market reaction to granting financial support:**
    Fitch long-term:
    19 March 2013 – maintenance of B grade
    23 April 2013 – downgraded to RD (withdrawal from rating)
    Moody's long-term:
    22 March 2013 – downgrade to Caa3
11. **Repayment of financial support and market reaction:**
    Aid has not been repaid because it was granted only in the form of guarantees, which are the subject of long-term settlements.
12. **Did the bank manage to improve its financial standing?**
    Partially. The bank managed to find investors, who provided additional capital to the bank for EUR 100 million in 2013. However, in September 2014 the bank reported a loss for the first half of almost EUR 100 million. The capital adequacy ratio is at the right level.

13. **Additional remarks and comments:**

In September 2012, Hellenic Bank was the third largest bank in Cyprus. The bank had approx. 10 per cent of the market deposits and approx. 6 per cent of the loan market. In 2011, the bank started its business in Russia, but in 2014 completely withdrew all activity from this market due to the deteriorating financial situation. On 25 March 2013, the bank sold its branches in Greece to Piraeus Bank, which the Cyprus supervisor of the financial market recommended. Resolution procedures in Cyprus did not severely affect Hellenic Bank. There was no need for depositors to take part in the losses. The capital increase was planned and then the authorities were intensively searching for new investors. In October 2013, three external private investors were found, and on 1 November 2013, they took over the issue of new shares worth EUR 100 million. The capital adequacy ratio of the bank stood at the level of 14.3 per cent at the end of 2013. The bank was rescued without direct public aid but with public intervention. The only aid was the government guarantees for the issued bonds. The amount resulting from that transaction (EUR 3 billion) will be a subject of long-term settlement.

Selected ratios of Hellenic Bank

Ratios	2007	2008	2009	2010	2011	2012	2013
ROA	1.60%	0.62%	0.15%	0.19%	–1.19%	–0.34%	–3.15%
ROE	21.63%	10.76%	2.40%	2.91%	–22.78%	–6.20%	–50.37%
CAR	13.70%	10.80%	14.00%	15.00%	12.90%	13.60%	14.30%
deposits/credits	157.33%	133.35%	144.12%	140.19%	142.51%	163.69%	154.70%

DENMARK

Bank package

1. **Name:**
   Bank package valid until 30 September 2010.
   a. EBH Bank 21 November 2008.
   b. Lokken Sparekasse 2 March 2009.
   c. Gudme Raaschou Bank (Pantebrevsselskabet) 26 April 2009.
   d. Nova Bank Fyn (Fionia Bank) 28 May 2009.
   e. Capinordic Bank 11 February 2010.
   f. Eik Banki 30 September 2010.
   g. Eik Bank Danmark 30 September 2010.

2. **Country of registration**:
   Denmark, except for Eik Banki (Faroe Islands)

3. **Activity abroad:**
   The operations of the banks listed above were primarily local. Exceptions: Caprinordic Bank had a branch in Sweden, and Eik Banki was a branch of a bank from Faroe Islands. Some of the specified entities operated in capital groups and here, the original brand has survived, mainly with regard to the investment activities (for instance Gudme Raaschou, Fionia, Caprinordic).

4. **Date of disclosure of financial difficulties and main reasons**:
   The banks defaulted because of high-impaired loan write-offs. The known dates have been specified in points 1 and 5. Additional information:
   a. EBH Bank – on 22 September 2008, in its stock exchange announcement, the bank communicates to have reduced the profit forecasts and to have dismissed its president
   e. Capinordic Bank – on 29 January 2010, the bank announces job cuts and replacement of the president; on 1 February, Caprinordic A/S announces profit warning.

5. **Intervention initiator:**
   Finansiel Stabilitet – an entity authorized under the act. Additional information:
   a) EBH Bank – liquidity support from the central bank – 22 September 2008; the bank announces default – 13 November 2008.
   b) Eik Banki – 30 October 2009 – within the credit package the bank receives hybrid capital of DKK 327.2 million; 18 May 2010 – one of the management board members resigns over media reports of insider trading; 27 September 2010 – the bank announces talks with Denmark's supervision authority about the solvency of the bank and its subsidiary and resignations of management board members; 1 October 2010 – request for suspension of trading of the bank's stocks and bonds; 20 January 2011 – request for withdrawal of shares from public trading.

6. **Intervention start date:**
   The known dates have been specified in points 1 and 5.

c) Eik Bank Danmark had benefited from the credit package and was granted DKK 295.3 million in hybrid capital in June 2009.	
7. **Course of intervention and financial support:** a) EBH Bank since 21 November 2008 under FS management b) Lokken Sparekasse since 2 March 2009 under FS management; 31 March 2009 Nordjyske Bank A/S (bank listed on stock exchange) announces purchase of banking business from FS c) Gudme Raaschou Bank (Pantebrevsselskabet) since 26 April 2009 under FS management d) Nova Bank Fyn (Fionia Bank): taken over by FS: 28 May 2009; sale of branches along with Nordea customers portfolio 2 September 2009 r. e) Capinordic Bank since 11 February 2010 under FS management; FS sues NewCap Holdings A/S over mistaken intra–group transactions, which impaired bank's condition (six transactions for a total of about DKK 70 million) f) Eik Banki since 30 September 2010 under FS management; in April 2011 – agreement between FS and TF Holding P/F (Faroe Islands) for bank's new capital structure (FS – 30 per cent, TFH – 70 per cent) g) Eik Bank Danmark since 30 September 2010 under FS management	8. **Financial support amounts:** a) – b) For DKK 10 million Nordjyske Bank A/S takes over 15,000 customers and 34 employees c) – d) For the price of DKK 900 million Nordea takes over 29 branches, 400 employees, 75,000 retail customers, 9,500 corporate customers and a loan portfolio of EUR 874 million e) – f) – g) –
9. **Prerequisites for financial support:** As all bank assets were taken over, there were no prerequisites for granting assistance.	10. **Market reaction to granting financial support:** a) EBH Bank – from 11 November to 28 November 2008 the bank stock price drops from DKK 62.5 to DKK 0.05. e) Capinordic Bank – following profit warning announcement on 1 February 2010 Caprinordic A/S stock price decreased by 29 per cent f) Eik Banki–from 24 September to 30 September 2010 the stock price dropped from DKK 64 to DKK 18.9
11. **Repayment of financial support and market reaction:** The banks 'vanished' from the market. The restructuring process within Finansiel Stabilitet framework is in progress.	12. **Did the bank manage to improve its financial standing?** Selected financial data in point 13.

Continued

13. **Additional remarks and comments:**

On 10 October 2008, the Danish parliament passed a Financial Stability Act, which provided for the bank package – effective until 30 September 2010. The risk posed by this package, upon taking into account the obtained guarantees, was bestowed on Finansiel Stabilitet. The next step was passing of the credit package – effective from 4 February 2009 to 30 June 2010 with an option to extend until the end of 2010. Once the packages expired, the exit package was introduced – from October 2010, and the consolidation package – from September 2011. The purpose of the bank package was to protect unprotected creditors, including other banks. Activities related to the package had been assigned to Finansiel Stabilitet (FS), but the banking sector assumed financial liability for a specific loss amount. The company affiliated to the banks' association – Det Private Beredskab – Private Contingency Association (PCA) granted a loss guarantee of up to DKK 10 billion and also paid FS guarantee commissions of DKK 15 billion DKK (or DKK 7.5 billion each year). If this had been insufficient, PCA would have provided a supplementary loss guarantee for DKK 10 billion. In total, during two years, PCA guarantees could not exceed DKK 35 billion. The Danish government would have covered any further losses. When those guarantees applied, PCA was charged a total of DKK 25 billion. The bank package covered seven banks altogether (2008 – one bank, 2009 – three banks and 2010 – three banks). General financial data for four banks taken over in 2008–2009 are presented below. Data of the banks taken over in 2010 are not presented in this arrangement.

Million DKK

EBH Bank (from 29 April 2010 along with Løkken Sparebank)	28 October 2008	31 December 2009	after merger 31 December 2009	31 December 2010
Acquisition loss		1,054	1,508	0
Provision write-offs		1,751	1,884	116
P&L		–3,188	–3,781	–507
Equity	–1,054	1,812	1,979	1,472
Subordinated debt	0	400	471	400

Nova Bank Fyn (Fionia Bank)	28 May 2009	31 December 2009	31 December 2010
Acquisition loss		57	0
Provision write-offs		431	870
P&L		–556	–984
Equity	–57	901	794
Subordinated debt	0	300	660

Løkken Sparebank	25 March 2009	31 December 2009
Acquisition loss	0	454
Provision write-offs	0	0
P&L		–593
Equity	–454	167
Subordinated debt	0	0

Gudme Raaschou Bank (Pantebrevsselskabet)	30 July 2009	31 December 2009	31 December 2010
Acquisition loss		1,392	0
Provision write-offs		28	163
P&L		–1,408	–186
Equity	–1,392	293	103
Subordinated debt	0	0	0

Banks taken over by FS received capital injections and funding for maintaining liquidity. FS also sold bank branches to other banks that had good financial standing (for instance, branches of Fionia Bank were sold to Nordea, and Lokken Sparekasse branches – to Nordjyske Bank).

Bank package continued

Million DKK

Bank package*	**31 December 2009**	**31 December 2010**	**31 December 2011**	**31 December 2012**	**31 December 2013**
Fee (commission) from PCA	9,375	5,625	0	0	0
Acquisition loss	2,957	2,921	0	0	0
Provision write-offs	2,343	1,125	243	–792	–606
Loss guarantee from PCA	5,791	4,209	0	0	0
P&L of FS (net)	9,504	5,084	–1,010	616	161

**From 2011 from Roskilde Bank but no related significant changes were reported at that time. State treasury guarantees for this bank ended in 2010.*

Total P&L on the ‘bank package’ amounted to DKK 14,355 in 2009–2013. If DKK 8,931 million of Roskilde Bank losses were added, then the profits of the Danish state treasury would total DKK 5,424 million, while the banking sector paid DKK 25 billion for rescuing of banks. Thus, one may conclude that the state budget did not lose on bank rescuing.

Credit package

1. Name: Credit package	**2. Country of registration**: Denmark
3. Activity abroad: Yes – some of the banks included in the programme, for instance, Danske Bank.	**4. Date of disclosure of financial difficulties and main reasons:** Losses incurred by banks limited credit activity. The government wanted to encourage banks to grant loans.
5. Intervention initiator: The government in cooperation with Finansiel Stabilitet, which was in charge of operational performance of the programme.	**6. Intervention start date:** 16 June 2009– first agreement
7. Course of intervention and financial support: Granting capital support from 4 February 2009 through 2010.	**8. Financial support amounts:** Maximum amount of granted guarantees totalled DKK 194 billion. It covered 50 institutions. Detailed data presented in point 13.
9. Prerequisites for financial support: The key prerequisite was to use the capital injection to pursue lending activity to limit the negative consequences of procyclicality. Additionally, management salary limitations were imposed.	**10. Market reaction to granting financial support:** 19 January 2009 –OMX Copenhagen Banks GI index totalled 574.35 versus 555.84 on 5 January 2009, after another 10 days of trading the index value dropped to 554.82. Therefore, the market reaction to introducing the package was negative.
11. Repayment of financial support and market reaction: The last government guarantee of the credit package expired at the end of November 2013. OMX Copenhagen Banks GI index, as at 2013-end totalled 1,314.3, which represents a significant growth comparing to the package starting period.	**12. Did the bank manage to improve its financial standing?** Examples of Danske Bank and Spar Nord Bank. In both banks, one may see gradual improvement of efficiency, financing structure, and solvency. The credit activity was gradually growing in Spar Nord Bank, while in Danske Bank it was declining. Selected data are presented in point 13.

Continued

13. Additional remarks and comments:

The Danish government approved the credit package, in cooperation with the opposition, on 18 January 2009 (effective from 4 February 2009). The risk associated with this package encumbered Denmark's government. The package covered banks, mortgage banks and Danish Ship Finance. The purpose of the package was to ensure capital injection in the form of hybrid instruments, classified as Tier 1, by 30 June 2010 with an option to extend it until 2010-end. The first agreement was signed on 16 June 2009. The package was to stimulate banks' lending activity and not to limit lending to individual and business customers. Banks were obligated to submit semi-annual reports. The idea behind the package was to make the participating institutions sign individual agreements and voluntarily inform about using the package. Therefore, in the public domain there is no list of the banks participating in the program. An exception is the 2009 report of FS, which mentions four institutions (amounts in million DKK)

Danske Bank	34,900
FIH Erhvervsbank	13,200
Spar Nord Bank	4,600
Føroya Banki	500

and the 2013 report, which mentions two institutions: Vestjysk Bank (DKK 3.7 billion) and Den Jyske Sparekasse (DKK 1.4 billion).

million DKK

Credit package	31 December 2009	31 December 2010	31 December 2011	31 December 2012	31 December 2013
Commitment amount	53,200	193,608	161,954	66,338	5,146
Number of participating institutions	4	50	45	28	2

The maximum amount of guarantees granted by the state treasury totalled DKK 194 billion. The state treasury reported default of DKK 22 billion arising from guarantees granted to four institutions. As of 2013-end, this loss was evaluated at DKK 3.5 billion. The real amount of the loss, taking into account the process of liquidation of these entities, may change. Banks using the programme paid commissions and interest on the received funds (ca. 10 per cent).

Selected ratios of Danske Bank

Ratios	2008	2009	2010	2011	2012	2013
ROA	0.03%	0.06%	0.12%	0.05%	0.14%	0.22%
ROE	1.0%	1.7%	3.6%	1.4%	3.6%	5.0%
CAR	13.0%	17.8%	17.7%	17.9%	23.1%	23.4%
deposits/credits	81.1%	87.7%	91.0%	89.8%	106.4%	109.9%
credits to customers (M DKK)	1,785,323	1,669,552	1,679,965	1,698,025	1,640,656	1,552,645

Selected ratios of Spar Nord Bank

Ratios	2008	2009	2010	2011	2012	2013
ROA	0.1%	0.2%	0.2%	0.4%	0.3%	0.7%
ROE	2.4%	2.8%	2.4%	5.9%	3.7%	8.2%
CAR	11.3%	14.2%	13.4%	14.0%	15.5%	19.4%
deposits/credits	67.0%	75.4%	94.6%	92.5%	107.8%	113.1%
credits to customers(M DKK)	45,376	38,315.4	30,754	31,189.1	34,916.1	33,772.9

Exit package and consolidation package

1. Name:
Exit package and consolidation package
- a) Amagerbanken (exit package) – since 5 February 2011 under FS management
- b) Fjordbank Mors (exit package) – since 24 June 2011 under FS management
- c) Max Bank (consolidation package) – since 8 October 2011 under FS management
- d) Sparekassen Ostjylland (consolidation package) – since 12 April 2012 under FS management

2. Country of registration:
Denmark

3. Activity abroad:
Banks included in these packages were regional (local) banks.

4. Date of disclosure of financial difficulties and main reasons:
Excessive loss on credit portfolio.

5. Intervention initiator:
- a) Amagerbanken (exit package) – 15 September 2010 – capital increase; 3 December 2010 – agreement with FS for guarantees for bond issue worth DKK 13.5 billion; since 5 February 2011 under FS management; within the credit package, the bank received capital injection which, at the end of 2011, totalled DKK 8.8 billion; 15 March 2013 – renamed to FS Finans III
- b) Fjordbank Mors (exit package) – since 24 June 2011 under FS management; within the credit package the bank received capital injection, which at the end of 2011 totalled DKK 4.1 billion; 27 March 2013 – renamed to FS Finans IV
- c) Max Bank (consolidation package) – since 8 October 2011 under FS management; within the credit package the bank received capital injection, which at the end of 2011 totalled DKK 2.5 billion; in autumn 2012 – converted to credit company – FS Finans II;

6. Intervention start date:
Known dates presented in points 1 and 5.

d) Sparekassen Ostjylland (consolidation package) – since 12 April 2012 under FS management; in autumn 2012 converted to credit company – FS Finans I.

7. Course of intervention and financial support:
See point 5.

8. Financial support amounts:
No details available.

9. Prerequisites for financial support:
The bank was taken under total control; therefore, there were no prerequisites for granting support, except the economic viability of the applied solution.

10. Market reaction to granting financial support:
Three banks were listed on the stock exchange, but historical quotations are not available at free web sites. The banks most likely had incurred losses during earlier periods, which might have been reflected in the quoted share prices.

a) Amagerbanken–trading of the bank shares was suspended on NASDAQ OMX Copenhagen on 5 February 2011; from 31 January to 4 February 2011, the share price dropped from DKK 3.53 to 3.45.

b) Fjordbank Mors –trading of the bank shares was suspended on NASDAQ OMX Copenhagenon 24 June 2011; from 20 June to 24 June 2011, the share price dropped from DKK 20 to 13.

c) Max Bank –trading of the bank shares was suspended on NASDAQ OMX Copenhagenon 10 October 2011; from 3 to 10 October 2011 the share price dropped from DKK 7.95 to 7.8.

11. Repayment of financial support and market reaction:
Restructuring process within Finansiel Stabilitet in progress.

12. Did the bank manage to improve its financial standing?
The entities did not carry out restructuring as independent units. Selected financial data presented in point 13.

Continued

13. Additional remarks and comments:

Upon expiration of the bank package and the credit package, another two came into effect: **the exit package**– on 1 October 2010 and **the consolidation package**– in September 2011 (adopted in June 2011). The exit package was adopted on 1 June 2010 and the fund in charge of guaranteeing deposits and compensation for investors (guarantee fund) created a dedicated department responsible for bank winding-up. Financial risk related to the exit and consolidation packages is attributed to the guarantee fund. The exit package does not ensure – in opposite to previous tools – full protection of creditors. The bank in difficulty makes a choice – whether to use the exit package or rely on standard procedures stipulated in law. If the exit package is chosen, the bank customers may use its services in a continuous and undisturbed manner, thanks to Finansiel Stabilitet taking over the bank. The consolidation package was created to encourage the banks with good financial standing to take over the banks in difficulty, with the support of the deposit guarantee scheme and FS. Two models of consolidation were provided for:

– model 1 – the bank fully takes over (except for capital and subordinated debt) the bank in difficulty and may receive financial support; this solution should be more beneficial for FS than the exit package; if three years upon the takeover the acquired bank generates higher profits for the acquiring bank than planned, the earn-out clause comes into force, which enables FS to participate in extra profits;

– model 2 – FS takes over the bank in difficulty and splits it into two parts: good and bad. Both parts may receive financial support that corresponds to the scale of the loss. For the good part, an investor is being sought to take over assets and liabilities.
Three out of four banks covered by the packages had received capital injections earlier, within the credit package. As that did not improve their standing, the funds committed by the state treasury were under threat. At the end of 2011, the related loss was estimated at DKK 3.5 billion.

million DKK

Exit package and consolidation package	31 December 2011	31 December 2012	31 December 2013
Financial results of:			
Amagerbanken (Finans III)	128	115	21
Fjordbank Mors (Finans IV)	–285	–461	–112
Max Bank (Finans II)	19	85	46
Sparekassen Ostjylland (Finans I)	–	28	20

Roskilde Bank

1. Name:
Roskilde Bank

2. Country of registration:
Dania

3. Activity abroad:
No. Local bank.

4. Date of disclosure of financial difficulties and main reasons:
10 July 2008. The main reason was excessive real estate financing.

5. Intervention initiator:
Danish Central Bank

6. Intervention start date:
10 July 2008.

7. Course of intervention and financial support:

a) Danish central bank provides the bank with access to liquidity and the banks' association (via Det Private Beredskab – Private Contingency Association – PCA) agrees to conditionally cover DKK 750 million loss of the mortgage loan portfolio. Government grants a guarantee to the central bank for potential loss – since 11 July 2008.
b) Searching for the investor to take over the bank – from 11 July 2008 to 24 August 2008.
c) EC approval for bank rescue package (IP/08/1222)
d) The bank is taken over by the central bank and Det Private Beredskab – 24 August 2008.
e) The bank sells 21 branches to other banks operating in Denmark (nine branches – Nordea, seven – Spar Nord Bank and five – Arbejdernes Landsbank –29 September 2008
f) Finansiel Stabilitet A/S takes over bank restructuring issues – 10 August 2009; Agreement concluded on 21 July 2009.
g) Sale of remaining part of retail business to Arbejdernes Landsbank – January 2011.
h) As part of structural reorganisation in Finansiel Stabilitet Roskilde, the bank became a part of FS Finans, while demanding customers using bank services were migrated to FS Bank

8. Financial support amounts:

a) DKK 750 million on condition an investor is found
b) –
c) –
d) capital injection of DKK 4.5 billion
e) Nordea paid DKK 351 million for customer portfolio, including deposits of DKK 2.7 billion; Spar Nord Bank paid DKK 181 million for customer portfolio, including deposits of DKK 1.6 billion; Arbejdernes Landsbank acquired, among others, deposits of DKK 0.5 billion – price information not available.
f) Upon another review of books, the bank's losses increased from DKK 3.8 billion to DKK 6.6 billion
g) –
h) –

Continued

Roskilde Bank continued

9. Prerequisites for financial support:
The bank was taken under total control so no prerequisites were set for granting support.

10. Market reaction to granting financial support:
The bank share price fell by 43 per cent since 10 July. Shares lost 90 per cent in the record month of April 2007. On 22 August the share price decreased by 8.4 per cent to SEK 81.5, thus the bank's capital totalled SEK 1.02 billion SEK. Trading of the bank's shares was suspended on 24 August 2008 (Bloomberg).
Moody's:
– 11 July 2008 – long-term rating (for deposits) downgraded from A2 to A3
– 15 July 2008 – Bank Fundamental Strength Rating (BFSR) downgraded from C to D
– 25 August 2008 – BFSR downgraded to E
– 14 October 2008 – ratings withdrawn

11. Repayment of financial support and market reaction:
The bank 'disappears' from the market. Restructuring process within Finansiel Stabilitet in progress.

12. Did the bank manage to improve its financial standing?
In July 2008, the bank defaulted. It did not carry out the restructuring process as an independent entity. See point 13 for selected financial data.

13. Additional remarks and comments:

Roskilde Bank was Denmark's eighth biggest bank. As at the end of March 2008, its balance sheet total was nearly DKK 43 billion. Upon disclosure of problems and unsuccessful search for the investor, the central bank and the company of the banks' association (PCA) took over Roskilde Bank on 24 August 2008, dividing it into 'good bank' and 'bad bank' to carry out the restructuring process. The bank was not covered by 'the bank package' arising from legal solutions passed by the Danish parliament. Under the agreement with Finansiel Stabilitet dated 21 July 2009 the bank's assets and liabilities were transferred, on 10 August 2009, to that company for winding-up. PCA and Denmark's government provided Finansiel Stabilitet with guarantees for a total amount of DKK 18.9 billion until the end of 2010. In January, as part of winding-up of former Roskilde Bank, the retail department, along with its customers, was sold to Arbejdernes Landsbank. Within the framework of Finansiel Stabilitet's internal reorganisation conducted in 2011, the remaining assets and liabilities were transferred to FS Finans, and the customers – to FS Bank. Since 2011, Finansiel Stabilitet's reports have not contained the P&L and balance sheet of Roskilde Bank.

million DKK

Roskilde Bank (afterwards Selskabet af 1. September 2008 A/S)	**10 August 2009**	**31 December 2009**	**31 December 2010**
Acquisition loss		6,818	0
Provision write-offs		0	2,663
P&L		- 6,604	- 2,327
Equity	-95	2,104	2,586
Subordinated debt	1,000	1,000	1,000

FRANCE

Introduction (re. Crédit Agricole, Crédit Mutuel, Groupe Banque Populaire, Société Générale)

a) On 20 October 2008, the French Government announced that by the end of 2008 a special purpose entity (*Société de prise de participation l'état*, SPPE) would be in a position to subscribe to a total issue of EUR 10.5 billion of subordinated debt instruments from selected French credit institutions. The instruments were issued in the form of hybrid securities (subordinated debt notes classed as non-core Tier 1 capital). For the initial five years, the coupon should be fixed; thereafter, the instruments were expected to bear a variable interest rate. The yield (ca. eight per cent per annum) was to reflect solvencies of the respective institutions via a mechanism of credit default swaps, CDSs, which linked the cost of credit with the changing creditworthiness perceptions of the issuers involved.

b) Further, following an approval from the European Commission (EC) (granted 8 December 2008), the French Government makes the aforementioned subscription through perpetual super-subordinated notes.

c) On 24 October 2008, the French Finance Ministry announced a financial support facility totalling EUR 5 billion via lending from Société de Financement de l'Economie Française (SFEF) to seven French banks (*inter alia*, Banques Populaires, Caisse d'Epargne, Crédit Agricole, Crédit Mutuel and Société Générale). To finance the operation, the SFEF borrowed capital from Caisse des dépôts et consignations (CDC) on the back of government guarantees. Specific financial conditions of the operation were not made public. The disclosed information was limited to estimating CDC's costs (equivalent to the three-month Euribor plus 0.40 per cent).

The public support was contingent on commitments by the beneficiary banks to expand loans and credit guarantees to French borrowers (in particular households, enterprises and local governments)

Crédit Agricole

1. Name:
Crédit Agricole

2. Country of registration:
France

3. Activity abroad:
Crédit Agricole ranks among the largest global banks, operating through a network of branches, subsidiaries, associates and in cross-border form. Principal markets: Africa: Algeria, Egypt, Morocco, Tunisia; Asia: Brunei, China, Hong Kong, India, Japan, Malaysia, Russia [definition by Crédit agricole], Singapore, South Korea, Taiwan; Europe: Albania, Belgium, Bulgaria, the Czech Republic, Finland, France, Germany, Greece, Ireland, Italia, Luxembourg, Monaco, Poland, Portugal, Romania, Serbia, Spain, Sweden, Switzerland, Netherlands, Ukraine, the UK; Middle East: UAE; North America: Canada, the USA; Oceania: Australia; South America: Brazil.

4. Date of disclosure of financial difficulties and main reasons:
2008 – Crédit agricole, following a dynamic expansion (by various counts, the bank had been ranked 1–15 among the largest global banking institutions), core business growth and diversification domestically and internationally (in part driven by mergers and acquisitions, M&A), was hard hit by the global interbank market freeze. Besides aggressive product and geographic expansion (inaugurated before the global financial crisis), Crédit Agricole's difficulties were occasioned by substantial exposure to the subprime and collateralized debt obligation (CDO) markets.

5. Intervention initiator:
The Government of France

6. Intervention start date:
11 December 2008

7. Course of intervention and financial support:
a) Cf. Introduction
b) On 11 December 2008, the French Government subscribed to EUR 3 billion in perpetual super-subordinated notes yielding 8.33 per cent for the initial five years, thereafter carrying interest based on the three-month Euribor. Redemption by the issuer could be made after five years. Early redemption required the consent of the French financial services authority, while the redemption price was to range within 101–111 per cent (depending on maturities)
c) Cf. Introduction
d) On 6 November 2008, the French Government moved to set up a fund supporting lending activities to local governments. On this account, Crédit agricole was equipped with EUR 950 million

8. Financial support amounts:
a) EUR 3,000 million: issue of perpetual super-subordinated debt instruments
b) an unknown part of the EUR 5,000 million lending from CDC (assuming equal shares of the beneficiaries, this would amount to ca. EUR 714 million)
c) EUR 950 million worth of aid to local authorities

9. Prerequisites for financial support:
Cf. Introduction.

10. Market reaction to granting financial support:
The bailout disclosure triggered a one-off uptick in the stock price. The countdown to the intervention featured steady, moderate stock price growth, which was reversed following the bailout. A dramatic price drop preceded the aid repayment. It came to a halt following the repayment date.

Continued

Crédit Agricole continued

11. Repayment of financial support and market reaction:

YES. On 27 October 2009, EUR 3 billion of the SPPE-sponsored financial aid was returned. In anticipation of the repayment, Crédit Agricole stock plummeted. It levelled out upon the repayment. The fate of other financial aid remains unknown.

12. Did the bank manage to improve its financial standing?

NO. Although the economic position of the bank (measured via ROE and ROA) staged an upswing in 2013, this did not help overcome profound profit erosion suffered since 2006, in particular, a downright loss sustained in 2012. It is worth noting that the bank's solvency ratio was on the steady rise in the surveyed period while its deposits/credits coverage edged up at the end of the period.

13. Additional remarks and comments:

Attesting to the bank's ephemeral recovery, its net income shrank in the first half of 2014 (by 11.8 per cent in year-over-year terms). In particular, Crédit Agricole was forced to write down (to nil) its stockholding in the Portuguese BES, which (alongside a loss recorded by this entity) slashed Crédit Agricole's earnings, by EUR 708 million. Such problems epitomize challenges faced by this banking group: slow business dynamics in the domestic market and uncertain prospects of the restructuring undertaken to date.

Selected ratios of Crédit Agricole

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.54%	0.42%	0.16%	0.18%	0.24%	0.06%	–0.18%	0.32%
ROE	11.95%	9.27%	4.26%	4.11%	5.28%	1.47%	–5.11%	8.03%
CAR	10.00%	9.60%	9.90%	10.90%	11.70%	13.50%	14.00%	16.30%
deposits/credits	88.50%	88.81%	87.11%	85.14%	86.68%	73.94%	87.74%	93.46%

Crédit Immobilier de France

1. Name:
Crédit Immobilier de France (CIF)

2. Country of registration:
France

3. Activity abroad:
CIF has not conducted any foreign activity. Its presence has been restricted to France, where it has maintained a network of 300 agencies and nine regional centres. From the organizational standpoint, CIF's structure is built around Crédit immobilier de France Développement (CIFD), the central entity (and consolidation vehicle) for the entire CIF Group.

4. Date of disclosure of financial difficulties and main reasons:
In the wake of the long-term effects of the last global financial crisis, since the second half of 2012, CIF had been running out of financial liquidity, which prompted steep credit rating downgrades. The underlying cause of these financial difficulties was an erroneous business model adopted for the bank – particularly vulnerable to subprime strains. The bank was targeting mass-market customers (oftentimes earning subpar or average incomes). Additionally, the bank's financial structure proved particularly lopsided – sluggish deposit taking and interbank refinancing were accompanying aggressive crediting. Attempts at luring an eligible acquirer to take over CIF failed.

5. Intervention initiator:
The Government of France (assisted by the Bank of France).

6. Intervention start date:
Due to a liquidity crunch, on 24 January 2013 CIF held a shareholders' meeting featuring a government guarantee project, which – upon adoption – was referred to the European Commission (EC). On 28 February 2013, the French Republic, CIFD, 3CIF, CIF Euromortgage, CIF Assets and the Bank of France concluded the final wording of a 'preliminary guarantee scheme'.

Continued

7. Course of intervention and financial support:

See – Points 6 and 8.

8. Financial support amounts:

The bilateral guarantee covered:

1) new securities issued by 3CIF totalling up to EUR 7 billion (to bolster CIF assets),
2) financial obligations from 3CIF to acquire the assets of CIF and CIF Euromortgage up to EUR 11 billion, which was supposed to ensure broader access to financing.

The cost of (yield on) the first instrument was supposed to equal 0.3 per cent for securities maturing between 3 and 12 months and 1.0 per cent for longer-dated maturities (capped at 3 years).

The second instrument was supposed to yield 1.6 per cent (for deposits shorter than 3 months) and identically as in the first category of instruments (for longer-dated deposits).

In the first half of 2013, the French Government advised the European Commission of its inability to achieve the CIF liquidation within the envisaged period. Further to this motion, the European Commission authorized an extension of the guarantee scheme to 28 November 2013 and a EUR 1 billion of additional capital for the first category of aid (due to its instalment falling due).

On 6 November 2013, an Extraordinary General Meeting of Shareholders reviewed a winding-up strategy for CIF Group under which the bank's equity would be equally distributed among the State Treasury of the French Republic and the shareholders, the final step of this strategy being set for 2020.

9. Prerequisites for financial support:
To cover the guarantees, CIFD contributed (to the French Republic) collateral composed of its subsidiaries: 3CIF, CIF Euromortgage, BPI and SFR. Under the contractual provisions, an audit committee was established to oversee the aid program (staffed by French Government officials appointed by the Treasury Department). The ultimate goal was to wind up gradually CIF.

10. Market reaction to granting financial support:
The world media reaction to the financial troubles of and aid solicited by CIF Group was highly critical. The criticism revolved around the bank's management standards, initial business assumptions, and non-existent controls (internal and external, including the French financial regulator), as well as inconsistencies in applying free-market principles to the institution.

11. Repayment of financial support and market reaction:
NO.

12. Did the bank manage to improve its financial standing?
NO. CIF Group saw deterioration of most measures related to profitability (e.g. ROE, ROA), balance sheet structure (deposits/loans), and solvency (this multiple was ominously hovering near a recommended floor of 12.00 per cent).

13. Additional remarks and comments:
CIF's restructuring is, on the one hand, emblematic of ineffective management controls by supervisors, on the other hand, reveals a misguided expansion strategy and serves as a textbook case for moral hazard – whose ultimate costs are to be borne by the French taxpayer.

Selected ratios of Crédit Immobilier de France

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	n/a	n/a	n/a	5.91%	0.14%	0.12%	0.07%	–0.97%
ROE	n/a	n/a	n/a	1.53%	3.41%	3.03%	1.76%	–27.64%
CAR	n/a	n/a	n/a	n/a	14.63%	14.72%	13.73%	12.25%
deposits/ credits	n/a	n/a	n/a	0.88%	1.47%	1.68%	1.08%	1.02%

Crédit Mutuel

1. Name:
Crédit Mutuel

2. Country of registration:
France

3. Activity abroad:
Developing countries (mainly former French colonies). It cooperates with numerous cooperative banks worldwide (via associations, networks, and credit unions).

4. Date of disclosure of financial difficulties and main reasons:
Exposure to the subprime crisis and investment in Bernard Madoff's Ponzi scheme.

5. Intervention initiator:
The Government of France

6. Intervention start date:
11 December 2008

7. Course of intervention and financial support:
a) Cf. Introduction
b) 11 December 2008 the French Government subscribed to EUR 1.2 bn worth of perpetual super-subordinated notes yielding 8.49 per cent for the initial five years, thereafter tied to a variable three-month Euribor. Redemption by the issuer could be effected after five years. Early redemption required the consent of the French financial services supervisor, whereas the redemption price was ranging between 101 per cent and 111 per cent (depending on individual maturities)
c) Cf. Introduction.

8. Financial support amounts:
a) EUR 1,200 million: issue of perpetual super-subordinated debt instruments
b) an undisclosed part of the EUR 5,000 million lending from CDS (assuming equal contributions from all the beneficiaries this would amount to EUR 714 million).

9. Prerequisites for financial support:
Cf. Introduction.

10. Market reaction to granting financial support:
The entity is not listed on a regulated market/on a stock exchange.

11. Repayment of financial support and market reaction:
YES. The entity is not listed on a regulated market/on a stock exchange.

12. Did the bank manage to improve its financial standing?
YES. Despite the profitability (for example ROE and ROA) did not fully recover to pre-crisis levels, its growth was impressive. This was accompanied by stable deposits/credits and soaring solvency ratios.

13. Additional remarks and comments:
Crédit Mutuel is considered one of the best-managed and most vibrant institutions across the entire French banking industry (which displays a variety of systemic challenges and constraints). Crédit Mutuel is capable of combining improvement of operating profitability with sound capital adequacy, which is rare not only in France but also in the entire European banking sector.

Selected ratios of Crédit Mutuel

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.48%	0.37%	0.01%	0.19%	0.37%	0.22%	0.23%	0.30%
ROE	16.52%	12.98%	0.30%	6.57%	10.35%	6.17%	5.80%	6.81%
CAR	b.d.	10.84%	8.98%	9.97%	10.80%	11.00%	14.10%	15.80%
deposits/credits	84.27%	69.56%	75.08%	76.52%	68.69%	75.73%	71.61%	73.42%

Groupe Banque Populaire

1. Name:
Groupe Banque Populaire

2. Country of registration:
France

3. Activity abroad:
Groupe Banque Populaire is a French cooperative bank group present in 70 countries worldwide (with a particular focus on: Americas, Asia and Pacific as well as EMEA. The group operates through branches, subsidiaries, associates, and cross-border ventures).

4. Date of disclosure of financial difficulties and main reasons:
The root cause of the problems related to the operations of Natixis in which Groupe Banque Populaire (and Caisse d'Epargne) maintained substantial stakes. Natixis' losses surfaced amid the subprime crisis when Natixis' stock shed 95 per cent of its market value. Another factor was Natixis' involvement in Bernard Madoff's Ponzi scheme (EUR 450 million in losses) and EUR 2 billion lost in the Eurotunnel project.

5. Intervention initiator:
French Government

6. Intervention start date:
11 December 2008

7. Course of intervention and financial support:
a) Cf. Introduction
b) On 11 December 2008, the French Government made a subscription for EUR 950 million in perpetual super-subordinated notes, details of this support were not made public
c) Cf. Introduction
d) On 26 February 2009, Groupe Banque Populaire and Caisse d'Épargne agreed to merge. Under the merger, the French Government undertook to contribute a maximum of EUR 5 billion worth of capital to the merged vehicle. The contribution was made through the acquisition of preferred, convertible, non-voting stock and super-subordinated debt notes – contingent upon the consent of the EC.

8. Financial support amounts:
a) EUR 950 million in the form of perpetual super-subordinated notes for Banque populaire, EUR 1,100 million (in the same form) for Caisse d'Epargne
b) an unknown part of the EUR 5,000 million lending from CDC (assuming equal shares of the beneficiaries, this would amount to ca. EUR 1,428 million)
c) EUR 5,000 million: the French Government's acquisition of preferred, convertible, non-voting stock and super-subordinated debt notes

9. Prerequisites for financial support:
Cf. Introduction.

10. Market reaction to granting financial support:
The entity is not listed on a regulated market/on a stock exchange. The merger announcement helped boost the credit ratings and their outlooks.

11. Repayment of financial support and market reaction:
YES. The entity is not listed on a regulated market/on a stock exchange. The merger announcement helped boost the credit ratings and their outlooks.

12. Did the bank manage to improve its financial standing?
NO. The combined institution (post-merger) did not yet recuperate the profitability (measured through ROE and ROA) for both companies before the crisis. Banque Populaire – largely thanks to the merger – spectacularly improved its solvency, in contrast to a moderate slide by the deposits-to-loans ratio. Caisse d'Epargne dramatically improved the deposits/credits multiple and (gradually) solvency. In total – the merger resulted in superior capital adequacy, yet a decisive turnaround in profitability remains remote.

13. Additional remarks and comments:
Owing to their combination (as of 2009), both entities (Banque Populaire and Caisse d'Epargne) have been analysed together for the purposes of this research. It would be premature to judge the ultimate success or failure of the merger (any potential synergies are expected to materialize in the end); however, the rationale for the merger appears to be robust. The potential for improved competitiveness and operating profitability thus can be viewed with cautious optimism.

Selected ratios of Groupe Banque Populaire

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	1.23%	0.07%	–0.43%	0.05%	0.35%	0.24%	0.19%	0.24%
ROE	25.82%	1.53%	–11.90%	1.12%	7.09%	5.49%	3.95%	4.59%
CAR	n/a	n/a	n/a	10.90%	11.60%	11.60%	12.50%	14.40%
deposits/credits	91.28%	89.10%	77.16%	72.82%	70.98%	72.43%	78.13%	79.68%

Société Générale

1. Name:
Société Générale (SocGen)

2. Country of registration:
France

3. Activity abroad:
YES. Société Générale is a leading financial institution in the euro area. The group, operating through, branches, subsidiaries and associates, employs more than 160,000 staff in 77 countries, and is active in three main business lines: 1) retail banking and specialty finance – more than 24 million retail customers worldwide, 2) global investment management and services – one of the largest banks in the euro area by assets under deposit and management, 3) corporate and investment banking: cooperates with corporate customers, institutions and investors worldwide.

4. Date of disclosure of financial difficulties and main reasons:
Among the reasons for SocGen's woes was aggressive exposure to new, risky business activities and hectic international expansion (organic and via mergers and acquisitions, M & A) – accompanied by inadequate operating controls. It led to two major media shocks (having fundamental justification):

1) On 24 January 2008, crystalizing a transaction loss (EUR 4.9 billion) triggered by Jérôme Kerviel and linked to a series of fraud counts.
2) On 15 March 2009, disclosure by US insurance giant AIG that SocGen acted in the past as AIG's key business counterparty in credit default swap (CDS) trading; and without financial aid to AIG by the US administration would have netted a loss estimated at USD 11 billion.

Another challenge to the bank's position is SocGen's close ties to the euro area plagued by crises in many of its member states.

5. Intervention initiator:
The Government of France

6. Intervention start date:
11 December 2008

7. Course of intervention and financial support:

a) Cf. Introduction.
b) On 11 December 2008, the French Government made a subscription to EUR 1.7 billion in perpetual super-subordinated notes yielding 8.18 per cent for the initial five years, thereafter tied to a variable three-month Euribor. Redemption by the issuer could be effected after five years. Early redemption required the consent of the French financial services supervisor, whereas the redemption price was ranging between 101 per cent and 111 per cent (depending on individual maturities)
c) Cf. Introduction.

8. Financial support amounts:

a) EUR 1,700 million: an issue of perpetual super-subordinated debt notes
b) an unknown part of EUR 5,000 million lending from CDC (assuming equal shares of the beneficiaries, this would amount to ca. EUR 714 million)

9. Prerequisites for financial support:
Cf. Introduction.

10. Market reaction to granting financial support:
The disclosure of the support was not associated with any substantial stock price moves. The support implementation was preceded by a moderate downward trend, thereafter followed by price stability.

11. Repayment of financial support and market reaction:
The repayment (made on 4 November 2009) went down very well with investors, shortly before this event a falling trend it the stock price was reversed, whereas the repayment date prompted a bull market in SocGen stock.

12. Did the bank manage to improve its financial standing?
NO. Not only did the profitability (measured by ROE and ROA) not recover to pre-crisis levels, but also it is hard to construe its reversal in 2013 as definitive. SocGen in the surveyed period displayed a rising solvency ratio and a moderately falling trend in deposits/credits coverage.

13. Additional remarks and comments:
The bank is regarded as one of the most innovative banking institutions in Europe (especially in the investment banking domain). The bank's problems during the last global crisis – besides inadequate operating controls – arose from dynamic product and service development in business lines imbued with considerable volatility.

Selected ratios of Société Générale

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.60%	0.15%	0.25%	0.11%	0.38%	0.24%	0.10%	0.20%
ROE	17.30%	5.13%	6.78%	2.37%	8.44%	5.45%	2.23%	4.67%
CAR	11.11%	8.87%	11.60%	13.00%	12.10%	11.90%	12.70%	14.70%
deposits/credits	119.75%	106.42%	93.42%	94.65%	93.80%	99.45%	107.45%	104.16%

GERMANY

Aareal Bank Group

1. Name:
Aareal Bank Group

2. Country of registration:
Germany

3. Activity abroad:
The group conducts cross-border activities, mainly in the form of subsidiaries in Europe (majority of countries in Western Europe, but also Poland, the Czech Republic and Russia), in the US (New York) and in Asia (Singapore).

4. Date of disclosure of financial difficulties and main reasons:
11 November 2008: losses from derivative transactions fall in the value of securitized portfolio of securities-weight, mainly due to mark-to-market valuation. In order to limit losses the bank reclassified part of assets (valued at amortized cost). The bank's losses were, to a more significant extent, the effect of lower results on financial operations, while provisions for credit risk were initially stable.

5. Intervention initiator:
Government

6. Intervention start date:
15 February 2009

7. Course of intervention and financial support:
a) capital injection from SoFFin from 15 February 2009 (in the form of a 'silent participation', for the purpose of increasing Tier 1 capital ratio to 10 per cent)
b) guarantee from SoFFin for the issue of unsecured bank securities with maximum maturity of 3 years (since 15 February 2009)

8. Financial support amounts:
a) EUR 525 million
b) EUR 4,000 million

9. Prerequisites for financial support:
- annual 9 per cent coupon for the recapitalization
- annual fee of 0.1 per cent for the unused amount of the guarantee
- no voting right for SoFFin and no influence on the holding structure and no diluting of shareholders (maintaining a blocking minority of Aareal Holding)
- provision of aid is not conditional on changes in the business model/strategy or in the conduct of business and corporate governance of the bank

10. Market reaction to granting financial support:
Fitch did not change A– rating of the bank during 2006–2013 (confirmed on 9 March 2010, 12 April 2012 and 28 February 2014).

Moody's and S&P do not rate Aareal Bank.

In September 2008, there was a collapse in the bank's share price by almost 70 per cent and by 30 per cent before disclosure of problems. No significant changes in the share price during the period when the aid was granted. However, since mid-March 2009 to May 2009, the share price increased by 150 per cent.

11. Repayment of financial support and market reaction:

The aid was almost fully repaid to SoFFin (repayments were made after permission from BaFin):

Repayment of EUR 150 million (28 June 2010)

Repayment of EUR 75 million (14 April 2011)

Repayment of EUR 300 million (30 October 2014)

Fitch's rating did not change in response to repayments and after paying off the last part of the capital, Fitch has issued a statement (on 31 October 2014) that the repayment does not affect the rating, indicating a preventive character of the capital support rather than an intervention. Aareal Bank is not rated by Moody's and S&P.

No significant changes in the share price in response to repayments.

12. Did the bank manage to improve its financial standing?

Yes. The bank is developing. At a small rate both the deposit base and lending to non-financial sector are increasing (ratio of deposits/credits remains at about 100 per cent). Provision costs remain relatively stable, while profit is steadily increasing (during 2006–2013 the bank did not record losses).

Therefore, profitability ratios remain at a relatively good level. Capital base is also growing steadily and capital ratios are improving significantly (up to 24.5 per cent in 2013), including ratios of capital of the highest quality.

Still, in the analysed period, a low interest rate environment and the bank's conservative investment strategy negatively affected the growth of the bank's deposit base and interest income.

13. Additional remarks and comments:

Aareal Bank Group was established in 1923. It is based in Wiesbaden and specializes in conducting and financing real estate transactions, primarily commercial, but also residential and infrastructure investment projects (Aareal Bank). The bank also offers related consulting services, including IT (Areon Group) and settlement services related to transactions on the property market (e.g. rent payments, rental). The bank has significantly expanded its international operations, and it is a key issuer of mortgage bonds.

The recapitalization allowed the bank to obtain financing at lower costs. The bank committed itself to repay the capital injection as soon as possible. In 2008 and 2009 Aareal did not pay out dividend, which would entail an increase in fees for the support (dividend was paid as early as in 2014). Because of the crisis, the bank has not substantially altered its business model, still focusing on the two-abovementioned business lines. The bank also has not been nationalized. Since 2011 Aareal has been buying back, before the maturity, securities issued with SoFFin guarantees, reducing the scale of the granted guarantee. The bank took advantage of the ECB liquidity support (LTRO) of EUR 1 million (but it has paid it back on 28 February 2013), lower cost of financing in the market and increased liquidity as a result of central bank operations.

Selected ratios of Aareal Bank Group

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.3%	0.8%	0.1%	0.1%	0.2%	0.3%	0.3%	0.3%
ROE	9.1%	18.9%	3.2%	1.1%	4.7%	6.1%	5.4%	5.6%
CAR	12.1%	11.2%	12.0%	15.5%	16.5%	19.5%	20.6%	24.5%
deposits/credits	102.0%	98.2%	113.8%	109.0%	104.9%	98.8%	116.5%	95.1%

Bayerische Landesbank

1. Name:
Bayerische Landesbank (BayernLB)

2. Country of registration:
Germany

3. Activity abroad:
Yes. The bank has branches or representative offices primarily in CEE countries and in the Balkans, Switzerland, Luxembourg, the United States and the UK.

4. Date of disclosure of financial difficulties and main reasons:
13 February 2008: losses from the portfolio of structured ABS that resulted in capital reduction

5. Intervention initiator:
Government and Land of Bavaria

6. Intervention start date:
4 Dec 2008

7. Course of intervention and financial support:
a) recapitalization from Hypo Group Alpe Adria (from 10 December 2008)
b) recapitalization from the Land of Bavaria (from 19 and 30 December 2008 and from 30 January 2009)
c) protection against losses from subprime ABS portfolio by the Land of Bavaria (since 19 December 2008)
d) protection for liquidity loans from SoFFin (12 December 2008)

8. Financial support amounts:
a) EUR 700 million
b) EUR 10,000 million
c) EUR 6,000 million
d) EUR 15,000 million

9. Prerequisites for financial support:
- increase in the voting rights and in share of the Land of Bavaria up to 94 per cent
- 10 per cent dividend for recapitalization
- protection against losses from the portfolio can be used only when they exceed EUR 12,000 million
- annual fee of 0.4–0.7 per cent for the protection mechanism
- reducing the scale of operations and focusing on key areas and the domestic market
- reduction of costs and of the balance sheet

10. Market reaction to granting financial support:
Moody's reviewed rating C (negative outlook) on 25 March 2008 and reduced it to D– on 13 May 2009. No response from Fitch.
A small drop in the share price within 10 days after disclosure problems and within 10 days after the start of the intervention/granting aid.

11. Repayment of financial support and market reaction:

Partial repayment.

The repayment of EUR 350 million on 23 November 2012 and of EUR 750 million on 8 February 2013, 8 July 2013 and 7 November 2013, respectively.

No significant changes in the share price.

No response from Moody's or Fitch.

12. Did the bank manage to improve its financial standing?

No. The bank is reducing the scale of its operations – balance sheet decreases. The bank is not developing – lending and deposit base from non-financial sector remain relatively stable. Impairment costs significantly weight on financial results and profitability ratios are very low. Capital adequacy is improving, but this is largely due to deleveraging than strengthening the capital base. The bank is significantly reducing its investment portfolio.

13. Additional remarks and comments:

BayernLB is an international commercial bank, whose majority owner is the Land of Bavaria. It is one of the largest banks in Germany. BayernLB provides retail banking services, corporate banking, investment, and leasing services. It functions as a public bank, a settlement bank of the Land and as a clearinghouse for cooperative banks.

Selected ratios of Bayerische Landesbank

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.3%	0.0%	–1.2%	–0.8%	0.2%	0.0%	0.3%	0.0%
ROE	8.0%	0.7%	–45.8%	–18.6%	4.6%	0.7%	4.9%	0.8%
CAR	10.7%	11.4%	12.3%	17.0%	15.5%	15.6%	18.0%	19.4%
deposits/credits	76.1%	76.3%	80.0%	78.6%	80.6%	81.3%	82.7%	86.7%

Commerzbank

1. Name:
Commerzbank

2. Country of registration:
Germany

3. Activity abroad:
The bank has a very extensive international network and is present in more than 30 countries. Outside the German market, it has subsidiaries (usually with 100 per cent share) in Western Europe (including France, Austria, and Luxembourg), CEE countries (including Poland, Hungary) and representative offices in many countries around the world.

4. Date of disclosure of financial difficulties and main reasons:
3 November 2008: large exposure to bonds of peripheral euro area countries, high credit risk provisions (exposure to the real estate market) and losses on trading operations (also from previously merged Dresdner Bank AG)

5. Intervention initiator:
Government

6. Intervention start date:
31 December 2008

7. Course of intervention and financial support:
a) Bank recapitalization from SoFFin on 31 December 2008
b) Guarantees from SoFFin on bonds issued by the bank from 31 December 2008 to 31 December 2009
c) Bank recapitalization from SoFFin on 8 January 2009

8. Financial support amounts:
a) EUR 8,200 million
b) EUR 15,000 million
c) EUR 10,000 million

9. Prerequisites for financial support:
- coupon of 9 per cent per annum on the amount of recapitalization (EUR 8.2 billion) and interest based on variable dependent on the proportion of the dividend paid
- interest of 0.5 per cent – 0.948 per cent for the guarantee
- reduction in total assets by almost half
- acquisitions ban
- limitations on product offers and increase in lending to SMEs
- reduction of loans for commercial real estate
- no dividend payment for 2008 and 2009
- restrictions on redemption of shares
- liquidation of the mortgage bank (subsidiary of Commerzbank) Eurohypo from 30 March 2012
- German government became a shareholder with 25 per cent of shares

10. Market reaction to granting financial support:
Moody's lowered outlook for rating C to negative from stable on 13 January 2009 and downgraded rating to C– on 2 March 2009.
No rating change by Fitch Ratings.

S&P confirmed rating of A/A–1 for Commerzbank on 12 January 2009.

From August 2008 to March 2009, share price was steadily declining and as a result dropped by almost 90 per cent. It constantly remains at a low level, despite partial repayment of the state aid.

11. Repayment of financial support and market reaction:

Repayment of EUR 15,300 million on 7 June 2011.

On 29 May 2013 repayment of EUR 1,600 million (reduction of government share from 25 per cent to 17 per cent).

No response from Moody's.

Fitch confirmed rating of A+ on 24 April 2013.

S&P lowered rating from A to A– on 28 May 2013.

No significant changes in the share price before and after repayment on 7 June 2011 and 29 May 2013.

12. Did the bank manage to improve its financial standing?

No. Financial condition of the bank has not improved significantly. Financial result remains on a very low level, which is reflected in low ROA and ROE. High impairment costs burden the profit significantly over the period 2008–2011. The level of capital adequacy improved significantly only from 2012 onwards. This, however, is a result of deleveraging and RWA reduction, since level of equity did not change significantly from the recapitalization at the turn of 2008/2009. The bank is reducing its size and lending activity, and increasing deposits base, which results in a gradual improvement of deposits/credits ratio.

13. Additional remarks and comments:

Commerzbank is the second largest bank in Germany and one of the largest European banks. It also conducts business operations in many other countries. Commerzbank is a universal bank providing services to both retail and corporate customers, as well as large international institutions.

On 12 January 2009, Commerzbank acquired Dresdner Bank AG from Allianz and merged with it in May 2009. At the end of the first quarter 2009, Commerzbank created an internal bad bank to manage impaired assets of Commerzbank and Dresdner Bank AG.

In 2009, the bank decided to cut its administrative costs, including bonuses and personnel costs of the management board and supervisory board. Since 2008, the bank has not paid dividends.

In response to the crisis, the bank has changed its business strategy focusing on key business lines, on the domestic market, and exploiting synergies after the merger with Dresdner Bank, which led to a reduction in administrative costs and employment. Principles of (mainly credit and market) risk management have also improved.

On 7 May 2009 the European Commission approved the bank's restructuring plan (it is envisaged to last until the end of 2015), which includes, *inter alia*, liquidation of subsidiary Eurohypo (since 30 March 2012).

Selected ratios of Commerzbank

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.3%	0.3%	0.01%	–0.55%	0.20%	0.11%	0.01%	0.03%
ROE	14.20%	15.40%	0.30%	–17.43%	5.20%	3.01%	0.21%	0.62%
CAR	11.10%	10.80%	13.90%	14.80%	15.30%	15.50%	17.80%	19.20%
deposits/credits	72.1%	78.2%	59.8%	75.1%	80.2%	86.1%	95.5%	112.7%

HSH Nordbank

1. Name:
HSH Nordbank

2. Country of registration:
Germany

3. Activity abroad:
The bank is present by representative offices and branches, *inter alia*, in Greece and Luxembourg, but also in Singapore, Hong Kong, and the United States.

4. Date of disclosure of financial difficulties and main reasons:
8 September 2008: losses on the portfolio of structured finance instruments, increase in credit risk in the bank's portfolio

5. Intervention initiator:
Government, the city of Hamburg, and the Land Schleswig-Holstein

6. Intervention start date:
6 November 2008

7. Course of intervention and financial support:
a) Guarantee from SoFFin on bank bonds (since 6 November 2008)
b) Recapitalization from the city of Hamburg and the Land Schleswig-Holstein (since 30 April 2009)
c) Protection against losses on assets by the city of Hamburg and the Land of Schleswig-Holstein (since 30 April 2009)

8. Financial support amounts:
a) EUR 30,000 million
b) EUR 3,000 million
c) EUR 10,000 million

9. Prerequisites for financial support:
- annual fee of 10 per cent for the recapitalization
- increase in share ownership for city of Hamburg and Land Schleswig-Holstein
- annual fee of 3.5–4.5 per cent for the protection mechanism
- reducing the scale of operations and focusing on key areas and the domestic market
- reduction of costs and balance sheet total

10. Market reaction to granting financial support:
Downgrade by Moody's to D+ from C on 20 November 2008, to D on 20 February 2009 and to E+ on 23 April 2009.

Downgrade by Fitch to C on 30 October 2008, confirmation of rating on 4 November 2008, review on 19 December 2008 and reduction to D/E on 19 February 2009.

The bank is not quoted on the stock exchange.

11. Repayment of financial support and market reaction:

No.

12. Did the bank manage to improve its financial standing?

No. The bank is reducing the scale of its operations (reducing total assets). High rate of decline in lending activity exceeds the modest rate of decline in the deposit base, which is leading to an improvement in deposits/credits ratio. After granting state aid, the bank subsequently recorded losses, which partly resulted from significant impairment costs. Only the capital adequacy ratio is improving.

13. Additional remarks and comments:

HSH Nordbank is one of the largest German landesbanks. It is owned primarily by the city of Hamburg, the Land of Schleswig-Holstein and associations of cooperative banks. The bank conducts settlements for the local government and acts as the affiliating bank. The bank also offers retail and commercial banking services, concentrated on the shipping industry, transport, real estate and energy sectors.

Selected ratios of HSH Nordbank

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.4%	0.1%	–1.3%	–0.4%	0.1%	–0.2%	–0.1%	–0.7%
ROE	18.5%	6.2%	–140.1%	–14.9%	2.0%	–5.5%	–2.4%	–18.0%
CAR	9.9%	10.0%	8.3%	16.1%	22.7%	21.3%	19.1%	23.8%
deposits/credits	73.8%	80.6%	80.9%	70.1%	58.0%	65.8%	80.1%	79.4%

Hypo Real Estate Holding AG

1. **Name:**
   Hypo Real Estate Holding AG
2. **Country of registration**:
   Germany
3. **Activity abroad:**
   Yes. The group conducts extensive operations on the domestic market and has subsidiaries (with the participation of 100 per cent), *inter alia,* in Ireland, Great Britain, Luxembourg, the Netherlands, and in the US.
4. **Date of disclosure of financial difficulties and main reasons:**
   4 October 2008: problems with refinancing (covered bonds) on the interbank market (extensive maturity transformation, liquidity risk), significant exposure to derivatives
5. **Intervention initiator:**
   Government
6. **Intervention start date:**
   6 October 2008
7. **Course of intervention and financial support:**
   Bank recapitalization
   a) 30 March 2009 – recapitalization from the German government through SoFFin by purchase of shares
   b) 2 June 2009 – recapitalization through the purchase of shares by SoFFin
   c) 13 October 2009 – recapitalization through purchase of shares by SoFFin and nationalization of the bank
   d) 30 April 2010 – recapitalization through SoFFin
   e) 14 June 2011 – recapitalization through SoFFin
   f) 30 September 2010 – part of the HRE assets become managed by a bad bank (Financial Market Stabilization Fund)
   Guarantees
   a) guarantee (liquidity support) from the German government (6 October 2008 – 31 December 2009)
   b) 11 November 2008 – 19 August 2009 – SoFFin guarantees bank bond issues
   c) 30 March 2009 – extension of SoFFin guarantee scheme
   d) 23 December 2009 – guarantee
   e) 21 December 2009 – guarantee
   f) 2 September 2010 – liquidity guarantee
   g) 10 September 2010 – additional settlement guarantee
8. **Financial support amounts:**
   Bank recapitalization
   a) EUR 60,000 million
   b) EUR 2,960 million
   c) EUR 3,000 million
   d) EUR 1,850 million
   e) EUR 2,080 million
   f) EUR 195,000 million of assets
   Guarantees
   a) EUR 35,000 million
   b) EUR 52,000 million
   c) EUR 52,000 million
   d) EUR 8,000 million
   e) EUR 10,000 million
   f) EUR 20,000 million
   g) EUR 20,000 million

9. Prerequisites for financial support:

- 30 March 2009 – acquisition of 8.65 per cent in share capital by SoFFin
- 2 June 2009 – increase in SoFFin's share to 90 per cent
- 13 October 2009 – SoFFin share reaches 100 per cent
- a significant decrease in total assets to 31 December 2014
- reduction in lending activity, improvement in operational effectiveness (organizational changes, downsizing)
- coupon of 10 per cent per annum on the part of recapitalization
- fee 0.5–1.5 per cent per annum for guarantees and collateral in the form of shares

10. **Market reaction to granting financial support:**

Downgrade of HRE securities by Moody's from Aa3 to Aa3 on 14 October 2008 and bank rating from C– to E+ on 16 December 2008.

S&P lowered the rating from BBB+ to BBB for HRE on 24.10.2008.

Fitch downgraded HRE's rating from A to A– on 28 October 2008 and confirmed it on 27 November 2008.

52 per cent decrease 10 days prior to the announcement of problems on 4 October 2008 and 17 per cent decrease 10 days after the announcement.

A decrease of 68 per cent within 10 days before the start of the intervention on 6 October 2008 and an increase of 28 per cent within 10 days after the announcement.

11. **Repayment of financial support and market reaction:**

No.

12. **Did the bank manage to improve its financial standing?**

No. The condition of the bank is not improving. It is significantly scaling down its activity, reducing the volume of loans and total assets. Profitability is very low and financial result is null in 2008–2010. Capital adequacy is improving, but because of numerous capital injections. The bank maintains a very low ratio of deposits/credits. The bank lost the ability to generate profit and it is in the process of restructuring.

13. Additional remarks and comments:

Hypo Real Estate Holding AG was financing infrastructure projects and commercial real estate in Germany. It also was one of the largest issuers of mortgage bonds.

On 22 December 2008, HRE shares were excluded from trading on the DAX and then the bank began to be quoted on the MDAX.

HRE is officially in the process of restructuring (since autumn 2009) and does not grant new loans. The restructuring plan notified to the European Commission at the beginning of April 2009. Therefore, a subsidiary of HRE is being wound down and there are plans to sell another subsidiary.

On 5 September 2009, general shareholders of HRE decided to squeeze out the minority shareholders for the benefit of the majority shareholder Financial Market Stabilization Fund (HRE nationalization) and since 14 October 2009 HRE shares have not been listed on the stock exchange.

Selected ratios of Hypo Real Estate Holding AG

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.3%	0.1%	0.0%	0.0%	–0.3%	0.1%	0.1%	0.1%
ROE	9.40%	9.90%	–74.50%	–46.80%	–11.80%	2.50%	1.96%	2.50%
CAR	9.30%	9.40%	8.60%	10.80%	47.70%	44%	42%	40%
deposits/credits	36.7%	52.1%	7.2%	6.7%	24.6%	30.6%	31.5%	38.8%

IKB Deutsche Industriebank AG

1. Name:
IKB Deutsche Industriebank AG (IKB)

2. Country of registration:
Germany

3. Activity abroad:
The group focused on the domestic market, but had subsidiaries (usually with 100 per cent participation), *inter alia,* in Luxembourg, the United States, the Netherlands, the Czech Republic, Hungary, Poland, Russia and France.

4. Date of disclosure of financial difficulties and main reasons:
10 July 2007: IKB provided liquidity to Rhineland Funding Capital Corporation, which invested in the subprime market and issued ABS. IKB also granted a subordinated loan to SPV Rhinebridge and had a significant portfolio of CDO bonds that resulted in losses. Overall exposure of IKB to the subprime market was estimated at EUR 7.7 billion and was mostly in off-balance sheet operations.

5. Intervention initiator:
Supervisory authority, Ministry of Finance

6. Intervention start date:
27 July 2007

7. Course of intervention and financial support:

a) IKB was granted liquidity protection against losses (i.e. a risk shield, initially up to EUR 2.5 billion) from the subprime portfolio of (originally up to EUR 1 billion). The support was granted by the former owner, the KfW (70 per cent of the losses, without limitations), and three banking associations (30 per cent losses, losses limited to EUR 1 billion) in cooperation with BaFin (since 30 July 2007). In addition, banking associations renewed credit lines to IKB, which were revoked at the beginning of the crisis.

b) After the abovementioned measures proved insufficient, IKB was given additional protection from KfW (EUR 150 million) and the association of banks (a total of EUR 200 million) for credit lines (from 30 November 2007). Significant burden on KfW caused an almost two-fold increase in provisioning costs.

8. Financial support amounts:

a) EUR 6,150 million
b) EUR 350 million
c) EUR 2,300 million
d) EUR 19,000 million
e) EUR 5,000 million

c) At the beginning of 2008, based on government's decision, KfW recapitalized IKB, after backing by a conditional loan from the government (from 18 February 2008).

d) While experiencing liquidity issues, IKB requested liquidity support from SoFFin (from 27 November 2008, 31 December 2009 – 31 December 2012, 31 December 2009 – 31 December 2014). IKB intended to use liquidity guarantees to issue securities.

e) In addition, IKB was granted government guarantees on bond issue (2009).

9. Prerequisites for financial support:

- fee for protection mechanism
- limiting involvement in structured financial instruments (since 3 Dep. 2007 on the initiative of IKB)
- withdrawal from financing property market projects
- asset quality review and improvement in risk management (among others, reorganization of risk control process and appointment of a new chief risk officer)
- focusing on the bank's core business (IKB problems were not due to its key area of activity – supporting SME)
- reduction of cross-border activities (among others, a subsidiary IKB International SA Luxembourg)
- reduction of total assets
- annual fees of 0.1–2 per cent for liquidity support

10. Market reaction to granting financial support:

Rating downgrade by Moody's on 31 July 2007 from C+ to C, to D on 6 August 2007, to D– on 4 September 2007, to E+ on 22 January 2008 and to E on 1 April 2008.

Downgrade by Fitch to C on 2 August 2007 and to E on 21 December 2007.

IKB is not subject to rating assessment by the S&P.

A sudden collapse in the share price was observed in late July and August 2007. There was a decrease by almost a half since the disclosure of problems and granting the first support measure. A drop in the share price by another 50 per cent took place prior to granting the second support measure in November 2007. Afterwards the share price was gradually decreasing and since December 2008 (beginning of liquidity support from SoFFin) has remained on a very low level.

Continued

IKB Deutsche Industriebank AG continued

11. Repayment of financial support and market reaction:
No.

12. Did the bank manage to improve its financial standing?
No. The bank is reducing its activities (decrease in total assets by half over the years 2007–2013). Lending activity is diminishing, which, given the increase in the deposit base, results in the improvement of deposits/credits ratio. The bank is recording increasing losses resulting in capital depletion. Losses were mainly due to negative results from the investment portfolio, derivatives, and the need to create provisions for credit risk in an environment of deteriorating economic conditions. As a result, capital adequacy ratio after initial improvement began to deteriorate since 2012.

13. Additional remarks and comments:

IKB is a medium-sized bank based in Düsseldorf, Germany offering commercial banking services mainly to SMEs, large enterprises and financing infrastructure projects. It was considered a systemically important institution in its respective market segments. Before the crisis, in 2007, the bank's majority shareholders were a state owned development bank Kreditanstalt für Wiederaufbau (38 per cent) and the foundation Stiftung Industrieforschung (12 per cent). Investors held the remaining shares.

In the crisis, liquidity risk for IKB increased rapidly. The bank was not able to finance itself on the market upon the freezing of the interbank and mortgage bond markets in Germany. This was particularly evident after the collapse of Lehman Brothers.

KfW initiated the process of selling its shares in IKB and finding a strategic investor. IKB was sold to an investment fund Lone Star on 21 August 2008, which took over 91.5 per cent of IKB shares in the process of IKB restructuring. On 15 January 2011, the restructuring plan was officially notified to the European Commission (IKB announces in the 2013/2014 annual report that the restructuring process was completed). IKB is not subject rating assessment since 30 June 2011.

Selected ratios of IKB Deutsche Industriebank AG

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.2%	0.1%	0.0%	–1.3%	–2.7%	0.2%	–7.0%	–8.7%
ROE	8.4%	3.2%	–0.9%	–33.1%	–103.2%	5.3%	–210.2%	–253.0%
CAR	13.3%	12.2%	9.8%	12.5%	14.9%	15.9%	13.0%	13.8%
deposits/credits	55.0%	53.3%	73.2%	68.4%	74.5%	83.3%	124.7%	134.4%

Note: accounting year ends in March not in December of the given year

Landesbank Baden Württemberg

1. Name:
Landesbank Baden Württemberg (LBBW)

2. Country of registration:
Germany

3. Activity abroad:
The bank was present mainly through branches, *inter alia*, in the Netherlands, Ireland, the UK, Luxembourg, Mexico, the US, and Switzerland, and, among others, in the form of representative offices in Spain, China, Hungary, Italy, Russia, India, France, the Czech Republic, Brazil, Japan, and Austria.

4. Date of disclosure of financial difficulties and main reasons:
31 March 2009: losses on the portfolio of securitized instruments/ABS

5. Intervention initiator:
Government, supervisory authority

6. Intervention start date:
30 April 2009

7. Course of intervention and financial support:
a) recapitalization by LBBW owners (public institutions, from 30 June 2009)
b) guarantee from Land Baden-Württemberg for two portfolios of securitized assets (since 30 June. 2009)

8. Financial support amounts:
a) EUR 5,000 million
b) EUR 1,270 million

9. Prerequisites for financial support:
- fee of 10 per cent for the recapitalization
- repayment from 2014 in five equal annual instalments
- protection mechanism applies only to the second losses from the portfolios
- annual fee for the guarantee
- reducing scale of operations and focusing on key areas and on the domestic market
- improving organizational structure, corporate governance and reduction of costs

10. Market reaction to granting financial support:
Rating review (on 23 June 2009) and its downgrade by Moody's from C to C– on 23 July 2009. Rating reduction by S&P from A+ to A– on 6 May 2009 and confirmation of rating of A– on 20 January 2010).
The bank is not quoted on the stock exchange.

11. Repayment of financial support and market reaction:

Partially:

Repayment of EUR 1,000 million on 28 March 2014.

Moody's confirmed rating of D+ on 6 May 2014 and Fitch confirmed rating A+ on 12 June 2014.

The bank is not quoted on the stock exchange.

12. Did the bank manage to improve its financial standing?

No. The bank is reducing the scale of its operations. Lending activity and deposit base are decreasing (no improvement in deposits/credits ratio). Bank in 2008–2010 recorded losses and in 2011–2013 had a weak profit (low profitability ratios). Only the capital adequacy ratio is steadily improving.

13. Additional remarks and comments:

LBBW is a commercial bank whose business focuses in the *Länder* of Baden-Württemberg, Rhineland-Palatinate and Saxony. It is a universal bank and provides financial services primarily to the SME sector and individual customers in Germany. German states (*Länder*) and unions of cooperative banks own the bank.

Selected ratios of Landesbank Baden Württemberg

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.2%	0.1%	–0.5%	–0.4%	–0.1%	0.0%	0.1%	0.1%
ROE	9.0%	3.0%	–34.9%	–14.1%	–3.6%	0.9%	3.9%	2.5%
CAR	10.6%	9.7%	10.1%	13.3%	15.3%	17.2%	19.7%	22.5%
deposits/credits	83.6%	87.5%	90.1%	97.9%	84.3%	86.2%	89.4%	89.4%

Landesbank Sachsen AG

1. Name:
Landesbank Sachsen AG (Sachsen LB)

2. Country of registration:
Germany

3. Activity abroad:
No.

4. Date of disclosure of financial difficulties and main reasons:
10 August 2007: losses from subprime securities portfolio, problems with liquidity and refinancing on the US market

5. Intervention initiator:
Central bank, supervisory authority, Ministry of Finance

6. Intervention start date:
17 August 2007

7. Course of intervention and financial support:
a) purchase of illiquid securities from bank's fund by a group of regional German banks (20 August 2007 – 23 February 2008)
b) guarantee from the Land of Saxony for bank's SPV for losses from securities portfolio (1 December 2007 – 31 January 2008)

8. Financial support amounts:
a) EUR 17,100 million
b) EUR 2,750 million

9. Prerequisites for financial support:
- purchase of only those securities that could not be sold on the market
- fee for liquidity assistance based on the reference market rates
- annual fee for the unused guarantee
- limiting bank activities in the financial markets

10. Market reaction to granting financial support:
Overview of rating by Moody's on 17 August 2007 (negative outlook). Downgrade by Moody's on 12 December 2007 to E+ from C–.
The bank is not quoted on the stock exchange.

11. Repayment of financial support and market reaction:
No.

12. Did the bank manage to improve its financial standing?
Financial data on a solo basis is not available for the bank, nor is present in the consolidated report of LBBW.

13. Additional remarks and comments:
Sachsen LB is a small regional German bank offering typical bank services: retail banking, commercial banking, and financial market services. On 26 August 2007, the bank was sold to Landesbank Baden Württemberg (LBBW).

Norddeutsche Landesbank

1. Name:
Norddeutsche Landesbank (NordLB)

2. Country of registration:
Germany

3. Activity abroad:
The bank's activities focused on the German market, but it had branches or offices, *inter alia,* in the United States, Luxembourg, the UK, Switzerland, Singapore, China, Russia, Poland, the Netherlands, and France.

4. Date of disclosure of financial difficulties and main reasons:
2 September 2008: large exposure to credit risk in the corporate segment, real estate and shipping industry, problems with refinancing on the market

5. Intervention initiator:
Länder of Lower Saxony and Saxony-Anhalt

6. Intervention start date:
19 December 2008

7. Course of intervention and financial support:
a) guarantee for the issuance of bank securities from the *Länder* of Lower Saxony and Saxony-Anhalt (19 December 2008 – 15 December 2009)
b) recapitalization from the Land of Lower Saxony (since 25 May 2011)
c) recapitalization from the *Länder* of Lower Saxony and Bremen (since 30 June 2012)
d) guarantee for the portfolio of assets from the *Länder* of Lower Saxony and Saxony-Anhalt (from 30 June 2012 to 31 December 2014)

8. Financial support amounts:
a) EUR 10,000 million (maximum annual amount)
b) EUR 500 million
c) EUR 880 million
d) EUR 14,375 million

9. Prerequisites for financial support:
- annual fee for the guarantee based on CDS spread
- increase in the ownership share of the Land of Lower Saxony
- annual fee of 6.27 per cent for the guarantee
- reducing the scale of operations and focusing on key areas and the domestic market
- reduction in costs and balance sheet total

10. Market reaction to granting financial support:
No response from Fitch.
C– rating confirmed by Moody's on 22 September 2009 and downgraded by Moody's on 6 June 2012 from D+ to D.
The bank is not rated by S&P.
The bank is not quoted on the stock exchange.

Continued

Landesbank Sachsen AG continued

11. Repayment of financial support and market reaction:
No.

12. Did the bank manage to improve its financial standing?
No significant improvement. The bank is reducing the scale of its operations (decrease of total assets). Lending activity is not expanding and the deposit base is decreasing. The deposits/credits ratio is not improving. Provisions significantly burden the result, although it has been positive since 2009. Nevertheless, the profitability ratios remain low. Only capital adequacy ratio is improving steadily.

13. Additional remarks and comments:
Nord LB is one of the leading international commercial banks in Germany. It is a universal bank and offers a wide range of banking services, focusing on financing selected sectors of the economy such as the shipping industry, the agricultural and real estate sectors. Before the crisis, the bank was owned by the *Länder* of Lower Saxony and Saxony-Anhalt and associations of cooperative banks.

Selected ratios of Norddeutsche Landesbank

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.5%	0.2%	0.1%	–0.1%	0.1%	0.2%	0.0%	0.1%
ROE	17.8%	4.9%	2.7%	–2.5%	5.4%	8.2%	1.1%	3.0%
CAR	10.8%	9.5%	10.0%	9.7%	11.1%	12.6%	13.8%	14.3%
deposits/credits	65.7%	68.3%	82.7%	79.9%	81.0%	80.3%	81.3%	84.4%

Sonderfonds Finanzmarktstabilisierung

1. **Name:**
   Sonderfonds Finanzmarktstabilisierung (SoFFin)

2. **Country of registration**:
   Germany

3. **Activity abroad:**
   Support from SoFFin can be granted only to financial institutions based in Germany.

4. **Date of disclosure of financial difficulties and main reasons:**
   Not applicable.

5. **Intervention initiator:**
   Established by the act of the German parliament.

6. **Intervention start date:**
   18 October 2008 – establishment of SoFFin
   SoFFin operated until the end of 2010. In 2011, it did not provide support and from 2012 onwards, its functioning was extended.

7. **Course of intervention and financial support:**
   As at 30 June 2014 recapitalization was granted to:
   a) Aareal Bank
   b) Commerzbank
   c) HRE Gruppe
   d) Portigon/WestLB
   Guarantees were granted to:
   e) HRE/FMS-WM
   f) HSH Nordbank
   g) IKB
   h) SdB
   i) BayernLB
   j) Commerzbank
   k) Aareal Bank
   l) DüsselHyp
   m) CorealCredit

8. **Financial support amounts:**
   Maximum amounts used:
   a) EUR 0.5 billion
   b) EUR 18.2 billion
   c) EUR 9.8 billion
   d) EUR 3 billion
   e) EUR 124 billion
   f) EUR 24 billion
   g) EUR 10 billion
   h) EUR 6.7 billion
   i) EUR 5 billion
   j) EUR 5 billion
   k) EUR 4 billion
   l) EUR 2.5 billion
   m) EUR 0.5 billion

Continued

Sonderfonds Finanzmarktstabilisierung continued

9. **Prerequisites for financial support:**
Assistance provided by SoFFin must be chargeable and on market conditions. It usually takes the form of an annual coupon (for the recapitalization, about 9–10 per cent per annum) or annual fees (for the guarantees, about 0.5–2 per cent per annum).

10. **Market reaction to granting financial support:**
Not applicable.

11. **Repayment of financial support and market reaction:**
As of 30 November 2014:
Assistance in the form of guarantees was fully repaid until the end of 2013.
In the case of recapitalization, Commerzbank) is gradually repaying the aid. The aid amount still to be repaid by all institutions that benefited from the recapitalization equals EUR 16.8 billion (out of total EUR 29.4 billion capital injection granted). SoFFin still manages two bad banks with bank assets of lower quality.

12. **Did the bank manage to improve its financial standing?**
In 2012 and in 2013 SoFFin generated a surplus of EUR 23 million and EUR 580 million, respectively.

13. **Additional remarks and comments:**
SoFFin originally was established as an agency acting within the Bundesbank but under the supervision of the Ministry of Finance. After the reorganization, Bundesanstalt für Finanzmarktstabilisierung (FMSA) began to function as a manager of SoFFin, overseeing restructuring instruments related to the use of funds from SoFFin and monitoring the use of those instruments. FMSA is also a governmental agency since 2011 managing the restructuring fund and supervising two bad banks (see below). The functioning of the FMSA, including the use of SoFFin, is subject to, among others, parliamentary control by nine members of the Bundestag. Since 2015, FMSA also started to function as a national resolution authority in Germany.

SoFFin may grant support by:

- liquidity assistance (guarantees for new issues of debt securities by financial institutions) – up to EUR 400 billion;
- recapitalization (for example, through the purchase of bank shares or in the form of a 'silent participation') – up to EUR 80 billion;
- the purchase of securities (in exchange for government securities).

SoFFin's budget is not included in the state budget accounts. The government (65 per cent) and local governments (Länder, up to 35 per cent and up to a maximum of EUR 7.7 billion) cover the costs of its functioning/losses. The support is, in principle, earmarked for systemically important institutions. The support may be granted to, among others, credit institutions, insurance companies, institutions managing stock exchanges of securities and derivatives. Banks may also create a bad bank under the auspices of SoFFin and transfer part of their illiquid assets.

Two bad banks were established: Erste Abwicklungsanstalt (EAA), to which non-liquid assets of WestLB were transferred, and FMS Wertmanagement (FMS-WM), to which part of the HRE group assets were transferred. The bad bank is to end its functioning after the sale of illiquid assets.

Estimated costs of SoFFin's functioning (in EUR billion):

	2008	2009	2010	2011	2012	2013
Total costs	0.01	0.42	5.93	15.95	1.01	0.95
Covered by the government (2/3)	0.01	0.28	3.95	10.63	0.67	0.64
Covered by *Länder* (1/3)	0.00	0.14	1.98	5.32	0.34	0.32

WestLB

1. **Name**:
WestLB

2. **Country of registration**:
Germany

3. **Activity abroad:**
The bank operates mainly in Germany, but also had subsidiaries, among others, in Hong Kong, Turkey, the UK, Spain, Italy, the USA, France, Singapore, Australia, Hungary, Ireland, Poland, and Japan.

4. **Date of disclosure of financial difficulties and main reasons:**
6 December 2007: losses from trading book and from the portfolio of structured off-balance sheet instruments, exposure to the subprime market

5. **Intervention initiator:**
Supervisory authority, central bank

6. **Intervention start date:**
20 January 2008

7. **Course of intervention and financial support:**
a) central bank liquidity support (from 20 January 2008)
b) guarantee from the Land of North Rhine-Westphalia for a portfolio of securitized instruments (since 31 March 2008)
c) guarantee from bank owners for a portfolio of securitized instruments (since 31 March 2008)
d) guarantee from SoFFin for a portfolio of securitized instruments (from 23 September 2009 to 30 November 2009)
e) bank recapitalization by SoFFin, under the 'bad bank' scheme (18 December 2009 – 30 April 2010)
f) guarantee from SoFFin on a portfolio of securitized instruments (from 18 December 2009)

8. **Financial support amounts:**
a) EUR 2,000 million
b) EUR 3,000 million
c) EUR 2,000 million
d) EUR 6,400 million
e) EUR 3,000 million
f) EUR 1,000 million

9. **Prerequisites for financial support:**
- annual fee of 0,2–4,7 per cent for the guarantee
- annual fee of 10 per cent for the guarantee
- right of the Land NPW to receive shares from the shareowners or the equivalent in cash
- changing the business model
- limiting involvement in trading financial instruments
- reduction of total assets
- focusing on key areas of activity

10. **Market reaction to granting financial support:**
Rating downgrade by Moody's from D– to E+ on 14 November 2007, confirmation on 21 January 2008, assigning negative outlook on 8 December 2009 and confirmation on 4 May 2010.

No response from Fitch. S&P has not rated the bank. Share price data are not available to assess the market reaction.

11. Repayment of financial support and market reaction:
No.

12. **Did the bank manage to improve its financial standing?**
No. Despite the aid granted, the bank's condition did not improve and bank was liquidated on 1 July 2012. No complete financial data available for a comprehensive evaluation.

13. Additional remarks and comments:
WestLB was an international commercial bank that focused its activities in North Rhine-Westphalia in Germany. One of the largest financial service providers in Germany, it played the role of an affiliating bank for cooperative banks. WestLB was a universal bank, offering a wide range of banking services. The majority shareholders were cooperative banks. WestLB was liquidated on 1 July 2012 and split into three parts (Portigon AG took over the banking part, Bundesanstalt für Finanzmarktstabilisierung took over the bad bank part of the portfolio, and the rest was merged with a German bank Helaba).

Selected ratios of WestLB

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ROE	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
CAR	12.1%	8.6%	10.1%	9.1%	15.9%	13.8%	n/a	n/a
deposits/credits	121.3%	56.1%	52.7%	59.5%	44.4%	42.1%	n/a	n/a

GREECE

Introduction

On 19 November 2008 the European Commission (EC) approved an aid scheme for credit institutions (Support Measures for the Credit Institutions in Greece) in order to ensure the stability of the financial system in Greece (the programme was later modified and extended).

The programme consisted of:

- recapitalization scheme, under which the state acquired preference shares of credit institutions,
- guarantee scheme for debt instruments with maturity ranging from three months to three years,
- bond loan scheme to support the liquidity of credit institutions.

Recapitalization of credit institutions. Acquiring help in the framework of the programme required submission of a restructuring plan describing actions to ensure long-term viability of the bank.

Hellenic Financial Stability Fund (HFSF) was established in July 2010 as a private entity, which is not part of the public sector. Its aim is to promote stability of the Greek banking system.

A credit institution applying for capital support from the HFSF was obligated to submit a business plan and a detailed schedule for implementing actions described in this plan. The business plan was to present how the credit institution could ensure its profitability within the following three to five years. It specified the amount of the required capital support and described the measures by the credit institution to protect and enhance its solvency as well as measures aimed at cost cuts and mitigation of risk. The plan was subject to assessment by the Bank of Greece.

Another prerequisite for receiving capital support from the HFSF was to prepare a detailed restructuring plan, which was subject to approval by the HFSF. Three months upon providing the capital support, the Ministry of Finance had to submit a restructuring plan for the European Commission's approval. The HFSF also designated its representative in the bank subjected to bridge recapitalization.

Agricultural Bank of Greece

1. Name:
Agricultural Bank of Greece (ATE)
In 2012 ATE absorbed by Piraeus Bank.

2. Country of registration:
Greece

3. Activity abroad:
ATE was a bank operating mainly in Greece, but also with branches in Romania (36) and Germany (1).

4. Date of disclosure of financial difficulties and main reasons:
Before the financial crisis, ATE had problems with a large number of non-performing loans. Greece's bad fiscal position made these problems even more severe (see: point 13).

5. Intervention initiator:
Government

6. Intervention start date:
21 May 2009

7. Course of intervention and financial support:
a) 21 May 2009 – recapitalization of ATE within the programme approved by the European Commission (EC) on 19 November 2008
b) 18 April 2011– State guarantees on notes issued by ATE
c) 2009 and June 2010 – participation in the Bond Loan Scheme
d) 29 April 2011 – General Meeting of ATE approved the share capital increase, part of which would be subscribed by the Greek State

8. Financial support amounts:
a) capital injection in the form of preference shares of EUR 675 million
b) guarantees for a total of EUR 4,696.8 million
c) total value of notes purchased by the ATE was EUR 1,407 million (as at 18 April 2011), of which ATE received EUR 807 million in 2009 (maturity in December 2011) and EUR 600 million in June 2010 (maturity in 2013)
d) increase in share capital by EUR 1,259.5 million, of which EUR 1,144.5 million was to be subscribed by the Greek State

9. Prerequisites for financial support:
On 1 October 2010, the Greek authorities submitted ATE's first restructuring plan to the EC (the plan was later amended several times). The updated version (which was submitted to the EC on 28 April 2011) provided for enhancing ATE solvency, liquidity and profitability, for example, by selling the majority of ATE non-financial subsidiaries and shares in banks and other listed companies, as well as a cost reduction programme and a programme aimed at increasing revenue and putting emphasis on risk management.

10. Market reaction to granting financial support:
Despite the assistance provided to ATE, its rating was not improved. In September 2011, ATE rating was downgraded by Moody's from B3 to Caa2.

Share price increase arising from the granted aid was temporary.

11. Repayment of financial support and market reaction:
Aid has not been repaid – redemption of preferred shares of EUR 675 million just changed its form (see point 13).

12. Did the bank manage to improve its financial standing?
ATE situation has not improved – its banking licence was revoked in July 2012.

Continued

Agricultural Bank of Greece continued

13. Additional remarks and comments:

ATE was owned in majority by the Greek State (as of 2010-end, it was owned by the Greek State in 77.3 per cent). Its financial problems started even before the crisis, resulting from low-quality assets.

ATE traditionally had a high ratio of non-performing loans because of past loans, granted mainly to farmers and agricultural cooperatives disregarding typical banking practice. Although this ratio was gradually improving (NPL ratio of 5.6 per cent in 2008 versus 25.7 per cent in 2000), it was still one of the major problems in ATE operations. ATE profitability was lower than in the other banks due to lower margin on loans, poor non-lending income, inefficient organizational structure, high overheads (with a large share of personnel costs). Liquidity of ATE traditionally relied almost exclusively on deposits, however, from 2008 ATE was increasing its loan portfolio by purchasing of government bonds.

A strategic review of the State stakes in Greek banks (October 2010) showed that the ATE was still exposed to serious difficulties and needed thorough restructuring.

In the letter of 8 March 2011, the Bank of Greece indicated that ATE capital should amounted to EUR 585 million, and the capital increase of at least this amount was required. The final version of the restructuring plan dated 28 April 2011 provided for ATE capital increase by EUR 1,259.5 million.

On 29 April 2011, the General Meeting of ATE approved the share capital increase for EUR 1,259.5 million, of which EUR 1,144.5 million was to be subscribed by the Greek State, and at least EUR 115 million – by market investors. Gross revenue from the capital increase was to be used to repurchase preference shares of Tier 1 with a value of EUR 675 million and to strengthen the bank's capital position. Net capital increase would amount to EUR 584.5 million, of which EUR 469.5 million was to be subscribed by the State. Additional aid for ATE was EUR 469.5 million (EUR 675 million is only a change of the form of participation).

In July 2012, to secure deposits and overall financial stability, Piraeus Bank absorbed the sound part of ATE. ATE license has been revoked.

Selected ratios of Agricultural Bank of Greece

Ratios	2006	2007	2008	2009	2010
ROA	0.89%	–0.34%	0.18%	–1.49%	–1.38%
ROE	15.05%	–5.35%	4.84%	–40.62%	–42.77%
CAR	11.6%	8.5%	8.6%	9.1%	7.4%
deposits/credits	133.57%	122.93%	100.53%	103.13%	92.83%

Alpha Bank

1. Name: Alpha Bank	**2. Country of registration:** Greece
3. Activity abroad: Alpha Bank operates abroad through its subsidiaries in: Cyprus (Alpha Bank Cyprus Ltd, Emporiki Bank Cyprus LTD), Romania (Alpha Bank Romania), Serbia (Alpha Bank Srbija AD) and Macedonia (Alpha Bank AD Skopje). It also has branches in Bulgaria, Albania and the UK.	**4. Date of disclosure of financial difficulties and main reasons:** 2009 – Alpha Bank's problems were not caused by either mismanagement or excessive risk-taking. They were connected – as in the case of many other Greek banks – to the poor economic situation of Greece and to participation in the partial redemption of the public debt of Greece by the private sector (PSI).
5. Intervention initiator: Government	**6. Intervention start date:** May 2009
7. Course of intervention and financial support: a) May 2009 – Alpha Bank was recapitalised under a programme approved by the EC. b) financial support under the guarantee and the bond loan schemes, as well as emergency liquidity assistance provided by the Bank of Greece c) 20 April 2012 – HFSF provided the bank with a written commitment to participate in the increase of its share capital. On 28 May 2012, bridge recapitalization was implemented. d) 21 December 2012 – further recapitalization from HFSF e) May/June 2013 – further recapitalization from HFSF f) 31 December 2013 – HFSF covered part of the initial funding gap connected with the absorption of cooperative banks (Dodecanese, West Macedonia, Evia)	**8. Financial support amounts:** a) capital injection of EUR 940 million b) as at 22 May 2012 the value of the guarantees amounted to approx. EUR 9.8 billion and bond loans – approx. EUR 0.5 billion c) HFSF's commitment letter to participate in the share capital increase amounted up to EUR 1.9 billion. Actual aid was EUR 1.9 billion. d) EUR 1,042 million e) EUR 1,018.5 million f) EUR 284.6 million

Continued

9. Prerequisites for financial support:
See: Introduction.

10. Market reaction to granting financial support:
Alpha Bank's rating was deteriorating significantly since 2007, with the worst rating recorded in 2011–2012. Since 2013, the rating has been gradually improving (see point 13).

Direct intervention did not produce significant changes in the prices of Alpha Bank shares. However, the share price changed very significantly throughout the entire period. In 2009 it was EUR 4.2 per share (February) and EUR 13.3 per share (October), whereas in late 2011 and at the beginning of 2012, it was approx. EUR 0.2 per share.

11. Repayment of financial support and market reaction:
As at the end of 2013, the aid was not repaid.

12. Did the bank manage to improve its financial standing?
Alpha Bank's ROE was declining since 2007 (22.5 per cent) to 1.4 per cent in 2010, and afterwards it reached negative values.

In 2013, Alpha Bank's financial standing improved. The value of assets increased (to EUR 73.7 billion from EUR 58.3 billion at the end of 2012). There also was a very significant increase in equity (from EUR 7 million to EUR 8.4 billion).

The capital adequacy ratio at the end of 2013 amounted to 16.4 per cent, while the year before the rate was 9.5 per cent.

13. Additional remarks and comments:
One of the causes of Alpha Bank's poor financial situation was its participation in the partial redemption of Greece's public debt by the private sector (Private Sector Involvement – PSI). Participation in the PSI caused a reduction of the bank's capital, which was reflected in the 4Q2011 data; Tier 1 core capital was then at 3 per cent and the capital adequacy ratio amounted to 5.5 per cent. In May 2009, Alpha Bank was recapitalized in the framework of a programme approved by the EC. The recapitalization was carried out in the form of preferred shares subscribed by the state, which have a fixed remuneration of 10 per cent.

Rating Alpha Bank

Name of the rating agency	2007	2008	2009	2010	2011	2012	2013	2014 (as of 28 August)
Moody's	A1	A1	A2	Ba1	Caa2	Caa2	Caa1	Caa1
S&P	A–	BBB+	BBB	BB	CCC	CCC	CCC	CCC+
Fitch	A–	A–	BBB+	BBB–	B–	CCC	B–	B–

Selected ratios of Alpha Bank

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	1.24%	1.70%	0.83%	0.54%	0.12%	–6.03%	–1.84%	4.52%
ROE	17.27%	22.46%	11.99%	7.25%	1.39%	–97.94%	–79.60%	64.34%
CAR	12.9%	12.0%	9.8%	13.2%	13.5%	9.7%	9.5%	16.4%
deposits/credits	96.25%	82.39%	83.91%	83.49%	77.66%	65.51%	70.15%	82.21%

EFG Eurobank Ergasias S.A

1. Name:
EFG Eurobank Ergasias S.A/Eurobank Ergasias S.A (it was renamed by the decision of the General Meeting of 29 June 2012)

2. Country of registration:
Greece

3. Activity abroad:
Subsidiaries and branches in: Romania, Bulgaria, Serbia, the UK, Luxembourg, Cyprus, and Ukraine.

4. Date of disclosure of financial difficulties and main reasons:
2008/2009 – problems caused mainly by poor economic situation of Greece and participation in the partial redemption of the public debt of Greece by the private sector (PSI).

5. Intervention initiator:
Government

6. Intervention start date:
May 2009

7. Course of intervention and financial support:
a) May 2009 – EFG Eurobank was recapitalized under a programme approved by the EC
b) assistance under the guarantee and bond loan schemes, as well as the Bank of Greece liquidity support
c) On 20 April 2012, HFSF provided EFG Eurobank with a written commitment to participate in the increase of its share capital. On 28 May 2012, bridge recapitalization was implemented.
d) 21 December 2012 – further recapitalization from HFSF
e) 30 April 2013 – HFSF covered additional capital requirements
f) 28 August 2013 – HFSF recapitalized New Proton Bank absorbed by Eurobank
g) August 2013– HFSF recapitalized New TT absorbed by Eurobank

8. Financial support amounts:
a) EUR 950 million
b) as of 22 May 2012 the guarantees granted to the bank amounted to approx. EUR 17.8 billion and the bond loan approx. EUR 2.9 billion
c) HFSF commitment – up to EUR 4.2 billion. Bridge recapitalization amounted to EUR 3,970 million.
d) EUR 1,341 million
e) EUR 528 million of which EUR 113.2 million was returned (in accordance with its fair valuation)
f) EUR 395 million
g) EUR 681 million

9. Prerequisites for financial support:
See: Introduction.
On 2 August 2010, the plan aimed at ensuring long-term viability of the Bank was submitted to the EC.

10. Market reaction to granting financial support:
In the whole May 2009, the share price was increasing from EUR 6.0 to EUR 8.15 per share. In 2012, the interventions did not produce any increases: from 10 April to 1 June, the prices decreased from EUR 0.67 to EUR 0.46 per share.

Rating as of July 2014: S&P CCC +, Moody's Caa2, Fich Rating B–.

11. Repayment of financial support and market reaction:

By the end of 2013, the aid was not repaid.

12. Did the bank manage to improve its financial standing?

Eurobank Ergasias situation has improved slightly. Absorption of two banks (New TT Hellenic Postbank and New Proton Bank) in 2013 improved the bank's deposit base and liquidity.

However, cost to income ratio is still high: in 2013, it was 68 per cent (previous year: 60 per cent).

ROE and ROA has still recorded negative value: in 2013, it was respectively –59.7 per cent and –1.6 per cent.

13. Additional remarks and comments:

The problems of the entire Greek banking sector resulted mainly from high losses associated with government bonds and a deep and prolonged recession, which led to a sharp increase in default rates of households and businesses loans. Deterioration of the Greek banks' financial position also was caused by the participation in the PSI. Impairment losses arising from participation in the PSI for Eurobank EFG were approx. EUR 5.8 billion before tax, which was reflected in the 2011 accounts.

The difference between the amount in the HFSF commitment and the amount of the actual HFSF recapitalization (EUR 230 million) was a result of taking different financial data for calculating the required financial support (the amount of the commitment was calculated based on 4Q2011, while the amount of bridge recapitalization was based on financial data for 1Q2012).

Selected ratios of EFG Eurobank

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	1.14%	1.27%	0.90%	0.38%	0.10%	–6.72%	–2.02%	–1.59%
ROE	21.54%	22.46%	15.26%	5.78%	1.35%	–158.07%	–1,325.45%	–59.67%
CAR	n/a	n/a	0.10%	0.13%	0.12%	0.12%	0.12%	0.12%
deposits/credits	81.38%	79.21%	81.71%	83.83%	78.97%	67.49%	71.23%	91.07%

National Bank of Greece

1. Name:
National Bank of Greece (NBG)

2. Country of registration:
Greece

3. Activity abroad:
NGB banking group operates through subsidiary banks in Turkey, Bulgaria, Romania, the former Yugoslav Republic of Macedonia, Serbia, South Africa, Cyprus, and Malta, and through branches in Albania, Egypt and the UK. It also has a representative office in Australia.

4. Date of disclosure of financial difficulties and main reasons:
2009 – as in the case of other Greek banks, NGB financial problems were connected with the Greek recession, as well as the participation in the partial redemption of the public debt of Greece by the private sector (PSI).

5. Intervention initiator:
Government

6. Intervention start date:
21 May 2009

7. Course of intervention and financial support:

a) 21 May 2009 – recapitalization under a programme approved by the EC
b) 13 December 2011 – second recapitalization under the recapitalization scheme
c) 20 April 2012 – HFSF committed to participate in the share capital increase of NBG. Bridge recapitalization was implemented on 28 May 2012.
d) 21 December 2012 – further recapitalization from HFSF
e) 28 June 2013 – HFSF covered initial funding gap connected with the First Business Bank (FBB) absorbed by NBG
f) 26 July 2013 – HFSF covered initial funding gap connected with the Probank absorbed by NBG
g) second half of 2013 – due to the subscription made by private investors (June 2013) and the valuation of the fair value of securities transferred from HFSF, NBG returned part of the notes received from HFSF

8. Financial support amounts:

a) EUR 350 million
b) EUR 1 billion
c) HFSF committed to participate in the capital increase up to EUR 6.9 billion. Bridge recapitalization amounted to EUR 7,430 million
d) EUR 2,326 million
e) EUR 349.6 million
f) EUR 158.4 million
g) EUR –1,291.7 million
h) EUR 107.4 million
i) EUR 404.6 million

h) 7 November 2013– HFSF covered the second part of the funding gap related to the absorption of First Business Bank (FBB)

i) 31 December 2013 – HFSF covered the second part of the funding gap related to the absorption of Probank S.A.

9. Prerequisites for financial support: See: Introduction. The Bank was also obliged to suspend the payment of dividends and coupon payments on outstanding hybrid instruments (with some exclusion).	**10. Market reaction to granting financial support:** NBG rating began to improve after 2012. In May 2013, Fitch Rating raised the rating from CCC to B–. As of July 2014: S&P CCC +, Moody's Caa1, Fich Rating B–. During the direct intervention of the changes in NGB share price were not large.
11. Repayment of financial support and market reaction: By the end of 2013 the aid was not repaid (payments made in 2013 resulted only from the settlement of transactions)	**12. Did the bank manage to improve its financial standing?** The bank's ratios have worsened since 2007. In 2010 ROE and ROA reached negative values, a year later they amounted respectively to –828 per cent and –13 per cent. In 2013, the situation improved; at the end of the year, ROA amounted to 0.03 per cent and the equity reached a positive value.

Continued

13. Additional remarks and comments:

Under the recapitalization scheme of 2009, the Greek banks received bonds of the same face value as the face value of the subscribed preference shares. During the second recapitalization NGB received government bonds with a face value of EUR 1.2 billion, while their book value was lower (EUR 1 billion).

NBG second recapitalization was intended to comply with the new capital requirements. The bank was not able to fulfil them due to the heavy losses connected with the participation of the partial redemption of Greek debt by the private sector (PSI).

Recapitalization of EUR 1 billion corresponded to 1.52 per cent of NGB risk-weighted assets, and the total amount of both capital injections (EUR 1.35 billion) was equal to 2.07 per cent of its RWA. After the issuance of bonds for EUR 1 billion, the total capital adequacy ratio increased from 10.89 per cent to 12.40 per cent, Tier 1 ratio from 10.71 per cent to 12.21 per cent and the Core Tier 1 ratio from 9.53 per cent to 11.03 per cent.

HFSF bridge recapitalization. The difference between the amount of the HFSF commitment (April 2012) and the actual aid (May 2012) resulted from different data (for different periods) taken for the calculation. Both amounts were calculated to ensure compliance of the NBG with the applicable capital adequacy requirements.

Selected ratios of National Bank of Greece

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	1.33%	1.69%	0.80%	0.51%	–0.29%	–13.05%	–2.48%	0.04%
ROE	16.78%	18.97%	11.83%	7.66%	–4.21%	–827.62%	0.00%	0.00%
CAR	15.6%	10.2%	10.3%	11.3%	13.7%	8.3%	9.2%	11.2%
deposits/credits	124.89%	110.67%	96.79%	95.24%	88.06%	83.28%	84.94%	93.50%

Piraeus Bank

1. Name:
Piraeus Bank

2. Country of registration:
Greece

3. Activity abroad:
Piraeus Bank has branches in Romania, Bulgaria, Albania, Serbia, Egypt, the UK, Germany, Cyprus, and Ukraine.

4. Date of disclosure of financial difficulties and main reasons:
Losses resulting from participation in the PSI and bad fiscal situation in Greece.

5. Intervention initiator:
Government

6. Intervention start date:
May 2009

7. Course of intervention and financial support:
a) May 2009 – recapitalization under a programme approved by the EC
b) 20 December 2011 second recapitalization
c) Piraeus Bank also benefited from guarantees and loan schemes as well as from emergency liquidity assistance from the Bank of Greece
d) 20 April 2012 – HFSF provided the Bank a written commitment to participate in the increase of its share capital. On 28 May 2012 the bridge recapitalization was implemented
e) 1 August 2012 – HFSF covered the funding gap related to the absorption of Agricultural Bank of Greece (ATE)
f) 21 December 2012 – further recapitalization from HFSF
g) 26 March 2013 – finalizing the coverage of funding gap related to the absorption of Agricultural Bank of Greece (ATE)
h) 10 April 2013 and 18 June 2013 – HFSF covered additional capital demand

8. Financial support amounts:
a) EUR 370 million
b) EUR 380 million
c) As of 22 May 2012 the guarantees granted to Piraeus Bank amounted to approx. EUR 13.5 billion, and the bond loan approx. to EUR 0.4 billion.
d) HFSF commitment up to EUR 5 billion. Bridge recapitalization amounted to EUR 4,700 million
e) EUR 6,675.9 million
f) EUR 1,553 million
g) EUR 794.8 million
h) EUR 570 million + EUR 524 million – EUR 499.5 million (return resulting from the settlement of the fair value), so that the net amount was EUR 594.5 million

9. Prerequisites for financial support:
See: Introduction.
The restructuring plan was submitted to the EC by the Greek authorities on 23 July 2010 (amended later). The second recapitalization required submission of an updated restructuring plan.

10. Market reaction to granting financial support:
The ratings of the Bank have dropped since 2009, however, they were still high (A2, BBB, BBB +). In 2010, they were still decreasing and the second recapitalization did not bring any improvement. In 2011 the ratings declined again:
– Moody's – from Ba3 to Caa2,
– S&P – from B + to CCC,
– Fitch – from BB + to B–.

Continued

In 2012, ratings of Moody's and S&P were not changed; Fitch lowered it to CCC. At the end of 2013: Moody's – Caa1, S&P – CCC, Fitch – B–.

The stock price did not change significantly in the period of intervention. In 2009 the highest price was recorded on 20 October 2009 (EUR 13.3 per share), the lowest – on 3 May 2009 (EUR 3.23 per share). Rates fluctuated during the bridge recapitalization in 2012.

11. Repayment of financial support and market reaction:
By the end of 2013, the aid was not repaid.

12. Did the bank manage to improve its financial standing?
Situation has improved slightly. In 2013 the equity reached a positive value, profits were reported, and the capital adequacy ratio increased (up to 14 per cent).

13. Additional remarks and comments:

In 2007, Piraeus received EUR 370 million, which corresponded to 1.2 per cent of its RWA. The recapitalization took the form of preferred shares subscribed by the State. The second recapitalization of 20 December 2011 for EUR 380 million was equivalent to 1.07 per cent of the RWA. The necessity of the second recapitalization was among others the result of the bank's participation in the partial redemption of the public debt of Greece by the private sector (PSI).

After bridge recapitalization of 31 March 2012, Piraeus Bank reported a capital adequacy ratio of 9 per cent and a Tier 1 core capital of 8 per cent.

The difference between the amount of the HFSF commitment and the actual aid (EUR 300 million) resulted from different data (for different periods) taken for the calculation.

Selected ratios of Piraeus Bank

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	1.67%	1.75%	0.63%	0.39%	–0.03%	–12.35%	–0.83%	3.22%
ROE	30.46%	27.28%	10.05%	6.41%	–0.56%	–979.58%	0.00%	81.09%
CAR	n/a	12.2%	9.9%	9.8%	11.2%	–5.0%	12.3%	14.0%
deposits/credits	86.35%	77.88%	74.08%	79.77%	76.77%	60.14%	73.10%	71.31%

Proton Bank/Nea Proton Bank

1. **Name:**
   Proton Bank (liquidated on 9 October 2011).
   Nea Proton Bank – since 9 October 2011.
   In 2013, Eurobank Ergasias SA absorbed Nea Proton Bank.

2. **Country of registration**:
   Greece

3. **Activity abroad:**
   Currently Nea Proton Bank operates within Eurobank Ergasias SA.

4. **Date of disclosure of financial difficulties and main reasons:**
   2009 – highly risky business model, poor quality of the loan portfolio. Since the outbreak of the financial crisis liquidity problems as well.

5. **Intervention initiator:**
   Government

6. **Intervention start date:**
   April 2009

7. **Course of intervention and financial support:**
   Proton Bank
   a) April 2009 – Proton Bank received the Greek government securities (bond loan)
   b) May 2009 – capital injection
   c) State guarantees for bonds issued by the Bank
   d) In the summer of 2011, the four largest Greek banks offered support to Proton Bank, by purchasing convertible bonds issued by Proton Bank.
   e) Proton Bank benefited also from the Bank of Greece Emergency Liquidity Assistance (ELA)
   Nea Proton Bank
   f) Nea Proton Bank received financial support from HDGF (9 October 2011) and HFSF (14 May 2012) – to cover the liquidity gap, and from HFSF (capital injections since 9 October 2011 till 28 August 2013)

8. **Financial support amounts:**
   Proton Bank
   a) EUR 78 million
   b) EUR 80 million
   c) face value of EUR 149.4 million
   d) value of approx. EUR 50 million
   e) approx. EUR 900 million
   Nea Proton Bank
   f) EUR 862 million (from HDGF), EUR 259.6 million (from HFSF, 14 May 2012), EUR 900 million (from HFSF from 9 October 2011 until 28 August 2013).

Continued

Proton Bank/Nea Proton Bank continued

9. **Prerequisites for financial support:**
See: Introduction.
On 1 October 2010, a restructuring plan of Proton Bank was submitted to the EC.
On 12 March 2012, the Greek authorities notified the EC on the restructuring plan of Nea Proton Bank (amended plan was submitted on 16 July 2012). According to the amended plan the Bank was to start being profitable from 2015.

10. **Market reaction to granting financial support:**
Only after the first intervention did the bank's share price increase. No data about ratings.

11. **Repayment of financial support and market reaction:**
No.

12. **Did the bank manage to improve its financial standing?**
The Bank did not improve its financial situation – at the end of 2012 Nea Proton Bank's capital was negative (EUR –197 million), the loss amounted to EUR 623 million. On 22 November 2013, Nea Proton Bank was liquidated.

13. **Additional remarks and comments:**

Proton Bank, established in 2001, was a small bank (in terms of its share in the Greek banking system's total assets), whose activity was focused on investment banking. For several years, Proton Bank recorded a loss (problems connected among others with fraud). Proton Bank was liquidated on 9 October 2011.

On 9 October 2011, at the request of the Bank of Greece and following the decision of the Ministry of Finance, Nea Proton Bank was established. Its sole shareholder was the Hellenic Financial Stability Fund (HFSF). The opening balance of Nea Proton Bank amounted to approx. EUR 3 billion. Equity claims, subordinated debt, deferred taxes, and high-risk loans remained in Proton Bank (in liquidation), and all the deposits and selected assets (loans and securities portfolio) were transferred to Nea Proton Bank.

After establishing Nea Proton Bank, the Bank of Greece called the Hellenic Deposit and Investment Guarantee Fund (HDIGF) to cover the liquidity gap in Nea Proton Bank. This mismatch corresponded to the difference between the value of the assets transferred to Proton Bank (valued at fair value, which is less than their value in the books of Proton Bank) and the nominal value of the transferred liabilities. The gap was covered by HDIGF and HFSF.

Poor financial situation of Nea Proton Bank was caused by, among other things, participation in the PSI (losses due to impairment of capital totalled to EUR 168.5 million).

TT Hellenic Postbank SA

1. Name:
TT Hellenic Postbank SA/New TT Hellenic Postbank SA

2. Country of registration:
Greece

3. Activity abroad:
It was a local bank. New TT currently operates within Eurobank Ergasias SA

4. Date of disclosure of financial difficulties and main reasons:
2008 – low profitability, poor economic situation of the country, participation in the PSI.

5. Intervention initiator:
Government

6. Intervention start date:
25 May 2009

7. Course of intervention and financial support:
a) 25 May 2009 – capital injection under a programme approved by the EC
b) December 2011 – funding from HDIGF
c) 18 January 2013 – initial capital from HFSF
d) 29 January 2013 – covering the funding gap of New TT relating to TT
e) 14 February 2013 – covering the funding gap of New TT relating to T-Bank
f) 14 June 2013 – further covering of the funding gap of New TT relating to TT

8. Financial support amounts:
a) EUR 224.96 million
b) EUR 676.96 million
c) EUR 500 million
d) EUR 2,730.8 million
e) EUR 227 million
f) EUR 1,001.8 million

9. Prerequisites for financial support:
On 1 October 2010, the Greek authorities provided the initial restructuring plan of TT Hellenic Postbank.
On 29 January 2013, the Greek authorities submitted a draft of restructuring plan for a bridge bank, New TT Hellenic Postbank. The main strategic objective of the bank was to improve its financial performance and attractiveness to investors aimed at its subsequent sale. It was assumed to reduce labour costs (with the implementation of Voluntary Retirement Scheme), operating costs, and cost of marketing and promotion, as well as to simplify the organizational structure.

10. Market reaction to granting financial support:
N/a.

11. Repayment of financial support and market reaction:
No.

12. Did the bank manage to improve its financial standing?
Improvement of the financial situation after receiving the support was short lasting (see: point 13).

Continued

13. Additional remarks and comments:

TT Hellenic Postbank (TT) was founded in 1902 in the framework of the Hellenic Post. Until 2006, it was a special state-controlled credit institution, whose activity was limited to the granting of mortgage and consumer loans to government officials and state-owned companies. After obtaining a banking license in 2006, TT expanded its activities in corporate finance and retail loans.

On 25 May 2009, the TT Hellenic Postbank received a capital injection of EUR 224.96 million in the form of preferred shares (corresponding to approx. 2.9 per cent of its risk-weighted assets). The capital adequacy ratio improved from 8.74 per cent at the time (as of March 2009) to 10.96 per cent.

On 3 July 2009, TT issued shares with a value of EUR 526.3 million. After the capital increase (May and July 2009), the capital adequacy ratio stood at approx. 17 per cent.

In April, 2010 TT acquired 32.9 per cent shares in Aspis Bank for EUR 28.56 million. After the acquisition of Aspis Bank (the bank with the lowest capital adequacy ratios of all the Greek banks, and insufficient liquidity and profitability) changed its name to T Bank. On 17 December 2011, the Bank of Greece passed a resolution to revoke the license of T Bank and to transfer its assets and liabilities to TT Hellenic Postbank. T Bank was put into liquidation. Acquisition of T Bank assets had a negative impact on the TT capital adequacy ratio. The fair value of the transferred liabilities amounted to EUR 2.16 billion, while the fair value of assets amounted to EUR 1.48 billion. The gap was covered by the HDIGF (EUR 676.96 million).

In March 2012, the Bank of Greece found that TT was unprofitable and that it was unlikely for it to regain profitability. TT's high loss for 2011 was a result of the involvement in the PSI. TT had a very large share of Greek government bonds in its total assets. TT capital reached a high negative value. A decision was made to create a bridge bank.

On 18 January 2013, a temporary credit institution called New TT Hellenic Postbank was created. The profitable part of the business of the former TT Hellenic Postbank was transferred into the new Bank. As the value of the transferred assets was lower than the liabilities, HFSF covered this gap by issuing EFSF bonds. HFSF provided also the initial capital of New TT for EUR 500 million. In 2013, HFSF covered also the funding gap related to previous absorption of T Bank.

Selected ratios of TT Hellenic Postbank SA

Ratios	2006	2007	2008	2009	2010	2011
ROA	1.15%	0.34%	0.02%	0.14%	0.13%	–6.72%
ROE	15.82%	5.38%	0.44%	2.54%	1.85%	–158.07%
CAR	11.2%	9.9%	8.6%	17.1%	11.7%	12.0%
deposits/credits	220.57%	182.57%	157.33%	156.62%	78.97%	67.49%

IRELAND

Allied Irish Bank

1. Name:
Allied Irish Bank

3. Activity abroad:
Subsidiaries in the UK, Northern Ireland;
Branches in the United States.
Cross-border activity: France, Great Britain, United States, the Netherlands, Spain, Germany, Italy, Portugal, Greece.

5. Intervention initiator:
The Ministry of Finance

7. Course of intervention and financial support:
a) Guarantee of the Minister for Finance – Credit Institutions (Financial Support) Act 2008 (30 September 2008 – 29 September 2010)
b) Capital injection made by the National Pension Reserve Fund Commission (NPRFC)[1] – purchase of the preference shares and warrants (13 May 2009)
c) Guarantee of the Minister for Finance – Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (21 January 2010)
d) Activity of the National Asset Management Agency (NAMA) – acquiring bad debt in return for government discount bonds (since 6 April 2010)
e) Capital injection made by the NPRFC – acquiring newly issued ordinary shares (23 December 2010)
f) Capital injection made by the NPRFC – acquiring newly issued ordinary shares (July 2011)
g) Capital injection made by the NPRFC and the Ministry of Finance (July 2011)
h) Capital injection made by the Ministry of Finance – acquiring newly issued contingent capital notes (July 2011)

2. Country of registration:
Ireland

4. Date of disclosure of financial difficulties and main reasons:
Mid-2008.
Significant mortgage portfolio, dependence on foreign funding.

6. Intervention start date:
30 September 2008

8. Financial support amounts:
a) No limit
b) EUR 3.5 billion
c) No limit
d) EUR 9 billion (EUR 20.4 billion – book value of bad debt) in years 2010–2011
e) EUR 3.8 billion
f) EUR 0.5 billion
g) EUR 6.1 billion
h) EUR 1.6 billion

Continued

9. Prerequisites for financial support:

a) Additional obligatory reporting to the Central Bank

b) Increasing lending to small and medium-sized enterprises and first-time buyers; establishment of a EUR 100 million fund to support environmentally friendly investment; complying with the Code of Conduct for Business Lending to Small and Medium Enterprises and the Code of Conduct for Mortgage Arrears published by the Financial Regulator; right to appoint 25 per cent of the directors, 25 per cent of voting rights at the general meeting relating to appointment of the Directors and change of control of AIB or sale of its business; restrictions in relation to payment of dividends and directors' and executives' remuneration and employment termination payments; requirement to submit a restructuring plan to the Minister for Finance

c) Additional obligatory reporting to the Central Bank

d) Bad debt sold with 56 per cent discount

e) Requirements of the European Commission relating to additional state aid: restructuring plan ensuring that AIB is viable in the long term without further state support; fair burden of restructuring costs must be carried by AIB and its owners; measures to limit distortions of competition in the market

10. Market reaction to granting financial support:

a) Positive reaction in the short term; rating increased

b) Negative reaction upon subscription announcement (12 February 2009). Positive reaction after transaction is made (stock price increase)

c) No reaction

d) Positive reaction in the short term

e) Negative reaction to recapitalization plan. After state aid the shares price stabilized at less than EUR 0.5. AIB shares were delisted from the main market of the Irish Stock Exchange and were moved to the Enterprise Securities Market ISE.

11. Repayment of financial support and market reaction:

No. EUR 20.8 billion was announced to be repaid in time depending on the ECB stress test results.

12. Did the bank manage to improve its financial standing?

Yes, after the capital injection and nationalization in 2011. Core tier 1 ratio has increased since 2010 – after raising the capital and decreasing the risk-weighted assets (sale to the NAMA). The financial result was still negative. Gradual improvement of ROA and ROE (negative since 2009). The customer deposit-to-loan ratio improved after reaching the minimum level in 2010 due to an increase in the deposit base (government guarantee) and limitation of loans.

13. Additional remarks and comments:

The Eligible Liabilities Guarantee (ELG) was a government guarantee plan applicable to transactions made by the end of 2013 with maturity of up to five years.

On 30 March 2010, the Central Bank announced the results of the Prudential Capital Assessment Review (PCAR). AIB was obliged to increase the capital base. The restructuring plan provided for the sale of shares in Polish BZ WBK for EUR 3.1 billion (10 October 2010 – 1 April 2011, core tier 1 capital increased by ca. EUR 2.3 billion), M&T (4 November 2010, core tier 1 capital ratio increased by ca. EUR 0.9 billion), Goodbody Holdings Limited for EUR 24 million EUR, AIB International Financial Services Limited, AIB Jerseytrust Limited, Bulgarian–American Credit Bank and AIB Asset Management Holdings (Ireland) Limited.

On 30 September 2010, the Irish government announced a capital recapitalization plan of EUR 3.7 billion. The real effect of the recapitalization was almost total (92.8 per cent) nationalization of AIB. Further recapitalization was necessary – the government share amounted to 99.8 per cent in mid-2011.

The findings of the Balance Sheet Assessment (BSA), conducted by the Central Bank of Ireland in November 2013, showed that AIB continued to be well-capitalized and in excess of minimum regulatory requirements.

Selected ratios of Allied Irish Bank

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	1.35%	1.08%	0.40%	–1.41%	–7.05%	–1.71%	–2.90%	–1.36%
ROE	26.48%	20.46%	8.66%	–23.81%	–299.18%	–16.17%	–31.33%	–15.22%
CAR	11.10%	10.10%	10.50%	10.20%	9.20%	20.50%	17.80%	16.60%
deposits/credits	69.90%	63.72%	71.51%	81.24%	60.67%	73.51%	87.17%	99.93%

Note: [1]NPRFC – the commission managing and controlling the National Pensions Reserve Fund (NPRF). The Republic of Ireland established the Fund in 2001 to support Ireland's social welfare and public service pensions in 2025–2055 (the period may be extended by the parliament). One per cent of Ireland's GNP is transferred each year to the Fund. In 2010 the Fund was divided into two parts – the Discretionary Portfolio, which remained the Commission's responsibility and the Directed Investments, where the investments were made at the direction of the Minister for Finance.

Anglo-Irish Bank

1. Name:
Anglo-Irish Bank

2. Country of registration:
Ireland

3. Activity abroad:
Branches in the USA, the UK, Portugal, Switzerland, Austria.

4. Date of disclosure of financial difficulties and main reasons:
Mid–2008. Significant mortgage portfolio, dependence on foreign funding.

5. Intervention initiator:
The Ministry of Finance

6. Intervention start date:
30 September 2008

7. Course of intervention and financial support:
a) Guarantee of the Minister for Finance – Credit Institutions (Financial Support) Act 2008 (30 September 2008–29 September 2010)
b) Nationalization (21 January 2009). Prior recapitalization plan of EUR 1.5 billion (January 2009) was not implemented. The European Commission raised no objections to the change of ownership of Anglo (17 February 2009)
c) Capital injection made by the Ministry of Finance (June–September 2009)
d) Capital injection made by the Ministry of Finance by way of promissory notes (31 March 2010)
e) Capital injection made by the Ministry of Finance by way of promissory notes (28 May 2010)
f) Capital injection made by the Ministry of Finance by way of promissory notes (23 August 2010)
g) Capital injection made by the Ministry of Finance by way of promissory notes (31 December 2010)
h) Acquiring bad debt by the NAMA in return for government discount bonds (2010–2011)

8. Financial support amounts:
a) No limit
b) –
c) EUR 4 billion
d) EUR 8.3 billion
e) EUR 2 billion
f) EUR 8.6 billion
g) EUR 6.4 billion
h) EUR 13.4 billion (EUR 34.1 billion – book value of bad debt)

9. Prerequisites for financial support:

c) The rescue plan must not support expansion of the bank
d) The restructuring plan till the end of May 2010
h) Bad debt sold with 61 per cent discount

10. Market reaction to granting financial support:

Fitch downgraded the Long-term Issuer Default Rating (IDR):

- to A– from A+, outlook stable, after the announcement of the recapitalization plan, which gave the state 75 per cent control of the group (15 January 2009);
- to BBB+ from A–, outlook negative, after the announcement of the division into two entities (15 September 2010);
- to BBB– from BBB+, outlook negative after acknowledging further support for the banking system by the Irish Minister for Finance (1 October 2010);
- to BB– from BBB–, outlook negative after announcement that the support will be postponed past the elections of 25 February 2011 (16 February 2011)

Fitch withdrawn ratings of IBRC (21 December 2012).

11. Repayment of financial support and market reaction:

EUR 12.9 billion repaid to NAMA.

12. Did the bank manage to improve its financial standing?

No. The problem of Anglo-Irish Bank was high financial leverage and poor asset quality. Provisions of EUR 26.5 billion in 2008–2012, total loss of EUR 31.1 billion. Thanks to state aid, the capital adequacy ratio remained at the required level. The liquidation process started in 2010.

Continued

13. Additional remarks and comments:

Nationalization: The Minister for Finance announced a recapitalization plan of EUR 1.5 billion in December 2008. The plan was not implemented due to the scandal related to Sean FitzPatrick, the chairman of Anglo-Irish Bank, and lending EUR 87 million to some individuals to inflate the bank's share price. Another scandal was related to Irish Life & Permanent and its deposit of EUR 7 billion made in September 2008 to boost Anglo's balance. The bank was nationalized on 21 January 2009.

Financial situation: loss of EUR 12.7 billion due to provisions of EUR 15 billion in 2009. Tier 1 capital adequacy ratio dropped to 6.4 per cent, the capital injection of EUR 8.3 billion was necessary for the bank to be compliant with Basel 2 capital regulations. Loss of EUR 17.65 million in 2010.

Spin-off: The bank was split into two institutions: the Asset Recovery Bank (assets of poor quality, liquidation) and the Funding Bank (deposits fully guaranteed by the state).

IBRC: The merger of Anglo and the Irish Nationwide Building Society (INBS) led to the creation of the Irish Bank Resolution Corporation (IBRC) and was a step towards divesture of both institutions from the Irish banking system. According to a KPMG report, the liquidation of the IBRC should bring EUR 12.9 billion by the third quarter 2014, which constitutes ca. 38 per cent of the amount granted to Anglo and the INBS.

The financial support of ca. EUR 34 billion given to Anglo made up more than half of the total amount of state aid (EUR 64 billion).

Selected ratios of Anglo-Irish Bank[1]

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.90%	1.04%	0.66%	–14.92%	–24.45%	–1.59%	–1.36%	n/a
ROE	24.44%	24.80%	16.07%	–304.92%	–499.32%	–27.33%	–26.48%	n/a
CAR	12.10%	11.60%	12.00%	9.70%	12.40%	16.30%	14.80%	n/a
deposits/credits	75.00%	79.89%	71.38%	88.21%	45.53%	3.37%	3.33%	n/a

Note: [1]Figures for 2008 as of 30 September 2008, figures for 2009 cover 15 months.

Bank of Ireland

1. Name: Bank of Ireland	**2. Country of registration**: Ireland
3. Activity abroad: Subsidiary in the UK; Branches in the UK, Germany, France, and the United States.	**4. Date of disclosure of financial difficulties and main reasons:** Mid-2008. Significant mortgage portfolio, dependence on foreign funding.
5. Intervention initiator: The Ministry of Finance	**6. Intervention start date:** 30 September 2008
7. Course of intervention and financial support: a) Guarantee of the Minister for Finance – Credit Institutions (Financial Support) Act 2008 (30 September 2008 – 29 September 2009) b) Capital injection made by the National Pension Reserve Fund Commission (NPRFC) – purchase of the preference shares (12 February 2009) c) Guarantee of the Minister for Finance – Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (11 January 2010 BOI, 21 Jul 2010 BOI (UK) plc) d) Activity of the National Asset Management Agency (NAMA) – acquiring bad debt in return for government discount bonds (since 2 April 2010) e) Capital injection made by the NPRFC – acquiring newly issued ordinary shares (June 2011) f) Capital injection made by the Ministry of Finance – acquiring newly issued contingent capital notes (June 2011)	**8. Financial support amounts:** a) No limit b) EUR 3.5 billion c) No limit d) EUR 5.6 billion (EUR 9.9 billion – book value of bad debt) in years 2010–2011 e) EUR 1.2 billion (shares were afterwards sold to private investors for EUR 1 billion in July 2011) f) EUR 1 billion

Continued

Bank of Ireland continued

9. Prerequisites for financial support:

a) Additional obligatory reporting to the Central Bank
b) Increase of lending capacity to small and medium-sized enterprises and first-time buyers; establishment of a EUR 100 million fund to support environmentally friendly investment; complying with the Code of Conduct for Business Lending to Small and Medium Enterprises and the Code of Conduct for Mortgage Arrears published by the Financial Regulator; right to appoint 25 per cent of the directors, 25 per cent of voting rights at the general meeting relating to appointment of Directors and change of control of BOI or sale of its business; restrictions in relation to payment of dividends and directors' and executives' remuneration and termination payments; six months to submit a restructuring plan to the European Commission (approved by the EC 15 July 2010)
c) Additional obligatory reporting to the Central Bank
d) Bad debt sold with 43 per cent discount
e) Requirements of the EC relating to additional state support: restructuring plan ensuring that BOI is viable in the long term without further state support; fair burden of restructuring costs has to be carried by BOI and its owners; measures to limit distortions of competition in the market
f) Requirements of the European Commission relating to additional state support: restructuring plan ensuring that BOI is viable in the long term without further state support; fair burden of restructuring costs has to be carried by BOI and its owners; measures to limit distortions of competition in the market

10. Market reaction to granting financial support:

a) Positive market reaction in the short term
b) Negative market reaction
c) Moody's downgraded BFSR (bank financial strength rating) to C from B–
d) Positive market reaction
e) Positive market reaction
f) None

11. Repayment of financial support and market reaction:
Financial support repaid partially:

9 January 2013 – the Ministry of Finance sold contingent capital notes of EUR 1 billion with profit of EUR 10 million (positive market reaction, stock price increase)

4 December 2013 – repayment of EUR 1.9 billion due to debt issuance of EUR 1.3 billion and capital increase of EUR 580 million. Profit for the state was EUR 62 million (stock price decreased 3 days before the capital increase). Moody's downgraded deposit ratings to Ba2 from Ba1 and senior debt ratings to Ba3 from Ba2; outlook remains negative (17 December 2013)

12. Did the bank manage to improve its financial standing?
Yes. Thanks to government guarantees, the bank's deposit base remained stable. Deposit to loan ratio increased, due to the drop in loan value (almost 40 per cent in 2007–2013). Tier 1 capital ratio reached 12 per cent in 2011, after capital injections and sale of bad debt to the NAMA. ROA and ROE were negative. The main reason for financial loss was high provisions made since 2008.

13. Additional remarks and comments:

21 May 2008 – Bank of Ireland was the first to announce that due to the deteriorating economic conditions, the financial result may be lower than expected.

BoI was the only one of Irish biggest banks that avoided state control.

Some (EUR 1.7 billion) of the government's EUR 3.5 billion preference shares were converted into ordinary shares in April 2010. The government's stake in BoI was 36 per cent.

30 March 2010 the Central Bank announced the results of the Prudential Capital Assessment Review (PCAR). The capital level was sufficient – core tier 1 of 10.5 per cent.

After IMF/EU bailout of EUR 85 billion announced in November 2010, Ireland was obliged i.a. to raise safety requirements for banks. Required core tier 1 capital ratio was increased to 12 per cent. BoI was to strengthen capital by EUR 2.199 billion until 28 February 2011.

Continued

Bank of Ireland continued

BoI completed the exchange of EUR 1.355 billion nominal value of tier 2 securities for ca. EUR 700 million of Medium Term Notes due in 2012. This generated core tier 1 capital of ca. EUR 680 million whilst reducing total capital by ca. EUR 675 million (17 December 2010).

After that, BoI sold Bank of Ireland Asset Management to State Street Corporation for a total consideration of EUR 57 million. This gave additional core tier 1 capital of EUR 40 million (10 Jan 2011).

The next step was the exchange of EUR 102 million face value of certain tier 2 securities for EUR 55 million of Medium Term Notes due in 2012. This increased core tier 1 capital by EUR 45 million whilst reducing total capital by EUR 57 million (10 February 2011).

Prudential Capital Assessment Review (PCAR) and Prudential Liquidity Assessment Review (PLAR) results announced on 31 March 2011 showed that BoI needed additional recapitalization of EUR 5.2 billion. Mainly private investors made the capital injection. After partial repayment of state support 2013, the government share amounted to 14 per cent as of the end of 2013 (what was equal to EUR 1.2 billion).

Selected ratios of Bank of Ireland[1]

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.87%	0.86%	0.01%	–0.81%	–0.36%	0.03%	–1.24%	–0.37%
ROE	24.57%	26.28%	0.26%	–23.00%	–8.28%	0.39%	–21.27%	–6.22%
CAR	10.50%	11.10%	15.20%	13.40%	11.00%	14.70%	15.30%	13.60%
deposits/credits	57.80%	63.53%	62.15%	71.01%	57.18%	70.99%	81.16%	87.40%

Note: [1]Figures for years 2006–2008 as of 30 March of the following year. Figures for 2009 cover 9 months.

Educational Building Society

1. **Name:**
   Educational Building Society (EBS)
2. **Country of registration:**
   Ireland
3. **Activity abroad:**
   No
4. **Date of disclosure of financial difficulties and main reasons:**
   Mid-2008. Significant mortgage portfolio
5. **Intervention initiator:**
   The Ministry of Finance
6. **Intervention start date:**
   30 September 2008
7. **Course of intervention and financial support:**
   a) Guarantee of the Minister for Finance – Credit Institutions (Financial Support) Act 2008 (30 September 2008 – 29 September 2009)
   b) Guarantee of the Minister for Finance – Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (1 February 2010)
   c) Capital injection made by the NPRFC – acquiring newly issued ordinary shares (30 April 2010)
   d) Activity of the National Asset Management Agency (NAMA) – acquiring bad debt in return for government discount bonds (2010–2011)
8. **Financial support amounts:**
   a) –
   b) –
   c) EUR 875 million
   d) EUR 400 million, EUR 900 million – book value of bad debt
9. **Prerequisites for financial support:**
   a) –
   b) –
   c) restructuring plan submitted to the European Commission
   d) Bad debt sold with 57 per cent discount
10. **Market reaction to granting financial support:**
    a) debt instruments covered by government guarantee plan rated at Aaa (Moody's, 7 November 2008)
    b) –
    c) Moody's maintained BFSR at D, outlook changed to positive from neutral (31 March 2010) after announcement of the recapitalization plan. Moody's downgraded BFSR to D–, outlook negative (20 December 2010) due to deteriorating economic conditions in Ireland and dependence on government support.

Continued

Educational Building Society continued

11. **Repayment of financial support and market reaction:**
Not applicable.

12. **Did the bank manage to improve its financial standing?**
Yes, the capital adequacy ratio improved in 2010 after capital injection. ROA and ROE reached the lowest values in 2010 when the provisions were substantial. Provisions increased by EUR 150 million in 2011, nonetheless the financial loss decreased by EUR 440 million. Deposit-to-loan ratio decreased slightly between 2006 and 2011.

13. **Additional remarks and comments:**
On 30 April 2010, Ireland notified the capital injection into Educational Building Society to meet regulatory requirements. The recapitalisation consisted of a purchase of special investment shares (EUR 100 million, March 2010), another purchase of special investment shares (EUR 525 million, December 2010), and issuance of promissory notes (EUR 250 million). In 2011, EBS was nationalized; it then became an Allied Irish Bank subsidiary with 100 per cent ownership. In 2012, EBS was incorporated to AIB, which had been nationalized in 2010.

Selected ratios of Educational Building Society

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.30%	0.29%	–0.18%	–0.36%	–2.91%	–0.82%	n/a	n/a
ROE	10.75%	9.57%	–8.93%	–19.55%	–94.88%	–18.05%	n/a	n/a
CAR	11.00%	11.90%	10.60%	10.10%	12.30%	11.80%	n/a	n/a
deposits/credits	68.82%	60.09%	59.64%	59.71%	57.23%	55.15%	n/a	n/a

Irish Life & Permanent Group Holdings

1. **Name**: Irish Life & Permanent Group Holdings (IL&P)	2. **Country of registration**: Ireland
3. **Activity abroad:** Subsidiaries in the UK, Isle of Man.	4. **Date of disclosure of financial difficulties and main reasons:** Mid-2008. Significant mortgage portfolio.
5. **Intervention initiator:** The Ministry of Finance.	6. **Intervention start date:** 30 September 2008
7. **Course of intervention and financial support:** a) Guarantee of the Minister for Finance – Credit Institutions (Financial Support) Act 2008 (30 September 2008 – 29 September 2009) b) Guarantee of the Minister for Finance – Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (2010) c) Capital injection made by the Ministry of Finance (31 July 2011)	8. **Financial support amounts:** a) – b) – c) EUR 3.8 billion
9. **Prerequisites for financial support:** a) – b) – c) restructuring plan submitted to the EC before the end of July 2011	10. **Market reaction to granting financial support:** a) debt instruments covered by government guarantee plan rated at Aaa (Moody's, 7 November 2008) b) c) Moody's rating maintained
11. **Repayment of financial support and market reaction:** Not applicable	12. **Did the bank manage to improve its financial standing?** No. The financial institution has incurred losses since 2009; the biggest loss of EUR 996 million was recorded in 2012 due to high provisions. Capital adequacy ratio above the required level. Deposit-to-loan ratio increased substantially from 35.4 per cent in 2008 to 66.6 per cent in 2013.

Continued

Irish Life & Permanent Group Holdings continued

13. **Additional remarks and comments:**

24 February 2011 – IL&P took over deposits worth EUR 3.6 billion and part of the assets of the Irish Nationwide Building Society (IBNS). Prudential Capital Assessment Review (PCAR) results showed that IL&P needed additional recapitalization of EUR 4 billion. The Ministry of Finance made an investment of EUR 2.3 billion in ordinary shares and EUR 0.4 billion in contingent capital notes, whereby 99.2 per cent of shares belonged to the state. The total amount of government support amounted to EUR 3.8 billion, EUR 0.2 billion was gathered internally.

18 July 2013 profitable part of the institution – Life Group – was sold to Great-West Lifeco for EUR 1.3 billion. The remaining part of IL&P was renamed Permanent TSB Group Holdings p.l.c.

Selected ratios of Irish Life & Permanent Group Holdings

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.47%	0.56%	0.07%	–0.39%	–0.17%	–0.59%	–2.43%	–0.69%
ROE	15.14%	17.19%	2.26%	–15.60%	–7.92%	–12.53%	–37.58%	–10.95%
CAR	10.40%	10.80%	11.30%	11.30%	10.60%	17.90%	20.50%	14.80%
deposits/credits	40.45%	35.39%	35.23%	37.73%	36.58%	42.68%	52.39%	66.63%

Irish Nationwide Building Society

1. **Name**: Irish Nationwide Building Society (INBS)	2. **Country of registration**: Ireland
3. **Activity abroad:** Branches in the UK, Isle of Man.	4. **Date of disclosure of financial difficulties and main reasons:** Mid-2008. Significant mortgage portfolio
5. **Intervention initiator:** The Ministry of Finance	6. **Intervention start date:** 30 September 2008
7. **Course of intervention and financial support:** a) Guarantee of the Minister for Finance – Credit Institutions (Financial Support) Act 2008 (30 September 2008 – 29 September 2010) b) Guarantee of the Minister for Finance – Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (3 February 2010) c) Capital injection made by the Ministry of Finance (31 March 2010) d) Capital injection made by the Ministry of Finance (30 September 2010) e) Activity of the National Asset Management Agency (NAMA) – acquiring bad debt in return for government discount bonds (2010–2011)	8. **Financial support amounts:** a) – b) – c) EUR 2.7 billion d) EUR 2.7 billion e) EUR 3.4 billion (EUR 8.7 billion – book value of bad debt)
9. **Prerequisites for financial support:** a) – b) – c) restructuring plan submitted to the EC d) – e) Bad debt sold with 61 per cent discount	10. **Market reaction to granting financial support:** a) debt instruments covered by government guarantee plan rated at Aaa (Moody's, 7 November 2008) b) – c, e) Moody's maintained BFSR at E+, outlook changed to neutral from negative (31 March 2010) d) –

Continued

Irish Nationwide Building Society continued

11. **Repayment of financial support and market reaction:**
Not applicable.

12. **Did the bank manage to improve its financial standing?**
Financial reports not available.

13. **Additional remarks and comments:**
On 30 March 2010, the Minister for Finance announced that the state took control over the INBS. On 1 July 2011, the INBS merged with Anglo-Irish Bank. The new entity, the Irish Bank Resolution Corporation, was created to be afterwards liquidated within the next 10 years in order to reclaim part of the financial aid given to Anglo (EUR 29.3 billion) and the INBS (EUR 5.4 billion).

Selected ratios of Irish Nationwide Building Society

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	1.27%	1.92%	n/a	n/a	n/a	n/a	n/a	n/a
ROE	21.54%	29.24%	n/a	n/a	n/a	n/a	n/a	n/a
CAR	14.00%	12.90%	n/a	n/a	n/a	n/a	n/a	n/a
deposits/credits	63.43%	58.79%	n/a	n/a	n/a	0.39%	n/a	n/a

National Asset Management Agency

1. Name: National Asset Management Agency (NAMA)	**2. Country of registration**: Ireland
3. Activity abroad: The scheme covers five banks (p. 13) and their subsidiaries, mainly in the UK.	**4. Date of disclosure of financial difficulties and main reasons:** Not applicable.
5. Intervention initiator: The Ministry of Finance	**6. Intervention start date:** The NAMA was establishment in 2009 with initial capital of EUR 1.558 billion.
7. Course of intervention and financial support: a) Government guarantee covering securities issued by the NAMA As of 31 December2010 b) Government guarantee covering securities issued by the NAMA As of 31 December 2011 c) Government guarantee covering securities issued by the NAMA As of 31 December 2012 d) Government guarantee covering securities issued by the NAMA As of 31 December 2013	**8. Financial support amounts:** As of the end of year: a) EUR 28.65 billion b) EUR 29.106 billion c) EUR 25.44 billion d) EUR 34.618 billion
9. Prerequisites for financial support: Not applicable.	**10. Market reaction to granting financial support:** Rating was downgraded 2010–2011 due to increasing capital needs in the banking sector. NAMA's rating directly related to rating of Ireland.

Continued

11. **Repayment of financial support and market reaction:**

No (as of 16 June 2014):

The NAMA sold part of its assets of EUR 16 billion in Great Britain and EUR 8.7 billion in Ireland (2013: 3.7; 2014: 5), after increase of demand for real estate. The NAMA is to repay at least 80 per cent of its debt worth EUR 30 billion until the end of 2016 (two years earlier than expected) and 50 per cent of debt till the end of 2014.

Moody's upgraded Ireland's rating twice 2014, to Baa1.

12. **Did the bank manage to improve its financial standing?**

After loss of EUR 1.18 billion in the first year (2010), the NAMA started to generate profit, ca. EUR 200 million per year. Insignificant deposit base, financing with debt.

13. **Additional remarks and comments:**

The National Asset Management Agency was established on 21 December 2009 as a separate corporate entity with its own Board and Chief Executive, both appointed by the Minister for Finance. Its aim is to obtain the best achievable return for the State on the assets it has acquired from banks. The time horizon is 7–10 years. Participating institutions: Allied Irish Bank, Bank of Ireland, Anglo Irish Bank, Irish Nationwide Building Society and Educational Building Society.

National Asset Management Agency Investment Limited (NAMAIL), which is majority-owned by private investors (51 per cent), manages the acquired assets.. The NAMA owns the remaining 49 per cent. In such a way, the debt issued to purchase acquired loans is not treated as part of Ireland's General Government Debt under European accounting rules. The NAMA activity is financed by issuing mainly floating rate notes guaranteed by the Minister for Finance. In exchange for them, the NAMA acquired loans from banks with discount calculated based on the long-term economic value of the asset.

The table below presents the value of assets acquired and the discount as of the end of 2011.

Item	AIB	Anglo	BOI	EBS	INBS	Total
Loan balances transferred	20.4	34.1	9.9	0.9	8.7	74
Consideration paid	9.0	13.4	5.6	0.4	3.4	31.8
Discount	56%	61%	43%	57%	61%	57%

Impact on banks' financial standing: positive impact on capital adequacy ratio – risk-weighted assets were reduced after bad loans sale. Negative impact – banks had to incur losses connected with the discount. The total loss amounted to ca. EUR 42 billion as of the end of 2011. They were covered with capital injections made by the Ministry of Finance to the banks or with private financing (case of BoI).

ITALY

Introduction

The first recapitalisation. In the framework of the Italian recapitalization scheme for financial institutions approved by the European Commission (EC) on 23 December 2008, the Italian banks issued the so-called Tremonti bonds, which are hybrid instruments subscribed by the State. In 2009, the Italian banks issued Tremonti bonds with a total value of EUR 4.05 billion.

The banks issuing the Tremonti bonds attempted, in particular, to continue financing small and medium-sized enterprises, promoting entrepreneurship and supporting households that had difficulties in repayment of mortgage loans. The conditions for issuing Tremonti bonds were stipulated in the EC decision. Among others, they apply to interest rates and interest calculation algorithm and repayment, as well as to the option of early redemption by the beneficiary of the recapitalization.

The second recapitalisation. Under the second recapitalization scheme, the Italian State subscribed bonds (so called Monti bonds) issued by Banca Monte dei Paschi di Siena. These instruments differ from Tremonti bonds by, among other things, the method of calculation and payment of interest.

Banca Monte dei Paschi di Siena

1. Name:
Banca Monte dei Paschi di Siena (MPS)

2. Country of registration:
Italy

3. Activity abroad:
MPS is the parent company of the Monte dei Paschi di Siena Banking Group, which consists of a number of domestic and foreign companies, including bank subsidiaries in France (Monte Paschi Banque, 17 branches), Belgium (Banca Monte Paschi, 8 branches), operating branches in London, New York, Hong Kong and Shanghai and representative offices in Central and Eastern Europe, North Africa, China and India.

4. Date of disclosure of financial difficulties and main reasons:
2009 – deterioration of the loan portfolio, problems associated with speculative operations (revealed in early 2013) and purchase of Banca Antonveneta (bad management).

5. Intervention initiator:
Government

6. Intervention start date:
30 December 2009

7. Course of intervention and financial support:
a) 30 December 2009 – Tremonti bonds,
b) December 2011 – annual government guarantees, replaced then by new guarantees (for a period of 3 to 5 years) in February and March 2012
c) On 12 December 2012, European Commission temporarily approved MPS recapitalization (Monti bonds). On 28 February 2013, the Italian Ministry of Economy and Finance approved the aid through the subscription of bonds.

8. Financial support amounts:
a) value of bonds EUR 1.9 billion
b) in December of 2011 guarantees of EUR 10 billion, then (February and March 2012) they were replaced by guarantees worth EUR 13 billion
c) value of bonds EUR 3.9 billion

9. Prerequisites for financial support:

Terms of the first recapitalization are set out in the introduction.

One of the prerequisites for the second recapitalization was to present a restructuring plan. This plan covers the period until the end of 2017 and focuses on such issues as improving capital adequacy and profitability, reducing overall risk and structural balance of the liquidity profile.

MPS has agreed to such restrictions as non-solicitation, no payment of dividends and coupons on hybrid instruments, prohibition of aggressive pricing strategies and reducing the salaries of executives.

10. Market reaction to granting financial support:

From 18 December 2009 to 1 August 2010 MPS share price increased from EUR 1.2 to EUR 1.33 per share.

While MPS received liquidity guarantees the lowest rate was recorded in on 9 and 10 January 2012 (EUR 0.2 per share), and the highest – at the beginning of March 2012 (EUR 0.42 EUR per share).

In the period of 7–27 December 2012 and 18 February – 8 March 2013 MPS share price remained unchanged (EUR 0.01 per share).

In 2009–2010 MPS rating lowered from A to A– (Fitch), A1 to A2 (Moody's). From 2011 until 2013 the MPS rating fell from BBB + to BBB (Fitch) and Baa1 to B2 (Moody's).

11. Repayment of financial support and market reaction:

By the end of 2013, the aid was not repaid. Monti bonds only replaced Tremonti bonds.

12. Did the bank manage to improve its financial standing?

MPS very high losses (in 2011 EUR 4.6 billion) are slowly declining – the 2013 loss amounted to EUR 1.4 billion. After the second recapitalization, MPS capital adequacy ratio at the end of 2013 amounted to 15.2 per cent (Tier 1 – 10.6 per cent).

Continued

13. Additional remarks and comments:

In 2008 MPS acquired Banca Antonveneta for approx. EUR 9 billion from Banco Santander, which bought it a few months earlier from ABN AMRO for approx. EUR 6 billion. The purchase caused impairment of MPS goodwill in 2011 and 2012 (approx. EUR 5.5 billion).

In 2008 and 2009, MPS was involved in speculative operations (with the Japan Bank Nomura and Deutsche Bank), which affected the MPS net capital, decreasing it by about EUR 612 million at the end of 2011 and by EUR 579 million at the end of 2012.

The first recapitalization of MPS – in the form of Tremonti bonds worth EUR 1.9 billion – was carried out on 30 December 2009.

According to the EBA recommendation dated 8 December 2011 (to maintain the Core Tier 1 ratio of 9 per cent); the MPS capital shortfall amounted to approx. EUR 3.3 billion. In mid-2012, MPS informed the Bank of Italy that it would not be able to completely cover the shortfall (approx. EUR 1.3–1.7 billion would remain uncovered). Over time, the demand for capital increased.

On 17 December 2012, the EC temporarily approved the recapitalization of MPS with EUR 3.9 billion in newly issued hybrid capital instruments (Monti bonds).

Bonds for EUR 4,071 million were subscribed by the Italian Ministry of Economy and Finance on 28 February 2013. Out of this amount, EUR 1.9 billion was spent on replacing the earlier instruments, Tremonti bonds. The state aid amounted to EUR 3.9 billion, as EUR 171 million was the remuneration related with the exchange of Tremonti bonds for Monti bonds. The capital support for MPS corresponded to approx. 3.7 per cent of its RWA at the end of 2011 (RWA 4.2 per cent at the end of 2012.).

Selected ratios of Banca Monte dei Paschi di Siena

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.60%	0.91%	0.50%	0.10%	0.42%	–1.96%	–1.38%	–0.69%
ROE	13.65%	18.17%	7.75%	1.41%	5.77%	–34.01%	–38.39%	–23.05%
CAR	14.9%	12.8%	15.0%	9.3%	11.9%	13.0%	13.7%	15.2%
deposits/credits	1.39	1.47	0.56	0.60	0.63	0.57	0.57	0.65

Banca Popolare di Milano

1. Name:
Banca Popolare di Milano (BPM)

2. Country of registration:
Italy

3. Activity abroad:
The Bank currently focuses on the domestic market, limiting foreign operations. Liquidation of BPM Ireland (until the end of 2013) and BPM Fund Management (Ireland) Ltd. Companies in Luxembourg (BPM Capital I LLC – BPM Luxembourg SA) still in operation.

4. Date of disclosure of financial difficulties and main reasons:
2009– liquidity problems

5. Intervention initiator:
Government

6. Intervention start date:
31 July 2009

7. Course of intervention and financial support:
21 September 2009 – Tremonti bonds

8. Financial support amounts:
Bonds worth EUR 500 million

9. Prerequisites for financial support:
See: Introduction.

10. Market reaction to granting financial support:
From 11 September 2009 to 1 October 2009 BPM's share price fell from EUR 1.72 to EUR 1.67 per share.

11. Repayment of financial support and market reaction:
Yes – 27 June 2013.

From 17 June 2013 to 5 July 2013, BPM's share price fell from EUR 0.4 to EUR 0.32 per share.

On 8 September 2013, Moody's downgraded the BPM rating from Ba3 to B1.

12. Did the bank manage to improve its financial standing?
Since 2011 BPM recorded losses, but in 2013 its financial result was positive (EUR 30 million). ROE was 0.8 per cent, ROA was 0.1 per cent. In 2013, the capital adequacy ratio was 10.7 per cent (previous year: 12.1 per cent). The cost to income ratio lowered significantly – from 76 per cent in 2012 to 59 per cent in 2013.
In 2014, the BPM rating: Fitch BB +, Moody's B1, S & PB +.

13. Additional remarks and comments:
The value of Tremonti bonds issued by the Banca Popolare di Milano corresponded to 1.8 per cent of its RWA as of the end of 2008.

Selected ratios of Banca Popolare di Milano

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	1.09%	0.84%	0.18%	0.24%	0.22%	–1.16%	–0.82%	0.06%
ROE	12.76%	10.93%	2.33%	2.87%	1.90%	–10.78%	–10.57%	0.79%
CAR	12.4%	11.1%	19.4%	21.7%	18.9%	11.8%	12.1%	10.7%
deposits/credits	0.75	0.67	0.61	0.68	0.59	0.60	0.76	0.79

Banco Popolare

1. Name:
Banco Popolare

2. Country of registration:
Italy

3. Activity abroad:
Subsidiaries in Luxembourg, Croatia, Switzerland, as well as a branch in London and representatives in China (Hong Kong and Shanghai), India, and Russia.

4. Date of disclosure of financial difficulties and main reasons:
Year 2009 – liquidity problems

5. Intervention initiator:
Government

6. Intervention start date:
31 July 2009

7. Course of intervention and financial support:
31 July 2009 – Tremonti bonds

8. Financial support amounts:
Bonds worth EUR 1.45 billion.

9. Prerequisites for financial support:
See: Introduction.

10. Market reaction to granting financial support:
From 21 July 2009 to 10 August 2009, the share price increased from EUR 3.74 to EUR 4.46 per share.

In 2009, Fitch and S & P lowered Bank's rating from A to A–.

11. Repayment of financial support and market reaction:

Yes – 14 March 2011.

From 4 March to 24 March 2011, the share price fell from EUR 2.39 to EUR 2.34 per share.

In June 2011 the bank's rating was further lowered (Fitch BBB +, S&P BBB).

12. Did the bank manage to improve its financial standing?
In 2013, the bank's financial situation slightly improved. At the end of 2013, it recorded a loss amounting to EUR 620 million, while a year earlier it was EUR 950 million. The capital adequacy ratio was 13.3 per cent (in 2012 14.0 per cent, in 2011 11.7 per cent). The cost to income ratio was 64.5 per cent, which was a significant improvement compared to the year 2010 (74.6 per cent). The share of non-performing loans in the total amount of the loans was even bigger (in 2013 14.7 per cent, while in 2009 it was 8.5 per cent).

13. Additional remarks and comments

The value of Tremonti bonds issued by Banco Popolare corresponds to the 1.96 per cent of its RWA, at the end of 2008.

Selected ratios of Banco Popolare

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	1.74%	0.69%	–0.23%	0.21%	0.05%	–1.71%	–0.91%	–0.48%
ROE	n/a	n/a	n/a	n/a	0.55%	–19.85%	–12.89%	–6.97%
CAR	n/a	8.70%	10.6%	10.8%	10.7%	11.7%	14.0%	13.3%
deposits/credits	1.20	1.10	1.15	1.10	1.11	1.07	1.03	1.04

Ratings of Banco Popolare in 2007–2014 (as of the end of the year)

Name of the rating agency	2007	2008	2009	2010	2011	2012	2013	August 2014
Moody's	A2	A2	A2	A2	Baa3	Baa2	Ba3	Ba3
S&P	A	A	A–	A–	BBB–	BBB	BB	BB–
Fitch	A	A	A–	A–	BBB+	BBB	BBB	BBB

Credito Valtellinese

1. Name:
Credito Valtellinese

2. Country of registration:
Italy

3. Activity abroad
No.

4. Date of disclosure of financial difficulties and main reasons:
2009 – liquidity problems

5. Intervention initiator:
Government

6. Intervention start date:
30 December 2009

7. Course of intervention and financial support:
30 December 2009 – Tremonti bonds

8. Financial support amounts:
Bonds worth EUR 200 million.

9. Prerequisites for financial support:
See: Introduction.

10. Market reaction to granting financial support:

From 18 December 2009 to 1 August 2010, the Bank's share price increased from EUR 5.41 to EUR 5.68 per share.

In June 2010, Fitch confirmed its previous rating of the Bank (A–), but downgraded outlook from stable to negative.

11. Repayment of financial support and market reaction:
Yes. 30 June 2013.

From 20 June 2013 to 10 July 2013, the share price of the Bank increased from EUR 0.91 to EUR 0.95 per share.

Repayment of the aid did not affect the rating of the Bank. In July 2013 Fitch maintained its assessment on the same level (BB +).

12. Did the bank manage to improve its financial standing?
In 2013, Bank significantly improved its financial result (its profit amounted to EUR 12 million, while in 2012 it was a loss of EUR 322 million). The capital adequacy ratio amounted to 12.2 per cent (previous year: 11.5 per cent).
In 2014, the rating by Moody's was Ba3, by Fitch BB.

13. Additional remarks and comments:
The value of Tremonti bonds issued by Credito Valtellinese corresponded to 1.2 per cent of its RWA as of the end of 2008.

Selected ratios of Credito Valtellinese

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.58%	0.64%	0.59%	0.36%	0.32%	0.19%	–1.11%	0.04%
ROE	7.96%	7.09%	6.25%	4.14%	3.62%	2.39%	–15.64%	0.60%
CAR	10.3%	13.7%	10.0%	9.3%	9.5%	10.6%	11.5%	12.2%
deposits/credits	0.79	0.72	0.71	0.69	0.68	0.69	0.73	0.79

LATVIA

Mortgage and Land Bank

1. **Name:**
   Mortgage and Land Bank (LHZB)
2. **Country of registration:**
   Latvia
3. **Activity abroad:**
   No.
4. **Date of disclosure of financial difficulties and main reasons:**
   2008 – mortgage portfolio, financing of risky projects
5. **Intervention initiator:**
   The Ministry of Finance.
6. **Intervention start date:**
   January 2009
7. **Course of intervention and financial support:**
   a) Two capital injections – total of LVL 72.79 million (2009)
   b) Capital injection of LVL 70.2 million (23 March 2010)
8. **Financial support amounts:**
   a) EUR 102.48 million
   b) EUR 100 million
9. **Prerequisites for financial support:**
   a) sale or wind-down of LHZB's commercial activities to offset the distortions of competition brought about by the aid
   b) –
10. **Market reaction to granting financial support:**
    a) Moody's downgraded the BFSR to E+, outlook neutral from D–, outlook negative
    b) rating maintained
11. **Repayment of financial support and market reaction:**
    No.
12. **Did the bank manage to improve its financial standing?**
    No, ROA and ROE are negative although provisions were significantly reduced in 2011. Loan-to-deposit ratio dropped sharply from 73.45 per cent in 2010 to 4.2 per cent in 2013 due to the separation of commercial activity and the decrease in deposits from clients. Capital adequacy ratio above the required level, 18.96 per cent in 2013.
13. **Additional remarks and comments:**
    The Government of the Republic of Latvia in 1993 established LHZB as a state-owned commercial bank to support economic development. The EC authorized the state aid and obliged the bank to resign from commercial activity until the end of 2013. LHZB decided to surrender its credit institution licence, starting from 1 January 2014. The institution continues its operations as the State Joint-Stock Company SJSC Latvian Development Finance Institution Altum.

Selected ratios of Mortgage and Land Bank

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.86%	0.70%	–0.19%	–6.09%	–8.94%	0.15%	–11.19%	–5.61%
ROE	10.06%	10.20%	–3.05%	–68.77%	–73.96%	1.18%	–59.96%	–21.46%
CAR	13.30%	10.40%	8.40%	10.20%	12.20%	12.30%	14.10%	18.96%
deposits/credits	54.87%	42.24%	40.69%	51.64%	73.45%	44.09%	40.22%	4.20%

Parex Bank

1. **Name**:
   Parex Bank
2. **Country of registration**:
   Latvia
3. **Activity abroad:**
   Subsidiaries in Georgia, Cyprus, Russia, Lithuania, Estonia, the UK, Iceland.
4. **Date of disclosure of financial difficulties and main reasons:**
   3/4Q2008 – deterioration of loan portfolio quality, outflow of customer deposits, difficulties to roll over debt maturing at the beginning of 2009 (EUR 775 million).
5. **Intervention initiator:**
   Government
6. **Intervention start date:**
   10 November 2008
7. **Course of intervention and financial support:**
   a) Capital commitment of the state in the shareholding: Investment Agreement (through Mortgage and Land Bank) with V. Kargins and V. Krasovickis regarding transfer of 51 per cent stake in Parex to the State for two lats for the entire package, paying LVL 1 to each shareholder (10 November 2008). The transaction fell through because V. Kargins and V. Krasovickis failed to fulfil the conditions set forth in Investment Agreement – they failed to receive consent of two thirds of syndicated lenders for the takeover of Parex (25 November 2008)
   b) Liquidity support: the State Treasury placed several term deposits with Parex, total amount of LVL 100 million (14 November 2008)
8. **Financial support amounts:**
   a) ca. EUR 2.8 – failed
   b) ca. EUR 142.3 million
   c) –
   d) ca. EUR 2.8
   e) EUR 0.01
   f) EUR 43.4 million
   g) EUR 287.1 million
   h) ca. EUR 2.8
   i) –
   j) EUR 22 million
   k) EUR 34.6 million
   l) EUR 145.1 million
   m) EUR 44.8 million

c) Liquidity support: Financial and Capital Market Commission and the Government decided to impose restrictions on execution of bank's liabilities in view of the excessive outflow of funds, mainly deposits. Restrictions for individual customers were limited to LVL 35,000 (EUR 50,000) per month; for corporate clients the limit depended on the number of employees – LVL 35,000 per month, equal to LVL 350,000 or unlimited amount per month. (1 December 2008)

d) Capital commitment of the state in the shareholding: Investment Agreement was signed – all shares owned by V. Kargins and V. Krasovickis (constituting 84.83 per cent of Parex shares) were taken over by the Mortgage Bank for two lats. (3 December 2008)

e) Capital commitment of the state in the shareholding: The Government (through Mortgage and Land Bank) acquired all Parexshares owned by one of the minority shareholders, SvenskaHandelsbanken AB. The Mortgage and Land Bank holding in Parex was increased up to 85.15 per cent. (15 December 2008)

f) Liquidity support: the State Treasury placed an investment of EUR 43.4 million with Parex, for the acquisition of short-term treasury bills totalling EUR 44.4 million. Parex put the securities as collateral when borrowing required funding from Bank of Latvia to maintain liquidity. (16 December 2008)

g) Liquidity support: the State Treasury placed a deposit of EUR 287.1 million with Parex, for the acquisition of short-term treasury bills totalling EUR 300 million. Parex put the securities as collateral when borrowing required funding from Bank of Latvia to maintain liquidity. (22 December 2008)

Continued

Parex Bank continued

h) The Government transferred Parex shares owned by Mortgage and Land Bank to state-owned JSC Privatisation Agency (PA) for LVL 2 and EUR 0.01 (24 February 2009)
i) Government guarantee: the Minister for Finance signed contracts of guarantee for the syndicated lenders: for EUR 500 million – the credit agreement of 29 June 2007, and for EUR 275 million – the credit agreement of the 21 February 2008. (18 March 2009)
j) Liquidity support/changes in shareholding: EBRD acquired 25 per cent plus 1 of ordinary shares of Parex for LVL 59.5 million (EUR 85 million) and invested EUR 22 million in Parex Bank subordinated capital. (7 April 2009)
k) Capital injection made by PA: PA acquired newly issued name shares without voting rights. LVL increased share capital by 24.3 million. (29 October 2009)
l) Liquidity support: The Government placed a deposit of LVL 102 million with Parex, for the repayment of the loan to the syndicate lenders. (9 February 2010)
m) Capital injection: increase of the share capital of Parex by LVL 31.5 million, decision approved by the Government. (23 February 2010)
n) The Government approved the restructuring of Parex, separating part of assets into a new bank. (23 March 2010)

Parex was split into good bank – Citadele – and bad bank – Parex, later renamed Reverta. Parex banking licence was revoked; Reverta no longer functioned as a deposit taking institution.

9. **Prerequisites for financial support:**

Restrictions concerning market share, banking activity and acquisitions were placed upon Citadele after granting the state aid.

10. **Market reaction to granting financial support:**

Moody's downgraded the BFSR of Parex to E from E+ (outlook stable) after the announcement of deposit withdrawal restrictions put in place by the government. The bank's local and foreign currency long-term bank deposit and debt ratings also were downgraded to B2 from Ba1. (5 December 2008)

Moody's changed to developing from stable the outlook Parex long-term deposit and senior debt ratings (of B2) and its BFSR (of E), after the approval of the restructuring plan by the Government. (31 March 2010)

Moody's withdrew all ratings of Parex. (9 September 2009)

11. **Repayment of financial support and market reaction:**

No. Reverta focused on the management of the impaired assets of Parex bank and repayment of the aid to the exchequer. The state recovered ca. LVL 110.9 million (EUR 157.8 million) between 1 August 2010 and 31 December 2013. Since the beginning of the financial crisis up to 2013, Latvia lost EUR 1 billion on the interventions.

12. **Did the bank manage to improve its financial standing?**

Yes. Citadele (good assets of Parex) improved its financial standing (point 13, table for Citadele).

In 2010 (the year of spin-off) the total assets of Parex (bad assets) amounted to LVL 789 million and the total assets of Citadele – LVL 1436 million.

13. **Additional remarks and comments:**

Market share of Parex in Latvia: At the beginning of 2008, Parex had ca. 20 per cent of all deposits.

Confusion regarding the acquisition of shares of Parex Bank by EBRD: Dutch Finance Minister J. Dijsselbloem said on 10 July 2014 that EBRD had the put option on Reverta and Citadele stake. The Government of Latvia declined to comment on the issue (Bloomberg, 10 July 2014). The hidden put option was not included in the national accounts of Latvia because it was a guarantee. Therefore, the real costs of the bank rescue would be in fact higher than officially stated. EBRD owned 25 per cent stake in Citadele and 12.74 per cent in Reverta.

State aid for Parex Bank: the total state aid for Parex amounted to EUR 1.7 billion. The EC acknowledged after investigation that the rescue mechanisms were in line with EU procedures (10 July 2014).

Continued

Parex Bank continued

Restrictions concerning execution of liabilities: according to L. Laeven and F. Valencia in Resolution of Banking Crises: The Good, the Bad, and the Ugly (August 2012), Parex was the only bank which froze deposit payoffs for clients in 2007–2009.

Selected ratios of Parex Bank/Reverta[1]

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	2.11%	1.22%	–3.76%	–4.89%	–19.07%	–13.06%	–26.74%	–36,18%
ROE	25.87%	18.14%	–165.82%	–91.37%	–408.11%	–700.00%	112.94%	51,15%
CAR	9.90%	9.60%	3.30%	8.30%	7.60%	2.37%	n/a	n/a
deposits/credits	109.01%	103.74%	99.36%	101.69%	91.51%	6.35%	n/a	n/a

Note: [1] Reverta – as of 2012–2013.

Selected ratios of Citadele

Ratios	2010	2011	2012	2013
ROA	n/a	–0.11%	0.56%	0.60%
ROE	n/a	–2.12%	9.45%	9.80%
CAR	10.00%	10.50%	10.50%	10.30%
deposits/credits	162.95%	183.78%	194.80%	212.79%

LITHUANIA

AB Ukio Bankas

1. **Name**: AB Ukio Bankas	2. **Country of registration**: Lithuania
3. **Activity abroad:** A subsidiary in the Ukraine.	4. **Date of disclosure of financial difficulties and main reasons:** Second half of 2008. Significant mortgage portfolio, high concentration risk (real estate, SME clients)
5. **Intervention initiator:** The Ministry of Finance	6. **Intervention start date:** 20 February 2013
7. **Course of intervention and financial support:** Capital injection (20 February 2013)	8. **Financial support amounts:** EUR 231.4 million
9. **Prerequisites for financial support:** Liquidation aid.	10. **Market reaction to granting financial support:** Removal from the NASDAQ OMX Vilnius Stock Exchange. (February 2013). Moody's (2009) and S&P (2012) withdrawn rating of AB Ukio Bankas (2009).
11. **Repayment of financial support and market reaction:** No.	12. **Did the bank manage to improve its financial standing?** No, the aim of financial support was bank liquidation.

Continued

AB Ukio Bankas continued

13. **Additional remarks and comments:**

On 12 February 2013, Lithuanian Central Bank suspended the operations of AB Ukio Bankas. The bank had insufficient capital and liquidity, and poor operational risk management (fraud).

Ca. 80 per cent of AB Ukio bank's assets and liabilities were taken over by AB Siauliu Bankas. EUR 231.4 million of liquidation aid was necessary to close the gap between transferred liabilities and assets.

The Ministry of Finance provided the Lithuanian Guarantee Fund with a loan that covered the financial support for Ukio.

The EC authorized the aid and acknowledged that it was in line with EU rules on state aid to banks during the crisis.

28 April 2014 the Lithuanian authorities informed the EC that the final valuation of assets and liabilities of Ukio determined that the difference was in fact EUR 37 million larger than estimated. The Guarantee Fund compensated AB Siauliu Bankas with an additional grant.

Selected ratios of AB Ukio Bankas

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	n/a	n/a	n/a	n/a	–0.67%	0.03%	–1.05%	n/a
ROE	n/a	n/a	n/a	n/a	–7.81%	0.23%	–10.04%	n/a
CAR	n/a	n/a	n/a	n/a	n/a	14.89%	13.31%	n/a
deposits/credits	n/a	n/a	n/a	n/a	151.07%	131.00%	136.17%	n/a

PORTUGAL

Introductory remarks about Banco BPI, Banco Comercial Português, Banco Privado Português, Banco Portugues de Negocios, Caixa Geral de Depósitos

The European Commission approved Portuguese support scheme for financial institutions (30 October 2008). The scheme provided state guarantees to financing operations and the issue of non-subordinated short and medium term debt of solvent credit institutions in Portugal. The scheme covered transactions with maturity up to three years, in exceptional cases, five years.

The duration of the scheme was limited until 31 December 2009. The total budget was EUR 20 billion.

The first Portuguese recapitalization plan was approved by the European Commission (EC) on 20 May 2009, then extended to 17 March 2010, 23 July 2010, 21 January 2011 and 30 June 2011 (applicable to the following financial institutions: Banco BPI, Banco Portugues de Negocios, Banco Comercial Português, Caixa Geral de Depósitos).

The bank that called on a guarantee had to pay back the loan in full or exchange it for preference shares.

According to the restructuring plan agreement, the beneficiary institutions committed to improve profitability of their domestic operations by reducing the staff numbers and the size of the branch networks, strengthen their business models, and ensure continued lending to the Portuguese economy.

The Resolution Fund was created 10 February 2012. It is a legal entity, established under the common law, with administrative and financial autonomy within Banco de Portugal.

The primary goal is to provide financial support for the implementation of resolution measures determined by Portuguese Central Bank (Banco de Portugal, 2014 and EECB, 2011).

- Financing of the Resolution Fund: the financial resources come from the initial and periodical contributions paid by member institutions and the returns on investment. They may also be supplemented with special contributions paid by member institutions (in case the financial resources prove to be insufficient to fulfil the Fund's obligations); guarantees granted by member institutions, as well as loans and guarantees granted by the State.
- Management of the financial resources: independent, under the guidance of the Management Committee, following an investment plan agreed between the Resolution Fund and Banco de Portugal.

The following institutions are compulsorily members of the Fund:

- Credit institutions with head offices in Portugal
- Investment firms that execute orders on behalf of their customers or deal on own account in one or more financial instruments or are included in the same perimeter of supervision on a consolidated basis of a credit institution.
- Branches of credit institutions with head offices in non-EU Member States.
- Branches of financial institutions that have head offices in non-EU Member States and execute orders on behalf of their clients or deal on own account in one or more financial instruments.
- Companies significant to payment systems that are subject to the supervision of Banco de Portugal.
- Function of the Resolution Fund is to provide the member institutions with financial means needed for the implementation of resolution measures. In particular, the financial assistance may include the transfer of cash to the acquiring bank or to the bridge bank, granting of loans or guarantees and the reinforcement of the capital stock of bridge banks.

Banco BPI

1. Name:
Banco BPI (BPI)

2. Country of registration:
Portugal

3. Activity abroad:
Subsidiary in Angola, branch in Spain.

4. Date of disclosure of financial difficulties and main reasons:
The second half of 2009. Mortgage portfolio, exposure to Spanish companies.

5. Intervention initiator:
The Ministry of Finance

6. Intervention start date:
30 October 2008

7. Course of intervention and financial support:
a) Capital injection made by the government (29 June 2012) – acquisition of contingently convertible subordinated bonds (hybrid instruments) within the Portuguese restructuring plan.

8. Financial support amounts:
a) EUR 1.5 billion

9. Prerequisites for financial support:
See: Introduction.

10. Market reaction to granting financial support:
Positive market reaction, the share price went up.

Moody's maintained the BFSR at E+, outlook changed to stable from negative. Improvement of asset quality and capitalisation levels.

11. Repayment of financial support and market reaction:
BPI redeemed EUR 0.58 billion of securities acquired by the state within the restructuring plan (as of 24 July 2013) – repayments: EUR 0.1 billion in December 2012, EUR 0.2 billion in March 2013.
Positive market reaction – the share price increased. Ratings did not change.

12. Did the bank manage to improve its financial standing?
Yes. The core tier 1 (according to the requirements of Banco de Portugal) increased substantially from 9.2 per cent to 15 per cent after the recapitalization. Deposit-to-loan ratio was improving gradually. ROA and ROE reached low but positive levels in 2012.

13. Additional remarks and comments:
On 7 April 2011, Portugal requested the EU and IMF bailout. The rescue plan was formally approved on 17 May 2011. The plan lasted from 2011 to mid-2014. Bailout amount: EUR 78 billion. Part of the financial means was granted to rescue the Portuguese financial sector.

The stress test results announced by the European Banking Authority (EBA) in December 2011 obliged Banco BPI to reinforce its capital by EUR 1.389 billion, to be in line with capital requirements introduced in June 2012 (core tier 1 ratio of 9 per cent). The capital ratio should be calculated based on market valuation of the exposure to the government as of the end of September 2011. The weak capital situation results in 90 per cent from the exposure to sovereign debt (information from BPI's annual report of 2012).

The recapitalization of EUR 1.5 billion from June 2012: BPI had to reach the core tier 1 capital ratio of 9 per cent as of the end of June 2012 (EBA's requirement) and of 10 per cent in December 2012 (requirement of Banco de Portugal). The state aid was reduced to EUR 1.3 billion in August 2012 after a capital increase financed by private funds.

Selected ratios of Banco BPI

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	1.00%	0.90%	0.40%	0.60%	0.60%	–0.40%	0.80%	0.40%
ROE	24.30%	24.70%	8.80%	8.90%	8.90%	–13.50%	13.10%	2.90%
CAR	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
deposits/credits	99.58%	98.63%	100.31%	63.86%	66.06%	75.40%	77.98%	84.65%
core tier 1[1]	5.90%	5.40%	8.00%	7.80%	8.70%	9.20%	15.00%	16.50%

[1] According to requirements of Banco de Portugal

Banco Comercial Português

1. Name:
Banco Comercial Português (BCP)

2. Country of registration:
Portugal

3. Activity abroad:
Subsidiaries in Angola, Greece, Mozambique, Poland, Romania, Switzerland. A branch in Macau.

4. Date of disclosure of financial difficulties and main reasons:
The second half of 2009. Mortgage portfolio.

5. Intervention initiator:
The Ministry of Finance

6. Intervention start date:
30 October 2008

7. Course of intervention and financial support:
a) capital injection made by the government (7 June 2012) – acquisition of contingently convertible bonds (hybrid instruments) within the Portuguese restructuring plan.

8. Financial support amounts:
a) EUR 3 billion

9. Prerequisites for financial support:
See the introductory remarks.

10. Market reaction to granting financial support:
Moody's downgraded the BFSR to D+ from C+ (16 September 2009), outlook negative. Reasons: Asset quality deterioration, expected higher losses on operations in Poland, weak results on retail in Portugal.

Slightly positive market reaction after the recapitalization – the share price increased.

Moody's downgraded the BFSR to E from E+. Reasons: weak risk absorption capacity despite the public recapitalization, deteriorating profitability ratios, sharp decline in net interest income, exposure to Greece through its 100 per cent-owned subsidiary Millennium Bank S.A.

11. Repayment of financial support and market reaction:
No.
BCP repaid EUR 1.85 billion of state aid (7 August 2014)
No longer-term market reaction. The share price dropped two days before the announcement of the partial repayment. No changes in ratings.

12. Did the bank manage to improve its financial standing?
After the recapitalization, the capital adequacy ratio increased from 9.5 per cent 2011 to 14.6 per cent 2013. Deposit-to-loan ratio improved by 44 per cent in 2008–2013. ROE and ROA were negative 2011–2013, negative financial result generated by high provisions.

13. Additional remarks and comments:
On 7 April 2011, Portugal requested the EU and IMF bailout. The rescue plan was formally approved on 17 May 2011. The plan lasted from 2011 to mid-2014. Bailout amount: EUR 78 billion. Part of the financial means was granted to rescue the Portuguese financial sector.

The government acquired contingently convertible bonds of EUR 3 billion because BCP was obliged to reach the core tier 1 capital ratio of 9 per cent as of the end of June 2012 (EBA's requirement) and of 10 per cent in December 2012 (requirement of Banco de Portugal). The capital was increased by EUR 0.5 billion, financed by private funds.

If BCP does not repay the state aid within 5 years, until 2017, the state will take over 40 per cent stake in BCP.

Selected ratios of Banco Comercial Português

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	1.00%	0.60%	0.40%	0.30%	0.40%	–0.80%	–1.30%	–0.80%
ROE	17.01%	14.20%	8.30%	4.60%	9.80%	–22.00%	–31.50%	–24.90%
CAR	n/a	9.60%	10.50%	11.50%	10.30%	9.50%	12.70%	14.60%
deposits/credits	58.66%	59.78%	59.74%	61.59%	61.71%	69.83%	78.90%	86.19%

Banco Espirito Santo

1. Name:
Banco Espirito Santo

2. Country of registration:
Portugal

3. Activity abroad:
Subsidiaries in Angola, Macau, France, the United States, Ireland, Brazil, Libya, Algeria, China, India, Poland, Spain, the UK, Mozambique, Venezuela.

4. Date of disclosure of financial difficulties and main reasons:
July 2014
The direct reason for the difficulties of BES was the bankruptcy of companies which belonged to the Espirito Santo family (the family controlled BES). BES had credit exposure to these companies; therefore, the Portuguese regulator obliged BES to increase the capital base. Moreover, there was a risk that BES would have to recapitalize its subsidiary in Angola.

5. Intervention initiator:
Portuguese Resolution Fund.
The financial resources came mainly from a loan granted by the state. The Fund was also reinforced by other Portuguese banks.

6. Intervention start date:
3 August 2014

7. Course of intervention and financial support:
a) Transfer of good assets, deposits and senior debt to Novo Banco (bridge bank). The rest was left in BES (3 August 2014)
b) Recapitalization of Novo Banco by the Portuguese Resolution Fund (3 August 2014)

8. Financial support amounts:
a) –
b) EUR 4.9 billion

9. Prerequisites for financial support:
Split of BES. Separation of good bank, Novo Banco.

10. Market reaction to granting financial support:
Share price: the trading with BES shares was suspended after the announcement of the recapitalization.

S&P downgraded long-term credit rating to B+ from BB–, outlook negative. (11 July 2014)

S&P downgraded long-term credit rating to B–, outlook negative. (16 July 2014)

S&P downgraded long-term credit rating to CC from B–, outlook negative. (13 August 2014)

11. Repayment of financial support and market reaction:
The financial aid has not been repaid. It should be after sale of Novo Banco (partial or total).

12. Did the bank manage to improve its financial standing?
No possibility to assess yet.
The aim of BES is not to improve its financial standing, but to restore financial means within the liquidation process.

Continued

Banco Espirito Santo continued

13. Additional remarks and comments:

Banco Espirito Santo was the third biggest financial group in Portugal with assets of EUR 80.2 billion, customer deposits of EUR 36.7 billion, and resources from other credit institutions of EUR 5.8 billion (as of 30 June 2014).

Split: 3 August 2014 the sound activities (deposits, most assets and senior debt) were transferred to Novo Banco. Shareholders and junior bondholders were left with the toxic assets. The 'bad' bank BES will be liquidated (*The Economist*, 9 August 2014). On 4 August 2014, BES shares were delisted.

EUR 4.4 billion out of the total amount of the recapitalisation (EUR 4.9 billion) came from a loan made by the state to the Portuguese Resolution Fund. The loan had to be reimbursed by the proceeds of the sale of assets of Novo Banco (according to the documentation issued by the European Commission, 4 August 2014).

Selected ratios of Banco Espirito Santo

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.81%	1.00%	0.59%	0.73%	0.66%	0.00%	0.12%	–0.62%
ROE	14.70%	17.00%	10.20%	11.00%	9.40%	–0.10%	1.20%	–6.90%
CAR	13.10%	11.50%	11.30%	11.20%	11.30%	10.70%	11.30%	11.80%
deposits/credits	63.05%	55.08%	54.75%	50.36%	58.58%	66.79%	68.53%	74.07%

Banco Internacional do Funchal S.A.

1. Name:
Banco Internacional do Funchal S.A. (Banif)

2. Country of registration:
Portugal

3. Activity abroad:
Branches and subsidiaries in Europe (Spain, Malta, Hungary, Poland, Slovakia), Africa, North America, South America.

4. Date of disclosure of financial difficulties and main reasons:
2010 – mortgage portfolio

5. Intervention initiator:
The Ministry of Finance

6. Intervention start date:
April 2011

7. Course of intervention and financial support:
a) Government guarantee for issued bonds (April 2011)
b) Capital injection (11 January 2013)

8. Financial support amounts:
a) –
b) EUR 1.1 billion

9. Prerequisites for financial support:
a) –
b) the state took control over Banif

10. Market reaction to granting financial support:
Negative market reaction to the capital injection as well as the partial repayment. The share prices dropped.

Moody's downgraded BFSR between 2009 and 2012 from C– to E. No reaction to the financial support 2013.

11. Repayment of financial support and market reaction:
No, repayments of EUR 150 million (29 August 2013) and EUR 125 million (11 April 2014).

12. Did the bank manage to improve its financial standing?
It is difficult to assess due to short time from the intervention. Banif generated loss of EUR 470 million 2013 because of high provisions. The capital base was reinforced, CAR above the required level. The deposit-to-loan ratio improved.

13. Additional remarks and comments:
The financial support was reimbursed through the issuance of special shares (EUR 700 million) and subordinated and convertible instruments (CoCos, EUR 400 million), which are part of the core tier 1 capital. The Portuguese state owned 99.2 per cent of Banif's share capital (98.7 per cent of voting rights in current matters).

Between June and October 2013, private investors increased the capital by EUR 311.5 million. As of the end of 2013, the state's participation in share capital amounted to 68.77 per cent (58.34 per cent of voting rights).

Selected ratios of Banco Internacional do Funchal S.A.

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.52%	0.33%	0.16%	0.20%	0.01%	–1.02%	–4.18%	–3.46%
ROE	11.70%	7.52%	4.41%	3.65%	0.15%	–19.43%	–200.10%	–58.07%
CAR	10.41%	10.58%	9.80%	13.10%	14.54%	n/a	n/a	n/a
deposits/credits	58.01%	72.59%	73.81%	68.52%	71.38%	71.81%	79.03%	79.10%

Banco Privado Português

1. Name:
Banco Privado Português (BPP)

2. Country of registration:
Portugal

3. Activity abroad:
Branch in the Cayman Islands

4. Date of disclosure of financial difficulties and main reasons:
The second half of 2008

Moody's downgraded the BFSR to D from D+ (13 November 2008). Reason: business model that is highly dependent on developments in the capital markets (proprietary positions in equities, participation in private equity funds, positions in risky securities, credit default swaps).

5. Intervention initiator:
The Ministry of Finance

6. Intervention start date:
30 October 2008

7. Course of intervention and financial support:
a) Government Guarantee for credit line of 6 Portuguese banks granted to BPP for the period 5 December 2008 – 15 April 2010.
b) The Central Bank of Portugal revoked the BPP's banking licence and initiated the process of liquidation. (15 April 2010)
c) The government repaid the loan of EUR 0.45 billion covered by the guarantee.
d) The EC concluded that the guarantee constituted illegal and incompatible state aid and should be recovered by Portugal. The EC had concerns that BPP was being kept alive artificially and the fee paid for the guarantee was too low.

8. Financial support amounts:
a) EUR 0.45 billion
b) –
c) –
d) EUR –0.45 billion

9. Prerequisites for financial support:

a) BPP and Portugal had six months to submit the restructuring plan. This condition was not fulfilled. The EC recognized the aid as illegal on 20 July 2010.

b) –

c) –

d) –

10. Market reaction to granting financial support:

Moody's downgraded the BFSR to E from D (liquidity problems, investigation for alleged malpractices).

11. Repayment of financial support and market reaction:

No information.

12. Did the bank manage to improve its financial standing?

No, the bank was liquidated. No accessible financial reports.

13. Additional remarks and comments:

The guarantee from December 2008 covered the credit line granted by six banks: Caixa Geral de Depósitos – EUR 120 million, Banco Comercial Português – EUR 120 million, Banco Espírito Santo — EUR 80 million, Banco Santander Totta — EUR 60 million, Banco BPI – EUR 50 million and Caixa Central de Crédito Agrícola Mútuo – EUR 20 million.

The Public Prosecution Service and the Portuguese Securities and Exchange Commission (Comissão de Mercado de Valores Mobiliários – CMVM) conducted an investigation of BPP into alleged malpractices. The Portuguese Central Bank suspended the Board members from their functions. The Portuguese regulator appointed new directors and the president, who represented the consortium of banks that provided liquidity support within the credit line.

BPP's liquidation: the Bank of Portugal verified effectiveness of the potential recapitalisation of BPP and decided to revoke its banking licence.

Banco Portugues de Negocios

1. Name:
Banco Portugues de Negocios (BPN)

2. Country of registration:
Portugal

3. Activity abroad:
Subsidiary in Brazil

4. Date of disclosure of financial difficulties and main reasons:
18 January 2008
Moody's downgraded ratings, long-term to Baa3 from Baa1, BFSR to D+ from C–. Reasons: inadequate capital level, weak risk management, high credit risk concentration on real estate sector.

5. Intervention initiator:
The Ministry of Finance

6. Intervention start date:
30 October 2008

7. Course of intervention and financial support:
a) Loan granted by state owned bank, Caixa Geral de Depósitos (October 2008).
b) Emergency liquidity support granted by the Bank of Portugal (October 2008).
c) BPN's nationalisation at zero price (2 November 2008). Before nationalization, three SPVs were separated: i) loans and credits, ii) real estate and investment funds, iii) BPN-owned companies. 31 July 2008 Portuguese authorities started negotiations with Banco BIC Portugal on the sale of the state's shares in BPN.
d) State's guarantee covering the commercial papers issued by BPN and purchased by CGD (March 2009 – June 2010).
e) BIC made offer to purchase BPN for EUR 40 million (July 2011). Accepted by Portugal.
f) Capital injection made by the government – BPN had to comply with capital requirements to be acquired by BIC (15 February 2012).
g) The European Commission acknowledged the restructuring plan of BPN and its sale to Banco BIC Portugal (27 March 2012). The agreement was signed 30 March 2012.

8. Financial support amounts:
a) EUR 235 million
b) EUR 186.6 million
c) EUR 0
d) EUR 4 billion
e) –
f) EUR 600 million
g) –

9. Prerequisites for financial support:
See: Introduction.
a) –
b) –
c) –
d) –
e) –
f) –
g) Ban on acquisitions and dividend payments until the end of 2016. Ban on exercising the call option on the subordinated bonds until the end of 2016.

10. Market reaction to granting financial support:
Moody's downgraded the BFSR to E+ from D+. Reasons: the nationalisation revealed the weaknesses in risk management, control, and corporate governance. Expected deterioration of asset quality and profitability resulting from the former business model. (21 November 2008)

Moody's downgraded the BFSR to E from E+. Reasons: the negative shareholders equity, distressed financial position, net losses. Moody's expected that the capital situation should improve after re-privatisation. (20 October 2010)

11. Repayment of financial support and market reaction:
No. Generally, Portugal incurred a loss of EUR 4.735 billion on interventions in the banking system until 2013.

12. Did the bank manage to improve its financial standing?
No accessible financial reports. BPN generated losses and had inadequate capital base under the management of CGD. After capital injection and re-privatisation, the bank complied with the capital requirements; it generated a little profit of EUR 2 million for the year 2013.

13. Additional remarks and comments:
BPN was nationalized 2008 after a fraud and money laundering scandal. BPN reported loss of EUR 0.7 billion and did not meet the capital requirements imposed by the Bank of Portugal. José Oliveira e Costa, CEO of BPN in 1997–2008, was arrested on charges of suspected money laundering, tax fraud, forgery, illegal gains, and abuse of credit. Before the nationalisation, three SPVs were separated from the bank: Parvalorem S.A., Parups S.A. iParparticipadas S.A. and afterwards, the whole institution was taken over by the state-owned bank, Caixa Geral de Depósitos (CGD).

The privatisation of BPN was one of the conditions for the EU/IMF bailout of EUR 78 billion given to Portugal 2011.

Selected ratios of Banco Portugues de Negocios

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	n/a	n/a	n/a	n/a	n/a	n/a	–0.20%	0.05%
ROE	n/a	n/a	n/a	n/a	n/a	n/a	–2.23%	0.69%
CAR	n/a	n/a	n/a	n/a	n/a	n/a	17.10%	13.95%
deposits/credits	n/a	n/a	n/a	n/a	n/a	n/a	101.35%	126.20%

Caixa Geral de Depósitos

1. Name:
Caixa Geral de Depósitos (CGD)

2. Country of registration:
Portugal

3. Activity abroad:
Branches in Spain, France, the UK, Luxembourg, the United States, China. Subsidiaries in Spain, Brazil, Cape Verde, Angola, Mozambique, the Republic of South Africa, China.

4. Date of disclosure of financial difficulties and main reasons:
The second half of 2009.
Direct exposure to country risk, CGD is owned by the state.

5. Intervention initiator:
The Ministry of Finance

6. Intervention start date:
30 October 2008

7. Course of intervention and financial support:
a) CGD took over BPN acquired by the state for EUR 0. (November 2008)
b) BIC made an offer to purchase BPN for EUR 40 million (July 2011). Accepted by Portugal.
c) The EC acknowledged the restructuring plan of BPN and its sale to Banco BIC Portugal. (27 March 2012)
d) Increase of core tier 1 capital by EUR 1.65 billion (29 June 2012, announced 4 June 2012). The EC temporarily approved the aid in July (until 29 December 2012 or the acceptance of Portuguese restructuring plan).
e) The EC finalized discussions on restructuring plans for CGD (24 July 2013)

8. Financial support amounts:
a) –
b) –
c) –
d) EUR 1.65 billion
e) –

9. Prerequisites for financial support:
See: Introduction.
a) –
b) –
c) –
d) Ban on dividend payments.
e) See: Introduction. Additionally: sale of the biggest subsidiary from the insurance sector.

10. Market reaction to granting financial support:
Moody's positively assessed the government guarantee as a measure reinforcing confidence in the system. Rating maintained. (3 December 2008)

Moody's downgraded the BFSR to C– from C due to lower profitability, deterioration in asset quality and pressured capitalisation (16 September 2009)

Despite the state aid of EUR 1.65 billion, Moody's downgraded the BFSR to E. Reasons: weak risk absorption capacity, modest profitability indicators, deteriorating asset quality and high direct exposure to Portuguese sovereign risk. (4 December 2012)

11. Repayment of financial support and market reaction:
No information available.

12. Did the bank manage to improve its financial standing?
No. Since 2011, ROA and ROE have been negative. The deposit-to-loan ratio improved (ca. 91 per cent in 2013). Capital requirements fulfilled.

13. Additional remarks and comments:
CGD is a fully state-owned bank.

On 7 April 2011, Portugal requested the EU and IMF bailout. The rescue plan was formally approved on 17 May 2011. The plan lasted from 2011 to mid-2014. Bailout amount: EUR 78 billion. Part of the financial means was granted to rescue the Portuguese financial sector.

CGD received the capital injection of EUR 1.65 billion (29 June 2012) of core tier 1 capital in the form of ordinary shares (EUR 0.75 billion) and hybrid securities (EUR 0.9 billion). The financial support was necessary for CGD to reach the core tier 1 capital ratio of 9 per cent as of the end of June 2012 (EBA's requirement) and of 10 per cent in December 2012 (requirement of Banco de Portugal).
On 28 September 2012 the CGD affiliate CaixaGeral Finance Limited violated the ban on dividend payments and disbursed EUR 0.405 billion of dividend to institutional investors. The EC closed the investigation process after CGD had committed to repay to the state the amount equivalent to the dividends paid.

Selected ratios of Caixa Geral de Depósitos

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.86%	0.91%	0.47%	0.26%	0.20%	–0.40%	–0.30%	–0.40%
ROE	16.50%	17.10%	9.60%	4.80%	4.10%	–6.40%	–5.30%	–7.10%
CAR	10.50%	10.10%	10.70%	12.60%	12.30%	11.60%	13.60%	13.30%
deposits/credits	91.40%	77.60%	77.65%	80.70%	80.08%	86.47%	84.84%	90.93%

SLOVENIA

Abanka Vipa

1. Name:
Abanka Vipa

2. Country of registration:
Slovenia

3. Activity abroad:
Factoring and leasing companies (subsidiaries or affiliates) in former Yugoslavia.

4. Date of disclosure of financial difficulties and main reasons:
The bank generated losses since 2011. Initial financial results of Abanka Vipa were published on 20 February 2012. The main reason for financial problems, like in Slovenia's two biggest banks, was an inappropriate lending policy, particularly in the corporate segment.

5. Intervention initiator:
The central bank (acting as supervisor) in cooperation with the government.

6. Intervention start date:
19 February 2013 – decree of Bank of Slovenia ordering the bank to increase capital
18 July 2013 – Slovenian government's approval for support of Abanka Vipa with actions specified in the act on undertaking actions to strengthen stability of banks.

7. Course of intervention and financial support:
a) Capital injection following EC initial decision on state aid – 17 December 2013.
b) Capital increase by Slovenian government because of contribution of government bonds – 8 October 2014.
c) Asset transfer agreement concluded with BAMC – 13 October 2014.

8. Financial support amounts:
a) EUR 348 million
b) EUR 243 million
c) –

9. Prerequisites for financial support:
Redemption of shares of current owners. State Treasury became the only shareholder.

10. Market reaction to granting financial support:
Abanka Vipa shares were listed on the Ljubljana Stock Exchange since October 2008. On 20 February 2012, the share price totalled EUR 10.57 and practically remained the same since the beginning of that month. The maximum price was recorded on 13–16 March 2012 at low turnovers. Afterwards, the share price was continuously decreasing. Since 26 November 2013, the share price has 'frozen' at EUR 0.6.

	2012	2013	2014
Moody's	Ba3 (April)/Caa1 (July)	Caa3 (February)	Caa2 (January)
Fitch	B–(August)	B–	B–/B+ (October)

11. Repayment of financial support and market reaction:
Aid has not been repaid.

12. Did the bank manage to improve its financial standing?
Bank restructuring is now at an early stage.

13. Additional remarks and comments:

As at 2013-end Abanka Vipa had 7.5 per cent of Slovenia's banking market. Before the loss period, the bank pursued an intensive lending policy. As at the end of 2010 and 2011, the state treasury was not a direct shareholder. The bank's biggest shareholders were Zavarovalnica Triglav, an insurance company, and Sava Group operating in the hotel and real estate markets.

The bank started to generate losses in 2011. In December 2012 the Securities and Exchange Commission approved the bank's share issue prospectus. Upon a failed share issue, in the first half of 2013 the bank attempted to increase equity, which proved unsuccessful as well. The bank's general meeting reduced the face value of shares to cover some of 2012 losses (equity decrease registered on 21 May 2013).

In February 2014, the management board introduced a restructuring programme for 2014–2018, which was referred to the EC for acceptance. The EC issued a positive opinion on 13 August 2014, and on 25 September 2014, the government approved further restructuring actions towards the bank.

Selected ratios of Abanka Vipa

Ratios	2007	2008	2009	2010	2011	2012	2013
ROA	1.0%	0.5%	0.5%	0.1%	–2.6%	–2.2%	–10.1%
ROE	10.4%	6.1%	6.1%	0.8%	–47.4%	–49.0%	–144.5%
CAR	10.7%	12.3%	12.3%	11.8%	9.9%	9.5%	9.5%
deposits/credits	72.3%	69.1%	74.6%	69.9%	80.8%	85.0%	104.2%
credit growth (y/y)	30.4%	16.3%	4.7%	11.4%	–7.4%	–16.1%	–28.1%

Bank Asset Management Company (BAMC)

1. Name:
Bank Asset Management Company (BAMC) – Družba za upravljanje terjatev bank (DUTB)

2. Country of registration:
Slovenia

3. Activity abroad:
N/a

4. Date of disclosure of financial difficulties and main reasons:
Asset management company established in March 2013 as a state-owned entity. This resulted from the necessity to restructure Slovenian banks, which, due to aggressive credit policies, suffered financial problems.

5. Intervention initiator:
N/a

6. Intervention start date:
BAMC was established in March 2013, while the first assets were transferred in December 2013, upon receiving EC approval for state aid.

7. Course of intervention and financial support:
a) Establishment of BAMC and capital contribution – March 2013.
b) First transfer of bad assets (loans and shares) from Nova Ljubljanska Banka (NLB) and Nova Kreditna Banka Maribor (NKBM) –20 December 2013.
c) Acquisition of real estate properties from NKBM – 16 May 2014.
d) Asset transfer agreement concluded with Abanka – 13 October 2014.

8. Financial support amounts:
a) EUR 203.6 million – BAMC equity, which covered losses in 2013; upon covering the losses, BAMC capital totalled EUR 157.9 million as at the end of 2013, while in mid-2014 it increased by EUR 8.4 million
b) Transfer: EUR 2,300 million (NLB) for 27 per cent of gross amount, EUR 1,149 million (NKBM) for 37 per cent of gross amount and state treasury's guarantee for redemption of bonds issued by BAMC;
c) Real estate worth EUR 9.1 million + VAT
d) EUR 1,143.7 million – gross amount of transferred assets

9. Prerequisites for financial support:
BAMC purchases bad assets from banks following EC decision on state aid.

10. Market reaction to granting financial support:
N/a

11. Repayment of financial support and market reaction:
N/a

12. Did the bank manage to improve its financial standing?
N/a

13. Additional remarks and comments:

For its management bodies BAMC hired Swedish experts who had experience in working with bad asset companies operating in the 1990s (banking crisis in Sweden). The company's operations are at an early stage. BAMC asset purchases are financed by issuing of bonds guaranteed by the state (1.25 per cent is the company's cost/income for the state treasury for granting the guarantee). So far BAMC has carried out three bond issues (two on 27 December 2013 – coupon interest rate: 3.75 per cent for 2-year bonds and 4.5 per cent for 3-year bonds – and one on 22 Oct. 2014 –coupon interest rate of 1.5 per cent for 3-year bond). These bonds are listed on the Ljubljana Stock Exchange. At the beginning of 2014, the ECB approved them as assets that may collateralize loans from the ECB, so they can be used to rescue liquidity.

The key role, as regards effective functioning of bad asset management companies, is the evaluation of the acquired assets and appropriate performance of the workout process. According to the rules, the evaluation of the assets should not generate benefits to banks. In the case of BAMC, the company and the auditor encountered problems involving evaluation of the assets and difficulties regarding verification of the methodology used in the documentation presented to the EC for approval. Therefore, in 2014 BAMC decided to prepare, its own methodology for 104 (biggest) liabilities, amounting to ca. 80 per cent of the transferred assets. These problems were described in the 2013 annual report. Additionally, it is worth pointing out that by the end of October 2014 the Slovenian government had not accepted BAMC 2013 annual report. In a press release, the Company said it was astonished and requested explanations.

Factor Banka

1. Name:
Factor Banka

2. Country of registration:
Slovenia

3. Activity abroad?
Partly. Factoring activities pursued by subsidiaries in Croatia and Bulgaria.

4. Date of disclosure of financial difficulties and main reasons:
For the first time, the bank recorded loss for 2012. Unaudited data for this year were published on 8 March 2013. The main reason was an inappropriate credit policy in the past years. The bank had also liquidity problems.

5. Intervention initiator:
The central bank (acting as supervisor) in cooperation with the government.

6. Intervention start date:
6 September 2013 – Bank of Slovenia assigned a receiver and started liquidation.

7. Course of intervention and financial support:
a) liquidity support – government guarantees for liabilities, which allowed taking a loan with ECB and government liquidity support on market terms – 6 September 2013.
b) capital injection from Slovenian government following write-down of shares and subordinated loans, and liquidity support – 18 December 2013.

8. Financial support amounts:
a) EUR 540 million and EUR 330 million respectively
b) EUR 269 million (bank information)/EUR 285 million (EC decision), versus EUR 420 million of estimated loss if bankruptcy was declared; liquidity support of EUR 400 million

9. Prerequisites for financial support:
On 29 November 2013, the bank informed that because of accepting state aid it would not pay interest on hybrid instruments and bonds.

Current losses covered by equity (bail-in) in December 2013. State treasury became the only shareholder (nationalisation). The target is bank liquidation, as its costs will be lower than declaring bankruptcy.

10. Market reaction to granting financial support:
The Ljubljana Stock Exchange listed bonds issued by the bank. The bank issued Eurobonds guaranteed by the government.

Ratings for Eurobonds:
November 2011– from Aa2 to Aa3
December 2011– from Aa3 to A1
February 2012– from A1 to A2
August 2012 – from A2 to Baa2
May 2013 – from Baa2 to Ba1

4 December 2013 Moody's withdrew rating for bank's Eurobonds guaranteed by Slovenia's government, upon the bank's request submitted at the end of May.

11. Repayment of financial support and market reaction:
N/a.

12. Did the bank manage to improve its financial standing?
According to unaudited data for three quarters of 2014, along with business operations declining by 30 per cent Y/Y, the loss shrank from EUR 358 million (3 quarters of 2013) to EUR 0.86 million (3 quarters of 2014).

13. Additional remarks and comments:
On 5 November 2012, Factor Banka took over KD Banka, upon receiving the Bank of Slovenia's approval dated 21 September. On 15 June 2012, hybrid instruments were issued for EUR 2.407 million, which may be associated with the takeover of KD Banka. The cost of the takeover totalled EUR 0.82 million. The bank carried out this operation following the owners' decision to orderly arrange the structure and optimize operations of the bank. At the same time, the bank became a 20 per cent shareholder of one of Slovenian companies. Commitment to such an investment project, given the deteriorating condition of Factor Banka, must be found groundless. Given the significant growth of lending activity in 2007–2009 and imbalanced deposits-to-credits ratio, the bank's situation was gradually deteriorating. Deposit and lending activities were concentrated on business customers.

Upon recording losses for 2012 and 2013, the bank authorities introduced actions to increase capital but they were unsuccessful.

On 6 September 2013, a receiver was assigned to Factor Banka to implement a programme of restructuring and resolution of the bank. The central bank approved the programme on 5 November 2013 and forwarded to the finance ministry and afterwards to the EC, which approved it on 18 December 2013. The bank restructuring and resolution process is to be completed by the end of 2016.

Selected ratios of Factor Banka

Ratios	2007	2008	2009	2010	2011	2012	2013
ROA	1.8%	1.0%	0.5%	0.5%	0.1%	–2.9%	–60.4%
ROE	17.2%	9.5%	5.5%	5.7%	1.2%	–35.6%	–2555.8%
CAR	12.1%	10.7%	10.7%	10.2%	10.6%	9.3%	1.8%
deposits/credits	41.0%	41.2%	51.7%	52.8%	47.7%	50.7%	28.8%
credit growth (y/y)	62.4%	39.6%	15.7%	4.9%	–4.3%	–5.4%	–50.0%

Nova Kreditna Banka Maribor

1. Name:
Nova Kreditna Banka Maribor (NKBM)

2. Country of registration:
Slovenia

3. Activity abroad:
The bank pursued operations in Austria, Serbia and Croatia and via an Austrian subsidiary in the Czech Republic, Slovakia, Hungary, Montenegro and Macedonia.

4. Date of disclosure of financial difficulties and main reasons:
In 2011, NKBM started to generate losses. The 2011 report was published in the unaudited version on 1 March 2012 (net loss: EUR 53.6 million), and in the audited version, on 18 April 2012 (net loss: EUR 81.1 million). The reason was an inadequate credit policy, particularly in the corporate segment.

5. Intervention initiator:
The Government of Slovenia in cooperation with the central bank (acting as supervisor).

6. Intervention start date:
19 April 2012 – changes in management board and actions to improve economic and financial standing.

7. Course of intervention and financial support:
a) Conversion of a hybrid instrument held by Slovenia's government into capital – December 2012.
b) Conversion of debt (interest on hybrid loan) to shares – 3 July 2013.
c) Complete nationalisation of NKBM –decision to write-down current shares of NKBM. Equity was reduced to zero (Slovenian government held ca. 91 per cent of shares), and afterwards increased by Slovenia's government acquiring the new issue – 18 December 2013.

8. Financial support amounts:
a) EUR 100 million
b) EUR 323 million
c) Increase of equity by EUR 870 million + transfer of EUR 1,149 million of bad loans for 37 per cent of gross amount to BAMC

9. Prerequisites for financial support:
With reference to the aid granted in December 2013 – covering the loss by equity (bail-in). State Treasury became the only shareholder (nationalisation).

10. Market reaction to granting financial support:
NKBM shares were listed on the stock exchange markets in Ljubljana and Warsaw (since 11 May 2011).

On the day of announcing the unaudited report for 2011, the share price on the Ljubljana stock exchange totalled EUR 3.021. The highest price in March 2011 equalled EUR 3.870 (20 March). Ever since the share price was systematically decreasing to EUR 0.1 on 29 November 2013. In March 2012, the top share price on the WSE equalled PLN 15.40 (20 March). Afterwards, the share prices were on a downward trend by the end of August 2012 (23 August – PLN 3.70). On 2 December 2013, the WSE suspended trading NKBM shares. From the bank's debut on the WSE until the share trading suspension the share price dropped from PLN 33.60 to PLN 0.71.

	2011	2012	2013
Moody's	Baa1/Baa3 (June)/ Ba1 (December)	Ba2/B3 (July)	Caa2
Fitch	A–/BBB+(May)/BBB (September)	BBB– (August)	–

Credit rating agencies were gradually downgrading the bank due to the deteriorating sovereign rating and declining condition of NKBM. The current ratings of NKBM are BB– (Fitch) and Caa1 (Moody's).

11. Repayment of financial support and market reaction:

Aid has not been repaid.

12. Did the bank manage to improve its financial standing?

Bank restructuring is in progress. After nine months of 2014, NKBM recorded EUR 17.8 million profit.

13. Additional remarks and comments:

Nova Kreditna Banka Maribor is the second biggest bank in Slovenia. At the end of 2010, the Slovenian state treasury directly owned more than 35.7 per cent of NKBM shares, at the end of 2011, 27.7 per cent, while at the end of 2012, 27.66 per cent. Along with indirectly owned shares, this amounted to ca. 51 per cent of shares. The bank recorded losses since 2011 because of high provision write-offs. The years of 2006–2008 were a period of a very fast growth of credit activity.

Since April 2012, NKBM conducted restructuring actions to orderly rearrange its organisational structure (including sale of subsidiaries), rationalize employment, and introduce appropriate risk management and workout solutions. On 7 August 2012, the press started to report on probable NKBM bankruptcy. In mid-2013, the NKBM management board resigned because the audit had revealed deficiencies in the remuneration rules and related damages to the bank amounting to ca. EUR 66 million. Fifteen lawsuits were to be filed with the court. Polish shareholders of NKBM are expecting to receive compensations for share write-downs.

Selected ratios of Nova Kreditna Banka Maribor

Ratios	2007	2008	2009	2010	2011	2012	2013
ROA	1.1%	0.3%	0.2%	0.2%	–1.4%	–3.9%	–14.2%
ROE	15.0%	4.4%	3.0%	2.6%	–18.6%	–81.2%	–122.3%
CAR	10.0%	11.7%	11.7%	10.9%	11.5%	9.2%	18.1%
deposits/credits	94.4%	83.8%	91.2%	92.0%	97.8%	106.5%	138.0%
credit growth (y/y)	36.7%	20.4%	1.2%	5.0%	–4.7%	–11.6%	–34.3%

Nova Ljubljanska Banka

1. Name:
Nova Ljubljanska Banka (NLB)

2. Country of registration:
Slovenia

3. Activity abroad:
NLB has banking and non-banking subsidiaries (mainly leasing and factoring ones) in former Yugoslavia and Bulgaria, the Czech Republic, Germany, Switzerland, and Italy. Banking activities are performed mainly in former Yugoslavia (except Croatia).

4. Date of disclosure of financial difficulties and main reasons:
November 2010 – the decision to increase capital by share issue. NLB received the first capital support in 2011; however, the culmination of banks' problems, just like Slovenia's entire banking sector, fell to 2013. The main reason for NLB financial problems was inappropriate lending policy, mainly in the corporate segment.

5. Intervention initiator:
The Government of Slovenia in cooperation with the central bank (acting as supervisor).

6. Intervention start date:
March 2011

7. Course of intervention and financial support:

a) In March 2011, new shares were issued and acquired by a government agency (Capital Investment Management Agency of the Republic of Slovenia); in March 2011, the EC granted preliminary approval to perform this operation.
b) Increase of equity by issuing a hybrid loan and new shares (EUR 61 million) – June 2012.
c) Increase of equity (18 February 2013) and conversion of a hybrid instrument held by Slovenia's government into capital of EUR 320 million EUR (1 March 2013)
d) Conversion of debt (interest on hybrid loan) into shares – 10 June 2013.
e) 18 December 2013 – decision to write-down current shares of NLB and hybrid instruments and subordinated debts to cover the losses. Equity was reduced to zero and then increased by Slovenia's government acquiring the new issue.

8. Financial support amounts

a) Capital injection – EUR 250 million; at the end of 2011 Slovenia's state treasury held, indirectly and directly, more than 50 per cent share in equity
b) Capital injection – EUR 383 million
c) Debt conversion into shares (EUR 320 million) and technical increase of equity (EUR 1.9 million), to ensure compliance with EC decision – state treasury's share in equity increased up to nearly 77 per cent.
d) Conversion of debt into shares – EUR 21.2 million
e) Capital injection – EUR 1,551 million (2013) + transfer of assets to BAMC. As prior to that date, state treasury was a shareholder; as a result state treasury incurred losses.

9. Prerequisites for financial support:
As regards the aid in December 2013 – covering losses by the current equity and subordinated loans (bail-in). State treasury became the only shareholder (nationalisation).

10. Market reaction to granting financial support:
In 2010–2013 NLB's ratings were gradually deteriorating.
In January 2014, Moody's rating was increased from Caa2 to Caa1. Fitch maintained its rating. In January 2014 Standard and Poor's awarded long-term rating of BB– (negative outlook). Bonds issued by the bank were listed on the markets in Ljubljana and Luxembourg. NLB shares were not listed (in 2003 the bank gave up the intention to go public).

	2010	2011	2012	2013
Moody's	A3	Ba1	B2	Caa2
Fitch	A–	BBB	BBB–	BB–

11. Repayment of financial support and market reaction:
Aid has not been repaid.

12. Did the bank manage to improve its financial standing?
The last available report is for the 1st half of 2014. For the first time in several years the bank recorded profits because of, among other, personnel cost cuts. Non-performing loans remained high, at the level of ca. 25 per cent.

13. Additional remarks and comments:
The problems of NBL and the Slovenian banking sector arose from the excessively expansive lending policy. In 2011 bad loan write-offs in Slovenia totalled ca. EUR 1 billion, in 2012 – ca. EUR 1.5 billion, and in 2013 – ca. EUR 3.5 billion. After 2008, the Slovenian banking sector grew significantly from 131.5 per cent GDP (for assets) to 151.3 per cent GDP a year later. In 2013, assets to GDP returned to the 2008 level. Since 1 January 2007, Slovenia has been a member of the Eurozone.

Since 2006, NLB – Slovenia's biggest bank – was dynamically developing its credit activity, which became the main source of problems. From 2009, NLB recorded losses, which were the highest in the corporate segment, mainly due to provision write-offs. At the end of 2010 direct involvement of Slovenia's state treasury in NLB equity totalled 33 per cent. The state treasury was the biggest shareholder. To improve the financial standing in 2011, shares were issued for EUR 250 million, which was acquired by a government agency. Additionally, in 2011 NLB issued bonds to improve the structure of financing, and acquired financing from ECB.

Continued

Nova Ljubljanska Banka continued

Another recapitalisation was carried out in June 2012. From September 2012, the bank carried out significant changes (first, CEO changed) in the bank management authorities, which allowed starting an assessment of the bank's real standing. One of the elements of the 'new' management model was to split the business operations into 'strategic' and 'non-strategic', which the bank was going to phase out gradually. In May 2013, NLB management board proposed reorganisation, which, among other things, provided for employment downsizing by 20 per cent from 2015, while in September 2013, the board presented a plan of 'transformation' of their own functioning within individual areas of operations. Much stress in the change implementation process was put on appropriate management of risks, particularly credit risk.

On 6 December 2013 the bank management board issued a press release on the shortcomings of past years' operations arguing that NLB's difficult situation arose, among others, from inappropriate credit policy pursued towards large borrowers (TOP 200). Numerous management deficiencies were identified. As regards loan decisions, the following allegation was raised: '*These decisions have been adopted due to the lack of knowledge, inadequate business policies, inappropriate (or even non-existing) process of aligning opinions of the front offices with the risk management departments, and insufficient control. This is the estimate that applies to more than one third of cases*'. This reveals ineptitude in managing a dynamically developing capital group. By the end of 2013, 32 notifications of abuses and irregularities were submitted to the public prosecutor's office.

On 18 December 2013, major decisions regarding NLB were undertaken. The bank was fully nationalized upon loss coverage by current capital and subordinated instruments. Additionally, assets of EUR 2,300 million gross were transferred BAMC (for 27 per cent of the face value). In February 2014, NLB presented its action strategy for 2014–2018. The bank restructuring process is ongoing.

Selected ratios of Nova Ljubljanska Banka

Ratios	2007	2008	2009	2010	2011	2012	2013
ROA	0.7%	0.1%	–0.4%	–1.1%	–1.5%	–1.9%	–11.5%
ROE	12.6%	1.6%	–7.1%	–20.0%	–24.5%	–24.4%	–115.6%
CAR	10.8%	11.8%	10.7%	10.2%	11.1%	10.6%	15.2%
deposits/credits	76.8%	73.3%	87.1%	87.4%	94.7%	95.5%	106.7%
credit growth (y/y)	38.3%	8.2%	–4.5%	–3.7%	–9.5%	–11.1%	–18.9%

Probanka

1. Name:
Probanka

2. Country of registration:
Slovenia

3. Activity abroad:
One leasing company in Croatia.

4. Date of disclosure of financial difficulties and main reasons:
Probanka reported first losses for 2010, while significant losses were reported for 2011 and subsequent years. The 2011 report was published on 26 April 2012, the 2012 report, on 5 June 2013. The main reason for the bank's problems was unreasonable credit policy, including lending to shareholders and collateralising loans with shares. Probanka suffered also liquidity problems.

5. Intervention initiator:
The central bank (acting as supervisor) in cooperation with the government.

6. Intervention start date:
6 September 2013 – Bank of Slovenia assigned a receiver and started liquidation.

7. Course of intervention and financial support:
a) Liquidity supported by government – guarantee for the Bank of Slovenia – 6 September 2013.
b) capital injection from Slovenia's government following write-down of shares and subordinates loans and liquidity support – 18 December 2013.

8. Financial support amounts:
a) Up to EUR 490 million
b) EUR 236 million (EC decision)/EUR 176 million (annual report); liquidity support – EUR 325 million

9. Prerequisites for financial support:
Losses covered by equity (bail-in) in December 2013. State treasury became the only shareholder (nationalisation).
The target is bank liquidation, as its costs will be lower than declaring bankruptcy.

10. Market reaction to granting financial support:
Probanka shares (since 1993) and subordinated bonds were listed on the Ljubljana stock exchange. Both before and after publication of the 2011 report, the bank shares declined. On 26 April 2012, the price was EUR 7.5. From late March 2013 until the end of listing (23 December), the share price froze at EUR 0.4.

	2008	2009	2010	2011	2012	2013
Fitch	BB	BB	BB	B	CCC	CC (04'13)

Continued

11. Repayment of financial support and market reaction:
N/a.

12. Did the bank manage to improve its financial standing?
No information available.

13. Additional remarks and comments:

In 2006–2007, the bank's credit activity was dynamically growing. To ensure financing for the growing operations, the bank acquired stock capital and issued subordinated loans. Deposit and credit activities focused on the business sector. Information available on the web site is limited.

For 2011 and 2012, the auditor (Deloitte) issued an opinion with a reservation regarding the pricing of shares of Pivovarna Laško and other companies. The reservation was also related the prices of shares presented by borrowers as collateral. In some cases, the borrowers were at the same time bank shareholders. The auditor filed reservations also about the algorithm of calculating the provisions for bad loans. Pivovarna Laško was also a bank shareholder. The situation is comparable to that of industrial groups functioning in Spain in the 1980s. They were one of the sources of the crisis at that time.

On 6 September 2013, a receiver was assigned to Probanka to implement a programme of restructuring and resolution of the bank. The central bank approved the programme on 5 November 2013 and forwarded it to the finance ministry and afterwards to the EC, which approved it on 18 December 2013. The bank restructuring and resolution process is to be completed by the end of 2016.

Selected ratios of Probanka

Ratios	2007	2008	2009	2010	2011	2012	2013
ROA	1.0%	0.2%	0.6%	–0.1%	–1.7%	–5.0%	–43.7%
ROE	11.8%	2.4%	6.6%	–1.5%	–20.5%	–98.8%	–6197.0%
CAR	10.8%	10.1%	10.5%	11.1%	12.4%	8.3%	0.0%
deposits/credits	77.0%	85.1%	92.0%	89.6%	86.5%	79.7%	53.0%
credit growth (y/y)	28.2%	1.2%	8.6%	1.1%	–6.6%	–9.8%	–42.2%

SPAIN

Introduction

Because of the global financial crisis and the rapidly deteriorating condition of the Spanish banking sector in the first half of 2012, countrywide stress tests of financial institutions were conducted. The stress testing, which assessed the entire financial sector, was the basis for the selection of appropriate instruments and tools, including the terms and procedure of granting state aid. The study of Spanish financial institutions was divided into four groups. Group 0 included institutions in good financial condition, with no shortage of capital, and which did not require actions or administrative public assistance. This group included entities such as Unicaja, Sabadell, Bankinter, CaixaBank, Kutxabank, Santander, BBVA. Group 1 comprised institutions that the Spanish authority responsible for restructuring and liquidation of financial institutions (FROB) had already taken over in 2012. This group included BFA-Bankia, Catalunya Banc, NCG Banco and Banco de Valencia. Group 2 included institutions in poor financial condition with clear deficiencies of capital that would not be able to recover their financial situation in a reasonable timeframe without public aid. This group comprised Banco Mare Nostrum, Banco Caja 3, Liberbank and CEISS. The last group, number 3, consisted of banks in a deteriorating financial position but which could be recapitalized at private expense. These were Ibercaja and Banco Popular (EC 2012).

Banco CAM

1. Name:
Banco CAM

2. Country of registration:
Spain

3. Activity abroad:
No.

4. Date of disclosure of financial difficulties and main reasons:
24 May 2010 – portfolio of bad loans, involvement in the real estate industry, liquidity problems (withdrawal of deposits)

5. Intervention initiator:
Bank of Spain in cooperation with FROB (resolution authority)

6. Intervention start date:
21 December 2010 – high exposure to bad loans related to real estate financing, the creation of a bank from the combination of cooperatives[1]

7. Course of intervention and financial support:
a) July 2011 – Bank CAM was taken over by the FROB at the request of the Bank of Spain, recapitalization
b) July 2011 – second recapitalization
c) 2011–2012 – launch of a flexible credit line in order to improve liquidity (no indication of the exact date)
d) 2011–2012 – tax exemption (no indication of the exact date)
e) 21 December 2012 – Banco Sabadell buys saved Banco CAM under certain conditions (including guarantees to cover losses by the state, no reimbursement of the aid, one-time grant for acquisition)

8. Financial support amounts:
a) EUR 2.8 billion
b) EUR 2.45 billion
c) EUR 3 billion
d) EUR 0.72 billion
e) Approx. EUR 7.5–8.2 billion

9. Prerequisites for financial support:
- Preparation of the bank to be taken over by another entity
- Closing of the state flexible credit line worth EUR 3 billion in Banco CAM
- Granting of the state guarantees to take over toxic assets

10. Market reaction to granting financial support:
The bank was not listed on the stock exchange. Credit rating agencies since the creation of the bank systematically reduced the bank's credit rating (Fitch to BB+ in July 2011). It cut off the bank from the funding on the interbank market.

11. Repayment of financial support and market reaction:
It has not been repaid. The aid is a subject of long-term settlements resulting from the guarantee on the agreed assets.

12. Did the bank manage to improve its financial standing?
No. The Bank was taken over by the FROB, in 2012. Its net loss amounted to almost EUR 2.6 billion.

13. Additional remarks and comments:

Banco CAM is the legal successor of four already operating savings banks (Caja de Ahorros) that had financial problems. Initially they were combined into one entity under the name Banco Base SA. The bank was established on 21 December 2010. It operated mainly locally as the legal successor of the combined savings banks. Banco CAM specialized in retail banking services in the regions of Valencia and Murcia and the Balearic Islands. The Bank had large local significance, as it gathered approximately 15 per cent of deposits in these regions. Its total assets at the end of 2011 amounted to approximately EUR 70 billion. The bank employed approximately 6.7 thousand people and had 843 branches.

Because of the prior involvement in the loan market to finance the purchase of real estate and in the construction sector, the bank still had financial troubles. The quality of the credit portfolio considerably declined. In March of 2011, the bank changed its name to Banco CAM, and in June, the bank was taken over by the resolution authority (FROB). The use of two resolution tools in 2011 involving the granting of a flexible credit line and bank recapitalization amounting to almost EUR 3 billion did not bring the desired effect and the bank's condition did not improve. The authorities tried to find an acquiring bank. On 21 December 2012, the problematic bank was taken over by Bank Sabadell. Sabadell, having a good financial standing, decided to purchase that bank under certain conditions, which assumed, among other things, cancellation of the part of the debt, the withdrawal of the Flexible Credit Line and grant provision, as well as the provision of guarantees to cover part of the losses resulting from the acquisition of the bank (by FROB). The final value of the financial assistance is not known, because it is assumed to be a long-term settlement dependent on the maturity of assets acquired by Banco Sabadell. The European Commission (EC) estimates them at approx. EUR 7.2–8.2 billion. The acquisition was a success.

Selected ratios of Banco CAM

Ratios	2011
ROA	–3.75%
ROE	–107.44%
CAR	8.66%
deposits/credits	52.51%

Note: [1] In Spain, there are three basic types of entities authorized to receive deposits from customers. These include commercial and cooperative banks (Banco) and savings banks (Cajas). Their market share in the deposit market (in value) in 2009 was respectively 46 per cent, 3.8 per cent, and 50.2 per cent. Spanish cajas are the equivalent of credit unions. Their scale of operations is narrower than private banks', they focus on the selected country regions, and their ownership structure is based on the stake of members (Aro, 2009)

Banco Ceiss

1. Name:
Banco Ceiss

2. Country of registration:
Spain

3. Activity abroad:
No. Bank operated mainly regionally.

4. Date of disclosure of financial difficulties and main reasons:
March 2010 – involvement in the construction industry and a bad loan portfolio related to this industry

5. Intervention initiator:
FROB (resolution authority)

6. Intervention start date:
25 March 2010

7. Course of intervention and financial support:
a) March 2010 – recapitalization from the funds of FROB (in exchange for convertible preference shares
b) 2010 – state guarantees (guaranteed by the deposit guarantee scheme) on unsecured debts issued by the bank
a) December 2012 – recapitalization on the form of CoCos from the FROB funds
b) March 2013 – guarantees in relation to the court proceedings of the owners of the bank who were expropriated (risk of compensation)
c) January 2014 – takeover of the bank by Bank Unicaja and announced support of the transaction from the FROB funds

8. Financial support amounts:
a) EUR 525 million
b) EUR 3.193 billion
c) EUR 604 million
d) EUR 241 million
e) EUR 319 million

9. Prerequisites for financial support:
- Takeover of Caja Espana and Caja Duero
- The FROB will be the main shareholder of the bank (preference shares)
- Sale of the bank on a commercial basis when the situation improves
- Limiting the activities by 30 per cent
- Transfer of part of the assets to Asset Management Company (SAREB)

10. Market reaction to granting financial support:
The bank was not listed on the stock exchange. Credit rating agencies lowered its ratings systematically.
Fitch in May 2010 to AA+ and then in October 2011 to AA–, in January 2012 to A, and in June 2012 to BBB.
Moody's in March 2011 to Aa2, in October 2011 to A1, in February 2012 to A3 and in June 2012 to Baa3.

11. Repayment of financial support and market reaction:
It has not been fully repaid. It is assumed that the aid will be gradually repaid in the future.

12. Did the bank manage to improve its financial standing?
Restructuring activities did not bring any results for a long time. Finally, the situation of the bank improved to the extent that the bank was taken over by another bank.

13. Additional remarks and comments:
CEISS Bank was a regional Spanish bank created in 2010 by a merger of two smaller credit institutions. Since 2010 the bank experienced two basic aid measures: recapitalization in the amount of EUR 525 million from the FROB fund (in exchange for convertible preference shares) and the state guarantees on unsecured bank debts in the amount of EUR 3.193 billion (granted by the deposit guarantee scheme). In November 2012, based on the stress tests (bottom-up method), the bank qualified for the so-called Group No. 2, according to the financial sector restructuring plan of the EC. Group No. 2 contained qualified institutions that reported very low level of equity and were unable to raise it without state aid. As part of the corrective actions, the EC has proposed that some of the bad assets should be transferred to an external asset management company. In December 2012, another bank recapitalization was conducted for EUR 604 million in the form of CoCos (convertible securities). One of the prerequisites for the state aid was to declare 30 per cent reduction of the scale of the bank's operations (by 2017). In May of 2013, the EC approved the new restructuring plan for the bank. It consisted of the acquisition of Bank Ceiss by Bank Unicaja, which had a good financial standing. Bank Unicaja had healthy assets and had no financial problems during the crisis. The takeover took place in January 2014 with the financial support of the FROB fund. In addition, the assumptions of the takeover assumed that the bank would focus on the regional market and on financing small businesses. The bank was also obliged to reduce the activities in the corporate sector and loans for the construction industry. The bad loans portfolio of Bank CEISS was transferred to SAREB.

Selected ratios of Banco Ceiss

Ratios	2010	2011	2012	2013
ROA	0.10%	0.07%	–6.75%	–0.14%
ROE	2.72%	2.03%	244.78%	–7.80%
CAR	n/a	n/a	14.63%	n/a
deposits/credits	77.43%	124.17%	130.05%	141.81%

Banco de Valencia

1. Name:
Banco de Valencia

2. Country of registration:
Spain

3. Activity abroad:
No. Bank operated mainly in the Valencia region and had 427 branches.

4. Date of disclosure of financial difficulties and main reasons:
November 2011 – involvement in the financing of the construction industry and bad loans

5. Intervention initiator:
FROB (resolution authority)

6. Intervention start date:
21 November 2011

7. Course of intervention and financial support:
a) 21 November 2011 – liquidity support
b) 21 November 2011 – recapitalization
c) 28 November 2012 – relocation of bad assets
d) 28 November 2012 – recapitalization
e) 28 November 2012 – introduction of the asset protection program (APS)

8. Financial support amounts:
a) EUR 2 billion
b) EUR 1 billion
c) EUR 500 million
d) EUR 4.5 billion
e) EUR 1.225 billion

9. Prerequisites for financial support:
The removal of the current board of the bank.

10. Market reaction to granting financial support:
Credit rating agencies systematically lowered the rating of the bank:
Fitch – from BBB– to BB– in July 2011 keeping this assessment after bank received aid and maintained this assessment in 2012.
Moody's – from Ba1 to Ba2 in October 2011 and later in October 2012 to Caa1.
The bank was listed on the stock market, but trading was suspended before granting the aid.

11. Repayment of financial support and market reaction:
The aid has not been repaid and the institution has been taken over.

12. Did the bank manage to improve its financial standing?
The restructuring activities did not give the desired results, and the institution reported increasing losses. The bank has been taken over.

13. Additional remarks and comments:
Banco de Valencia, founded in 1900, is a relatively large bank operating in Spain. The bank's assets in 2010 reached almost EUR 24 billion. The bank's involvement in the Spanish construction industry resulted in a high percentage of bad loans. The bank had financial problems. In November 2011, the bank was granted liquidity support. Other resolution measures included recapitalization and asset separation. Finally, Spanish government took over the bank because it did not meet the necessary capital requirements and there was no chance to improve its condition on a market basis. During the period of financial problems the bank's stock price has fallen by 77 per cent and the market price reached only 365 million (the bank was listed on the stock exchange since 1967 and its quotations were withdrawn in July 2013). The Bank was finally sold in a tender, which was won by Caixa Bank SA – a Spanish big universal bank with assets exceeding EUR 344 billion. A requirement of the acquiring institution was to obtain from the state a guarantee to cover part of the losses resulting from the portfolio of the acquired assets. Such a guarantee was given to the limit of EUR 5 billion.

Selected ratios of Banco de Valencia

Ratios	2006	2007	2008	2009	2010	2011	2012
ROA	0.71%	0.69%	0.67%	0.57%	0.26%	–4.10%	–17.16%
ROE	10.04%	8.97%	10.04%	8.48%	4.40%	–250.54%	–167.73%
CAR	10.31%	11.24%	10.53%	11.44%	10.23%	3.35%	n/a
deposits/credits	56.46%	47.70%	47.59%	51.84%	52.71%	44.10%	79.97%

Banco Gallego

1. Name:
Banco Gallego

2. Country of registration:
Spain

3. Activity abroad:
No. Bank operated only locally.

4. Date of disclosure of financial difficulties and main reasons:
2008 – market signals about the bad situation of the bank have appeared since 2008. The main cause of the problems was the involvement in the construction industry and the related bad loans

5. Intervention initiator:
FROB (resolution authority)

6. Intervention start date:
28 November 2011 – notification to the Commission of the necessity of granting state aid

7. Course of intervention and financial support:
a) 2012–2013 – recapitalization
b) 2012–2013 – state grant related to tax liabilities
c) 2012–2013 – state grant related to tax liabilities
d) 2012–2013 – grant for write-offs
e) 2012–2013 – guarantees to cover losses on transferred assets
f) 2012–2013 – loss cover for the deteriorating asset quality
g) 29 November 2013 – the shareholders decided to use the bail-in tool and write off the capital to cover losses; at the same time NCG (an entity controlled by the FROB) became a shareholder of the bank in 99.95 per cent
h) April 2013 – guarantees, including liquidity support measures

8. Financial support amounts:
a) EUR 245 million
b) EUR 127 million
c) EUR 163 million
d) EUR 50 million
e) EUR 24.3 million
f) EUR 257.6 million
g) –
h) EUR 806 million

9. Prerequisites for financial support:
A tendering procedure for the sale of the bank began in early 2013. The bank was acquired for a price of EUR 1 by Banco Sabadell with support from the FROB fund

10. Market reaction to granting financial support:
Bank was not traded on the stock exchange and has not been evaluated by rating agencies.

11. Repayment of financial support and market reaction:
Aid was not fully recovered.

12. Did the bank manage to improve its financial standing?
The restructuring activities gave positive results. The situation of the bank has slightly improved. The bank has been taken over with the state guarantees.

13. Additional remarks and comments:
Banco Gallego was a small bank operating in Spain. The value of its assets amounted to approx. EUR 4.5 billion in 2012. The value of deposits from retail customers amounted to EUR 3 billion. Banco Gallego, because of the loans to the construction industry, started to report loss. At the end of 2012 and in 2013, there were a number of restructuring actions to improve the financial situation of the company and prepare it for a potential sale. The bank received capital injections in various forms in excess of EUR 870 million and a flexible credit line from the Bank of Spain with a value of approx. EUR 800 million. 23 January 2013 the tender procedure started to find an entity to take over the bank as a whole. Finally, in April 2013 Banco Gallego was taken over by Banco Sabadell, which was in better financial condition. Gallego thus ended activities under its name.

Selected ratios of Banco Gallego

Ratios	2006	2007	2008	2009	2010	2011	2012
ROA	0.60%	0.33%	0.21%	0.16%	0.02%	–0.63%	–9.06%
ROE	9.59%	5.99%	2.89%	2.41%	0.34%	–10.31%	0.00%
CAR	12.28%	11.79%	11.79%	13.46%	12.86%	13.26%	n/a
deposits/credits	73.26%	75.02%	64.20%	64.02%	70.60%	66.68%	105.47%

Banco Mare Nostrum

1. Name:
Banco Mare Nostrum (BMN)

2. Country of registration:
Spain

3. Activity abroad:
No. The bank was active only in Spain.

4. Date of disclosure of financial difficulties and main reasons:
22 December 2010 – the problem with a portfolio of loans financing the construction industry

5. Intervention initiator:
FROB

6. Intervention start date:
June 2010

7. Course of intervention and financial support:
a) 2010 – recapitalization funded by the FROB
b) 2010 – state guarantees funded by deposit guarantee scheme on unsecured debts issued by the bank
c) December 2012 – transfer of bad assets to the asset management company (SAREB)
d) March 2013 – recapitalization funded by the FROB (FROB became the majority shareholder)

8. Financial support amounts:
a) EUR 915 million
b) EUR 4.424 billion
c) EUR 2.1 billion
d) EUR 730 million

9. Prerequisites for financial support:
- Acquisition of four credit unions: Caja Murcia, Caixa Penedes, Sa Nostra, Caja Granada.
- The FROB will be the main shareholder of the bank (through preference shares)
- The bank will reduce its activity by 40 per cent in relation to the size from 2010.

10. Market reaction to granting financial support:
The bank was not listed on the stock exchange.
Credit rating agencies lowered the ratings steadily. Fitch in January 2011 awarded the bank the BBB+ rating, and then dropped it after a year to BBB, and again in June 2012 to BB+, which was valid until 2014.
Moody's in October 2011 downgraded bank's rating to AA– and then in January 2012 to A. From June 2012, the bank had new evaluation with BBB rating.

11. Repayment of financial support and market reaction:
No. According to preliminary plans, the state support has to be repaid by the end of 2018, when the bank has to go into private hands.

12. Did the bank manage to improve its financial standing?
Initially, the bank's situation deteriorated, but at the end of 2013 its core activity began to be profitable again.

13. Additional remarks and comments:
Bank Mare Nostrum (BMN) was formed because of a merger of several smaller credit institutions in poor financial condition (cajas). The reason for the deterioration of their situation was strong credit exposure to the construction industry. The credit unions merged in December 2010 in order to consolidate the problems in one unit. After the merger, the BMN bank received funding from the FROB fund for EUR 915 million. In 2012, the bank failed to improve significantly its financial condition and its loan portfolio began to deteriorate continuously. In November 2012, based on stress tests, the bank qualified for the group of institutions that reported very low level of equity and inability to raise it without state aid. Therefore, there was a proposal to transfer some of the bad assets to an external asset management company. A large portfolio of bad loans was removed from the bank to SAREB. The transfer value amounted to EUR 2.1 billion. The market was speculating about the takeover of BMN bank by another entity, but the transaction was not concluded. The public aid granted by the Spanish government gained acceptance from the EC. The bank has not repaid the public aid and its debts are still covered by state guarantees, while the bank remains under the control of the FROB.

Selected ratios of Banco Mare Nostrum

Ratios	2010	2011	2012	2013
ROA	0.15%	0.12%	–3.80%	0.05%
ROE	4.00%	3.13%	–1497.52%	1.11%
CAR	14.74%	14.90%	n/a	10.35%
deposits/credits	69.60%	70.18%	93.87%	97.02%

Bankia-BFA

1. Name:
Bankia-BFA

2. Country of registration:
Spain

3. Activity abroad:
No.

4. Date of disclosure of financial difficulties and main reasons:
June 2010 – bad loans with high concentration in the housing segment; the bank had the largest portfolio of mortgage loans in Spain

5. Intervention initiator:
FROB

6. Intervention start date:
June 2010

7. Course of intervention and financial support:
a) June 2010 – recapitalization funded by the FROB in exchange for the shares in the bank
b) May-August 2012 – recapitalization funded by the FROB and nationalization (acquisition of 45 per cent stake)
c) January 2013 – recapitalization funded by the FROB and further nationalization

8. Financial support amounts:
a) EUR 4.465 billion
b) EUR 4.5 billion
c) EUR 13.459 billion

9. Prerequisites for financial support:
- Takeover of Caja Madrid, Bancaja, Caja Avila.
- Reduction of activity by more than 60 per cent compared to 2010.
- May 2012 resignation of CEO and change of the board

10. Market reaction to granting financial support:
The ratings were steadily downgraded:
Fitch from A– in December 2011 to BBB + in May 2012, and from BBB in June 2012 to BBB– in September 2013.
Moody's from Baa2 in July 2011 to B1 in July 2013.
The bank's share price in 2012 reacted positively to the state aid, but it declined later.

11. Repayment of financial support and market reaction:
Aid has not been repaid.

12. Did the bank manage to improve its financial standing?
Yes. The situation is gradually improving. In 2013, the bank reported profits of nearly EUR 500 million.

13. Additional remarks and comments:
Bankia is a large financial conglomerate with headquarters in Spain. It was created on 3 December 2010 because of a merger of seven financial institutions (large credit unions). In this way, the holding BFA-Bankia was created, with assets worth EUR 306 billion at the end of 2011. Bankia had almost 11 per cent of all deposits in Spain. The most toxic assets of those seven credit unions were transferred to the FROB fund (EUR 4.5 billion). In exchange, the FROB received preference shares. In 2012, the bank had nearly 12 million customers and was Spain's fourth largest bank, but the largest in terms of value of the mortgage loan portfolio. In May 2012, the bank was nationalized. On 25 May 2012, the bank requested EUR 19 billion of government assistance, which was granted (not counting the earlier transfer of assets to the FROB). Currently, the bank's situation, following high public support, has greatly improved, but the bank remains under state control. Bankia, after two years of losses (reported in 2011 and 2012), began to show profits. In 2013, it was approximately EUR 500 million and the capital adequacy ratio was at a satisfactorily high level (approximately 12 per cent).

Selected ratios of Bankia-BFA

Ratios	2010	2011	2012	2013
ROA	0.13%	–0.98%	–6.80%	0.20%
ROE	1.26%	–25.89%	–310.16%	4.61%
CAR	7.62%	8.50%	9.81%	12.00%
deposits/credits	63.58%	67.14%	74.33%	83.28%

Caja3

1. Name:
Caja3

2. Country of registration:
Spain

3. Activity abroad:
Yes. At the end of 2013, the bank was present also in Portugal.

4. Date of disclosure of financial difficulties and main reasons:
28 March 2009 – high exposure to bad mortgages and financing of the construction industry

5. Intervention initiator:
FROB

6. Intervention start date:
20 July 2012

7. Course of intervention and financial support:
a) 2010 – 2012 – guarantees issued[1]
b) 20 December 2012 – recapitalization measure
c) 20 December 2012 – guarantees to cover possible losses on bad loans (impaired asset measure)

8. Financial support amounts:
a) EUR 654 million
b) EUR 407 million
c) EUR 690 million

9. Prerequisites for financial support:
- Finding a buyer for the bank
- Acquisition by Iberbank (at a later stage)

10. Market reaction to granting financial support:
Fitch in December 2010 for the first time gave a rating at the level of BBB and later reduced it to BBB– in January 2012. The agency decreased it again in May 2012 to BB+, keeping this assessment until the takeover.

11. Repayment of financial support and market reaction:
The aid has not been repaid.

12. Did the bank manage to improve its financial standing?
Yes, the situation improved to the extent that the bank was taken over by another entity – Iberbank.

13. Additional remarks and comments:

Caja3 (Cajatres) is a bank formed by a merger of three smaller credit unions (cajas): Caja Inmaculada, Caja Círculo and Caja de Badajoz in December 2010 through an Institutional Protection Scheme (IPS). However, all the assets and liabilities of those credit unions were fully transferred to Cajatres a year later. The activities of Caja3 focused mainly in the Spanish regions of Aragon and Burgos. In the year of the merger, the bank's assets amounted to approximately EUR 21 billion. The situation of the credit unions and the bank has been monitored since 2009 and although they did not report losses, a possible deterioration in the financial condition was expected due to the large involvement in the housing market in Spain. In 2012 after stress tests it turned out that the bank lacks approx. EUR 779 million to achieve an appropriate solvency ratio (the bank has been qualified to the so–called Group No. 2 – banks which need state support). The bank received state support through a series of public support tools, including the granting of state guarantees for losses caused by bad assets and recapitalization. On 1 March 2012, the Caja3 announced its merger with Ibercaja Bank. On 29 May 2012, the merger was approved and on 25 July 2013, the bank was taken over by Bank Ibercaja. A full merger of the entities took place on 1 October 2014. Aid granted to the Bank Caja3 has not been repaid.

Selected ratios of Caja3

Ratios	2010	2011	2012
ROA	0.13%	0.07%	–5.38%
ROE	2.27%	1.24%	–960.00%
CAR	11.54%	n/a	1.23%
deposits/credits	102.61%	104.55%	138.65%

Note: [1] The earlier dates (2010-2012) of guarantees covering Caja3 result from the form of the aid. The aid was granted upon the approval of the European Commission for the creation of a general debt guarantee scheme for credit unions described in detail under the case number SA.35489 (2012/N).

Caja Castilla La Mancha

1. Name:
Caja Castilla La Mancha

2. Country of registration:
Spain

3. Activity abroad:
No.

4. Date of disclosure of financial difficulties and main reasons:
28 March 2009 – high exposure to bad mortgage loans

5. Intervention initiator:
The central bank – a liquidity loan

6. Intervention start date:
28 March 2009

7. Course of intervention and financial support:
a) 28 March 2009 – Bank of Spain decided to introduce the receivership
b) 31 March 2009 – flexible start-up liquidity lines with the Bank of Spain
c) 27 April 2009 – recapitalization by the coverage of special shares of the bank by the deposit guarantee system
d) June 2009 – guarantee given by the deposit guarantee system for the impaired assets
e) June 2009 – liquidity transfer from deposit guarantee scheme (a grant)

8. Financial support amounts:
a) –
b) EUR 9 billion (with a state guarantee for EUR 3 billion), effective use amounted to EUR 1.15 billion
c) EUR 1.3 billion
d) EUR 2.47 billion
e) EUR 350 million

9. Prerequisites for financial support:
- Division and sale of the bank,
- End of business and leaving only the banking foundation.

10. Market reaction to granting financial support:
In 2008, Fitch downgraded the ratings twice from A+ to A– on 11 July and from A– to BBB+ on 26 September. Then, in February 2009, rating was again downgraded to BB+. Later the bank was not evaluated due to the acquisition.

11. Repayment of financial support and market reaction:
Aid had not been repaid.

12. Did the bank manage to improve its financial standing?
The bank improved its financial position enough to raise the solvency ratio from the level of approx. 5 per cent to more than 8 per cent; it then was sold to another bank.

13. Additional remarks and comments:
Caja Castilla La Mancha, founded in 1992, has been operating on the local market. Activity of that credit union was limited and less important compared to other banks benefiting from the aid in Spain, because it constituted approximately 1 per cent of the entire Spanish banking sector (in terms of deposits and loans). In December 2009, assets of the entire banking group, of which Caja Casilla was a member, accounted for approximately EUR 25 billion. Due to the high engagement in bad loans to the real estate sector, Caja had to write off nearly EUR 600 million. At the same time, the profit was only approx. EUR 150 million and was too small to cover the losses. The solvency ratio fell to very low levels. Therefore, in March 2009, receivership was imposed at the Caja Castilla. After that, the Bank of Spain has launched a flexible credit line amounting to EUR 9 billion. The government of Spain partly guaranteed it (to EUR 3 billion). Effective use of the line amounted to approximately EUR 1.15 billion. In addition, in order to restructure the Caja Castilla in April 2009, the Spanish bank deposit guarantee scheme (DGS) became involved in the restructuring process. In exchange for the acquisition of shares, DGS capitalized the bank with the amount of EUR 1.3 billion. This made it possible to improve the solvency ratio. Finally, in October 2010 the bank was taken over by another commercial entity, Liber Bank. Despite the takeover, in 2014 Caja Castilla La Mancha still operates under its original name.

Selected ratios of Caja Castilla La Mancha

Ratios	2006	2007	2008	2009
ROA	1.01%	0.95%	–2.79%	–2.16%
ROE	13.89%	20.24%	–257.59%	–53.72%
CAR	11.79%	10.57%	5.20%	8.22%
deposits/credits	64.38%	57.62%	58.44%	58.61%

Caja Sur

1. Name:
Caja Sur

2. Country of registration:
Spain

3. Activity abroad:
No.

4. Date of disclosure of financial difficulties and main reasons:
31 December 2009 – high exposure to bad loans granted to the construction industry

5. Intervention initiator:
Central bank

6. Intervention start date:
22 May 2010 – introduction of receivership

7. Course of intervention and financial support:
a) 27 July 2009 – announcement of the takeover of the bank (rejected 21 May 2010)
b) 22 May 2010 – supervisor decided to change the bank's management board on receivership
c) 2010 – capitalization
d) 2010 – start-up of the loan mechanism
e) 31 May 2010 – introduction of the FROB guarantees on bad assets
f) 16 July 2010 – takeover of the bank by another entity – BBK bank

8. Financial support amounts:
a) –
b) –
c) EUR 800 million
d) EUR 1.5 billion
e) –
f) The maximum compensation of up to EUR 5.54 billion (estimated use of EUR 392 million)

9. Prerequisites for financial support:
- An attempt to merge with another entity (mid-2009).
- Takeover on conditions approved by the supervisor (the central bank)

10. Market reaction to granting financial support:
20 April 2009 Fitch downgraded the rating from BBB+ to BB+

11. Repayment of financial support and market reaction:
Aid has not been repaid.

12. Did the bank manage to improve its financial standing?
No. The state aid started relatively quickly with the first signs of problems in 2009. A quick response and the use of resolution tools to recapitalize the bank did not improve its situation significantly. In 2009, the bank recorded a net loss of approx. EUR 600 million. However, the actions undertaken by the state resulted in finding an entity that took over the bank half a year later.

13. Additional remarks and comments:

Caja Sur, founded in 1864, was a Spanish savings bank. At the end of March 2010 the assets of the credit institution amounted to approx. EUR 17 billion. The company employed approximately 3,000 people and had nearly 500 branches in Spain. The credit portfolio of the company in the 2002–2007 period concentrated mainly on financing the construction industry and large development projects. When the Spanish construction industry suffered a collapse, the bank began reporting problems. At the end of 2009, Caja Sur recorded a loss of EUR 596 million and in the first half of 2010 a loss of EUR 191 million. These events caused a considerable decrease in the level of equity to EUR 184 million and own funds to EUR 444 million. This was reflected in the deteriorating solvency ratio, which stood at level of 3.7 per cent. That is why in May 2009 Caja Sur, in consultation with the supervisor, tried to find an investor interested in acquiring the company. In May 2010, the search ended in failure. On 22 May 2010, a supervisor decided to introduce receivership and re-started negotiations leading to the acquisition of the Caja Sur, with state help through another entity. The BBK bank (Bilbao Bizkaia Kutxa) won the tender (negotiation process), agreeing to take over assets with the loss-sharing contract with a sum close to EUR 5.54 billion. Caja Sur in 2014 operates under its brand, Banco Cajasur.

Selected ratios of Caja Sur

Ratios	2006	2007	2008	2009
ROA	0.56%	0.32%	0.18%	–3.14%
ROE	8.72%	6.98%	4.51%	–259.13%
CAR	10.08%	9.81%	9.33%	3.67%
deposits/credits	77.19%	74.44%	69.84%	72.57%

Catalunya Banc (Caixa)

1. Name:
Catalunya Banc

2. Country of registration:
Spain

3. Activity abroad:
No. It operates only in Spain.

4. Date of disclosure of financial difficulties and main reasons:
23 December 2008 – portfolio of bad loans related to real estate and construction sector

5. Intervention initiator:
FROB

6. Intervention start date:
23 December 2008

7. Course of intervention and financial support:
a) 23 December 2008 – state guarantees
b) 31 March 2010 – recapitalization from the FROB (via preferential convertible shares)
c) 30 September 2011 – recapitalization
d) 28 November 2012 – conversion of the shares of FROB for capital
e) 28 November 2012 – recapitalization
f) 28 November 2012 – the transfer of bad assets
g) 4 March 2013 – the withdrawal of FROB from the attempt to sell the bank to a private investor
h) 19 June 2013 – recapitalization by the deposit guarantee scheme
i) July 2014 – the purchase of the bank by the bank BBVA

8. Financial support amounts:
a) EUR 10.76 billion
b) EUR 1.25 billion
c) EUR 1.72 billion
d) EUR 1.25 billion
e) EUR 9.08 billion
f) EUR 1.6 billion
g) –
h) EUR 1 billion
i) EUR 1.187 billion (loss of the Spanish government on this transaction was valued at EUR 11.8 billion)

9. Prerequisites for financial support:

- The acquisition of Caixa Catalunya, Caixa Tarragona
- To reduce activity by more than 60 per cent compared to 2010
- Sale of banking companies within five years from the date of granting the aid

10. Market reaction to granting financial support:

The bank was not listed on the stock exchange. Credit rating agencies lowered the rating of the bank systematically:
Fitch – Ba1 to B3
Moody's – Aa2 to Baa2
Standard & Poor's – A–2 to BBB

11. Repayment of financial support and market reaction:

Financial aid has not been recovered. The FROB fund and the Deposit Guarantee Scheme probably benefited from the amounts earned from the sale to the BBVA bank.

12. Did the bank manage to improve its financial standing?

The financial institution has not improved its financial condition despite the state aid. Catalunya Banc has been taken over by another big bank.

13. Additional remarks and comments:

Catalunya Banc was a large, local Spanish financial institution founded in 2010 through a merger of three savings banks. Before 2010 one of them had already had been granted financial assistance. Banc Cataluna establishment was a part of the plan for an orderly restructuring of the banking sector in Spain. The bank is present in all major segments of the banking business. After the merger, in 2011 the bank had assets worth EUR 77 billion. Since 2010, Catalunya Banc benefited from several state aid measures, mainly from the FROB fund as well as by the transfer of part of bad assets to the SAREB fund. Finally, in July 2014, bank BBVA took over Catalunya Banc.

Selected ratios of Catalunya Banc

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.53%	0.72%	0.29%	0.12%	0.02%	–1.73%	–16.00%	0.84%
ROE	10.21%	12.37%	5.70%	2.32%	0.85%	–59.14%	–2016.50%	20.99%
CAR	11.18%	10.03%	10.15%	9.40%	10.70%	12.08%	8.67%	14.51%
deposits/credits	70.85%	52.95%	42.39%	52.01%	84.69%	93.05%	99.13%	102.12%

Liberbank

1. Name:
Liberbank

2. Country of registration:
Spain

3. Activity abroad:
No. Bank operated locally.

4. Date of disclosure of financial difficulties and main reasons:
November 2012 – the bank's difficulties were disclosed by stress tests results and the biggest problem was the large portfolio of bad loans (financing the construction industry)

5. Intervention initiator:
FROB

6. Intervention start date:
November 2012

7. Course of intervention and financial support:
a) November 2012 – bank recapitalization by the FROB fund via CoCos
b) November 2012 – the transfer of bad assets to SAREB
c) November 2012 – granting a state guarantee to repay debt

8. Financial support amounts:
a) EUR 124 million
b) EUR 1 billion
c) EUR 3.875 billion

9. Prerequisites for financial support:
- Acquisition of a group Cajastur-CCM and Caja Cantabria and Caja Extremadura
- Reduction of the scope of activities by 25 per cent compared to 2010

10. Market reaction to granting financial support:
Fitch – lowering the rating from BBB– to BB+ in Jun 2012 (rating maintained until 2014)
Moody's – downgrade from Ba2 to Ba3 in October 2012 and then reduction to B1 in July 2013.
The Bank has been listed on the stock market since May 2013.

11. Repayment of financial support and market reaction:
Aid has not been recovered, and the guarantees are still in force.

12. Did the bank manage to improve its financial standing?
Yes. After cutting off the bad assets, the capital adequacy ratios improved and the bank became profitable again.

13. Additional remarks and comments:
Liberbank, created in June 2011, operates in several regions of Spain. It was acting initially under the name Effibank. Its creation was a result of the merger of three local credit institutions (cajas). In the year of creation, Liberbank's assets amounted to nearly EUR 51 billion. The business profile of Liberbank mainly focuses on financing small enterprises and retail clients. The bank did not require state aid until the end of 2012. However, in November 2012, based on stress tests, it was qualified to Group No. 2. The bank recorded very low levels of equity with no chance to raise it without state aid. Therefore, in 2012 the FROB fund carried out recapitalization for EUR 124 million (through CoCos). At the same time, some of the bad assets were transferred to SAREB (asset management companies). They were worth approximately EUR 1 billion. In addition, the state provided a guarantee for the repayment of bank liabilities to EUR 3.875 billion. Despite the negative results for 2012, the bank was able to accumulate high provisions and in 2013 reported profits. The financial position is gradually improving.

Selected ratios of Liberbank

Ratios	2011	2012	2013
ROA	0.61%	–4.18%	0.08%
ROE	10.64%	–175.89%	2.33%
CAR	12.68%	7.80%	10.39%
deposits/credits	74.99%	89.57%	94.18%

NCG Banco

1. Name:
NCG Banco

2. Country of registration:
Spain

3. Activity abroad:
No.

4. Date of disclosure of financial difficulties and main reasons:
June 2010 – involvement in the construction sector. The portfolio of bad loans.

5. Intervention initiator:
FROB

6. Intervention start date:
29 June 2010

7. Course of intervention and financial support:
a) June 2010 – coverage of the part of the shares of the new entity by the FROB
b) September 2011 – guarantees to cover losses
c) 30 September 2011 – recapitalization
d) 28 November 2012 – recapitalization
e) 28 November 2012 – transfer of 'bad' assets
f) 25 July 2014 – sale of the bank

8. Financial support amounts:
a) EUR 1,162 million
b) EUR 7,703 million
c) EUR 2,465 million
d) EUR 5,425 million
e) EUR 1,300 million
f) EUR 1,003 million (repaid in tranches of EUR 403, 200, and 300 million, respectively)

9. Prerequisites for financial support:
- Takeover of Caja Gallicia and Caixabova.
- Change of CEO
- Reducing operating activities until 2017.
- The transfer of certain assets to SAREB

10. Market reaction to granting financial support:
Fitch in December 2010 rated the bank at BBB–; in April 2011, Fitch revised its assessment and lowered the rating to BB+.

11. Repayment of financial support and market reaction:
The bank did not repay the aid and in July 2014, it was taken over by another entity.

12. Did the bank manage to improve its financial standing?
The bank significantly improved its financial position in relation to the year 2012 when it recorded nearly EUR 8 billion of losses (in 2013 the bank reported EUR 18 million profit).

13. Additional remarks and comments:
NCG is a Spanish bank with a universal profile. The bank was established in September 2011 by a merger of two savings banks (Cajas de Ahorros), as part of the implementation of the restructuring plan for the Spanish banking sector. The bank operated mainly locally in the Galicia region, where it had approximately 33 per cent market share. Through a merger of those two credit unions, NCG Banco achieved the level of assets of approximately EUR 76 billion in 2011. The bank also changed its name from Novacaixagalicia (which was still in force in 2010) to NCG Bank. Because of financial problems caused by a large mortgage loans portfolio and involvement in the Spanish real estate market, NCG benefited from the whole range of state aid measures. The main resolution activities took place in 2011 and consisted in recapitalization or CoCos. The total amount of state aid received by NCG under various restructuring programmes as well as the provision of guarantees exceeded EUR 19 billion (including a large part of guarantees). The FROB put the bank on sale. The buyer (Etcheverría Banco SA) took over NCG Banco for an amount exceeding EUR 1 billion.

Selected ratios of NCG Banco

Ratios	2010	2011	2012	2013
ROA	0.15%	–0.26%	–13.23%	0.03%
ROE	6.33%	–6.89%	–601.82%	0.66%
CAR	10.59%	12.08%	8.67%	14.51%
deposits/credits	69.81%	93.84%	114.42%	120.54%

SAREB

1. Name:
SAREB

2. Country of registration:
Spain

3. Activity abroad:
No.

4. Date of disclosure of financial difficulties and main reasons:
n/a

5. Intervention initiator:
The government set up an asset management company called SAREB

6. Intervention start date:
31 August 2012

7. Course of intervention and financial support:
a) 2012 – acquisition of a portfolio of bad assets from the first group of banks: BFA-Bankia, Catalunya Banc, NCG Banco-Banco, Banco de Valencia
b) Increase the portfolio of bad assets through the acquisition of the second group: BMN, Ceiss, Liberbank i Caja3

8. Financial support amounts:
a) Valuation of assets amounted to EUR 36.695 billion (public engagement related to the share capital was approx. EUR 950 million)
b) Valuation of assets of the second group of banks amounted to EUR 14.086 billion

9. Prerequisites for financial support:
n/a

10. Market reaction to granting financial support:
n/a

11. Repayment of financial support and market reaction:
n/a

12. Did the bank manage to improve its financial standing?
The loss at the end of 2012 amounted to EUR 5.5 million (after several months of activity). The loss at the end of 2013 amounted to EUR 260.5 million. The financial plans for the coming years are to achieve the profitability of the entity.

13. Additional remarks and comments:

Agency Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria (SAREB) was founded in Spain on 31 August 2012 as a separate institution under the authority of the government. The newly established body was to clean off banks' balance sheets from non-performing assets, minimizing the need to engage public support and management of bad assets, which were taken over. The aim was to achieve the greatest possible revenue from the sale of assets in the 15 years' timeframe. The aid plan with the use of SAREB included BFA-Bankia, Catalunya Banc, NCG Banco-Banco, Banco de Valencia, BMN, Ceiss, Liberbank and Caja3, which in exchange for the transfer of assets received bonds from SAREB. In SAREB, private capital amounts to 55 per cent and the remaining part of the share capital came from the injection of public money. SAREB has two categories of assets. Assets of the first group (BFA-Bankia, Catalunya Banc, NCG Banco-Banco, Banco de Valencia) amounting to EUR 36.695 billion, and the second group (BMN, Ceiss, Liberbank and Caja3) totalling EUR 14.086. On the liabilities side there are bonds in the amount of 92 per cent and 8 per cent of the equity (2 per cent of the capital and 6 per cent subordinated debt). With the amount exceeding EUR 50 billion, 78 per cent are financial instruments and 22 per cent are the real estates. The assets were taken over by SAREB after the valuation of 32.4–79.5 per cent of the book value. For 2013 SAREB generated a EUR 241 million loss. The assets at the end of 2012 amounted to EUR 40.515 billion and at the end of 2013, they were equal to EUR 54.250 billion. Equity in 2012 amounted to EUR 950 million and in 2013, EUR 934 million. The company generated losses, which amounted to EUR 5.5 million in 2012 and EUR 260.5 million a year later. Financing of SAREB is through short-term variable rate bonds guaranteed by the Spanish government. In exchange for the bonds, SAREB buys bad assets from banks. Depending on the market value of assets, the amount of the discount at the time of purchase is calculated.SAREB company keeps separate accounts for the two groups of the received assets. The first transfer of the assets to SAREB occurred on 31 December 2012 and the assets of class/group 1 were derived from four nationalized institutions: Bankia, Catalunya Banc, Banco de Valencia and Banco Gallego-NCG. On 28 February 2013, the company received assets of other banks (so-called class/group 2): Liberbank, BMN, Caja3 and Banco CEISS.

UNNIM Banc

1. Name:
UNNIM Banc

2. Country of registration:
Spain

3. Activity abroad:
No. Its activities focus on Catalonia.

4. Date of disclosure of financial difficulties and main reasons:
March 2010 – a large portfolio of bad mortgages

5. Intervention initiator:
FROB

6. Intervention start date:
25 March 2010

7. Course of intervention and financial support:
a) March 2010 – recapitalization of the FROB in the form of so-called convertible preference shares, acquisition by the FROB
b) March 2011 – recapitalization from the FROB
c) March 2012 – guarantee for the coverage of the potential losses in the amount of 80 per cent
d) March 2012 – UNNIM bank takeover from the FROB for EUR 1

8. Financial support amounts:
a) EUR 380 million
b) EUR 538 million
c) Hypothetically EUR 1.330 – 2.869 billion
d) EUR 1 – takeover by BBVA

9. Prerequisites for financial support:
- The nationalization of the bank and the acquisition by the FROB
- Attempting to sell the banking business

10. Market reaction to granting financial support:
The loss in 2011 amounted to approx. EUR 436 million. Credit rating agencies lowered and then in the short term upgraded the rating assessment of the bank. Fitch in October 2011 gave BB+, while in September 2012, it noted the improvement and evaluated the bank at BBB+.

11. Repayment of financial support and market reaction:
Aid has not been recovered and the bank was taken over by another entity. Additionally, that acquisition was accompanied by granting of the additional assistance in the form of a guarantee for losses covered by the deposit guarantee fund.

12. Did the bank manage to improve its financial standing?
No. The institution was not able to improve its financial position from the moment of state recapitalization until the takeover by bank BBVA, which paid EUR 1.

13. Additional remarks and comments:
UNNIM bank was created through a merger of three smaller savings banks (cajas). The activities of the bank focused mainly on retail banking in the Catalonia region. The main reasons for the financial difficulties of UNNIM were the lack of liquidity and significant exposure to bad loans in the construction industry. The problems of the bank were disclosed in March 2010. FROB has taken two measures to sustain the operation of the entity and maintain its critical functions. These were the financial assistance for EUR 380 million in March 2010 and EUR 538 million in March 2011. In March 2012, the FROB bank found a buyer – the BBVA group – interested in acquiring UNNIM. With the acquisition of UNNIM, the Spanish deposit guarantee fund provided guarantees to cover losses up to 80 per cent resulting from this transaction. The hypothetical value of such a commitment can be as high as EUR 2.9 billion but the final amount will be determined on a multiannual basis. The total takeover of the bank took place in May 2013 and because of that transaction, UNNIM Bank ceased to exist.

Selected ratios of UNNIM Bank

Ratios	2010	2011
ROA	0.12%	–1.60%
ROE	4.65%	–39.83%
CAR	12.58%	12.16%
deposits/credits	117.23%	132.25%

SWEDEN

Carnegie Investment Bank AB and Max Matthiessen Holding AB

1. Name:
Carnegie Investment Bank AB and Max Matthiessen Holding AB

2. Country of registration:
Sweden

3. Activity abroad:
Carnegie Investment Bank AB and Max Matthiessen Holding AB were members of the Carnegie Group. Carnegie Investment Bank AB had subsidiaries in Denmark, Norway, Finland, Luxembourg, and the USA. As declared, the group's greatest interest was in the Scandinavian market.

4. Date of disclosure of financial difficulties and main reasons:
Problems were first disclosed on 24 October 2008 following Carnegie Investment Bank AB's publication of the 3Q report, which revealed write-offs of SEK 1 billion. The reason was assuming, for a longer time, a higher risk related to high-amount financing of one individual customer and management negligence. The bank violated regulations by ignoring concentration limits and by failing to notify the supervision authority of its commitment.

5. Intervention initiator:
Central bank (Riksbank)

6. Intervention start date:
26 October 2008.

7. Course of intervention and financial support:
a) Liquidity support from central bank – from 26 October 2008.
b) Liquidity support from central bank – from 28 October 2008.
c) Act on support of credit institutions, which appointed National Debt Office (Riksgalden) as the supporting body – from 29 October 2008.
d) Supervision authority's decision to revoke banking licence – 10 November 2008, at 2:30 pm (notification of Carnegie and Riksgalden); decision was made public at 3:00 pm.

8. Financial support amounts:
a) SEK 1 billion, collateralized by shares and assets of group member companies
b) SEK 1.4 billion and a credit line of up to SEK 5 billion, collateralized by shares and assets of group member companies
c) –
d) –
e) SEK 2.4 billion plus interest and costs incurred by the central bank; option to increase financing up to SEK 5 billion

e) On that same day, at 2:31, Riksgalden concluded an agreement with Carnegie Group under which it repaid its amounts due to Riksbank and acquired shares that collateralized loans. As a result, it became a shareholder of Carnegie Group, which was communicated to the companies involved several minutes past 3:00 pm. f) Upon Riksgalden's acquisition of the group's shares, the supervision authority cancelled its earlier decision, replacing it with only a warning – 10 November 2008, 3:10 pm. g) Riksgalden sells the shares of Carnegie Investment Bank AB and Max Matthiessen Holding AB to Altor Fund III and Bure Equity AB – 11 February 2009; once the buyer obtained relevant approvals, the shares were transferred on 19 May 2009.	f) – g) Shares were sold for at least SEK 2.275 billion, which according to Riksgalden, over time, will cover the amount of the loan granted and costs incurred. No details of the transaction were publicized.
9. Prerequisites for financial support: No special prerequisites, only acceptance of collateral on shares of group member companies and change in the company's management authorities upon Riksgalden becoming the owner.	**10. Market reaction to granting financial support:** No stock exchange listing or ratings during this time.
11. Repayment of financial support and market reaction: Yes. Loans for liquidity support were written off as of 31 December 2008, and in Tier 1 collaterals accepted by Riksgalden were booked for SEK 2.238 billion. The value of the sold shares should exceed the one mentioned above. No stock exchange listing or ratings during this time.	**12. Did the bank manage to improve its financial standing?** During the intervention period, i.e. 2008–2009, the financial standing of Carnegie Investment Bank AB revealed symptoms of improvement. At the end of 2009 CAR totalled 15.3 per cent, which means it remained at a high, secure level (no data available for 2008). In 2008, Carnegie Investment Bank AB recorded a loss and ROA at –15.3 per cent, while a year later – a profit and ROA at 5.3 per cent. After the intervention period, the bank's financial situation was good as regards solvency and liquidity, but in 2011–2012, the bank generated a loss. No data are available for Max Matthiessen Holding AB.

Continued

Carnegie Investment Bank AB and Max Matthiessen Holding AB continued

13. Additional remarks and comments:

The entity that directly required an intervention was Carnegie Investment Bank AB, but it dragged the other member companies of the group, including the mother company, D. Carnegie & Co AB. During the intervention, the financial safety net institutions, including Riksgalden, were cooperating with one another, just like during the previous banking crisis in Sweden in the 1990s. Public institutions operated efficiently. Their intervention aimed at maintaining stability of the country's financial system.

The management board's negligent risk management – which the supervision authority had warned about in 2007 – was one of the reasons for the financial problems. The most important problems in risk management were linked to the activities pursued on the stock market, which was (and still is) the key business area. The bank is not a typical deposit-credit bank, but instead an institution focusing on investment and private banking operations. Once Riksgalden became the owner, it changed the management board to stabilize the situation. Further, a law firm was ordered to draw a report assessing past decisions of the company. Further changes in the management board and reorganisation were performed upon selling the shares to a private investor.

Selected ratios of Carnegie Investment Bank AB

Ratios	2008	2009	2010	2011	2012	2013
ROA	–15.3%	5.3%	3.3%	–2.0%	–2.6%	1.8%
ROE	–91.9%	35.4%	20.4%	–11.6%	–14.4%	9.1%
CAR	n/a	15.3%	17.6%	18.2%	19.6%	18.2%
deposits/credits	195.4%	187.8%	210.4%	255.4%	203.9%	193.3%

Nordea

1. Name:
Nordea

2. Country of registration:
Sweden

3. Activity abroad:
Mainly in Scandinavian countries via subsidiaries: Denmark, Finland and Poland. There is also an insurance company within the group.

4. Date of disclosure of financial difficulties and main reasons:
The bank did not suffer financial problems but decided to increase equity. As the Swedish government was still a major shareholder (as at 31 December 2008 – 19.9 per cent of shares), it also participated in increasing the equity using the stabilisation fund managed by the Swedish National Debt Office (Riksgalden).

5. Intervention initiator:
The government in cooperation with Riksgalden

6. Intervention start date:
On 10 February 2009, Nordea announced an issuing of pre-emptive rights. The largest shareholders – the Swedish government, Sampo and Nordea-fonden – acquired 49 per cent of these rights. As a result of the share issue, the share capital increased by EUR 1.43 billion, while the government involvement remained at 19.9 per cent.

7. Course of intervention and financial support:
a) Shares acquired by Sweden's government – February–April 2009.
b) Market sale of nearly a half of the purchased shares – June 2013.

8. Financial support amounts:
a) SEK 5.6 billion for share purchase (with share premium)
b) Income from sale of shares to the stabilisation fund amounted to ca. SEK 10 billion, of which ca. SEK 7.5 billion was profit.

9. Prerequisites for financial support:
Under an agreement between Riksgalden and Nordea, during the 2009–2012 period, the salary and bonus policies for five top managers were limited. The government had a representative in the supervisory board, but this resulted from the previous ownership structure.

10. Market reaction to granting financial support:
Capital changes did not result in rating changes.

Share prices (Stockholm market closing prices):

reference date – 10 February 2009.

From 20 January to 4 February the share price increased by 13.4 per cent, while from 4 to 18 February – by 0.2 per cent.

11. Repayment of financial support and market reaction:
Sale of shares, nearly half of which the government acquired as part of the share capital increase, did not result in rating changes.

Share prices (Stockholm market closing prices): reference date – 19 June 2013.

Between 4 and 19 June, the share price fell by 7.6 per cent, while between 19 June and 4 July, it increased by 2.4 per cent.

12. Did the bank manage to improve its financial standing?
Yes. As at 2009-end, the capital adequacy ratio increased by 2.4 p.p., compared to the previous year, because of the new share issue. In the following years, CAR remained at good levels reaching 13.4 per cent at the end of 2013. The deposits-to-credits ratio for the entire period remained below 60 per cent. In 2008–2013 ROA remained within the 0.4–0.6 per cent range (lowest in 2011), while ROE from 10 to 15 per cent (lowest in 2008, that is before capital increase).

Continued

13. Additional remarks and comments:

The government recapitalized Nordea via Riksgalden, which manages the stabilisation fund. The capital support program covered the period of 2009–2011 up to the amount of SEK 50 billion. Nordea was the only bank to use this program. Since the 1990s, the government has been one of the bank shareholders, after it engaged itself in the restructuring. In the 2011–2013 period, the Swedish government was gradually selling out Nordea shares to improve the condition of public finance before the elections of 2014. The shares were sold on 4 February 2011 – SEK 19 billion; on 19 June 2013 – SEK 19.5 billion, of which SEK 10 billion came from the issue carried out within the stabilisation fund; on 25 September 2013 – SEK 21.6 billion. Considering the historical perspective, the Swedish government benefited significantly from the possession of shares of this bank.

Rating of Nordea Bank

Rating agency	2008	2009	2010	2011	2012	2013
Moody's	Aa1	Aa2	Aa2	Aa2	Aa2	Aa3
S&P	AA–	AA–	AA–	AA–	AA–	AA–
Fitch	AA–	AA–	AA–	AA–	AA–	AA–

Selected ratios of Nordea Bank

Ratios	2008	2009	2010	2011	2012	2013
ROA	0.6%	0.5%	0.5%	0.4%	0.5%	0.5%
ROE	15.0%	10.3%	10.9%	10.1%	11.1%	10.7%
CAR	9.5%	11.9%	11.5%	11.1%	12.7%	13.4%
deposits/credits	56.1%	54.4%	56.1%	56.4%	58.0%	58.6%

THE NETHERLANDS

ABN Amro Group

1. Name:
ABN Amro Group

2. Country of registration:
the Netherlands

3. Activity abroad:
Yes. ABN has subsidiaries (usually with the stock of 100 per cent) on almost every continent, mainly in EU countries. After the crisis, activities of ABN focused, to a significant extent, on domestic market in the Netherlands.

4. Date of disclosure of financial difficulties and main reasons:
2 February 2009: the main reason were problems of co-owners (Royal Bank of Scotland Group, Fortis and Banco Santander), which after the purchase of ANB in 2007 began to reorganize/divide ANB. At the same time, the bank valuation was overestimated and the restructuring costs contributed to the decline in profitability.

In addition, the bank, before the acquisition, was not performing effectively (high costs, high NPL) and problems of co-owners in the crisis additionally negatively affected ABN's functioning. To sum up, the subprime crisis indirectly affected ABN, but the most important source of financial difficulties is the unsuccessful reorganization and the problems of owners.

5. Intervention initiator
Government

6. Intervention start date:
17 July 2009

7. Course of intervention and financial support:
a) The recapitalization from the Dutch government (since 17 July 2009) through the issuance of CDS on ABN's mortgage portfolio worth EUR 34.5 billion (39 per cent of loan portfolio), which resulted in a decrease of capital requirement of EUR 1.7 billion. CDS contract was issued

8. Financial support amounts:
a) EUR 2,500 million
b) EUR 4,390 million

Continued

ABN Amro Group continued

for seven years, but it could be terminated earlier by ABN or by the government if that would not jeopardize ABN's capital position. Moreover, government also bought ABN convertible securities worth EUR 0.8 billion. ABN has used cash inflows from these operations to cover the shortage of capital.
b) The recapitalization from the Dutch government (since 15 January 2010), among others, by purchase of convertible securities, covering shortage of capital and part of restructuring costs of ABN holding company and by introduction of a mechanism to guarantee ABN liabilities.

9. Prerequisites for financial support:
- annual fee depending on the size of the hedged CDS portfolio
- annual coupon of 10 per cent for issued securities
- ABN participates in the (first) losses from the portfolio secured by CDS

10. Market reaction to granting financial support:
Downgrade by S&P from AA+ to A on 25 June 2010 and from C to C– on 29 June 2010 by Moody's.
As of November 2014, bank ratings have improved since the state aid support. They are as follows: S&P (A), Moody's (A2) and Fitch (A+).
The bank is not quoted on the stock exchange.

11. Repayment of financial support and market reaction:
No.

12. Did the bank manage to improve its financial standing?
No. The bank is reducing its activities. Profitability ratios remain very low. The result is heavily burdened by (decreasing) impairment provisions. The financial result is to the greatest extent impacted by net interest income, net result from individual clients and from activities carried out in the Netherlands. Lending is not being developed and a similar stagnation is observed in the deposit base. The capital adequacy ratio is improving, but it is due to capital injections.

13. Additional remarks and comments:

ABN Amro is one of three largest banks in the Netherlands. ABN offers (mainly through subsidiaries) retail banking services, corporate (including leasing and factoring) and private banking. The bank plays a key role in the mortgage market and in the retail loans segment. At the beginning of 2007, ABN Amro Holding was purchased by a consortium of Royal Bank of Scotland, Banco Santander and Fortis Holding (through a jointly co-founded company, RFS Holdings) and then divided into three parts (ABN Amro R, ABN Amro, ABN Amro S and N).

ABN Amro R focuses on operations and services offered on global markets and international transactions. ABN Amro S performs operations in the region of Latin America and Italy, while ABN Amro N has focused on activities in the Netherlands (mainly individual and SME customers) and private banking. ABN Amro Z, in which each holding member had an equal share, carries out other operations, including hub functions.

At the end of 2008, through the purchase of Fortis, the Dutch government acquired a 33.81 per cent stake in ABN holding. Parts of the ABN and Fortis Bank merged on 1 July 2010. The Netherlands officially notified the restructuring plan to the European Commission on 15 January 2010. On 29 September 2011, the Dutch government established a foundation Stichting Administratiekantoor beheer financiële instellingen (NLFI) and transferred to it all the government shares of ABN AMRO Group. The aim was to reduce conflicts of interest in the Ministry of Finance acting at the same time as the regulator and as a shareholder, while reducing political pressure on bank's activities. In 2013, the Dutch government announced a plan to sell part of ABN after 2014.

Selected ratios of ABN Amro Group

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.58%	1.04%	0.5%	0.0%	0.3%	0.0%	0.3%	0.0%
ROE	0.5%	1.0%	21.1%	–0.2%	8.9%	0.8%	8.2%	0.9%
CAR	11.14%	14.61%	14.4%	25.5%	12.8%	16.8%	18.4%	20.2%
deposits/credits	95.2%	99.5%	63.1%	94.1%	73.5%	73.4%	73.4%	85.3%

ING Groep N.V.

1. Name:
ING Groep N.V. (International Netherlands Group – ING)

2. Country of registration:
the Netherlands

3. Activity abroad:
ING Group is present in more than 40 countries around the world, mainly in Europe, but also in the US, Canada, Latin America, China, India, Australia, Thailand, and Turkey. There are subsidiaries in Poland and Ukraine, while ING has branches in Bulgaria, the Czech Republic, Hungary, Romania, and Slovakia.

4. Date of disclosure of financial difficulties and main reasons:
17 October 2008: ING problems can be attributed to the collapse of financial markets in mid-2008. The decline in Q3 2008 results was affected to a significant extent by write-offs and losses on financial operations (rapid decline in mark-to-market valuated instruments). In addition, it coincided with a dramatic fall in the share price in the second half of 2008. In contrast to investment banking operations, the primary credit-deposit operations were not a source of problems.

5. Intervention initiator:
Initiative of the Dutch government and the central bank

6. Intervention start date:
19 October 2008

7. Course of intervention and financial support:
a) Capital injections by the Dutch government since 19 October 2008. Funds were used to increase ratio of capital of the highest quality (core tier 1) from 6.5 per cent to 8 per cent
b) On 26 January 2009 the government acquired an 80 per cent share in losses from the portfolio of illiquid mortgage securities (MBS) in form of Illiquid Assets Back-up Facility (the agency of Dutch government), which operated until 2 June 2014

8. Financial support amounts:
a) EUR 10,000 million
b) Portfolio value of EUR 27,700 million

9. Prerequisites for financial support:

a) capital injection:

- transferring shares of ING Group to the government, with the possibility of buying them back at 150 per cent of the issue price
- veto right for the government when making important organizational changes and investment decisions
- two government representatives became members of the supervisory board of ING Group
- changes in the structure of ING Group – limiting bancassurance (services, mainly mortgages, and insurance products primarily for retail customers and SMEs) and engagement in insurance and investment operations (through sale of subsidiaries)

b) buyout of illiquid assets:

- ING remains the owner of the portfolio and has a 20 per cent share in the portfolio result
- restriction on bonus payments
- active use of additional guarantees and those from national DGS
- increasing lending to consumers and non-financial companies

10. Market reaction to granting financial support:

Moody's downgraded the ING Group from Aa2 to Aa3 on 21 October 2008 and to A1 on 28 January 2009.

S&P confirmed rating of AA–/A–1+ for ING Group on 22 October 2008 and on 28 January 2009.

Fitch confirmed the rating of AA– for ING Group on 28 October 2008 and downgraded ING Group on 28 January 2009 from AA– to A+.

ING share price decreased from the end of July 2008 until March 2009 (down by almost 90 per cent), which is during the period when problems were disclosed and state aid granted.

11. Repayment of financial support and market reaction:

Financial assistance was repaid regularly from 2012 onwards (after approval from the central bank).

Repayment of the first tranche – EUR 1,225 million on 26 November 2012.

Repayment of the second tranche – EUR 1,225 million on 11 June 2013.

Repayment of the third tranche – EUR 1,225 million on 31 March 2014.

12. Did the bank manage to improve its financial standing?

Yes. A gradual improvement in the financial condition of the ING Group in the period 2008–2013 was observed. Already since 2010 the financial result was positive and on a stable level. This was also reflected in the improvement of ROE and ROA. The ratio of deposits/credits remains above 80 per cent. There was a decline both in the value of loans and in deposits to non-bank customers. Gradual reduction in total assets was accompanied by improvement of CT1 ratio.

Continued

Repayment of the last tranche has been planned for May 2015.

In total, ING will have repaid EUR 10,000 million capital and EUR 3,531 million interest on state aid.

The IABF program was completed on 6 February 2014 (government earned a net benefit of EUR 1.4 billion) and the privileges of two government representatives on the supervisory board were revoked.

Credit rating agencies did not change ratings in response to the repayment of tranches. No significant changes in the share price in response to the repayment of tranches.

13. Additional remarks and comments:

ING is one of the largest financial groups in Europe. The ING business model includes banking, investment and insurance operations. On 19 November 2012, the European Commission (in agreement with the Dutch government and ING) eased the terms of public aid repayment by, among other measures, extending the public aid repayment period (from 2013 to 2015) and reducing part of ING operations by creating a separate entity in the group rather than selling part of operations. This received positive comments from rating agencies and the share price increased.

Because of limiting its activities, ING operations focused on the European markets (the Netherlands, Belgium, and Germany), at the expense of operations in other parts of the world (including Asia and Latin America). The bank has declared that it will not pay any dividend from 2008 until it has repaid the aid, which is a priority. Dividend payment is planned after complete repayment of capital support after 2015.

S&P downgraded ING Group from A to A– on 12 February 2013 because of the Netherlands' rating downgrade.

Selected ratios of ING Groep N.V

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.6%	0.7%	–0.26%	–0.12%	0.19%	0.37%	0.30%	0.43%
ROE	23.50%	24.20%	–13.92%	–3.94%	5.46%	10.46%	7.17%	10.42%
CAR	11.02%	10.32%	12.78%	13.46%	15.30%	14.62%	16.96%	16.46%
deposits/credits	120.1%	115.0%	84.3%	81.1%	83.4%	78.7%	80.8%	87.9%

SNS REAAL

1. Name:
SNS REAAL

2. Country of registration:
the Netherlands

3. Activity abroad:
No. Most of the group's activity is concentrated in the Netherlands.

4. Date of disclosure of financial difficulties and main reasons:
3 December 2008: SNS, because of turbulence on the financial markets, suffered losses from the investment portfolio. Additional reasons were a rapid collapse of the share price and an increase in CDS spreads in Q3/Q4 2008. Further support in 2012/2013 was necessary because of losses from real estate market exposure and property finance activities (mainly in the Netherlands, various types of real estate).

5. Intervention initiator:
Government and the central bank

6. Intervention start date:
10 December 2008

7. Course of intervention and financial support:

a) The bank received recapitalization from the Dutch government on 10 December 2008 (SNS Reaal had the opportunity to repay up to a third of the state aid within the first year under favourable conditions). At the same time, SNS was recapitalized by a foundation, which is the majority shareholder (EUR 500 million).
b) On 29 November 2012 KPMG, while examining the financial statements, raised doubts as to the possibility of SNS Reaal going concern. This also was confirmed by the SREP results of central bank acting as a supervisor, which on 18 January 2013 indicated the urgent need to recapitalize the bank. As a result, the Dutch government recapitalized the banking part of SNS on 1 February 2013.
c) Separating lower-quality assets from the banking part of SNS to a bad bank on 1 February 2013
d) Recapitalization from the Dutch government on 1 February 2013
e) Bridge credit from the Dutch government on 1 February 2013

8. Financial support amounts:

a) EUR 750 million
b) EUR 1,900 million
c) EUR 859 million (value of assets)
d) EUR 300 million
e) EUR 1,100 million

Continued

SNS REAAL continued

9. Prerequisites for financial support:

- annual coupon from the recapitalization, the amount of which depends on the dividend paid
- 2 members of the supervisory board are appointed by the government
- improvement of the remuneration system
- reduction in financing international projects
- reduction of the bank's involvement in trading financial instruments and complex financial transactions
- reduction of the risk incurred in insurance operations, including the reduction of the securities portfolio
- improving risk management
- reduction of operating costs
- prohibition of acquisitions and advertising the benefits of aid
- prohibition on coupon payment for hybrid instruments
- complete nationalization on 1 February 2013, after no market solution was found (including withdrawal from stock exchange quotations)

10. Market reaction to granting financial support:

Rating downgrade by Moody's of the banking part (SNS Bank) from C+ to C on 15 January 2009 and on 31 January 2013 from E+ to E.

Rating review by Fitch on 2 May 2013 and by S&P on 31 January 2013.

The drop in share price by about 20 per cent after the disclosure of problems. No significant changes in the share price before the announcement/start of the intervention.

11. Repayment of financial support and market reaction:

Repayment (with the permission from the central bank) of EUR 185 million in government assistance and EUR 65 million from the foundation on 30 November 2009. It was a result of share issuance on 24 September 2009, which allowed SNS to gather about EUR 135 million. Capital surpluses from the insurance part of the SNS paid the remainder of the EUR 185 million. The repayment of government assistance took priority over the repayment of the foundation aid.

No rating reaction from Moody's and S&P. Fitch downgraded the SNS Bank rating to A– from A on 22 December 2009. No significant changes in the share price.

12. Did the bank manage to improve its financial standing?

No. Condition of the bank is not improving. Lending activity is limited, but with the growing deposit base, deposits/credits ratio is gradually improving. However, profitability remains very low, even negative. Financial results significantly burdened the impairment costs.

The greatest loss occurred during the crisis in 2008, mainly due to the negative result from the insurance part (losses on the investment portfolio). In 2009–2011, property finance and project finance business lines caused significant losses. In addition, in 2012–2013, the financial result in general deteriorated significantly. A partial improvement in the capital adequacy ratio is observed. The bank maintained high leverage (about 25).

13. Additional remarks and comments:

SNS Reaal is a financial institution that mainly provides bancassurance services. SNS Reaal plays a key role in the real estate market, project finance and life insurance in the Netherlands. The 1997 merger of SNS Bank and REAAL Insurance created SNS. Prior to and at the beginning of the crisis, SNS Reaal exercized an active acquisition policy (Bouwfonds in 2006, Regio Bank in 2007, AXA NL in 2007 and Zwitserleven 2008). The acquisitions resulted in a significant increase in SNS Reaal's position in its respective banking and insurance market segments.

The crisis caused a significant decrease of SNS Real market capitalization, which fell to EUR 1 billion at the end of 2008 (compared to EUR 4 billion at the end of 2007).

SNS operated within four business lines. SNS Bank was divided into SNS Retail Bank and SNS Property Finance, while SNS Insurance became REAAL Insurance and Zwitserleven. Because of the restructuring, part of SNS Property Finance assets has been transferred to SNS Retail Bank, while the rest of SNS Property Finance activities are being wound down.

Prior to 2006, the strategic investor and 100 per cent shareholder of SNS Reaal SNS Reaal was the SNS REAAL Foundation. In 2006, half of shares were sold on the stock exchange and until the nationalization (1 February 2013), the Foundation remained the majority shareholder of SNS Reaal, but with the share of 50.00001 per cent. SNS Real's systemic significance (it is one of the largest financial institutions in the Netherlands in both segments of the financial market with the D-SIFI status) justified its nationalization, along with potential contagion effect, a collapse of confidence and losses in the whole sector in case SNS needed to pay out deposits. The restructuring of SNS (lasting until the end of 2017) after the nationalization includes, among others, the transfer of assets from property finance business line to the so-called bad bank and limiting activities of an insurance subsidiary.

Selected ratios of SNS REAAL

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.5%	0.5%	–0.4%	0.0%	–0.2%	0.1%	–0.7%	–1.6%
ROE	11.6%	13.0%	–10.2%	0.4%	–5.5%	1.6%	–29.5%	–43.4%
CAR	11.2%	11.5%	14.0%	13.9%	16.7%	14.4%	9.3%	16.7%
deposits/credits	35.1%	40.3%	44.3%	47.6%	47.7%	53.9%	65.7%	73.5%

UNITED KINGDOM

Bradford & Bingley

1. Name:
Bradford & Bingley

2. Country of registration:
Great Britain

3. Activity abroad:
No. Outside the UK only on the Isle of Man.

4. Date of disclosure of financial difficulties and main reasons:
2 Jun 2008 – mortgage loans (unsuccessful attempt to raise capital in the financial market), strong declines in the stock market, the inability to raise capital

5. Intervention initiator:
Supervisor (FSA) and government

6. Intervention start date:
27 Aug 2008

7. Course of intervention and financial support:
a) 29 September 2008 – full nationalization – transfer of all shares of the bank to the UK Government ownership
b) 2008 – the sale of part of the bank (customers, deposits) to the Santander bank
c) 2008 – nationalization of toxic assets
d) 18 December 2008 – introduction of legislation concerning settlement with former owners (compensations)
e) 19 June 2012 – finalization of lawsuits demanding compensation for expropriation (no compensations paid)

8. Financial support amounts:
a) –
b) GBP 612 million
c) GBP 41 billion (additionally in the portfolio there was approx. GBP 100 million of good debts)
d) –
e) –

9. Prerequisites for financial support:
- 27 March 2009 – division and liquidation of the bank
- 25 January 2010 – EC agreement to financial assistance (acceptance of actions)
- 1 October 2010 – combination of assets from 'bad' bank Bradford with bad bank 'Northern Rock'.

10. Market reaction to granting financial support:
Fitch:
upgrade of rating after granting the aid to A– (from BBB–).

Moody's:
did not react to granting the aid

Standard & Poor's: changed rating from A3 to A1 after granting the aid.

From the time of granting aid, the rating of the bank has improved. The share price has been steadily declining until that moment. After granting the aid, the bank shares were withdrawn from the stock market.

11. Repayment of financial support and market reaction:

Financial assistance has not yet been repaid. The 'bad' bank continues to operate in the state asset management holding company UKAR, recovering debts and providing new mortgage loans, in order to recover as many resources for British taxpayers as possible

12. Did the bank manage to improve its financial standing?

Yes. After the restructuring activities, financial situation of the entity improved significantly. The 2008 net financial result improved, and the bank is profitable. The remaining part of the bank no longer accepts deposits from customers

13. Additional remarks and comments:

Bradford & Bingley is a UK bank that dealt mainly with mortgage lending and accepting deposits from retail customers (on a small scale). At the end of 2007, the total assets of the bank reached GBP 52 billion and the amount of capital GBP 1.23 billion. The bank had at that time 197 branches. The bank's stake in the sale of mortgage loans in the UK amounted to about 7.7 per cent.

Because of bad housing loans portfolio, the bank began to have problems with liquidity. The board of the bank decided to try to obtain additional equity capital by issuing new shares with a value of approx. GBP 400 million in June 2008. Acquiring such an emission failed because of a large distrust in the market, downgrading of the bank and disbelief in the improvement of its condition. In a short period, the bank was no longer able to carry out its short-term liabilities. Therefore, the supervisor (British FSA) in collaboration with the government took corrective actions in September 2008. The original plan was to nationalize the bank, however, in a short time a buyer was found for the non-toxic part of the bank's assets. Santander Group, at a price of GBP 612 million, took the healthy part of the bank. In this way, the British government was left with the portfolio of approx. GBP 140 billion of assets mainly in the form of mortgage loans (including approx. GBP 41 billion estimated as bad). The shareholders of the bank, dissatisfied with the total expropriation of their shares, challenged the decision of the supervisory authorities. In 2012 their claims were finally dismissed by the court, as were considered groundless (in the case of liquidation of the bank, the creditors would not receive any funds as well).

Selected ratios of Bradford & Bingley

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.39%	0.18%	–0.66%	0.48%	1.96%	1.39%	0.32%	0.68%
ROE	12.51%	7.70%	–31.85%	16.93%	46.71%	22.86%	4.81%	8.43%
CAR	13.20%	n/a	14.90%	16.10%	n/a	n/a	n/a	n/a
deposits/credits	93.62%	92.09%	8.16%	14.00%	–	–	–	–

HBOS

1. Name:
HBOS

2. Country of registration:
Great Britain

3. Activity abroad:
Yes, but limited. Bank had developed its business as a subsidiary in Australia

4. Date of disclosure of financial difficulties and main reasons:
March 2008 – there have been rumours about problems with liquidity (the main reason was the case of bad debts of the value of approx. GBP 1 billion)

5. Intervention initiator:
Supervisor (FSA) and Government

6. Intervention start date:
13 October 2008

7. Course of intervention and financial support:
a) 13 October 2008 – takeover of 43 per cent of shares in exchange for recapitalization
b) 19 January 2009 – takeover by Lloyd's

8. Financial support amounts:
a) GBP 11.5 billion
b) –

9. Prerequisites for financial support:
No detailed conditions

10. Market reaction to granting financial support:
Fitch – downgrade to AA–
Moody's – downgrade to A2
Agencies reacted negatively to the financial assistance. The bank was listed on the stock exchange. The price of shares before the day of the assistance and afterwards steadily declined. Stock exchange listing of the bank was withdrawn 3 months after receiving the aid and at that time was on the historical minimum

11. Repayment of financial support and market reaction:
Yes, because the bank was taken over entirely by Lloyd's, which bought the shares from the government for approx. GBP 12 billion (EUR 13.25 billion)

12. Did the bank manage to improve its financial standing?
The acquisition and recapitalization helped to improve the situation of the bank. Since 2011, the bank regularly brings profits (profit amounted to approx. GBP 1.2 billion). Bank has also significantly improved capital adequacy ratio

13. Additional remarks and comments:

Bank HBOS reported financial problems caused by factors similar to those that most British banks experienced at that time. The main problems were bad loans to customers in the UK. Because of the deteriorating liquidity, the government decided to take over part of the bank's shares in exchange for a capital injection of GBP 11.5 billion. Credit rating agencies reacted negatively to that aid. Less than a year later, the large banking group Lloyd's took over the entire company and bought its shares. In 2014, the brand HBOS still existed, but it will cease to exist. The government's capital aid to HBOS was almost entirely paid back because Lloyd's bought bank shares on a market basis, paying an amount almost equal to the one paid the year before by the British government. Since the takeover, the bank's financial situation has improved considerably. The capital adequacy ratio is very high, and the net financial result for 2013 amounted to nearly GBP 1.3 billion.

Selected ratios of HBOS

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.67%	0.62%	–1.87%	–1.02%	0.30%	–0.05%	0.21%	0.23%
ROE	18.61%	18.50%	–103.16%	–27.95%	73.61%	–12.29%	49.82%	5.88%
CAR	12.00%	11.10%	10.30%	11.30%	14.10%	16.00%	18.60%	24.00%
deposits/credits	87.39%	85.42%	96.07%	56.44%	60.19%	59.13%	96.65%	98.49%

Lloyd's

1. Name:
Lloyd's

2. Country of registration:
Great Britain

3. Activity abroad:
Yes. Mainly in the UK and its dependent territories (Man Island, Guersney, Gibraltar)

4. Date of disclosure of financial difficulties and main reasons:
The portfolio of bad mortgage loans (at the beginning of 2008)

5. Intervention initiator:
Government

6. Intervention start date:
13 October 2008

7. Course of intervention and financial support:
a) 13 October 2008 – takeover of part of the shares (44 per cent)
b) January 2009 – recapitalization from the public funds
c) June 2009 – takeover of part of the new issue of preference shares that assure the participation share to maintain the ownership structure

8. Financial support amounts:
a) GBP 5.5 billion GBP (EUR 6.2 billion)
b) GBP 17 billion GBP (EUR 19 billion)
c) GBP 4 billion (EUR 4.5 billion)

9. Prerequisites for financial support:
- The acquisition of HBOS bank with the state support
- The EU accepting the conditions for granting the aid requested the declaration of sale of part of the banking company by November 2013 at the latest
- 24 April 2013 division of the bank into two parts (it was by order of public authorities responsible for competition)

10. Market reaction to granting financial support:
Fitch from AA+ to AA
Moody's from Aa3 to A1 (in later time)
Credit rating agencies assess the bank's acquisition of HBOS negatively. Share price reacted negatively

11. Repayment of financial support and market reaction:
It has not been fully paid back. The state is still the major shareholder in the group

12. Did the bank manage to improve its financial standing?
In the first phase, following the takeover of HBOS and government assistance, the bank enhanced its financial position but later it began to deteriorate. In 2013 bank was still reporting financial problems

13. Additional remarks and comments:

Lloyd's Bank is a British institution with a retail profile belonging to Lloyd's Banking Group, based in London. The bank is among the five largest banks in the UK. In 2013, it had about 1,300 branches (before the division of the bank, there were about 2,000). After the acceptance of the government's financial assistance, the European Commission ordered Lloyd's to split into two parts. Lloyd's Bank in October 2008 took over HBOS bank along with the entire portfolio of bad loans. Although it was not an ideal candidate to take over (there were banks in better shape), the authority decided to approve the transaction, with the support of public funds. Then the bank had to be divided into two parts: Lloyds TSB Group and Lloyd's Bank. Lloyd's changed the name to Lloyds Banking Group. Overall, the government assistance for HBOS and Lloyds amounted to GBP 17 billion, (including guarantees). Despite the state aid, Lloyd's Group is doing worse. The Bank regularly generates losses (in 2011 it was GBP 2.9 billion, in 2012 GBP 1.4 billion and in 2013 GBP 802 million). Despite the persistence of bad financial results, the solvency ratio is high. However, the trend of bringing losses on banking operations is visible. The poor financial condition of the acquired HBOS also caused the trend, although in recent years the financial result of the bank subsidiary is positive.

Selected ratios of Lloyd's

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.85%	0.94%	0.18%	0.29%	–0.26%	–0.04%	–0.15%	–0.09%
ROE	25.27%	26.72%	8.23%	6.70%	–5.53%	–0.81%	–3.01%	–2.04%
CAR	10.70%	11.00%	11.10%	12.40%	15.20%	15.60%	17.30%	20.80%
deposits/credits	79.29%	80.02%	71.99%	83.15%	88.66%	91.23%	91.75%	96.93%

Northern Rock

1. Name:
Northern Rock

2. Country of registration:
Great Britain

3. Activity abroad:
Yes. In the form of subsidiaries and branches in Denmark and Ireland

4. Date of disclosure of financial difficulties and main reasons:
In the middle of 2007 (there is one day, information on problems occurred gradually). Problems with the loan portfolio (mortgage) and liquidity problems (causing a run on the bank)

5. Intervention initiator:
Central bank and parliament (on the next stage)

6. Intervention start date:
14 September 2007

7. Course of intervention and financial support:
a) 14 September 2007 – liquidity support from the Bank of England (lender of the last resort)
b) 17 September 2007 – the government and the Bank of England gave full guarantees for all bank depositors
c) 01 January 2008 – increase of the amount of the liquidity support from the Bank of England
d) 22 February 2008 – nationalization after failed attempts of acquisitions (takeover by the state and the total write-down of shares held by shareholders)
e) 01 January 2010 – the division of the bank into two parts
f) 01 January 2012 – sale of part of the bank to the fund Virgin Money
g) 12 October 2012 – rebranding and change of the name of the part bought by Virgin Money
h) 17 June 2013 – sale of a large part of the assets

8. Financial support amounts:
a) GBP 3 billion
b) –
c) Debt increase to the Bank of England up to the amount of GBP 26 billion
d) –
e) GBP 1.4 billion
f) Purchase of this part of the bank cost Virgin Money GBP 747 million and the estimated loss of taxpayers was estimated at GBP 480 million
g) –
h) Purchase of assets valued GBP 450 million by the investment fund for GBP 300 million

9. Prerequisites for financial support:
- complete write-down of shares of shareholders (expropriation without compensation),
- change in the board,
- withholding the payment of bonuses,
- dismissal employees,
- splitting the bank into two parts

10. Market reaction to granting financial support:
Trading of the shares was suspended on 18 February 2008 (as well as permanently withdrawn from stock exchange). Change in the rating of Standard & Poor's to positive 21 October 2008

11. Repayment of financial support and market reaction:

Liquidity aid was partly reimbursed on 8 May 2008 for GBP 9.4 billion (as at that date the bank had to return GBP 17.5 billion).
30 September 2008 – return of the next part of the aid (debt remained valued at GBP 11.5 billion).
3 March 2009 – repayment of the next part of the loan (GBP 8.9 billion remain outstanding)

12. Did the bank manage to improve its financial standing?

No, but the bank's financial position improved in the short term, which stopped a run on the bank. Because of the restructuring and liquidation procedures, the institution was divided into two parts and practically was liquidated. Virgin Money Fund took over a good part; the government still holds the bad part, which sells it in smaller packages

13. Additional remarks and comments:

Northern Rock was a British bank with a long history. With ad an extensive business profile, it specialized in mortgage loans and mainly in the financing of real estate purchases by retail customers. At the end of 2006, its total assets amounted to approx. GBP 101 billion. The bank pursued local operations, mainly in the UK and, on a small scale, in Ireland and Denmark. Due to liquidity problems and rumours about poor financial situation of the bank in mid-2007, the bank was not able to get loans from the financial market. In September 2007, the bank requested assistance from the Bank of England as the lender of last resort to give liquidity support amounting to GBP 3 billion. Because of the gradual disclosure of the deteriorating financial condition of the bank, it experienced a bank run. According to various estimates, it led to the withdrawal of 5–10 per cent of the deposits from the bank within a few days. For this reason, in 2008 after the failed attempts to rescue the bank with the participation of the Bank of England, the bank was nationalized by the parliament's decision. The shares belonging to private investors were written down in full. After the situation was calmed, the bank was divided into two parts: an isolated part with the assets and the banking part. The Virgin Money Fund acquired the banking part in 2012 while the part with the assets remains in the hands of the UK Government (the asset management company) and is sold gradually in smaller parts mainly to the investment funds. Liquidity assistance granted to Northern Rock by the Bank of England largely was repaid.

Selected ratios of Northern Rock

Ratios	2006	2007	2008	2009	2010	2011
ROA	0.44%	–0.15%	–1.40%	–	–1.20%	–0.14%
ROE	14.35%	–6.69%	–216.67%	–	–18.82%	–2.30%
CAR	17.50%	14.70%	10.80%	–	31.60%	34.60%
deposits/credits	93.96%	97.86%	91.40%	–	100.00%	99.40%

RBS

1. Name:
RBS

2. Country of registration:
Great Britain

3. Activity abroad:
Yes. Mainly in the form of subsidiaries in the United States, Western Europe, South-East Asia (mainly China) and in Australia

4. Date of disclosure of financial difficulties and main reasons:
22 April 2008 – bank tried to increase the equity, which meant the financial problems for the bank (it was done due to expected losses at the end of the year)

5. Intervention initiator:
Parliament

6. Intervention start date:
7 October 2008

7. Course of intervention and financial support:
a) 7 October 2008 – liquidity support
b) 13 October 2008 – 63 per cent of the stake was taken over in exchange for capitalization
c) 19 January 2009 – increase of the state aid to the level of 70 per cent of the shares
d) 26 January 2009 – declaration of providing insurance of the bad debts against RBS

8. Financial support amounts:
a) Flexible credit line of up to GBP 36.6 billion
b) GBP 20 billion
c) –
d) Up to GBP 325 billion

9. Prerequisites for financial support:
Allocation of preference shares to the government
Resignation of the board

10. Market reaction to granting financial support:
Stock prices reacted in a positive way. The rating agencies slightly downgraded the ratings of a bank (Fitch to A+ and Moody's to A1)

11. Repayment of financial support and market reaction:
The liquidity support was repaid quickly, in December 2008. The aid in the form of capitalization has not yet been repaid

12. Did the bank manage to improve its financial standing?
After giving the aid and following the government takeover, the bank's solvency ratio improved. At the end of 2013, it reached 16.5 per cent. However, the rates of return on assets and equity were constantly going down. The bank is still in serious financial difficulties. Total deposits in the bank are constantly decreasing as well. Since 2008, the bank has been reporting losses

13. Additional remarks and comments:

RBS, in 2008, was expected to have a great loss due to bank's involvement in bad loans. In the middle of the year, the bank tried to raise its equity by more than GBP 5 billion. It turned out to be successful. The issuance has been acquired. A large part of the capital raised was allocated to the settlement of the transaction involving the purchase of ABN Amro (acquisition of the group). RBS planned also to sell its insurance business in order to raise further capital but was unsuccessful. In October 2008, due to the deteriorating financial situation of the bank, the British government decided to recapitalize it for GBP 20 billion in exchange for the acquisition of a controlling 63 per cent stake. Following this transaction, the bank's management was dismissed. With time, the involvement of the government in the bank's shares increased to 70 per cent. The state guarantees were used as an assisting tool. The government granted GBP 325 billion to cover the bank's bad debts. The bank quickly ceased using the assistance of the Bank of England's liquidity grant. However, the capital aid has not yet been repaid. From year to year, the bank had been trying to accumulate the provisions but it influenced the financial results. Loss for the year 2013 reached almost GBP 8.5 billion.

Selected ratios of RBS

Ratios	2006	2007	2008	2009	2010	2011	2012	2013
ROA	0.75%	0.42%	–1.43%	–0.14%	–0.11%	–0.13%	–0.44%	–0.82%
ROE	14.28%	8.44%	–42.70%	–2.45%	–2.17%	–2.59%	–8.24%	–14.32%
CAR	11.70%	11.20%	14.10%	16.10%	14.00%	13.80%	14.50%	16.50%
deposits/credits	74.41%	68.60%	71.25%	81.21%	83.79%	82.34%	83.71%	88.04%

UK Asset Resolution

1. Name:
Asset Resolution – asset management vehicle

2. Country of registration:
Great Britain

3. Activity abroad:
No

4. Date of disclosure of financial difficulties and main reasons:
Not applicable

5. Intervention initiator:
Government

6. Intervention start date:
27 August 2008

7. Course of intervention and financial support:
29 September 2008 – start of the operating activities – capital contribution to the company from the state budget

8. Financial support amounts:
EUR 870 million

9. Prerequisites for financial support:
n/a

10. Market reaction to granting financial support:
Not applicable

11. Repayment of financial support and market reaction:
No. The aid is returned in instalments out of the company profits. The goal is to maximize the return from the company. In total, the company recovered and paid back to the budget:
In 2014 EUR 6.173 billion (GBP 5.100 billion)
In 2012 EUR 3.860 billion (GBP 3.130 billion)
In 2011 2.651 billion (GBP 2.150 billion)
(currencies calculated for the average exchange rate at the end of the reporting period)

12. Did the bank manage to improve its financial standing?
Yes. Asset management company brings profits for both banks. Accurate financial data are available in point 13 below

13. Additional remarks and comments:
UK Asset Resolution was established in order to facilitate the proper administration of the 'bad assets' of two entities – the Bradford Bank and another asset management company that was separated from the Northern Rock bank in 2010 (NRAM company, incorporated later to UKAR). The aim UKAR is to maximize value for taxpayers, who have suffered the burden of rescuing the British banks. The assets were acquired from banks and were included in the asset management companies, but without the payment for them. The settlements on an ongoing basis in the form of debt repayments. Any income from these assets repays government loans.

UKAR consists of two parts:

- The part previously belonging to Northern Rock. The bank, nationalized in February 2008, was divided into two parts on 31 December 2009. UKAR currently manages one part.
- The part previously belonging to the Bradford & Bingley Bank, which also was divided. One part went to the Abbey bank, while the other remained in the UKAR management.

Moreover, since 8 October 2008 the company has also launched a government mortgage guarantee program "Government's Help to Buy Mortgage Guarantee Scheme'. The loan portfolio managed by UAKR is approx. 435 thousand customers with a total debt of more than EUR 74 billion (GBP 58 billion). State participation in the UKAR company accounts for 100 per cent.

Item	UKAR	B&B	NRAM
Number of customers	422,000	175,000	247,000
The average size of the loan for buying a house in GBP	108,000	112,000	107,000
The average size of the loan for buying a flat in GBP	118,000	116,000	136,000

Source: UKAR Factsheet, 30 October 2014.

The financial results of the UKAR in relation to the various parts of the bank

Items	31 March 2014	31 December 2012	31 December 2011	31 December 2010	31 December 2009
Bradford & Bingley – UKAR					
Profit after tax	246.4	165.3	333.5	886.4	–98.3
Assets on a group level	35,154.6	38,461.6	40,102.2	48,936.2	49,394.6
Share capital	361.3	361.3	361.3	361.3	1,394.1
Provisions	315	338.3	215.6	141.3	
Retained earnings	2,138.7	1,864.9	1,306.2	500.9	
State aid repayment	2,000	1430	150	–	–
Northern Rock – UKAR/NRAM					
Profit after tax	819.6	411.3	827.8	323.5	–257.5
Assets on a group level	39,921.6	48,610.1	55,324.3	66,095.9	87,445.5
Share capital	124	124	124	124	–386
Provisions	513.5	493.7	413.7	116.4	
Retained earnings	2,691.2	1,901	1,560.9	688.1	
State aid repayment	3,100	1,700	2,000	–	–

Source: Annual reports of the companies, data in GBP million.

Bibliography

Acharya, V.V.; Drechsler, I.; Schnabl, P. (2012) 'A tale of two overhangs: the nexus of financial sector and sovereign credit risks' in *Public Debt, Monetary Policy And Financial Stability*, Financial Stability Review no. 16 (Banque de France).

Angelini, P.; Grande, G.; Panetta, F. (2014) *The Negative Feedback Loop between Banks and Sovereigns*, Occasional papers, Number 213 (Bank of Italy), January.

Arcand, J.L.; Berkes, E.; Panizza U. (2012) *Too Much Finance?* IMF Working Paper, WP/12/161.

Aro, E. (2009) *Credit Unions and Their Strong Competitors in Spain* (Sofia).

ASC (2014) *Is Europe Overbanked?* Reports of the Advisory Scientific Committee no. 4/ Jun (ESRB).

Avdjiev, S.; Kartasheva, A.; Bogdanova, B. (2013) *Cocos: A Primer*, BIS Quarterly Review, September.

Banco de Portugal (2014) *The Resolution Fund*, www.fundoderesolucao.pt/en-US/ofundo/Pages/OFundo.aspx date accessed January 2015.

BCBS (2009) *Revisions to the Basel II Market Risk Framework* (Basel: Basel Committee on Banking Supervision), July.

BCBS (2011) *Revisions to the Basel II Market Risk Framework. Updated as of 31 December 2010* (Basel: Basel Committee on Banking Supervision), February.

BCBS (2012) *Core Principles for Effective Banking Supervision* (BIS), September.

BCBS (2013) *Global Systemically Important Banks: Updated Assessment Methodology and the Higher Loss Absorbency Requirement* (Basel: Basel Committee on Banking Supervision), July.

Becker, B.; Ivashina, V. (2014) *Financial Repression in the European Sovereign Debt Crisis*, Swedish House of Finance Research Paper no. 14–13.

Berger, A.; Udell, G. (2003) *The Institutional Memory Hypothesis and the Procyclicality of Bank Lending Behaviour*, BIS Working Paper no. 125.

Caprio, Jr. G.; D'Apice, V.; Ferri, G.; Puopolo, G.W. (2014) 'Macro-Financial Determinants of the Great Financial Crisis: Implications for Financial Regulation', *Journal of Banking & Finance*, vol. 44.

Caprio, Jr. G.; Demirguc-Kunt, A.; Kane, E.J. (2008) *The 2007 Meltdown in Structured Securitization. Searching for Lessons, Not Scapegoats*, Policy Research Working Paper no. 4756 (World Bank), October.

Caprio, Jr. G.; Klingebiel, D. (1996) *Bank Insolvency: Bad Luck, Bad Policy of Bad Banking* (Washington D.C., World Bank Annual Conference on Development Economics), April.

Cecchetti, S.G.; Kharroubi, E. (2012) *Reassessing the Impact of Finance on Growth*, BIS Working Papers no. 381.

Claessens, S.; Dell'Ariccia, G.; Igan, D.; Laeven, L. (2010) *Lessons and Policy Implications from the Global Financial Crisis*, IMF Working Paper, WP/10/44.

Claessens, S.; Kose, M.A.; Terrones, M.E. (2010a) 'The Global Financial Crisis: How Similar? How Different? How Costly?', *Journal of Asian Economics,* vol. 21.

Claessens, S.; Pazarbasioglu, C.; Laeven, L.; Dobler, M.; Valencia, F.; Nedelescu, O.; Seal, K. (2011) *Crisis Management and Resolution: Early Lessons from the Financial Crisis*, IMF Staff Discussion Note, March.

Costa Navajas, M.; Thegeya, A. (2013) *Financial Soundness Indicators and Banking Crises*, IMF Working Paper, WP13/263.

Dabla-Norris, E.; Srivisal, N. (2013) *Revisiting the Link Between Finance and Macroeconomic Volatility*, IMF Working Paper, WP/13/29.

Dell'Ariccia, G.; Igan, D.; Laeven, L. (2008) 'The relationship between the recent boom and the current delinquencies in subprime mortgages' in Felton, A.; Reinhart, C. (ed.) *The First Global Financial Crisis of the 21st Century* (London: Centre for Economic Policy Research).

Dembinski, P. (2011) *Finanse po zawale* (Warsaw: Studio EMKA).

DG Competition (2014) http://ec.europa.eu/competition/ date accessed January 2015.

EC (2008) *Public Finances in EMU – 2008*.

EC (2009) *Communication from the Commission – The Recapitalisation of Financial Institutions in the Current Financial Crisis: Limitation of Aid to the Minimum Necessary and Safeguards Against Undue Distortions of Competition* (OJ C 10, 15.1.2009, p.2).

EC (2010) *Impact Assessment, Accompanying Document to the Proposal for a Directive .../.../ EU of the European Parliament and of the Council on Deposit Guarantee Schemes [Recast] and to the Report from the Commission to the European Parliament and to the Council, Review of Directive 94/19/EC on Deposit Guarantee Schemes*, Commission Staff Working Document 834/2 (Brussels: European Commission).

EC (2010a) *Impact Assessment*, Commission Staff Working Document, SEC (2010) 834 Final (Brussels: European Commission).

EC (2012) *Commission Proposes New ECB Powers for Banking Supervision as Part of a Banking Union*, Press release, (Brussels/Strasbourg: European Commission), 12 September.

EC (2012a) *Impact Assessment*, Commission Staff Working Document, SWD (2012) 166 Final (Brussels: European Commission).

EC (2012b) *Impact Assessment Accompanying the Document Proposal for a Directive of the European Parliament and of the Council Establishing a Framework for the Recovery and Resolution of Credit Institutions and Investment Firms and Amending Council Directives 77/91/EEC and 82/891/EC, Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC and 2011/35/EC and Regulation (EU) no 1093/2010*, {COM(2012) 280 final} {SWD(2012) 167 final}, Commission Staff Working Document, 166/3 (Brussels: European Commission).

EC (2012c) *State Aid: Commission's Contribution to Spanish Financial Assistance Programme Focusing on Banking Sector*, MEMO (Brussels: European Commission), 20 December.

EC (2014) *The Second Economic Adjustment Programme for Greece. Fourth Review – April 2014*, European Economy Occasional Papers 192 (Brussels: European Commission), April.

EC (2014a) *Post-Programme Surveillance for Ireland, Spring 2014 Report*, http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/pdf/ocp195_En.pdf date accessed January 2015.

EC (2014b) *The Economic Adjustment Programme for Portugal 2011–2014*, http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/pdf/ocp202_En.pdf date accessed January 2015.

EC (2014c) *Updated Estimates of EU Eligible and Covered Deposits*, JRC, Institute for the Protection and Security of the Citizen, Report EUR 26469 EN.

ECB (2008) *EU Banking Structures*, October.

ECB (2008a) *Financial Integration in Europe*, April.

ECB (2011) *Opinion of the European Central Bank of 19 October 2011 on Early Intervention Measures and on Amendments to the Resolution and Winding-up regime for Credit and Financial Institutions Subject to Supervision by the Banco de Portugal (CON/2011/83)*, www.ecb.europa.eu/ecb/legal/pdf/en_con_2011_83__f_sign.pdf date accessed January 2015.

ECB (2011a) *The Monetary Policy of the ECB*.

ECB (2012) *Financial Integration in Europe*, April.

ECB (2013) *Banking Structures Report*, November.

ECB (2013a) *Procedures Governing the Provision of Emergency Liquidity Assistance*.

ECB (2014) *Banking Structures Report*, October.

ECB (2014a) *Comprehensive Assessment*, www.bankingsupervision.europa.eu/banking/comprehensive/html/index.en.html date accessed January 2015.

ECB (2014b) *Guide to Banking Supervision*, September.

ECB (2014c) *List of Supervised Banks*, www.bankingsupervision.europa.eu/banking/list/who/html/index.en.html date accessed January 2015

ECB (2014d) *SSM Quarterly Report*, 2014/3.

ECB (2014e) *SSM Quarterly Report*, 2014/4.

EEAG (2012) *The EEAG Report on the European Economy, The Hungarian Crisis*, (Munich: CESifo).

Eidenberger, J.; Schmitz, S.W.; Steiner K. (2014) *The Priorities of Deleveraging in the Euro Area and Austria and Its Implications for CESEE*, Financial Stability Report 27 (OENB), June.

ESM (2013) *Conclusion of ESM Financial Assistance Programme for Spain: An Overview*, 31 December.

ESM (2015) www.esm.europa.eu/ date accessed January 2015

ESM (2015a) www.esm.europa.eu/assistance/spain/index.htm) date accessed January 2015.

ESM (2015b) www.esm.europa.eu/assistance/cyprus/index.htm date accessed January 2015.

ESRB (2015) www.esrb.europa.eu/mppa/html/index.en.html date accessed January 2015.

Europa (2015) http://europa.eu/rapid/press-release_MEMO-14–126_en.htm date accessed January 2015.

Europa (2015a) http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm date accessed January 2015.

Europa (2015b) (http://ec.europa.eu/economy_finance/assistance_eu_ms/ireland/index_en.htm) date accessed January 2015.

Europa (2015c) http://ec.europa.eu/economy_finance/assistance_eu_ms/portugal/index_en.htm) date accessed January 2015.

FDIC, BoE (2012) *Resolving Globally Active, Systemically Important, Financial Institutions. A joint paper by the Federal Deposit Insurance Corporation and the Bank of England*, 10 December.

Frank, N.; Gonzales-Hermosilo, B.; Hesse, H. (2008) *Transmission of Liquidity Shocks: Evidence from the 2007 Subprime Crisis*, IMF Working Paper, WP/08/200.

Frank, N., Hesse, H. (2009) *Financial Spillovers to Emerging Markets during the Global Financial Crisis*, IMF Working Paper, WP/09/104.

FSB (2011) *Key Attributes of Effective Resolution Regimes for Financial Institutions*, October.

FSB (2012) *Thematic Review on Deposit Insurance Systems, Peer Review Report*.

FSB (2013) *Thematic Review on Resolution Regimes. Peer Review Report.*
Garcia, V.F. (1997) *Black December. Banking Instability, the Mexican Crisis and Its Effect on Argentina* (World Bank).
Gębka, B.; Serwa, D. (2006) 'Are financial spillovers stable across regimes? Evidence from the 1997 Asian crisis', *Journal of International Financial Markets, Institutions and Money*, 16(4).
Goodhart, Ch.A.E.; Schoenmaker, D. (2014) *The ECB as Lender of Last Resort?* VoxEU.org, 23 October.
Gropp, R.; Lo Duca, M.; Vesala, J. (2006) *Cross-border Bank contagion in Europe*, Working Paper Series no. 662.
Gropp, R.; Moerman, G. (2004) 'Measurement of contagion in banks' equity prices', *Journal of International Money and Finance*, vol. 23(3) (Elsevier).
Hasman, A. (2012) 'A critical review of contagion risk in banking', *Journal of Economic Surveys*, vol. 27.
HFSF (2014) *Hellenic Financial Stability Fund Annual Financial Report for the Year Ended 31/12/2013*, www.hfsf.gr/en/financialinformation.htm date accessed January 2015.
Hoelscher, D.; Quintyn, M. (2003) *Managing Systemic Banking Crises*, IMF Occasional Paper no. 224/2003 (Washington D.C.).
Honohan, P.; Laeven, L. (ed.) (2005) *Systemic Financial Crises: Containment and Resolution* (Cambridge University Press).
Hryckiewicz, A. (2014) 'What do we know about the impact of government interventions in the banking sector? An assessment of various bailout programs on bank behavior', *Journal of Banking & Finance*, vol. 46.
Huertas, T.F. (2013) *Banking Union*, Estabilidad Financiera Núm. 24 (Banco De España).
IMF (2008) *Global Financial Stability Report*, Statistical Appendix, April.
IMF (2013) *A Banking Union For The Euro Area*, Technical Background Notes 2013 SDN/13/01.
IMF (2014) *Chapter 3. How Big is the Implicit Subsidy for Banks Considered Too Important to Fail?*, Global Financial Stability Report, April.
IMF (2015) *Financial System Stability Assessment Reports for Given Countries for 2009–2014*, www.imf.org/external/np/fsap/fssa.aspx date accessed January 2015.
IADI (2014) *Core Principles for Effective Deposit Insurance Systems* (International Association of Deposit Insurers), November.
Iwanicz-Drozdowska, M. (2000) *Determinanty bezpieczeństwa banków w świetle analizy wybranych kryzysów bankowych* (Warsaw: Oficyna Wydawnicza SGH).
Iwanicz-Drozdowska, M. (ed.) (2002), *Kryzysy bankowe. Przyczyny i rozwiązania*, (Warsaw: PWE).
Iwanicz-Drozdowska, M. (2011) *Deposit Insurance Systems – Lessons from the Crisis for CESEE Banking Systems*, in Csajbók, A.; Gnan, E. (ed.) *The Future of Banking in CESEE after the Financial Crisis*, SUERF Study 2011/1 (Vienna: SUERF).
Iwanicz-Drozdowska, M. (2014) 'Global systemically important banks – how to identify and regulate them?', *Journal of Economics and Management*, vol. 18.
Iwanicz-Drozdowska, M.; Kerlin, J.; Smaga, P.; Tomasik, M. (2015) 'EU guarantee schemes: status quo and policy implications', *Journal of Banking Regulation*.
Klingen, Ch. (2013) 'Perspectives on Growth Prospects for Central, Eastern and Southeastern Europe' in *Banking in Central and Eastern Europe and Turkey. Challenges and Opportunities* (European Investment Bank), January.

Klomp, J. (2010) ‘Causes of banking crises revisited’, *The North American Journal of Economics and Finance*, vol. 21.
Laeven, L.; Valencia, F. (2008) *Systemic Banking Crises: A New Database*, IMF Working Paper, WP/08/224.
Lee, H.-Y.; Wu, H.-Ch.; Wang, Y.-J. (2007) *Contagion Effect in Financial Markets after the South-East Asia tsunami*, Research in International Business and Finance, vol. 21.
Lindgren, C.-J.; Garcia, G.; Saal, M.I. (1998) *Bank Soundness and Macroeconomic Policy* (Washington D.C.: IMF).
Longstaff, F.A. (2010) ‘The subprime credit crisis and contagion in financial markets’, *Journal of Financial Economics*, vol. 97.
Minsky, H.P. (1992) *The Financial Instability Hypothesis*, Working Paper no. 74 (The Jerome Levy Economics Institute of Bard College).
Mishkin, F.S. (1991) *Anatomy of Financial Crisis*, NBER Working Paper, no. 3934.
NBP (2014) *Ekonomiczne wyzwania integracji Polski ze strefą euro* (Warsaw: National Bank of Poland).
NBP (2014a) *Report on Financial System's Stability* (Warsaw: National Bank of Poland), July.
Ostalecka, A. (2009) *Kryzysy bankowe i metody ich przezwyciężania* (Warsaw: Difin).
Pawłowska, M. (2012) *Konkurencja, koncentracja i udział kapitału zagranicznego w polskim systemie bankowym przed kryzysem finansowym i podczas kryzysu*, in Alińska, A.; Pietrzak, B. (ed.) *Stabilność systemu finansowego – instytucje, instrumenty, uwarunkowania* (Warsaw: CeDeWu).
Poghosyan, T., Čihak M. (2011) ‘Determinants of bank distress in Europe: evidence from a new data set’, *Journal of Financial Services Research,* vol. 40.
Polański, Z. (2012) *O nieco zapomnianej (od niedawna) funkcji systemu finansowego*, in Alińska, A. (ed.) *Eseje o stabilności finansowej* (Warsaw: CeDeWu).
Pollner, J.D. (2012) *The Polish Bank Insolvency Regime, Issues and Assumption Paper for the Design of an Upgraded Bank Resolution Framework* (World Bank).
Pritsker, M. (2000) *The Channels for Financial Contagion*, mimeo.
Rogowski, W. (2013) ‘Unia bankowa – wyzwanie europejskiego i polskiego nadzoru bankowego’ in Rogowski, W. (ed.) *Wyzwania regulacji rynków finansowych: unia bankowa, kontrahenci centralni, parabanki*, (Cracow: Oficyna Allerhanda).
Rompuy Van, H. (2012) *Towards a Genuine Economic and Monetary Union*, Report by President of the European Council (Brussels).
Sayek, S.; Taskin, F. (2014) *Financial Crises: Lessons from History for Today*, Economic Policy, July.
Schoenmaker, D.; Peek, T. (2014) *The State of the Banking Sector in Europe*, OECD Economics Department Working Papers, no. 1102 (OECD Publishing).
Schoenmaker, D. (2011) *The Financial Trilemma*, Duisenberg School of Finance – Tinbergen Institute Discussion Papers, nr TI 11–019/DSF 7 (Amsterdam).
Stelmach, A. (2012) ‘Geneza i uwarunkowania tworzenia systemów ochrony depozytów’ in Świderska, J. (ed.) *Współczesny system bankowy. Ujęcie instytucjonalne* (Warsaw: Difin).
Szczepańska, O. (2004) ‘Funkcja stabilności finansowej w Eurosystemie’, *Bank i Kredyt* nr 6 (Warsaw).
The de Larosière Group (2009) *The High-Level Group on Financial Supervision in Europe, Report* (Brussels), 25 February.

Trzcińska, A. (2013) *Europejski Mechanizm Stabilności jako stabilizator w planowanej unii finansowej* (Warsaw, NBP).

Vallascas, F., Keasey, K. (2011) 'The volatility of European banking systems: A two-decade study', *Journal of Financial Services Research*, vol. 43.

Zhou, J.; Rutledge, V.; Bossu, W.; Dobler, M.; Jassaud, N.; Moore, M. (2012) *From Bail-out to Bail-in: Mandatory Debt Restructuring of Systemic Financial Institutions*, IMF Staff Discussion Note, SDN/12/03, IMF, 24 April.

Index

adjustment programme, 40, 41, 43
AMC, *see* asset management company
AQR, see Asset Quality Review
asset management company (AMC), 3, 12, 15, 44–5, 49, 56–7, 64–5, 94, 113
Asset Quality Review (AQR), 73, 100
asset-related aid, 36
asset separation, 93, 94

bad assets, 3, 11, 12, 13, 57, 64, 65
 see also, asset management company
bad bank, 12, 15
 see also, good bank
bail-in, 12, 56, 63, 65, 70, 73, 88, 91, 93, 94, 96
bailout, 1, 56, 65, 68, 70, 82
Bank Restructuring and Resolution Directive (BRRD), 86, 88–9, 90, 91–2, 93–4, 103, 106
banking communication, 31, 32, 33, 34–5, 37
banking union, 74, 83, 98–109
bankruptcy, 1–2, 12, 27–8, 29–30, 58, 70, 81–2, 84, 87–92, 93–4, 97, 103, 104, 107
bridge bank, *see* bridge institution
bridge institution, 41, 91, 93
BRRD, *see* Bank Restructuring and Resolution Directive
budget deficit, 7, 21, 38, 65, 75

capital adequacy, 8, 25, 50, 53, 65, 67, 69, 76, 108
capital adequacy ratio, *see* capital adequacy
capital injection, 35, 45, 46, 47, 49, 57, 64, 92
CAR, *see* capital adequacy
central bank
 as financial safety net member, 6, 81, 82–3, 86, 89, 90, 106
 as lender of last resort, 10, 11, 18, 26–7, 53, 104, 107–8
 liquidity support, *see* lender of last resort
 monetary policy, 22–3, 74–6
contagion effect, 1, 2, 5, 9–11, 28, 53
contingency planning, 28
conversion instrument, *see* bail-in
credit growth, 7, 23, 25, 50, 53, 60
crisis, 1–6, 8, 9, 10, 11–15, 18–29, 31–3, 36, 47, 53, 56–7, 60, 63–5, 74–7, 79, 80–2, 83, 84–6, 90, 93–4, 97, 101–3, 104–8
cross-border activities, *see* cross-border operations
cross-border bank, 9, 28, 30, 66, 104, 107
cross-border banking groups, *see* cross-border bank
cross-border operations, 3, 60, 76, 89, 105, 106

debt waiver instrument, *see* bail-in
debt write-down, *see* bail-in
deposit guarantee institution, *see* deposit guarantee scheme
deposit guarantee scheme (DGS), 12, 14–5, 28–9, 58–9, 60, 70, 77, 81–3, 86–7, 90, 94, 96–8, 108
deposit guarantee system, *see* deposit guarantee scheme
DGS, *see* deposit guarantee scheme

ECB, *see* European Central Bank
ELA, *see* emergency liquidity assistance
Emergency Liquidity Assistance (ELA), 27, 104
ESCB, *see* European System of Central Banks
ESM, *see* European Stability Mechanism
European Central Bank (ECB), 23, 25, 27, 33, 75, 98–9, 100–6, 108–9
European Stability Mechanism (ESM), 31, 37–8, 42–3, 106, 108, 109
European System of Central Banks (ESCB), 27

ex ante financing, 27, 28, 77, 82–3, 96, 103
ex post financing, 69, 82–83, 104, 107

financial crisis, *see* crisis
financial instability hypothesis, 4
financial safety net, 11, 26, 28–9, 74, 77, 81–5, 89, 91, 97–8, 107, 113–4
financial stability, 26, 27, 28, 34, 36–7, 38, 43, 81, 86–7, 92, 107, 109
fiscal policy, 21–2, 76

good bank, 12
government bonds, 13, 21–2, 75, 76, 107, 108
government guarantees, 9, 13–4, 34
guarantee levels, 28–9, 82
guaranteed deposits, 12, 29, 66, 83, 87, 94, 96–7, 103

hedge financing, 2, 4–5, 6, 78
hedge fund, *see* hedge financing
Hellenic Financial Stability Fund (HFSF), 39–40
HFSF, *see* Hellenic Financial Stability Fund

impaired assets, 33, 35, 36, 44, 64
inflation, 6, 7, 19–20, 22–3, 27, 74
institutional memory, 5

liquidation, 12, 15, 18, 27–30, 31, 33, 35, 36–7, 56, 63, 65, 68, 70, 85, 87, 88, 91, 93

macroprudential authority, 76, 81
macroprudential policy, 99, 105–6
macroprudential supervision, 77, 83, 105
merger, 9, 13, 15, 24, 56–7, 63, 65, 68, 76
ministry of finance, 81, 85, 90
moral hazard, 15–16, 22, 26–8, 35, 37, 114

nationalization, 12, 13, 14, 15, 56–7, 60, 65
NCWO principle, *see* no creditor worse off principle
negative feedback loop, 21, 26, 75, 107, 108
no creditor worse off principle (NCWO), 87
non-guaranteed deposits, 15
non-performing loans (NPL), 4, 13–4, 21, 25, 43, 74, 76
NPL, *see* non-performing loans

open bank assistance, 12, 15–6
opt-in countries, 105, 106
orderly liquidation, *see* liquidation
ownership rights, 88, 94, 95

Ponzi financing, 4, 6
profitability, 10, 25–6, 34, 53, 65, 76
public debt, 21–2, 36, 38, 39, 41, 42–3, 44, 75
public interest, 92, 97

real estate market, 20, 57, 78
real estate prices, 5, 8, 20, 75
recapitalization, 1, 12–6, 31, 32, 33, 34–6, 38, 40, 41–3, 44–9, 51, 54, 56, 60, 63–65, 67–8, 70, 101–2
resolution
  authority, 12, 74, 84–6, 89–90, 92, 93, 94, 96, 103, 104
  fund, 64, 96–7, *see* also Single Resolution Fund
  plan, 91, 94, 96, 106
  tools 91–2, 93–7
restructuring
  activities, 40, 64, 73, 106
  aid, 31–2
  cost, 52, 54, 69, 73, 81–2, 88, 107
  instruments, *see* tools
  method, 15, 73
  plan, 32–3, 34–6, 39, 42, 91, 103–4
  process, *see* activities
  tools, 1, 13, 16, 46, 56–7, 63, 64–5, 68, 73, 88, 91–2, 93–6
rescue aid, 31, 33–4, 36–7, 56
rescue operations, 12, 26–30, 33, 56
rescue measures, *see* rescue operations

sale of business, *see* takeover
SDGS, *see* Single Deposit Guarantee Scheme
securitization, 1, 5, 35, 78

Single Deposit Guarantee Scheme (SDGS), 107, 108–9
Single Resolution Board (SRB), 103, 104, 106
Single Resolution Fund (SRF), 103, 104, 106–7
Single Resolution Mechanism (SRM), 98, 103, 104, 106, 107, 108, 109
Single Supervisory Mechanism (SSM), 74, 98–101, 104–9
speculative financing, 4
SRB, *see* Single Resolution Board
SRF, *see* Single Resolution Fund
SRM, *see* Single Resolution Mechanism
SSM, *see* Single Supervisory Mechanism
supervision authority, 28, 81, 83–4, 86, 89, 91, 100–1, 108
Supervisory Board, 98–9
systemic banks, *see* systemically important institutions
systemic crisis, 2, 3, 4, 6
systemic risk, 10–11, 23, 26, 27, 76, 79, 82, 105
systemically important banks, *see* systemically important institutions
systemically important institutions, 54, 58, 65, 78–9, 85, 98, 101, 104, 108–9, 113

takeover, 12, 63, 76, 93
target level, 82–3, 96, 103
too big to fail (TBTF), 27, 65, 108
TBTF, *see* too big to fail
Tremonti bonds, 65
twin peaks model, 82

unemployment rate, 20–1, 74

write-down of debt, *see* bail-in