EUROPEAN COMMISSION

Brussels, 22.12.2011
C(2011) 10070 final

Subject: State aid SA.34064 (2011/N) – Greece
Second rescue recapitalisation of NBG under the Greek recapitalisation scheme

Sir,

1 PROCEDURE

(1) On 13 December 2011, the Greek authorities notified a second recapitalisation of EUR 1 billion ("the measure") in favour of National Bank of Greece (NBG or the "Bank"). That notification was made in line with the commitments undertaken in the context of the scheme "Support Measures for the Credit Institutions in Greece"[1] and its prolongations and amendments[2], in particular with the obligation to notify any second capital injection and to present an update of the existing restructuring plan within six months for banks that need a second recapitalisation measure.

1 On 19 November 2008, the Commission approved the Support Measures for the Credit Institutions (Guarantee, Recapitalisation, Bond Loan Schemes) designed to ensure the stability of the Greek financial system. See Commission decision of 19 November 2008 in State Aid N 560/2008 "Support Measures for the Credit Institutions in Greece", OJ C 125, 05.06.2009, p. 6

2 On 2 September 2009, Greece notified a number of amendments to the support measures and a prolongation until 31 December 2009 that were approved on 18 September 2009 (See Commission decision of 18 September 2009 in State Aid N 504/2009 "Prolongation and amendment of the Support Measures for the Credit Institutions in Greece ", OJ C 264, 06.11.2009, p. 5). On 25 January 2010, the Commission approved a second prolongation of the support measures until 30 June 2010 (See Commission decision of 25 January 2010 in State Aid N 690/2009 "Prolongation of the Support Measures for the Credit Institutions in Greece", OJ C 57, 09.03.2010, p. 6). On 30 June 2010, the Commission approved a number of amendments to the support measures and an extension until 31 December 2010 (See Commission decision of 30 June 2010 in State Aid N 260/2010 "Extension of the Support Measures for the Credit Institutions in Greece", OJ C 238, 03.09.2010, p. 3.). Commission decision of 21 December 2010 in State aid SA 31998 (2010/N) "Fourth extension of the Support measures for the credit Institutions in Greece, OJ C 53, 19.02.2011, p.2, Commission decision of 21 December 2010 in State aid SA 31998 (2010/N) "Fifth prolongation of the Support measures for the credit Institutions in Greece, OJ C 274, 17.09.2011, p.6.

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(2) For reasons of urgency, Greece exceptionally accepts the decision be adopted in the English language.

2 DESCRIPTION OF THE MEASURE

2.1 The beneficiary

(3) NBG is currently the largest banking group in Greece with diversified activities in all key market segments[3]. It is a market leader in deposits, mortgage lending and insurance. As at the end of September 2011, its market share in savings and sight deposits and total loans was 31% and 19.7% respectively. More specifically, NBG has granted 25.4% of mortgage and 16.6% of corporate loans in the Greek banking system.

(4) The Bank's branch and ATM network, the largest in Greece (558 domestic banking units and 1,426 ATMs), covers the entire country. Outside Greece, NBG Group is active in several countries via 1,144 banking units. Activities are conducted through eight subsidiary banks in Turkey, Bulgaria, Romania, the Former Yugoslav Republic of Macedonia (FYROM), Serbia, Cyprus, South Africa and Malta. NBG also runs branches in Albania, Egypt and the UK. The Group has about 35,700 employees.

(5) The main financial figures at the end of the third quarter of 2011 are:

Key financial for NBG Group	**9M 11**	
Total assets	115,499	€ million
RWA	65,657	€ million
Customer loans (net	68,688	€ million
Customer deposits	60,668	€ million
Common shareholders' equity	7,601	€ million
Pre-provision profit	2,144	€ million
Pre-provision profit margin	3.0%	
Tier1	10,71%	
Total	10.89%	
Core Tier 1	9.53%	
Loans to deposits	111%	

2.2. The recapitalisation already received by NBG and past and future payment of the coupon

(6) Under the recapitalisation scheme, National Bank of Greece received on 21 May 2009 a EUR 350 million recapitalisation (equivalent to 0.70% of its risk weighted assets ("RWA")). The recapitalisation took the form of hybrid instruments subscribed by the State which have a fixed remuneration of 10% [….]*.

3 After the announced merger between Alpha and EFG, the combined entity will become the largest financial institution in Greece.

(7) As far as the payment of that remuneration is concerned, on 21 May 2010 the Annual General Meeting ("AGM") of the Bank approved a payment of 10% coupon i.e. 35 million. On 23 June 2011, the AGM did not approve the distribution of any dividend on any class of shares due to the insufficient distributable reserves as of 31 December 2010. Therefore, no payment was made for the period from 21 May 2010 to 31 December 2010. According to the information provided by the Bank, the next AGM will convene in the second quarter of 2012 and will decide on the payment of the coupon based on the existence of distributable reserves as of 31 December 2011. […].

2.3 The events triggering the measure

(8) In the context of the update to the Memoranda of Economic and Financial Policies (MEFP) and Memoranda of Understanding on Specific Economic Policy Conditionality (MoU) of 31 October 2011, Greece, in agreement with the European Commission, the European Central Bank and the International Monetary Fund, refined its strategy to help banks strengthen their capital position, through: (i) an increase in the core tier 1 minimum regulatory capital requirement (set by the Bank of Greece at 10% from the beginning of 2012 instead of the current 8% requirement for total capital); (ii) the adequate recognition of the outcome of the revised programme Greek Government's Bonds roll-over –PSI 2 - i.e. 50% write down on Greek government bonds (GGBs)[4] in the profit and loss accounts; and (iii) a diagnosis of banks' domestic loan portfolios, under baseline and adverse macroeconomic scenarios performed by Blackrock (an international advisory firm) that will require losses from loans not adequately provisioned to be recognized in banks' profit and loss accounts.

(9) In particular, the PSI 2 exercise is expected to have a further severe impact on the Bank's capital.

(10) To address that capital shortfall, NBG presented a recapitalisation plan aimed at increasing the core tier 1 ratio and offsetting the majority of the expected impact of the PSI 2 through different capital actions, including a State capital injection of EUR 1 billion.

2.4. The NBG capital plan

(11) The recapitalisation is made up of different capital actions: (i) the disposal of a [20-45]% stake in the Turkish subsidiary Finansbank, (ii) a Liability Management exercise (cash buy back of hybrid capital instruments and covered bonds at a large discount to par, […] and (iii) the sale of non-core assets. […]

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* Confidential information also indicated below by […]

4 The first decision on the PSI envisaging a 21% write down on GGBs was taken in the European Council of 21 July 2011. PSI 2 was decided in the European Council of 26 October 2011.

(12) On the basis of the expected outcome of the PSI 2 and the measures planned to be taken by the Bank, NBG estimates a capital […] of EUR […].

2.5. The State capital injection

(13) The plan includes a recapitalisation of EUR 1 billion of preference shares under the Greek recapitalisation scheme. Under that scheme, the State subscribes to the preference shares not by paying cash to the bank, but by giving it a (new) government bond, which under current propositions, is excluded from the PSI exchange. In the framework of the recapitalisation done in 2009, banks received a bond having the same nominal value as the nominal value of the preference shares subscribed. In the current transaction, it is envisaged that the Bank will receive a government bond having a nominal value of EUR 1.2 billion, as the Bank will have to apply a discount to that bond bringing its accounting value to EUR 1 billion.

(14) The preference shares are subject to partial or total redemption by the Bank at the issue price, subject to the approval by the Bank of Greece. If not redeemed at the end of a five-year period, the preference shares are subject to conversion into common shares. The preference shares contain an annual fixed rate of return of 10% on the injected capital. They are non-cumulative. The preference shares are non-transferable and non-negotiable. The preference shares entitle the Greek State to be represented in the Board of Directors by a representative who is appointed as a member to the Board of Directors with a veto power on dividend policy and top management remuneration.

(15) The notified recapitalisation of EUR 1 billion is equivalent to 1.52% of RWA. The total recapitalisation of EUR 1.35 billion is equivalent to 2.07% of RWA. Following the issuance of EUR 1 billion additional shares, the Tier 1 ratio will increase from 10.71% to 12.21%, the total capital ratio from 10.89% to 12.40% and the Core Tier 1 ratio from 9.53% to 11.03%.

3 POSITION OF THE GREEK AUTHORITIES

(16) In the notification of the scheme and of its successive prolongations, the Greek authorities have accepted that the measures covered by it, such as the measure considered in the present Decision, constitute State aid. They are of the view that the measure is compatible with the internal market on the basis of Article 107(3)(b) of the Treaty on the Functioning of the European Union ("TFEU") as it is necessary to remedy a serious disturbance in the Greek economy.

(17) The Greek authorities intend to grant the second recapitalisation of NBG under the already approved scheme. The notified measure will bring the Core Tier 1 of NBG from 9.5% to 11% proforma for the 3Q 2011 Financial Statement. That ratio will be comparable with the capital ratios of the other Greek banks, which have used in full their initial allocation of the recapitalisation scheme and put NBG to an equal footing with its peers, in line with the objective of the recapitalisation scheme. The full utilisation of the State preference shares, which were initially allocated to NBG under the scheme, safeguards a level playing field in the Greek banking system, as well as for banks' depositors and

shareholders. That outcome is consistent with the original design of the scheme, which advocated a fair allocation of the funds to the banks according to their size.

(18) The Greek authorities have already provided, in the context of the approved scheme, the following commitments:

(i) To refrain from distributing any dividend[5] and from making any payments on hybrid instruments[6], unless those payments stem from a legal obligation, and not to exercise a call option on the same instruments without prior approval of the Commission;

(ii) To seek prior approval of the Commission before amending any commitments or constraints mentioned in this decision[7];

(iii) To present a restructuring plan (or update the existing restructuring plan) within six months, for banks that need a second recapitalisation measure.[8] That plan will be in line with the principles laid down in Commission's Communication on the return to viability and the assessment of the restructuring measures in the financial sector (**"the Restructuring Communication**")[9] and the Commission Communication on "The application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis" ("**the Banking Communication**")[10].

4 ASSESSMENT

4.1 Existence and quantity of State Aid

(19) The Commission first has to assess whether the measure constitutes State aid within the meaning of Article 107(1) TFEU. According to that provision, State aid is any aid granted by a Member State or through State resources in any form whatsoever which distorts, or threatens to distort, competition by favouring certain undertakings, in so far as it affects trade between Member States.

(20) The Commission in that context observes that the Greek authorities did not dispute that the measure constitutes State aid when notifying the scheme and its successive prolongations.

(21) When assessing the scheme in earlier decisions, the Commission already came to the conclusion that any recapitalisation granted under the scheme constitutes State aid within the meaning of Article 107(1) TFEU.

5 See Commission decision of 19 November 2008 in State Aid N 560/2008 "Support Measures for the Credit Institutions in Greece", point 19, OJ C 125, 05.06.2009, p. 6.

6 See Commission decision of 25 January 2010 in State Aid N 690/2009 "Prolongation of the Support Measures for the Credit Institutions in Greece", point 18, OJ C 57, 09.03.2010, p. 6.

7 See Commission decision of 25 January 2010 in State Aid N 690/2009 "Prolongation of the Support Measures for the Credit Institutions in Greece", point 30, OJ C 57, 09.03.2010, p. 6.

8 See Commission decision of 30 June 2010 in State Aid N 260/2010 "Extension of the Support Measures for the Credit Institutions in Greece", point 16, OJ C 238, 03.09.2010; Commission decision of 21 December 2010 in State aid SA 31998 (2010/N) "Fourth extension of the Support measures for the credit Institutions in Greece, point 14, OJ C 53, 19.02.2011, p.2

9 OJ C195, 19.8.2009, p. 9.

10 OJ C 270, 25.10.2008, p. 8.

(22) As regards the quantity of State aid, the Commission observes that NBG will receive a 2.5 year[11] Greek government bond with a nominal value of EUR 1.2 billion and a coupon of 6 month Euribor plus 130 basis points. The Commission observes that the coupon rate is significantly below the yield of comparable instruments derived from market valuation[12]. The Commission therefore agrees that the aid amount to be received by NBG does not exceed EUR 1 billion.

4.2 Compatibility of the aid

(23) The Commission approved the prolongation of the scheme on the basis of the commitment of the Greek authorities to notify individually a recapitalisation if it does not constitute the first recapitalisation of the bank concerned. In accordance with that provision, the Greek authorities have notified the second recapitalisation of NBG. Hence the need to assess its compatibility in the present decision, despite the fact that it is granted under an approved scheme.

(24) The need for additional scrutiny by the Commission in case of repeated recapitalisations stems in particular from the fact that in such cases the nature and remuneration of the hybrid instruments foreseen in the approved scheme may no longer be appropriate. It may also be the case that additional safeguards are warranted to limit distortions of competition.

4.2.1 Legal basis for the compatibility assessment

(25) Article 107(3)(b) TFEU provides that aid falling within the scope of Article 107(1) TFEU may be compatible with the internal market where it "remedies a serious disturbance in the economy of a Member State".

(26) The Commission has acknowledged in its approval of the Greek recapitalisation scheme that there is a threat of serious disturbance in the Greek economy and that State support of banks is suitable to remedy that disturbance. In view of the persistent turbulence that continues to affect the financial markets and institutions, the Commission still considers that requirements for State aid to be approved pursuant to Article 107(3)(b) TFEU are fulfilled[13].

(27) For those reasons the Commission accepts that EUR 1 billion additional recapitalisation by the State in favour of NBG can be analysed as a measure taken to avoid a serious disturbance in the economy of Greece.

4.2.2 Compatibility assessment

(28) In line with point 15 of the Banking Communication[14], in order for an aid to be compatible under Article 107(3)(b) TFEU it must comply with the general criteria for compatibility[15]:

11 Maturity date is 21 May 2014, ISIN GR0514017145.

12 The Commission observes that the instrument is rated CCC. NBG will not be authorised to recognise it in its books at its nominal value of EUR 1.2 billion but will have to book it in its account at EUR 1.0 billion.

13 See Commission decision of 27 June 2011 in State Aid SA. 33153 "Fifth prolongation of the Support Measures for the credit institutions in Greece" OJ C 274, 17.09.2011, p. 5.

14 The application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis, OJ C 270, 25.10.2008, p. 8.

a. *Appropriateness*: The aid has to be well targeted in order to be able to effectively achieve the objective of remedying a serious disturbance in the economy. It would not be the case if the measure were not appropriate to remedy the disturbance.

b. *Necessity*: The aid measure must, in its amount and form, be necessary to achieve the objective. Therefore it must be of the minimum amount necessary to reach the objective, and take the form most appropriate to remedy the disturbance.

c. *Proportionality:* The positive effects of the measure must be properly balanced against the distortions of competition, in order for the distortions to be limited to the minimum necessary to reach the measure's objectives.

(29) The Recapitalisation Communication[16] elaborates further on the three principles of the Banking Communication and states that recapitalisations can contribute to the restoration of financial stability. In particular the Recapitalisation Communication states that recapitalisations may be an appropriate response to the problems of financial institutions facing insolvency[17].

4.2.3 Compatibility with the Banking and Recapitalisation Communications

a. Appropriateness of the Measures

(30) The second recapitalisation for NBG is needed because of the new - and higher - capital requirements and, above all, because of the large losses which will be incurred as a consequence of the PSI 2 exercise established under the Economic Adjustment Programme for Greece.

(31) The Commission considers that the measure is appropriate because it helps the Bank, with the other measures envisaged in the recapitalisation plan, to comply with its regulatory capital requirements and thereby contribute to prevent the failure of the Bank. In that respect, the Commission notes that NBG is currently the largest banking institution in Greece both in terms of lending and collection of deposits. As such NBG is a systemically important bank for Greece. Consequently, a default of NBG would create a serious disturbance in the Greek economy. That serious disturbance would be aggravated under the current circumstances where all financial institutions in Greece face severe limitations to access funding, and limit to a certain extent the provisions of loans to the Greek economy. The measure thereby ensures that financial stability in Greece is maintained. For those reasons, the Commission finds that the measure is appropriate.

b. Necessity – limitation of the aid to the minimum

(32) According to the Banking Communication, the aid measure must, in its amount and form, be necessary to achieve the objective. It implies that the capital injection must be of the minimum amount necessary to reach the objective.

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15 See paragraph 41 of Commission decision in Case NN 51/2008 Guarantee scheme for banks in Denmark, OJ C 273, 28.10.2008, p. 2.

16 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.

17 Recapitalisation Communication, point (6).

(33) As regards the amount of the State recapitalisation, the Commission observes that the measure is a part of a comprehensive capital plan which foresees several actions, such as a large liability management exercise and core and non-core assets disposals. The bank also hopes to be able to raise capital on the market. The Commission therefore notes positively that the Bank tries to cover the losses stemming from PSI2 through far-reaching internal measures and through capital raising on the market, such that the amount of recapitalisation aid remains limited to the minimum. The total State recapitalisation of EUR 1.35 billion amounts to 2.1% of RWA.

(34) As regards the remuneration of the State recapitalisation, under the recapitalisation scheme the preference shares contain an annual fixed rate of return of 10% on the injected capital, in line with the Recapitalisation Communication.

(35) In conclusion, the measure is necessary in both its amount and form to achieve the objectives of limiting the disturbance in the Greek banking system and economy as a whole.

c. Proportionality – measures limiting negative spill-over effects

(36) The Commission notes that NBG received a low amount of recapitalisation in 2009, since it was below 1% of RWA. The recapitalisation received by the Bank at that point was also the lowest amount (compared to RWA) among the Greek domestic banks of large and medium size. The second recapitalisation of NBG will bring the total recapitalisation to 2.1% of RWA. That overall rescue aid amount therefore remains a sufficiently low amount not to request additional safeguards going beyond those laid down in the decisions approving the scheme and its prolongations.

(37) The Commission also recalls that, under the approved scheme, Greece has committed that the Bank will suspend dividend and coupon payments on outstanding hybrid instruments unless those payments stem from a legal obligation, will not exercise a call option on the same instruments and will not carry out any other capital management deals (e.g. buy-back) on hybrid instruments or any other equity-like instruments without consulting with the Commission in advance. All behavioural conditions under the original scheme will continue to apply.

(38) The Commission thus considers the above elements to be sufficient to consider the rescue measure as proportionate and to temporarily approve the emergency measure as rescue aid.

Conclusion

(39) The Commission, thus, concludes that: (i) the recapitalisation is appropriate and necessary to bring the solvency levels of the Bank to the new legally required level established in Greece, as it is limited to the minimum; (ii) the Bank must submit a restructuring plan in line with previous commitments; and (iii) given that the total aid remains relatively limited, there are sufficient measures in place limiting the negative spill-over effects for other competitors to enable the Commission to temporarily approve the measures as rescue aid. The Commission can, therefore, temporarily approve the measures for six months.

CONCLUSION

- The Commission concludes that the State's provision of capital to NBG by giving a EUR 1.2 billion Greek government bond, constitutes State aid of up EUR 1 billion pursuant to Article 107(1) TFEU.

- The Commission finds that the emergency aid in favour of NBG fulfils the requirements of Article 107(3)(b) TFEU and is temporarily compatible with the internal market for reasons of financial stability. The measure in favour of NBG is accordingly approved for six months or, if the Greek authorities submit a restructuring plan within six months from the date of the decision, until the Commission has adopted a final decision on the restructuring plan of the Bank.
- The Commission notes that Greece exceptionally accepts that the adoption of the Decision be in the English language.

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Yours faithfully,
For the Commission

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