The Euro Area Crisis: Politics over Economics

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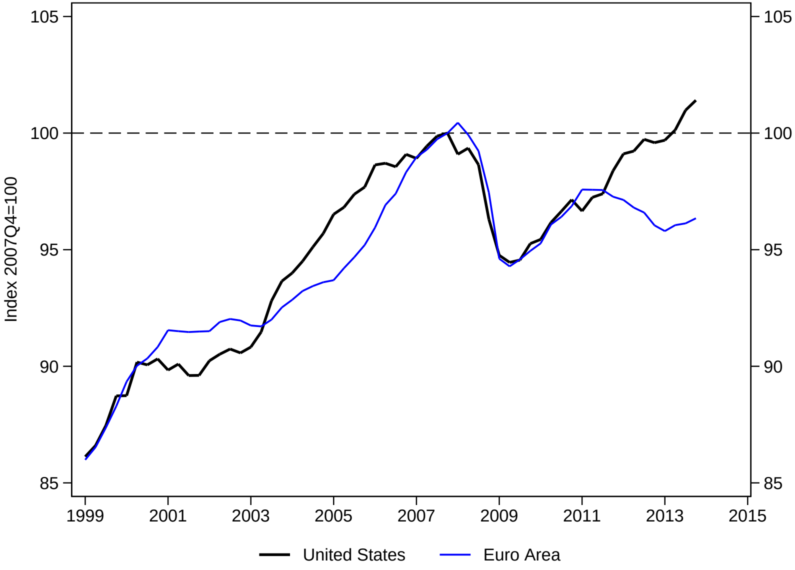
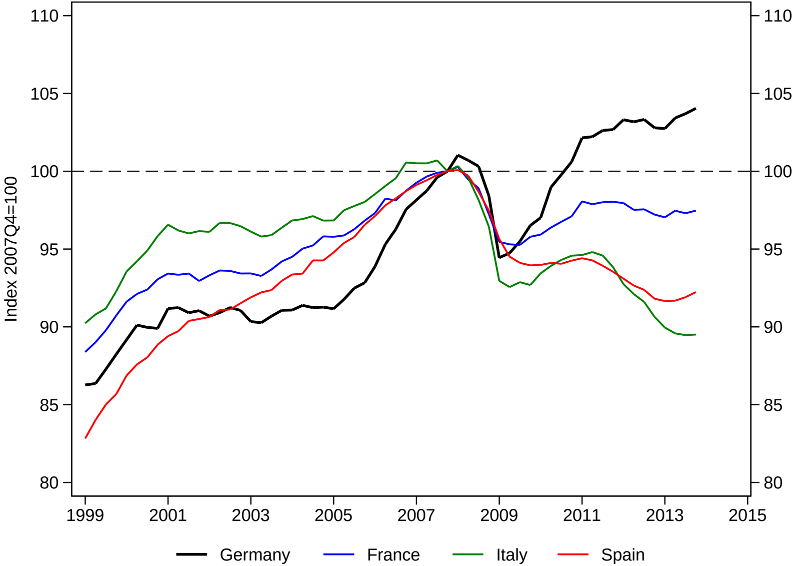
MIT

Brussels, 31 March 2014

GDP per capita in the US and the euro area

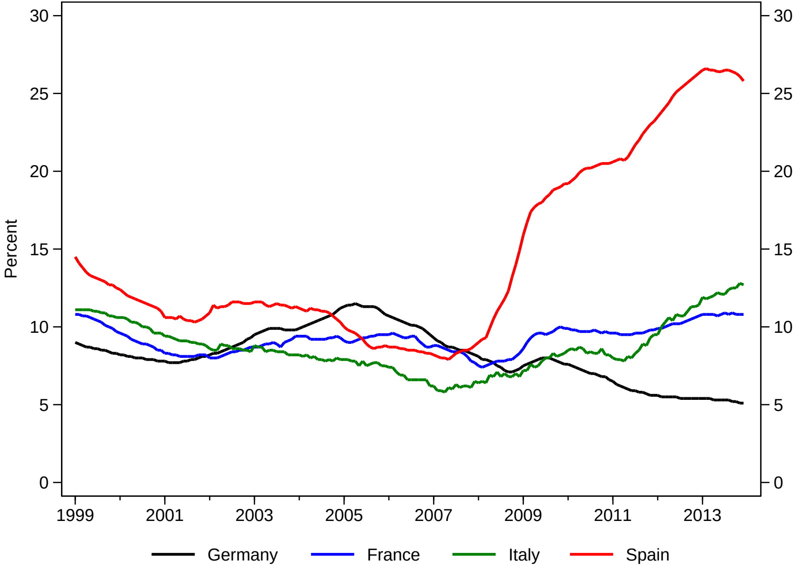


The disintegration of the euro area economy



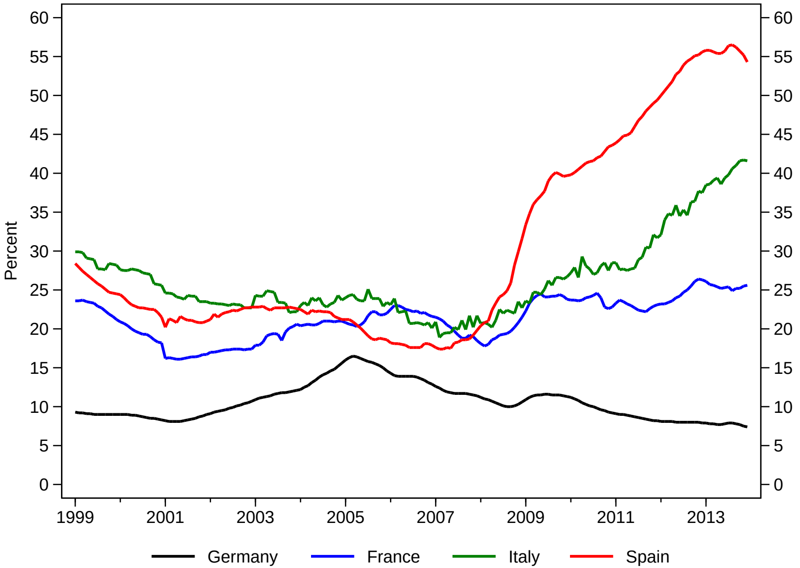
GDP per capita in four largest member states

The disintegration of the euro area economy



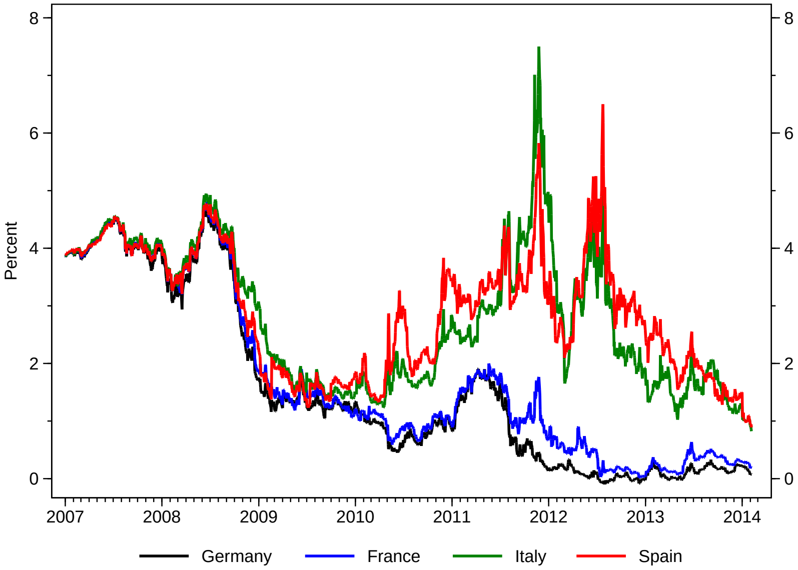
Unemployment rate in four largest member states

A lost generation in the making



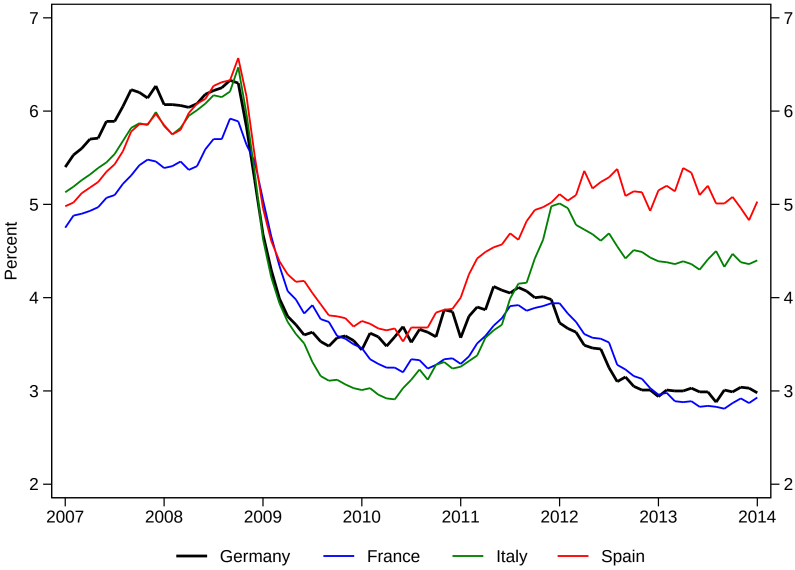
Youth unemployment rate (age 25 and under)

The disintegration of euro area sovereign markets



- Yields on two-year sovereign debt

The disintegration of the credit market



- Lending rates to corporations

Why is the euro project crashing to earth?

- Is the problem in Europe a "fiscal" problem, a "competitiveness" problem, a "banking" problem, etc?
- Alternatively, are these symptoms of a deeper flaw that cannot be solved with technical arguments?
- The trigger for the crisis was the need to finance about 1 percentage point of euro area GDP in 2010.
- Crisis mismanagement?

Crisis mismanagement: Two examples

- October 18, 2010, Deauville:
  Decision to introduce credit risk in what used to be considered "safe" government debt.

- March 16, 2013, Brussels:
  Decision to introduce credit risk in what used to be considered "safe" bank deposits.

Unique and exceptional blunders?

- Why the haphazard decisions?
- One explanation is that the blunders we have repeatedly observed during the crisis reflect incompetence. If so, this could be corrected with more enlightened advisers.
- Another explanation is that these blunders are a predictable manifestation of the decision making process. If so, a correction may not be feasible.

How could things get so bad?

- The euro was incomplete by design.
- No crisis management mechanism in place.
- The success of the euro rested on the belief or hope that if and when a crisis erupted governments would work together towards completing the project.
- This belief proved misplaced.

Why the failure?

- Every crisis generates losses.
  - Economic cost
  - Political cost
- Key question: Who pays?
- Proper crisis management minimizes the economic cost.
- This requires political leadership to advance the common good and political courage to accept political cost.
- Unfortunately, this proved infeasible in the euro area.

Why the failure?

- Europe is not a federal state—there is no government with either the incentives or the power to enforce solutions for the common good.
- Solutions require unanimous agreement by governments.
- Governments of member states bound to please their own electorate and serve local interests.
- Electoral consideration may induce a government to leverage the crisis for local political gain.

Who failed Europe?

- Key decision makers exhibited neither political leadership nor political courage.
- Rather than work towards containing total losses, politics led governments to focus on shifting losses to others.
- The result was massive destruction in some member states and a considerably higher total cost for Europe as a whole.
- European institutions could have been the last line of defense against this destructive dynamic but instead served to facilitate and enable the destruction.

Some examples of shifting losses

- Irish bank debt in 2010. Who was exposed? Who gained from forcing the Irish government to accept all losses?
- PSI concept introduction. Who benefited and who lost by injecting credit risk in euro area sovereign debt?
- Greek debt in 2010. Who was exposed? Who was protected by postponing the resolution of the crisis?
- Greek debt in 2012. Who benefited from protecting the ECB after banks in some member states unloaded their holdings to it?
- Bail-in in Cyprus in 2013. Who benefited from destroying the "business model" of the island? Who benefited from associated asset transfers?

The Deauville blunder: 18 October 2010

- Agreement between French and German government to introduce the Private Sector Involvement (PSI) doctrine.
- Whenever a euro area member state faced liquidity pressures (not necessarily solvency concerns), the imposition of losses on private creditors would be demanded before euro area governments agreed to provide any temporary assistance.
- Message to potential investors: Euro area sovereign debt should no longer be considered a safe asset with the implicit promise that it would be repaid in full.

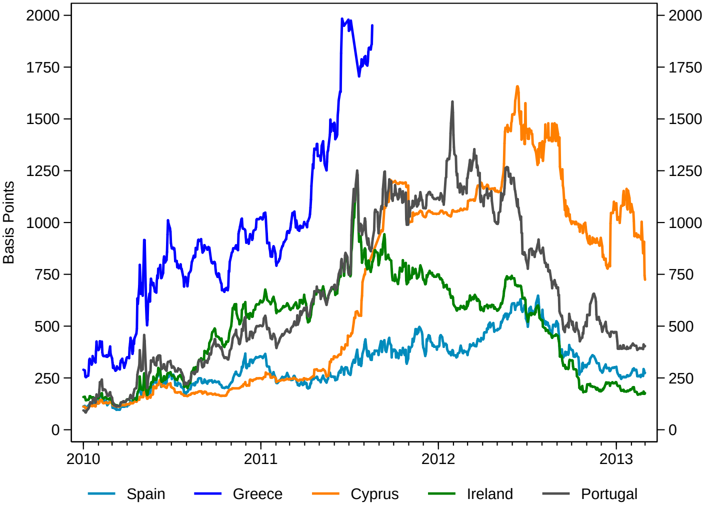
Deauville implications

- The introduction of credit risk in euro erea sovereign debt raised the cost of financing for euro area governments perceived to be relatively weak.
- The first casualty was Ireland that lost access to markets within a few weeks. Portugal followed a few months later.
- The PSI doctrine also generated the adverse feedback loop between sovereigns and banks that has been driving weakness in the periphery since then.
- Although it was a blunder for the euro area as a whole, not everybody lost. By making the debt of other member states riskier, the financing costs of some member states got lower.

The Cyprus blunder

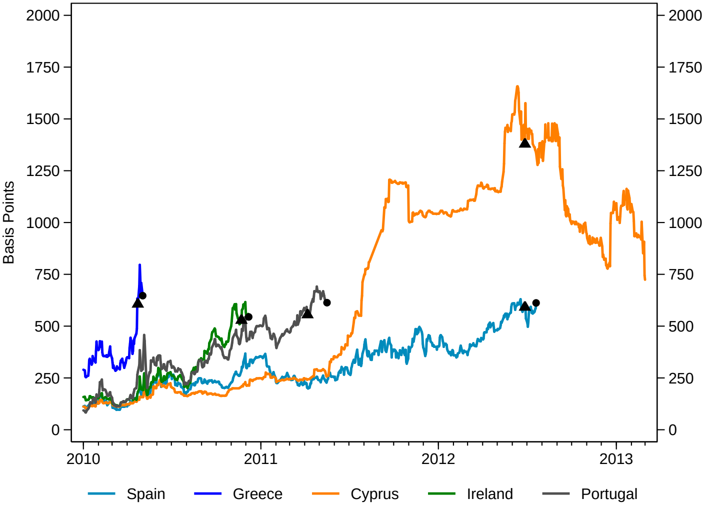
- Cyprus: 0.2% of the euro area, entered euro in 2008
- Stable currency and finances before euro entry.
- Vulnerability: Large banking system.
- Problem: Communist government was in power for five years right after euro entry: March 2008—February 2013.
- The crisis in Cyprus started with the Cypriot government. First came overspending, then the politics of the Cypriot election in February 2013.
- It ended badly as a result of the politics of the German election in September 2013.

Could one see the Cyprus crisis coming?



- Five-year CDS on sovereign: 1 Jan 2010 – 28 Feb 2013.

The delay that made Cyprus unique.



- Markers show when assistance was sought and agreed.

Warnings?

- Communist government started overspending as soon as it took power in 2008.
- Euro area crisis made Cyprus vulnerable to unsustainable increases in public expenditures as a result of its large banking system and connectedness to Greece.
- Warnings regarding consequences of fiscal misteps and need for correction were provided to the government by the Central Bank of Cyprus, the ECB, the EC and others as early as 2009.

A warning from the ECB, 15 December 2010

"In light of recent market concerns about public debt sustainability, it is more important than ever that every country benefiting from the common currency takes prompt and effective steps to ensure that its public finances are on a sound footing. Experience has shown that waiting for market pressures before acting exacerbates tensions and ultimately increases the needed adjustment size. Although Cyprus' sovereign debt market has a limited size, significant concerns exist. These concerns are particularly relevant in view of the large size of the Cypriot banking system, which may produce negative feedback loops between the financial sector and public debt. ... The challenges faced by the Cypriot economy require prompt corrective action. We are confident that the Government will rapidly take the needed measures."
(Letter to President Christofias)

Anybody listening?

- Not heeding ECB warnings was particularly costly. Through its actions, the ECB had demonstrated its willingness to provide support and diffuse stress situations.
- By 2010, euro area sovereign markets were disintegrating.
- During 2010, the ECB had already started purchases of Greek, Irish and Portuguese debt.
- During 2011, following similar letters to the heads of governments of Spain and Italy, and the adoption of measures by these government, the ECB started purchases of Italian and Spanish debt.

An "exchange of messages"

"Dear Prime Minister,

The Governing Council of the European Central Bank discussed on 4 August the situation in Italy's government bond markets. The Governing Council considers that pressing action by the Italian authorities is essential to restore the confidence of investors. . . .

In view of the severity of the current financial market situation, we regard as crucial that all actions listed in section 1 and 2 above be taken as soon as possible with decree-laws, followed by Parliamentary ratification by end September 2011. A constitutional reform tightening fiscal rules would also be appropriate. . . .

We trust that the Government will take all the appropriate actions."

(Letter by Mario Draghi and Jean-Claude Trichet sent to Silvio Berlusconi on August 5, 2011.)

What did the SMP buy?

EUROPEAN CENTRAL BANK

EUROSYSTEM

PRESS RELEASE

21 February 2013 - Details on securities holdings acquired under the Securities Markets Programme

The Governing Council of the European Central Bank (ECB) decided today to publish the Eurosystem's holdings of securities acquired under the Securities Markets Programme (SMP). This decision is in line with the envisaged transparency stance for the Outright Monetary Transactions (OMTs) as communicated on 6 September 2012, at which time the SMP was terminated.

To this end the following table shows the breakdown of the Eurosystem's SMP holdings as at 31 December 2012, per country of issuer, indicated at nominal value, book value and average remaining maturity.

Issuer country	Outstanding amounts		Average remaining maturity (in years)
	Nominal amount (EUR billion)	Book value [1] (EUR billion)	
Ireland	14.2	13.6	4.6
Greece	33.9	30.8	3.6
Spain	44.3	43.7	4.1
Italy	102.8	99.0	4.5
Portugal	22.8	21.6	3.9
Total	**218.0**	**208.7**	**4.3**

[1]The SMP holdings are classified as held-to-maturity and consequently valued at amortised cost.

What did the SMP NOT buy?

SMP countries (ECB purchases of sovereign bonds)

- Greece
- Ireland
- Portugal
- Italy
- Spain

Program countries

- Greece
- Ireland
- Portugal
- Cyprus
- Spain

How did the crisis start in Cyprus?

- In May 2011, the government lost access to markets.
- In July 2011, an explosion destroyed the island's largest power station. Over half of the island's electricity was lost and economy was thrown into recession.
- The government decided to avoid dealing with fiscal problems by securing financing through a bilateral loan from Russia to last through the February 2013 election.
- In October 2011, it created stress in the banking sector by agreeing with the Greek PSI plan that imposed 25% of GDP capital loss on banks.
- Starting in May 2012, in coordination with the bank supervisor (central bank), it run the February 2013 presidential campaign on a "blame the banks" platform.

The role of the central bank in the election

- Started investigations against banks, providing material for selective defamatory leaks that appeared in press and were used by the communist party as part of their election campaign.
- Started describing the banking model in Cyprus as "casino banking."
- Forced banks to book accounting losses and took steps to exaggerate capital needs of banking system.
- Created the communist party election argument that "Cyprus was forced to ask help from troika because of banking problems and not fiscal problems."

The February 2013 election in Cyprus

- The coordinated campaign succeeded in creating the image that the banking system was so severely undercapitalized that if the government provided the capital, as was done in previous cases, then, according to standard IMF analysis, government debt could be deemed unsustainable.

- This set up a bad outcome in March 2013, right after the Cypriot election.

- Although communist party lost the election, the problem remained.

The September 2013 election in Germany

- The delay in finalizing a program for Cyprus pushed it into the German election cycle.
- How could elections in any single state matter for a program in another state?
- Because each state has veto power that can be exploited whenever another euro area member state might need assistance.
- EU member states not in the euro area do not face the threat that another member state would misuse its veto power in a similar manner because they are not bound together by the common currency.

Why did the German elections matter so much?

- The Chancellor's party (CDU) has needed support from its main opposition party (SPD) to pass legislation on Europe.
- Support of earlier programs was secured by SPD.
- Getting closer to elections, the SPD signaled a tougher stance to create political cost to the government.
- This became a major issue when German press and some German politicians started claiming that helping Cyprus is equivalent to "giving away German taxpayer money to Russian oligarchs" who have deposits in Cypriot banks.

Headlines in Germany

SPIEGEL ONLINE

11/05/2012 06:41 PM

Bailing Out Oligarchs

EU Aid for Cyprus A Political Minefield for Merkel

By Markus Dettmer and Christian Reiermann

The EU is likely to bail out the banks of tiny member state Cyprus with 10 billion euros of credit. But a secret German intelligence report reveals that the main beneficiaries of the aid would be rich Russians who have invested illegal money there. It's a big dilemma for Chancellor Angela Merkel.

The facts on money laundering?

Compliance with 49 FATF recommendations					
	Compliant	Largely	Partial	Non	%
Cyprus	12	28	9	0	82
Germany	5	24	15	5	59
Netherlands	6	22	20	1	57
Luxemburg	1	9	30	9	20

Entries (except last column) show the number of FATF recommendation where a country is deemed as compliant, largely compliant, partially compliant or non-compliant. FATF (Financial Action Task Force) has "40+9" recommendations designed to deter criminal activity. The last column shows the percentage of recommendations that are compliant/largely compliant.

A solution for the German government

- Any solution had to be structured so as to be an effective response to the SPD arguments and avoid political costs.
- This could be achieved if losses were imposed on depositors (preferably "Russian oligarchs").
- Ideally, for the German government, a solution should inflict permanent damage to the financial sector in Cyprus, e.g. through a haircut of bank deposits.
- This could be "justified" using the "casino banking" description that the communist government and central bank had used in Cyprus during the election campaign.

The domination of local politics

"We don't like this business model and we hope it is not successful ... In the case of Cyprus we have leverage that we don't have with other tax havens."
Wolfgang Schaeuble, April 5, 2013 (Reuters)

The domination of local politics

"[A]nyone having their money in Cypriot banks must contribute in the Cypriot bailout. That way those responsible will contribute in it, not only the taxpayers of other countries, and that is what's right."
Angela Merkel, March 16, 2013 (remarks at a German election rally, quoted in eKathimerini, March 17, 2013)

The eurogroup blunder on March 16, 2013

- Eurogroup decided to impose haircut on all deposits, insured and uninsured, in all banks regardless of capitalization, to replenish capital and solve problem.
- The proposal was contrary to any known framework and violated basic EU principles and was rejected by parliament in Cyprus.
- Subsequent eurogroup meeting on March 25 changed program to protect insured depositors but impose greater damage to banking system, while violating fundamental EU principles.

Consequences?

- Much like the Deauville blunder, the solution the German government imposed on Cyprus was risky for the euro area.
- The introduction of credit risk in deposits added to pressures on banks in the periphery.
- But the strategy paid off handsomely for the German Chancellor in the September 2013 elections.

Ex post rationalization

Following the decisions in March, there have been attempts to rationalize the destruction of the banking system of Cyprus, e.g.:

"The Cypriot economy evolved towards a rather unbalanced business model with an inordinate weight for the financial industry."

Fact checking?

External assessment before EU Council decisions

"The Cypriot banking system has weathered the economic difficulties well and appears to be in sound overall condition. It has benefited from reliance on deposits rather than less stable sources of financing, conservative lending practices, close attention to capital and liquidity buffers, and vigilant supervision. These factors have helped shield the banking system from the pressures that are prevalent in many other countries."

IMF
Staff Visit Preliminary Findings
February 15, 2011

External assessment after EU Council decisions

"The large banking sector, with assets totaling over 8 times GDP by the broadest measure, and with significant exposure to Greece, is a significant vulnerability. Banks face significant capital needs to reflect mark to market valuations on their sovereign bond holdings and to achieve a 9 percent core tier one capital ratio, as mandated by the European Banking Authority."

IMF
Conclusion of Article IV Consultation
29 November 2011

Claims regarding the size of the banking system

"Cypriot banks attracted large inflows of foreign deposits. They expanded their balance sheets dramatically over recent years, both domestically and externally."

"The problems of Cyprus built up over many years. At their origin was an oversized banking sector that thrived on attracting foreign deposits with very favourable conditions."

Facts regarding the size of the banking system

Compare size of banking system as a multiple of GDP when Cyprus was admitted in euro area (June 2007) and when Cyprus asked for help (June 2012).

Bank assets/GDP ratio (in percent)	Total	Domestic
June 2007	646	460
June 2012	669	463

Claims regarding deposit rates

"The problems of Cyprus built up over many years. At their origin was an oversized banking sector that thrived on attracting foreign deposits with very favourable conditions."

"Banks became increasingly exposed to funding vulnerabilities. They tried to attract deposits by offering very high deposit rates—on average, nearly 2 percentage points higher than the rest of the euro area."

Example: rate for non-financial corporations, January 2013:

Euro area: 1.1

Cyprus: 4.1

Facts regarding deposit rates

The average for the euro area is not the relevant comparative metric for deposit rates in Cyprus because the euro area has not been functioning as a unified economy during the crisis.

A relevant comparison for Cyprus would be with Greece, an economy 10 times as large and with direct links in the financial sector. All major Greek banks have operations in Cyprus, a factor that kept deposit rates as high in Cyprus as they have been in Greece when Greek banks had funding problem.

Example: rate for non-financial corporations, January 2013:

Greece: 4.2

Cyprus: 4.1

A big heist?

Shifting losses: The tale of three banks

- Piraeus Bank
- Marfin-Laiki Bank
- Bank of Cyprus

Effect of Exposure to Greek Sovereign

		End 2010 CT1		Write-off CT1	
	Exposure	Capital	Ratio	Capital	Ratio
	(1)	(2)	(3)	(4)	(5)
Piraeus	8.221	3.039	8.0	−1.072	−2.8
Marfin-Laiki	3.407	2.015	7.2	0.312	1.1
Bank of Cyprus	2.407	2.134	8.1	0.931	3.5

Ratios in percent. Exposures and capital levels in billion euro. Columns (1)-(3) show data from 2011 EBA stress test. Columns (4)-(5) show an illustrative calculation of capital after a 50% write-off of the Greek sovereign exposures shown in column (1).

Outcome of March 2013 decisions

- A transfer of assets from Marfin-Laiki and Bank of Cyprus to Piraeus facilitated the recapitalization of Piraeus.
- Following the transfer of assets Marfin-Laiki and Bank of Cyprus effectively became insolvent.
- Marfin-Laiki was merged with Bank of Cyprus. As a result ELA owed by Marfin-Laiki to Eurosystem could be repaid drawing on Bank of Cyprus assets.
- Following merger, Bank of Cyprus was recapitalized by forcing losses on the equity holders, bond holders and unsecured depositors of Marfin-Laiki and Bank of Cyprus.

PIRAEUS BANK

PIRAEUS BANK S.A.
General commercial registry number 225501000
Companies registration number 6065/06/B/86/04
Head Office: 4, Amerikis st., 105 64, Athens, Greece

FINANCIAL STATEMENTS INFORMATION FOR THE PERIOD from 1st January 2013 to 31st March 2013

(according to the Rule 4/507/28.04.2009 of the Capital Market Commission)

The figures presented below, derive from the interim condensed financial information and aim to a general information about the financial position and results of Piraeus Bank S.A. and Piraeus Bank Group. We therefore recommend the reader, prior to making any investment decision or other transaction concerning the Bank, to visit the Bank's web site, where the set of interim condensed financial information is posted in accordance with International Financial Reporting Standards, as well as the auditor's report when necessary.

COMPANY'S PROFILE

Company's web site:	www.piraeusbankgroup.com
Date of approval by the Board of Directors of the interim condensed financial information for the period ended as at March 31st, 2013:	May 20th, 2013

STATEMENT OF FINANCIAL POSITION

Amounts in thousand euros

	GROUP				BANK			
	31 March 2013		31 December 2012		31 March 2013		31 December 2012	
ASSETS								
Cash and balances with Central Banks		3,275,238		3,307,503		2,151,534		2,091,406
Loans and advances to credit institutions		477,620		380,384		1,337,473		2,620,677
Derivative financial instruments - assets		425,713		441,317		416,715		423,395
Trading securities		296,347		362,868		53,344		81,209
Financial instruments at fair value through profit or loss		12,356		7,833		12,356		7,833
Reverse repos with customers		36,396		35,924		35,666		35,388
Loans and advances to customers (net of provisions)		60,686,533		44,612,686		55,250,778		37,618,002
Debt securities - receivables		8,795,826		8,015,997		8,760,955		7,933,625
Investment securities								
Available for sale securities	3,467,309		4,836,475		3,013,102		4,340,092	
Held to maturity	73,017	3,540,326	74,006	4,910,481	-	3,013,102	-	4,340,092
Investments in associated undertakings		306,011		301,696		240,333		240,239
Investments in subsidiaries		-		-		1,933,735		1,921,587
Intangible assets		418,611		409,755		268,238		256,483
Property, plant and equipment		1,448,934		1,324,491		769,646		631,788
Investment property		1,106,020		1,078,513		461,094		435,871
Assets held for sale		18,529		15,537		10,307		-
Other assets								
Deferred tax assets	2,435,733		1,897,474		2,296,062		1,757,305	
Inventories property	340,533		332,057		155,899		150,799	
Other assets	1,953,760	4,730,026	2,596,811	4,826,342	1,823,378	4,275,339	2,476,680	4,384,784
Assets from discontinued operations		353,887		377,150		-		-
TOTAL ASSETS		85,926,373		70,408,477		78,990,615		63,822,379
LIABILITIES								
Due to credit institutions		28,105,296		32,561,302		28,513,988		32,515,139
Liabilities at fair value through profit or loss		604		21,953		604		21,953
Derivative financial instruments - liabilities		414,688		423,519		404,564		419,846
Due to customers		53,339,837		36,971,208		47,695,462		31,107,800
Debt securities in issue		504,131		533,702		504,125		533,703
Hybrid capital and other borrowed funds								
Hybrid capital (Tier I)	58,858		59,916		58,858		59,916	
Subordinated debt capital (Tier II)	263,591	322,449	264,225	324,141	263,591	322,449	264,225	324,141
Other liabilities								
Retirement benefit obligations	208,584		183,238		156,560		131,264	
Deferred tax liabilities	39,826		37,215		-		-	
Other provisions	21,689		22,136		1,133		232	
Current income tax liabilities	11,930		12,996		3,129		6,730	
Other liabilities	1,058,464	1,340,493	1,035,700	1,291,285	562,863	723,685	705,927	844,153
Liabilities from discontinued operations		598,144		605,654		-		-
Total Liabilities		84,625,642		72,732,784		78,074,917		65,766,735
EQUITY								
Share Capital		1,092,998		1,092,998		1,092,998		1,092,998
Share premium		2,953,356		2,953,356		2,953,356		2,953,356
Less: Treasury shares		(15)		(36)		-		-
Other reserves and retained earnings		(2,881,495)		(6,508,421)		(3,130,656)		(6,790,710)
Amounts recognized directly in equity relating to non-current assets from discontinued operations		9,310		9,301		-		-
Capital and reserves attributable to equity holders of the parent entity		1,174,154		(2,452,802)		915,698		(2,744,356)
Non controlling interest		126,577		128,495		-		-
Total Equity		1,300,731		(2,324,307)		915,698		(2,744,356)
TOTAL LIABILITIES AND EQUITY		85,926,373		70,408,477		78,990,615		63,822,379

STATEMENT OF TOTAL COMPREHENSIVE INCOME

Amounts in thousand euros

	GROUP						BANK	
	1 Jan - 31 Mar 2013			1 Jan - 31 Mar 2012			1 Jan - 31 Mar 2013	1 Jan - 31 Mar 2012
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total		
Interest and similar income	763,648	514	764,162	694,831	6,718	701,549	610,935	550,562
Interest expenses and similar charges	(449,128)	(55)	(449,183)	(459,607)	(957)	(460,564)	(394,832)	(404,083)
Net interest income	314,520	459	314,979	235,224	5,761	240,985	216,103	146,479
Fee and commission income	63,058	-	63,058	52,794	327	53,121	36,508	29,703
Fee and commission expense	(8,036)	(11)	(8,047)	(6,993)	(70)	(7,063)	(4,132)	(4,731)
Net fee and commission income	55,022	(11)	55,011	45,801	257	46,058	32,376	24,972
Dividend income	118	-	118	84	30	114	68	17
Net trading income	40,203	590	40,793	97,332	-	97,332	28,168	107,193
Net income from financial instruments designated at fair value through profit or loss	4,555	-	4,555	2,015	-	2,015	4,523	1,979
Results from investment securities	6,146	-	6,146	(204)	-	(204)	6,183	(66)
Other operating income	11,164	16,566	27,730	14,094	135	14,229	8,491	3,695
Negative goodwill due to the acquisition of assets and liabilities of Cypriot banks' network in Greece	3,413,691	-	3,413,691	-	-	-	3,413,691	-
Total net income	3,845,419	17,604	3,863,023	394,346	6,183	400,529	3,709,603	284,289
Staff costs	(148,624)	(4,215)	(152,839)	(84,551)	(2,249)	(86,800)	(97,181)	(48,165)
Administrative expenses	(87,726)	(2,179)	(89,905)	(65,061)	(1,654)	(66,715)	(55,252)	(41,185)
Gains/ (Losses) from sale of assets	301	3	304	38	-	38	(2)	(3)
Depreciation and amortisation	(27,635)	(456)	(28,091)	(28,150)	(383)	(28,533)	(14,754)	(12,671)
Total operating expenses before provisions	(263,684)	(6,847)	(270,531)	(177,724)	(4,286)	(182,010)	(167,189)	(102,024)
Profit before provisions, impairment and income tax	3,581,735	10,757	3,592,492	216,622	1,897	218,519	3,542,414	182,245
Provisions and impairment	(506,263)	-	(506,263)	(607,538)	-	(607,538)	(425,780)	(550,138)
Share of profit of associates	1,823	-	1,823	(1,426)	-	(1,426)	-	-
Profit (Loss) before tax	3,077,295	10,757	3,088,052	(392,342)	1,897	(390,445)	3,116,634	(367,893)
Income tax	537,438	1,418	538,856	436,087	(664)	435,423	544,422	452,472
Profit after tax (A)	3,614,733	12,175	3,626,908	43,745	1,233	44,978	3,661,056	84,579
Less: Non controlling interest	(1,928)	-	(1,928)	(2,092)	18	(2,074)	-	-
Profit after tax attributable to equity holders of the parent entity	3,616,661	12,175	3,628,836	45,837	1,215	47,052	3,661,056	84,579
Other comprehensive income, net of tax (B)	(531)	8	(523)	41,945	(1,062)	40,883	(1,002)	39,028
Total comprehensive income for the period,net of tax (A+B)	3,614,202	12,183	3,626,385	85,690	171	85,861	3,660,054	123,607
-Attributable to equity holders of the parent entity	3,616,143	12,184	3,628,327	87,846	190	88,036	-	-
-Non controlling interest	(1,941)	(1)	(1,942)	(2,156)	(19)	(2,175)	-	-
Profit after tax per share (in euros):								
- Basic and diluted	3.1635	0.0106	3.1741	0.0401	0.0011	0.0412	3.2021	0.0740

STATEMENT OF CHANGES IN EQUITY

Amounts in thousand euros

	GROUP		BANK	
	1 Jan - 31 Mar 2013	1 Jan - 31 Mar 2012	1 Jan - 31 Mar 2013	1 Jan - 31 Mar 2012
Opening balance	(2,324,307)	(1,939,838)	(2,744,356)	(2,058,682)
Impact from the retrospective application of I.A.S. 19 amendment	-	11,077	-	13,992
Total comprehensive income for the period, net of tax	3,626,385	85,861	3,660,054	123,607
Expenses on issue of preference shares	-	(23)	-	(23)
(Purchases)/ Sales of treasury shares	44	151	-	-
Expenses on Increase of share capital of subsidiary company	(1,462)	-	-	-
Acquisitions, liquidation and movement in participating interest	71	(147)	-	-
Closing balance	1,300,731	(1,842,919)	915,698	(1,921,106)

CASH FLOW STATEMENT

Amounts in thousand euros

	GROUP		BANK	
	1 Jan - 31 Mar 2013	1 Jan - 31 Mar 2012	1 Jan - 31 Mar 2013	1 Jan - 31 Mar 2012
Net cash inflow/ (outflow) from continuing operating activities	(1,196,127)	(780,859)	(881,940)	(849,004)
Net cash inflow/ (outflow) from discontinued operating activities	(25,646)	(994)	-	-
Total inflows/ (outflows) from operating activities	(1,221,773)	(781,853)	(881,940)	(849,004)
Net cash inflow/ (outflow) from continuing investing activities	1,335,170	600,214	1,139,542	660,009
Net cash inflow/ (outflow) from discontinued investing activities	25,832	1,320	-	-
Total inflows/ (outflows) from investing activities	1,361,002	601,534	1,139,542	660,009
Net cash inflow/ (outflow) from continuing financing activities	(33,066)	(450,310)	(37,289)	(450,004)
Net cash inflow/ (outflow) from discontinued financing activities	-	(124)	-	-
Total inflows/ (outflows) from financing activities	(33,066)	(450,434)	(37,289)	(450,004)
Net increase/ (decrease) in cash and cash equivalents of the period	106,163	(630,753)	220,313	(638,999)
Effect of exchange rate changes on cash and cash equivalents	(13,204)	(3,314)	(10,248)	(4,117)
Total inflows/ (outflows) for the period	92,959	(634,067)	210,065	(643,116)
Cash and cash equivalents at the beginning of the period	2,473,085	2,681,134	1,389,561	1,841,272
Cash and cash equivalents at the acquisition date, of assets and liabilities of Cypriot banks' network in Greece	11,696	-	11,696	-
Cash and cash equivalents at the end of the period	2,577,740	2,047,067	1,611,322	1,198,156

Notes:

1) The accounting policies, adopted by the Group according to the International Financial Reporting Standards (IFRS), have been applied in consistency with those in the annual financial statements of the year 2012. Relevant disclosure is note 2 of the Stand alone and the Consolidated Interim Condensed Financial Information.

2) Property, plant and equipment are free of any liens or encumbrances.

3) Tax authorities have audited Piraeus Bank's tax position for the years up to and including 2009. The unaudited tax years of Group subsidiaries are included in note 15 of the Consolidated Interim Condensed Financial Information. For the year 2012, the tax audit of the Bank by the PricewaterhouseCoopers S.A. is in progress and no material findings are expected.

4) All disputes under litigation or arbitration, as well as the pending court decisions, are not expected to have a significant effect on the financial position of the Bank and the Group. Therefore the Bank has not raised a provision for outstanding litigations, whereas the Group's provision amounts to € 9.1 million from continuing operations and € 2.2 million from discontinued operations. The provision raised for the unaudited tax years of the Bank, which is included in the current tax liabilities, amounts to € 6.7 million and of the Group amounts to € 10.2 million from continuing operations. Other provisions raised for the Bank amount to € 1.1 million and for the Group to € 12.6 million from continuing operations and € 548.9 million from discontinued operations.

5) The companies which have been consolidated as at 31/3/2013, apart from the parent company Piraeus Bank S.A., are included in note 15 of the Consolidated Interim Condensed Financial Information. Note 15 includes information about the country of incorporation, the percentage of holding by the Group, as well as the applied consolidation method. The direct shareholding percentages by the Bank are included in note 14 of the Bank's Interim Condensed Financial Information.

6) The following companies that are consolidated under the full method of consolidation as at 31/3/2013, had not been included in the consolidation as at 31/3/2012: a) Orion Energy Photovoltaics S.A., b) Astraios Energy Photovoltaics S.A., c) Arigeo Energy Holdings Ltd, d) Exus Software Ltd, e) ABG Mutual Funds Management Company S.A., f) ATEbank Romania S.A., g) ATE Insurance S.A., h) ATE Insurance Romania S.A., i) Piraeus Jeremie Technology Catalyst Management S.A., j) Project Season Residence SRL, k) KPM Energy S.A., l) Solum Enterprise LLC, m) Geniki Bank S.A., n) Geniki Leasing S.A., o) Geniki Financial & Consulting Services S.A., p) Geniki Insurance Agency S.A., q) Geniki Information S.A., r) Akocalisi S.A. and s) General Business Management Investiti S.R.L. From these companies, the companies numbered (a)-(q) were consolidated under the full method of consolidation as at 31/12/2012, as well. The companies numbered (a) – (b) were transferred during the 2nd quarter of 2012 to the subsidiaries' portfolio due to the increase of the Group's shareholding percentage, while the company numbered (c) was established in May 2012. The company numbered (d) was established during the 1st quarter of 2012 and started operating during the 3rd quarter of 2012. The companies numbered (e)-(h) were acquired in July 2012 in the context of the acquisition of the former ATEbank's S.A. assets and liabilities and as a result, they are included in the Group's subsidiaries' portfolio. The company numbered (i) was acquired in August 2012, while the company numbered (j) was established in September 2012. The company numbered (k) was acquired in October 2012, while the company numbered (l) was acquired in November 2012. The company numbered (m) was acquired in December 2012. In the context of the prementioned acquisition, its subsidiary companies numbered (n)–(q) were acquired and as a result, they are included in the Group's subsidiaries' portfolio. Following the finalization of the acquired perimeter of the selected balance sheet items of under special liquidation Agricultural Bank of Greece S.A. dated 24/1/2013, 100% of the company numbered (r) was acquired and as a result, it is included in Piraeus Bank's subsidiaries' portfolio, whereas the company numbered (s) was established in February 2013. The companies: a) Maples Invest & Holdings S.A., b) Margetson Invest & Finance S.A., c) Piraeus Best Leasing Bulgaria EAD, d) Piraeus Auto Leasing Bulgaria EAD, e) Piraeus Cards S.A., f) Marathon Banking Corporation, g) Piraeus Wealth Management (Switzerland) S.A., h) Imperial Stockbrokers LTD, i) Imperial Eurobrokers LTD, j) Euroinvestment Mutual Funds LTD and k) Bull Fund LTD, that were fully consolidated as at 31/3/2012, are not included in the consolidation as at 31/3/2013. The companies numbered (a)-(b) were dissolved in May 2012. The companies numbered (c)-(d) were absorbed in July 2012 by the subsidiary company Piraeus Leasing Bulgaria EAD, while the company numbered (e) was absorbed in September 2012 by Piraeus Bank. The sale of company numbered (f), a subsidiary of the Bank, was realized in the 3rd quarter of 2012. The company numbered (g) was dissolved in December 2012, whereas the companies numbered (h)–(k) were dissolved in March 2013. The companies Estia Mortgage Finance PLC, Estia Mortgage Finance II PLC, Axia Finance PLC, Axia Finance III PLC, Axia III APC Limited, Praxis Finance PLC, Praxis II Finance PLC and Praxis II APC Limited are consolidated as special purpose entities. Note 27 of the Consolidated Interim Condensed Financial Information includes information about the changes in the subsidiaries' portfolio of the Group. On 31 July 2012, Piraeus Bank decided to terminate forthwith the sale process for its subsidiary Piraeus Bank Egypt. Thus, the aforementioned company has been transferred from "Assets held for sale" to Investments in Subsidiaries as the classification criteria of IFRS 5 are no longer met. As a result, the financial figures and results of Piraeus Bank Egypt, its subsidiaries and associates are no longer presented as "Discontinued operations". During the 2nd quarter of 2012, Marathon Banking Corporation has been transferred from Investments in Subsidiaries to "Assets held for sale" as the classification criteria of IFRS 5 were met. During the 3rd quarter of 2012, ATE Insurance S.A. and ATE Insurance Romania S.A. have been included in the Held for Sale portfolio as at the acquisition date, as the classification criteria of IFRS 5 are met. Therefore, the financial figures and results of ATE Insurance S.A. and ATE Insurance Romania S.A., as well as the results of Marathon Banking Corporation until the date of its disposal during the 3rd quarter of 2012, are presented as "Discontinued operations". Relevant are the notes 7, 15 and 17 of the Consolidated Interim Condensed Financial Information. The subsidiaries that are excluded from the consolidation are as follows: a) Asbestos Mines S.A., b) Hellenic Industry of Aluminum, c) Hellenic Asbestos S.A., d) Oblivio Co. Ltd, e) ELSYP S.A., f) Blue Wings Ltd, g) Piraeus Bank's Congress Centre, h) Piraeus Bank Group Cultural Foundation and i) Procas Holding Ltd. The companies numbered (a)-(e) are fully depreciated, under liquidation or dissolution status. The financial data of the companies (f)-(h) are included in the financial statements of the parent company Piraeus Bank S.A. and consequently, in the consolidated financial statements. The company numbered (i) has not started operating yet. The consolidation of the above mentioned companies does not affect the financial position and result of the Group.

7) The following companies that are consolidated under the equity method of accounting as at 31/3/2013, as well as at 31/12/2012, had not been included in the consolidation as at 31/3/2012: a) AIK Banka, b) Teiresias S.A., c) PJ Technology Catalyst Fund and d) Pyrrichos S.A.. The company numbered (a) was acquired in July 2012 in the context of the acquisition of the former ATEbank's S.A. assets and liabilities, while the company numbered (b) was transferred during the 3rd quarter of 2012 from the available for sale portfolio to the associates' portfolio as a result of the increase of the Bank's shareholding percentage in the company through the abovementioned acquisition. The company numbered (c) was established during the 3rd quarter of 2012 and started operating during the 4th quarter of 2012. The company numbered (d) was transferred during the 4th quarter of 2012 to the associates' portfolio as significant influence was achieved. The company Ekatharsis Aktoploias S.A. that was consolidated under the equity method of accounting as at 31/3/2012, is not included in the consolidation as at 31/3/2013, as well as at 31/12/2012, due to liquidation. Note 27 of the Consolidated Interim Condensed Financial Information includes information about the changes in the associates' portfolio of the Group. As at 31/3/2013, as well as at 31/12/2012, the associate company Evrytania S.A. Agricultural Development Company has been excluded from the consolidation since it is under idle status.

8) The Group's balances with related parties are as follows: assets € 334.3 million, liabilities € 62.7 million, letters of guarantee € 1.3 million, income € 3.0 million and expense € 5.7 million. The Bank's balances with related parties (subsidiaries included) are as follows: assets € 3,898.4 million, liabilities € 2,511.3 million, letters of guarantee € 501.5 million, income € 22.7 million and expense € 29.7 million. The balances of assets and liabilities of the Group with members of the Board of Directors and key management personnel amount to € 139.5 million and € 20.0 million respectively. The respective amounts for the Bank amount to € 139.4 million and € 19.1 million. The transactions and remuneration of the Bank and its Group with the members of the Board of Directors and key management personnel amount to € 1.5 million.

9) As at 31/3/2013 subsidiary company of Piraeus Group owned a total number of 49,688 treasury shares of the parent company Piraeus Bank S.A., at a value of € 15 thousand. The Bank did not hold any treasury shares as at 31/3/2013. Relevant information is provided in note 23 of the Consolidated Interim Condensed Financial Information.

10) At the Statement of Total Comprehensive Income of the Consolidated and Stand alone Interim Condensed Financial Information, "Other comprehensive income, net of tax" includes as amounts that can be reclassified in the Income Statement the change in currency translation reserve of € 1.76 million from continuing operations and € 0.03 million from discontinued operations for the Group and the change in available for sale reserve of € -2.29 million from continuing operations and € -0.02 million from discontinued operations for the Group and € -1.0 million for the Bank.

11) Restatements of the figures of the period 1/1–31/3/2012 in the Stand alone as well as the Consolidated Interim Condensed Financial Information of 31 March 2013 were presented for comparability purposes. Further information concerning these restatements is provided in note 24 of the Bank's Interim Condensed Financial Information as well as note 28 of the Consolidated Interim Condensed Financial Information.

12) Since there are no distributable profits or relevant amounts related to distributable reserves, according to the requirements of the Article of Association and the Law, article 44a of Law 2190/1920 applies and therefore payment of dividends by cash or shares for the year 2012 is not allowed. Therefore, the Bank's Management will propose in the Annual Ordinary General Meeting of Shareholders in 2013, the non-distribution of dividends for both ordinary and preference shares.

13) The Hellenic Financial Stability Fund's (HFSF) commitment of 20 April 2012, after the relevant application submitted by the Bank, for its participation in the planned share capital increase, began to be implemented on 28 May 2012 in the form of an advance that took place through the transfer of EFSF bonds from the HFSF of total nominal value € 4.7 billion. Furthermore, on December 21st 2012, the HFSF provided an additional Capital Advance of € 1.6 billion and a Commitment Letter of € 1.1 billion for its participation in the recapitalisation program of Piraeus Bank (Share Capital Increase and Convertible Bonds). Hence, the total Capital Advances and the Commitment Letter that HFSF has provided to Piraeus Bank amount to € 7.3 billion, which corresponds to the Bank's total capital needs, as they were defined by the Bank of Greece. In addition, Piraeus Bank has been provided by HFSF a Capital Advance of € 0.6 billion for the strengthening of its capital position, relating to the acquisition of selected assets and liabilities of former ATEbank S.A., and a Commitment Letter of € 0.5 billion for its capital needs that resulted from the acquisition of the Greek banking operations of the three Cypriot banks.

14) On January 28th, 2013, following the decision of the Bank of Greece Resolution Measures Committee [illegible], the acquired by Piraeus Bank perimeter of selected "good" assets and liabilities of the under special liquidation credit institution Agricultural Bank of Greece S.A. was finalized.

15) On January 31st, 2013, Piraeus Bank received the issuance of contingent convertible securities up to a total amount of € 2 bn [illegible] Shareholders holding ordinary shares.

16) On March 1st, 2013, Piraeus Bank submitted a Mandatory Tender Offer to the shareholders of Geniki Bank of Greece SA. [illegible] rights, for the price of € 6.86 per share, paid in cash.

17) On 26/3/2013, Piraeus Bank Group acquired the Greek banking operations of Bank of Cyprus, Cyprus Popular Bank (CPB) and Hellenic Bank, for a total consideration of € 524 mn. [illegible]

18) On the 10th April 2013, Piraeus Bank received EFSF bonds, of €570 million nominal value from the Hellenic Financial Stability Fund, which are designated to cover capital needs stemming from the acquisition of the selected assets and liabilities of ATEbank.

19) On the 19th April 2013, Piraeus Bank signed an agreement for the sale of its total shareholding (93.27%) in the share capital of ATEbank Romania S.A., [illegible]

20) On the 22nd April 2013, Piraeus Bank signed an agreement with Millennium BCP ("BCP") regarding the acquisition of the entire share capital of Millennium Bank Greece [illegible]

21) On the 13th May 2013, Piraeus Bank announced the Tender Offer to purchase existing securities for cash. [illegible]

22) On the 23rd April 2013, the Second Iterative Meeting of Shareholders resolved the following:

- Increase of the nominal value of each ordinary share and parallel reduction in the number of the Bank's ordinary shares (reverse split) [illegible]
- Creation of special reserve of par. 4a in article 4 of c.l. 2190/1920, with equal reduction of Bank's share capital by decreasing the nominal value of each ordinary share without changing the number of ordinary shares.
- Increase of the share capital of the Bank through the issuance of new ordinary shares in order to raise funds as follows:

A) up to 7,335,000,000 euro in order to meet regulatory capital requirements of the Bank [illegible]

B) up to the amount of 570,000,000 euro through contribution in kind by the Hellenic Financial Stability Fund in order to meet the regulatory capital requirements of the Bank that arose from the purchase of the selected balance sheet items of Agricultural Bank of Greece S.A. under special liquidation.

C) up to the amount of 524,000,000 euro through contribution in kind by the Hellenic Financial Stability Fund in order to meet the regulatory capital requirements of the Bank that arose from the purchase of balance sheet items of the Greek branches of Cypriot banks.

23) On March 31st, 2013, the number of staff employed by the Bank was 14,692 people and by the Group 23,850 people [illegible]

Athens, May 20th, 2013

CHAIRMAN OF THE BOARD OF DIRECTORS	MANAGING DIRECTOR & C.E.O.	CHIEF FINANCIAL OFFICER	DEPUTY CHIEF FINANCIAL OFFICER
MICHALIS G. SALLAS	STAVROS M. LEKKAKOS	GEORGE I. POULOPOULOS	KONSTANTINOS S. PASCHALIS

Piraeus Bank Financial Statement: 2013Q1

	2012Q4	2013Q1
Assets	63.022	78.991
Equity	−2.744	0.915

All entries in billion euro. Note in financial statement explains that the results include 3.414 billion euro "negative goodwill due to the acquisition of assets and liabilities of Cypriot banks' network in Greece."

The Role of European Institutions?

EUROPEAN CENTRAL BANK

EUROSYSTEM

PRESS RELEASE

21 March 2013 - Governing Council decision on Emergency Liquidity Assistance requested by the Central Bank of Cyprus

The Governing Council of the European Central Bank decided to maintain the current level of Emergency Liquidity Assistance (ELA) until Monday, 25 March 2013.

Thereafter, Emergency Liquidity Assistance (ELA) could only be considered if an EU/IMF programme is in place that would ensure the solvency of the concerned banks.

The Role of European Institutions?

"The Commission notes also that the bail-in of uninsured deposits in the two major banks constitutes a unilateral measure of the Cypriot authorities that does not form part of the MoU that was subsequently concluded."

Olli Rehn answer to European Parliament Inquiry, 28 August 2013

The Role of European Institutions?

"He also said the pressure exerted on him by Brussels had been unprecedented. To a remark by one of the panel judges that it was 'like a knife to the throat,' Anastasiades said it was more like 'a gun to the head'."

President Anastasiades testimony to investigation committee on the catastrophe of the Cypriot economy, reported in Cyprus Mail, 28 August 2013.

Is a solution to the euro area crisis feasible?

- Can a solution to the euro area crisis pass the political feasibility test?
- Unlikely without fundamental political reform in Europe.
- Is political reform presently feasible?
- Unlikely with the current configuration of leaders and governments.
- Do the European people trust the European Union and its institutions to find a solution?

Trust in the EU and its institutions

Fraction who “tend to trust” the institution among those expressing an opinion.