



EUROPEAN COMMISSION

Brussels, 29.04.2014  
C(2014) 2933 final

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## COMMISSION DECISION

of 29.04.2014

### ON THE STATE AID

**SA.34825 (2012/C), SA.34825 (2014/NN), SA.36006 (2013/NN)**

**SA.34488 (2012/C) (ex 2012/NN)**

**SA.31155 (2013/C) (2013/NN) (ex 2010/N)**

**Implemented by Greece**

**For the Eurobank Group related to:**

- **Recapitalisation and Restructuring of Eurobank Ergasias S.A.;**
- **Restructuring aid to Proton bank through creation and capitalisation of Nea Proton and additional recapitalisation of New Proton Bank by the Hellenic Financial Stability Fund;**
- **Resolution of Hellenic Postbank through the creation of a bridge bank.**

(Only the English version is authentic)

(Text with EEA relevance)

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(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union, and in particular the first subparagraph of Article 108(2) thereof,

Having regard to the Agreement on the European Economic Area, and in particular Article 62(1)(a) thereof,

Having called on Member States and other interested parties to submit their comments pursuant to those provisions<sup>1</sup>,

Whereas,

### **1. PROCEDURE**

#### **1.1. Procedures related to the Eurobank Group<sup>2</sup> ("the Bank")<sup>3</sup>**

- (1) By decision of 19 November 2008 the Commission approved a scheme entitled "Support Measures for the Credit Institutions in Greece" (the "Greek Banks Support

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<sup>1</sup> Commission decision of 27 July 2012 in State Aid SA. 34825 (2012/C), "Recapitalisation of EFG Eurobank by the Hellenic Financial Stability Fund" (OJ C 359, 21.11.2012, p. 4), Commission decision of 26 July 2012 in State Aid SA. 34488 (2012/C), "Aid to Nea Proton Bank through creation and capitalisation of Nea Proton Bank" (OJ C 375, 20.11.2012, p. 5), Commission decision of 6 May 2013 in State Aid SA. 31155 (2013/C), "State aid to TT Hellenic Postbank S.A. through the creation and the capitalisation of the bridge bank *New TT Hellenic Postbank S.A.*" (OJ C190, 29.6.2013, p. 5).

<sup>2</sup> Eurobank Ergasias S.A and all its subsidiaries (Greek and non-Greek subsidiaries and branches, both banking and non-banking).

<sup>3</sup> "The Bank" refers to the Eurobank Group

Scheme") designed to ensure the stability of the Greek financial system. The Greek Banks Support Scheme allows for aid to be granted under its three constituent measures, a recapitalisation measure, a guarantee measure and a government bond loan measure<sup>4</sup>. In May 2009, EFG Eurobank Ergasias S.A.<sup>5</sup> was recapitalised by Greece under the recapitalisation measure.

- (2) Recital 14 of the decision of 19 November 2008 recorded that a restructuring plan would be notified to the Commission in respect of the beneficiaries of the recapitalisation measure.
- (3) On 2 August 2010, the Greek authorities submitted a restructuring plan in respect of the Eurobank Group to the Commission. The Commission registered that plan and its subsequent updates as well as additional information submitted by the Greek authorities as Case SA.30342 (PN 26/2010) and then Case SA.32789 (2011/PN).
- (4) The Bank has repeatedly benefited from State guarantees on debt instruments and government bond loans under the Greek Banks Support Scheme<sup>6</sup>. It also benefited from State-guaranteed emergency liquidity assistance ("State-guaranteed ELA").

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<sup>4</sup> Commission decision of 19 November 2008 in State Aid N 560/2008 "*Support Measures for the Credit Institutions in Greece*" (OJ C 125, 5.6.2009, p. 6). It was attributed the number SA.26678 (N 560/2008). That scheme was subsequently prolonged and amended as described in footnote 6.

<sup>5</sup> The annual General Meeting of 29 June 2012 decided to change the corporate name of EFG Eurobank Ergasias S.A. to Eurobank Ergasias S.A.

<sup>6</sup> 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, 6.11.2009, 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, 9.3.2010, 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, 3.9.2010, p. 3)). On 21 December 2010 the Commission approved a prolongation of the support measures until 30 June 2011 (See 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, 19.2.2011, p. 2)). On 4 April 2011 the Commission approved an amendment (See Commission decision of 4 April 2011 in State Aid SA.32767 (2011/N) "*Amendment to the Support Measures for the Credit Institutions in Greece*" (OJ C 164, 2.6.2011, p. 8)). On 27 June 2011 the Commission approved a prolongation of the support measures until 31 December 2011 (See Commission decision of 27 June 2011 in State aid SA.33153 (2011/N) "*Fifth prolongation of the Support measures for the credit Institutions in Greece*" (OJ C 274, 17.9.2011, p. 6)). On 6 February 2012, the Commission approved a prolongation of the support measures until 30 June 2012 (See Commission decision of 6 February 2012 in State aid SA.34149 (2011/N) "*Sixth prolongation of the Support Measures for the Credit Institutions in Greece*" (OJ C 101, 4.4.2012, p. 2)). On 6 July 2012, the Commission approved a prolongation of the support measures until 31 December 2012 (See Commission decision of 6 July 2012 in State Aid case SA.35002 (2012/N) - Greece "*Prolongation of the Support Scheme for Credit Institutions in Greece*" (OJ C 77, 15.3.2013, p.14)). On 22 January 2013, the Commission approved a prolongation of the Guarantee Scheme and the Bond Loan Scheme until 30 June 2013 (See Commission decision of 22 January 2013 in State Aid case SA.35999 (2012/N) - Greece "*Prolongation of the Guarantee Scheme and the Bond Loan Scheme for Credit Institutions in Greece*" (OJ C 162, 7.6.2013, p. 6)). On 25 July 2013, the Commission approved a prolongation of the Guarantee Scheme and the Bond Loan Scheme until 31 December 2013 (See Commission decision of 25 July 2013 in State Aid case SA.36956 (2013/N) - Greece "*Prolongation of the Guarantee Scheme and the Bond Loan Scheme for Credit Institutions in Greece*", not yet published). On 14 January 2014, the Commission approved a prolongation of the Guarantee Scheme and the Bond Loan Scheme until 30 June 2014 (See Commission decision of 14 January 2014 in State Aid case SA. 37958 (2013/N) - Greece "*Prolongation of the Guarantee Scheme and the Bond Loan Scheme for Credit Institutions in Greece*", not yet published).

- (5) On 20 April 2012, the Hellenic Financial Stability Fund ("HFSF") provided the Bank with a letter committing to participate in a planned share capital increase of the Bank. On 28 May 2012, the HFSF granted a bridge recapitalisation of EUR 3 970 million to the Bank ("first bridge recapitalisation").
- (6) In May 2012, the Greek authorities notified to the Commission the commitment letter that had been provided by the HFSF to the Bank. The Commission registered it as a non-notified aid (Case SA.34825 (2012/NN)) as the measure had already been implemented.
- (7) On 27 July 2012 the Commission opened a formal investigation procedure regarding the first bridge recapitalisation ("the Eurobank Opening Decision")<sup>7</sup>.
- (8) In December 2012, the HFSF granted a second bridge recapitalisation of EUR 1 341 million to the Bank ("second bridge recapitalisation"). On 21 December 2012, the HFSF also provided the Bank with a commitment letter for its participation in a share capital increase of the Bank and in convertible capital instruments to be issued, for a total amount up to EUR 528 million<sup>8</sup>. The Greek authorities notified those measures to the Commission on 27 December 2012.
- (9) In May 2013, the HFSF participated in the Bank's share capital increase which had been agreed in December 2012. It converted the first and second bridge recapitalisations into equity and injected a further EUR 528 million of capital into the Bank (the "Spring 2013 recapitalisation").
- (10) On 19 December 2013, the Greek authorities submitted information to the Commission regarding the terms of the Spring 2013 recapitalisation.
- (11) On 31 March 2014, the HFSF provided the Bank with a commitment letter for its participation in a planned share capital increase of the Bank.
- (12) On 16 April 2014 the Greek authorities submitted a final restructuring plan for the Bank ("the restructuring plan") to the Commission. They also notified the Commission of the HFSF's commitment to fully underwrite the Bank's upcoming recapitalisation. On the same date they provided information on the State-guaranteed ELA. They indicated that they wanted to continue providing the Bank with such liquidity support, as well as State guarantees on debt instruments and government bond loans under the Greek Banks Support Scheme<sup>9</sup>.
- (13) The Commission had numerous meetings, teleconferences and electronic mail exchanges with representatives of the Greek authorities and the Bank.
- (14) Greece accepts that exceptionally the present decision is adopted in the English language only.

## **1.2. Procedure related to the acquired businesses**

### **1.2.1. Procedure related to Nea Proton Bank**

- (15) On 26 July 2012, the Commission adopted a decision regarding State Aid SA. 34488 (2012/C), "Aid to Nea Proton Bank through creation and capitalisation of Nea Proton Bank"<sup>10</sup> ("Nea Proton Opening Decision"). By that decision the Commission opened

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<sup>7</sup> See Commission decision of 27 July 2012 in State Aid SA. 34825 (2012/C), "Recapitalisation of EFG Eurobank by the Hellenic Financial Stability Fund" (OJ C 359, 21.11.2012, p. 4).

<sup>8</sup> HFSF press release, 24 December 2012, available online at: [http://www.hfsf.gr/files/press\\_release\\_20121224\\_en.pdf](http://www.hfsf.gr/files/press_release_20121224_en.pdf).

<sup>9</sup> The notification was registered under number SA.34825 (2014/NN).

<sup>10</sup> OJ C 375, 20.11.2012, p. 5.

a formal investigation procedure regarding: (i) the financing by the Resolution Scheme of the Hellenic Deposit and Investment Guarantee Fund ("HDIGF") and the HFSF of the EUR 1 121,6 million funding gap between the assets and liabilities of Proton Bank which had been transferred to Nea Proton Bank; (ii) an injection of initial share capital of EUR 250 million by the HFSF into Nea Proton Bank; and (iii) an injection of additional share capital of EUR 300 million by the HFSF into Nea Proton Bank which was anticipated at the time the Nea Proton Opening Decision was adopted. The Commission invited Greece to submit comments and provide all such information as might help it to assess the aid measures. Section 1 of the Nea Proton Opening Decision described in detail the procedure regarding Proton Bank, including the resolution of Proton Bank, the creation of Nea Proton Bank, the financing of the funding gap and the initial share capital injected by the HFSF into Nea Proton Bank.

- (16) On 1 August 2012, the HFSF subscribed additional share capital in Nea Proton Bank, an increase which amounted to EUR 230 million.
- (17) On 5 September 2012, Greece submitted comments on the Nea Proton Opening Decision which had been prepared by the Bank of Greece and the HFSF.
- (18) On 31 December 2012, the HFSF subscribed further share capital in Nea Proton Bank which amounted to EUR 35 million.
- (19) In May 2013, the HFSF launched the process for the sale of Nea Proton Bank.
- (20) On 12 July 2013, the Greek authorities informed the Commission of the Bank's intention to acquire Nea Proton Bank. The Commission replied on 15 July 2013.
- (21) On 15 July 2013, the Bank signed a binding agreement with the HFSF to acquire 100% of the shares and voting rights of Nea Proton Bank for a purchase price of EUR 1 and the HFSF committed to recapitalise Nea Proton Bank prior to its sale with EUR 395 million in cash.
- (22) On 29 July 2013, the Greek authorities notified the Commission of that capital injection of EUR 395 million into Nea Proton Bank.

### **1.2.2. Procedure related to New TT Bank**

- (23) On 6 May 2013, the Commission adopted a decision regarding State Aid SA. 31155 (2013/C), "State aid to TT Hellenic Postbank S.A. through the creation and the capitalisation of the bridge bank *New TT Hellenic Postbank S.A.*" ("New TT Opening Decision")<sup>11</sup>. In that decision the Commission opened the formal investigation procedure regarding: (i) a EUR 500 million capital injection by the HFSF into New TT Hellenic Postbank S.A. ("New TT Bank"); (ii) a EUR 4,1 billion<sup>12</sup> financing of the funding gap<sup>13</sup> resulting from the transfer of Hellenic Postbank S.A. ("TT Bank") activities to New TT Bank; (iii) a EUR 224,96 million capital injection by Greece in the form of preference shares under the Greek Banks Support Scheme into TT Bank; and (iv) a EUR 0,68 billion intervention by the HDIGF in favour of the assets of T Bank S.A. ("T Bank") which had been transferred to TT Bank. The Commission invited Greece to submit comments and provide all such information as might help it to assess the restructuring aid. Section 1 of the New TT Opening Decision describes

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<sup>11</sup> OJ C190, 29.6.2013, p. 5.

<sup>12</sup> The funding gap was reassessed later and according to the decision 11/1/21.5.2013 of the Resolution Measures Committee of the Bank of Greece, it was finalized at EUR 3 732,6 million.

<sup>13</sup> The funding gap refers to the difference between the value of the assets transferred to the new bank and the nominal value of the liabilities transferred to it.



in detail the procedures regarding the resolution of T Bank by sale to TT Bank and the resolution of TT Bank by the creation of New TT Bank.

- (24) In June 2013, the HFSF launched the process for the sale of New TT Bank.
- (25) On 15 July 2013, the Greek authorities informed the Commission of the HFSF's decision to sell New TT Bank to the Bank and the reasons for that decision.
- (26) On 15 July 2013, the Bank signed a binding agreement with the HFSF to acquire 100% of the shares and voting rights of New TT Bank.
- (27) On 19 July 2013, Greece submitted comments on the New TT Opening Decision.

## 2. DESCRIPTION

### 2.1. The Bank and its difficulties

#### 2.1.1. General context of the Greek banking sector

- (28) Greece's real gross domestic product ("GDP") fell by 20% from 2008 to 2012, as shown in Table 1. As a result, Greek banks have faced a rapidly raising default rate on loans to Greek households and companies<sup>14</sup>. Those developments have adversely affected the performance of the assets of Greek banks and given rise to capital needs.

Table 1 – Real GDP Growth in Greece, 2008-2013

Greece	2008	2009	2010	2011	2012	2013
Real GDP growth, %	-0,2	-3,1	-4,9	-7,1	-6,4	-4 (estimate)

Source: Eurostat, available online at

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00115>

- (29) In addition, in February 2012, Greece implemented a private sector bond exchange known as Private Sector Involvement ("the PSI programme"). Greek banks were involved in the PSI programme, in the course of which the Greek government offered existing private bondholders new securities (including new Greek government bonds ("GGBs"), GDP-linked securities and PSI payment notes issued by the European Financial Stability Fund ("EFSF")) in exchange for existing GGBs, with a nominal discount of 53,5% and longer maturities<sup>15</sup>. The Greek authorities announced the results of that exchange of bonds on 9 March 2012<sup>16</sup>. The exchange resulted in significant losses for the bondholders (estimated by the Bank of Greece at 78% of the face amount of old GGBs on average for the Greek banks) and capital needs which were retroactively booked in the Greek banks' 2011 financial statements.

Table 2 – Total PSI losses of the main Greek banks (EUR million)

<sup>14</sup> European Commission – Directorate-General Economic and Financial Affairs. *The Second Economic Adjustment Programme for Greece - March 2012*, p. 17, available online at: [http://ec.europa.eu/economy\\_finance/publications/occasional\\_paper/2012/pdf/ocp94\\_en.pdf](http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/pdf/ocp94_en.pdf).

<sup>15</sup> See section II "The restructuring of the Greek Sovereign Debt" of the *Report on the Recapitalisation and Restructuring of the Greek Banking Sector*, Bank of Greece, December 2012, available online at: [http://www.bankofgreece.gr/BogEkdoseis/Report\\_on\\_the\\_recapitalisation\\_and\\_restructuring.pdf](http://www.bankofgreece.gr/BogEkdoseis/Report_on_the_recapitalisation_and_restructuring.pdf).

<sup>16</sup> Press release of Ministry of Finance of 9 March 2012, available online at: <http://www.pdma.gr/attachments/article/80/9%20MARCH%202012%20-%20RESULTS.pdf>.

Banks	Face amount of GGBs	Face amount of state related loans	Total face amount	PSI loss of GGBs	PSI loss of State-related loans	Total gross PSI loss	Total gross PSI loss / Core Tier 1 <sup>17</sup>	Total gross PSI loss / Total assets
NBG	13 748	1 001	<b>14 749</b>	10 985	751	<b>11 735</b>	161,0%	11,0%
Eurobank	7 001	335	<b>7 336</b>	5 517	264	<b>5 781</b>	164,5%	7,5%
Alpha	3 898	2 145	<b>6 043</b>	3 087	1 699	<b>4 786</b>	105,7%	8,1%
Piraeus	7 063	280	<b>7 343</b>	5 686	225	<b>5 911</b>	226,0%	12,0%
Postbank (TT Bank)	4 197	175	<b>4 372</b>	3 306	138	<b>3 444</b>	618,3%	24,8%
Nea Proton Bank	934	0	<b>934</b>	216	0	<b>216</b>	378,8%	12,6%

Source: Bank of Greece, *Report on the Recapitalisation and the Restructuring of the Greek Banking Sector*, December 2012, p. 14

- (30) Since the Greek banks faced substantial capital shortfalls as a result of the PSI programme and the continuing recession, the Memorandum of Economic and Financial Policies ("MEFP") of the Second Adjustment Programme for Greece between the Greek government, the European Union, the International Monetary Fund ("IMF") and the European Central Bank ("ECB") dated 11 March 2012 made funds available for the recapitalisation of those banks. The Greek authorities estimated the total bank recapitalisation needs and resolution costs to be financed under that programme at EUR 50 billion<sup>18</sup>. That amount was calculated on the basis of a stress test performed by the Bank of Greece for the period starting December 2011 and ending December 2014 ("the stress test of 2012"), which relied on the loan losses forecast performed by Blackrock<sup>19</sup>. The funds for the recapitalisation of the Greek banks are available through the HFSF. Table 3 summarizes the calculation of capital needs for the main Greek banks as they result from the stress test of 2012.

Table 3 – Stress test of 2012: Capital needs of the main Greek banks (EUR million)

Banks	Reference Core Tier 1 (Dec 2011)	Total gross PSI loss (Dec 2011)	Provisions related to PSI (June 2011)	Gross Cumulative Loss Projections for credit risk	Loan loss reserves (Dec 2011)	Internal capital generation	Target Core Tier 1 (Dec 2014)	Capital needs
NBG	7 287	-11 735	1 646	-8 366	5 390	4 681	8 657	<b>9 756</b>
Eurobank	3 515	-5 781	830	-8 226	3 514	2 904	2 595	<b>5 839</b>
Alpha	4 526	-4 786	673	-8 493	3 115	2 428	2 033	<b>4 571</b>
Piraeus	2 615	-5 911	1 005	-6 281	2 565	1 080	2 408	<b>7 335</b>

<sup>17</sup> The Core Tier One ratio of a bank is one of the regulatory capital ratios monitored by the supervisor in the framework of the Capital Requirement Directive.

<sup>18</sup> See footnote 14, p. 106.

<sup>19</sup> See footnote 15.

<b>Postbank (TT Bank)</b>	557	-3 444	566	-1 482	1 284	-315	903	<b>3 737</b>
<b>Nea Proton Bank</b>	57	-216	48	-482	368	34	115	<b>305</b>

Source: Bank of Greece, *Report on the Recapitalisation and the Restructuring of the Greek Banking Sector*, December 2012, p. 8

- (31) According to the MEFP of March 2012, “banks submitting viable capital raising plans will be given the opportunity to apply for and receive public support in a manner that preserves private sector incentives to inject capital and thus minimizes the burden for taxpayers”<sup>20</sup>. The Bank of Greece found only the four largest banks (Eurobank, National Bank of Greece, Piraeus Bank and Alpha Bank) to be viable<sup>21</sup>. They received a first recapitalisation by the HFSF in May 2012.
- (32) Domestic deposits in the banks in Greece decreased by 37% in total between the end of 2009 and June 2012 due to recession and political uncertainty. Those banks had to pay higher interest rates to try to retain deposits. The costs of deposits increased, reducing the net interest margin of the banks. As Greek banks were shut out from wholesale funding markets, they became entirely dependent on Eurosystem<sup>22</sup> financing, a growing portion of which was in the form of emergency liquidity assistance ("ELA") granted by the Bank of Greece. The amounts those banks obtained were particularly large in the second half of 2012.
- (33) After elections were held in June 2012, the stock of deposits began to increase again. Total Eurosystem funding of Greek banks has decreased since 31 December 2012.
- (34) On 3 December 2012, Greece launched a buy-back programme on the new GGBs received in the framework of the PSI programme, at prices ranging from 30,2% to 40,1% of their nominal value<sup>23</sup>. The Greek banks participated in that buy-back programme which crystallised further losses on their balance sheet, since the accounting loss (that is, the difference between market value and nominal value) booked at the time of the PSI programme became definitive and irreversible<sup>24</sup>.
- (35) In December 2012, the four largest Greek banks received a second recapitalisation from the HFSF.
- (36) In autumn 2013, the Bank of Greece launched a new stress test exercise to assess the robustness of the Greek banks' capital position under both a baseline and an adverse scenario.
- (37) In July 2013, the Bank of Greece commissioned an advisor to carry out a diagnostic study on the loan portfolios of all Greek banks. That advisor carried out credit loss projections ("CLPs") on all domestic loan books of the Greek banks as well as on loans carrying Greek risk in foreign branches and subsidiaries over a three-and-a-half-year and a loan-lifetime horizon. The analysis provided CLPs under two

<sup>20</sup> See footnote 14, p. 104.

<sup>21</sup> See footnote 15.

<sup>22</sup> The European Central Bank and the national central banks together constitute the Eurosystem, the central banking system of the euro area.

<sup>23</sup> Press release of Ministry of Finance of 3 December 2012, available online at: <http://www.pdma.gr/attachments/article/248/Press%20Release%20-%20December%2003.pdf>. That buy back of its own debt at a price deeply below par generated a significant debt reduction for Greece.

<sup>24</sup> In the absence of such a buy back, the market value of those bonds could have increased depending on the evolution of market parameters such as interest rates and the probability of default of Greece.

macroeconomic scenarios; a baseline and an adverse one. The CLPs for foreign loan portfolios were estimated by the Bank of Greece using some input from the advisor.

- (38) Based on the advisor's assessment of the CLPs, the Bank of Greece conducted the capital needs assessment with the technical support of a second advisor.
- (39) The key components of the capital needs assessment under the stress test of 2013 were i) the CLPs<sup>25</sup> on banks' loan portfolios on a consolidated basis for Greek risk and foreign risk, net of existing loan reserves, and ii) the estimated operating profitability of banks for the period from June 2013 to December 2016, based on a conservative adjustment of restructuring plans which had been submitted to the Bank of Greece during the fourth quarter of 2013. Table 4 summarizes the calculation of capital needs for the main Greek banks on a consolidated basis on the baseline scenario for that stress test of 2013.

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<sup>25</sup> Included the expected loss from the new loan production in Greece over the period from June 2013 to December 2016.

Table 4 – Stress test of 2013: Capital needs of the Greek banks on a consolidated basis in the baseline scenario (EUR million)

Banks	Reference Core Tier 1 (June 2013) (1)	Loan Loss reserves (June 2013) (2)	CLPs for Greek risk (3)	CLPs for foreign risk <sup>26</sup> (4)	Internal Capital Generation (5)	Stress test Core Tier 1 ratio (December 2016) (6)	Capital needs (7)=(6)-(1)-(2)-(3)-(4)-(5)
<b>NBG<sup>27</sup></b>	4 821	8 134	-8 745	-3 100	1 451	4 743	<b>2 183</b>
<b>Eurobank<sup>28</sup></b>	2 228	7 000	-9 519	-1 628	2 106	3 133	<b>2 945</b>
<b>Alpha</b>	7 380	10 416	-14 720	-2 936	4 047	4 450	<b>262</b>
<b>Piraeus</b>	8 294	12 362	-16 132	-2 342	2 658	5 265	<b>425</b>
<b>Attica</b>	225	403	-888	0	106	243	<b>397</b>
<b>Panellinia</b>	61	66	-237	0	-26	31	<b>169</b>

Source: Bank of Greece, *2013 Stress Test of the Greek Banking Sector*, March 2014, p. 42

- (40) On 6 March 2013, the Bank of Greece announced the results of the stress test of 2013 and requested the banks to submit their capital raising plans by mid-April 2014 to cover the capital needs under the baseline scenario.

### 2.1.2. *The economic activities of the Bank*

- (41) The Bank provides universal banking services mainly in Greece and in Eastern and South-Eastern Europe (Cyprus, Romania, Bulgaria, Serbia, and Ukraine). It offers a full range of banking and financial products and services to households and businesses. It is active in retail, corporate and private banking, asset management, insurance, treasury, capital markets and other services. The Bank is incorporated in Greece and its shares are listed on the Athens Stock Exchange. On 31 December 2012, the Bank employed a total of 17 427 people, approximately half of whom were employed in Eastern and South-Eastern Europe with the other half employed in Greece<sup>29</sup>.
- (42) The Bank participated in the PSI programme, exchanging GGBs and State-related loans with a face value of EUR 7 336 million. Its total PSI-related charge amounted to around EUR 5 781 million before tax and was entirely booked in its 2011 accounts<sup>30</sup>. During the buy-back programme of December 2012, the Bank sold the new GGBs it had received in the framework of the PSI at a deep discount to nominal value. That sale crystallised its losses on the new GGBs.

<sup>26</sup> The impact of the foreign risk CLPs was calculated after foreign tax and taking into account the commitments proposed by Greece at that time to the Commission regarding divestments.

<sup>27</sup> NBG loan loss reserves as of June 2013 pro-forma of the provisions of FBB and Probank.

<sup>28</sup> Eurobank loan loss reserves as of June 2013 pro-forma of the provisions of New Hellenic Postbank and New Proton Bank, which were acquired by the Bank in August 2013.

<sup>29</sup> <http://www.eurobank.gr/online/home/generic.aspx?id=323&mid=347&lang=en>.

<sup>30</sup> See Table 2.

- (43) The key figures of the Bank in December 2010, December 2011, December 2012 and December 2013 (consolidated data) are presented in Table 5.

*Table 5 - Eurobank key figures, 2010, 2011, 2012 and 2013*

<b>Profit and loss (EUR million)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013 (includes New TT Bank and Nea Proton Bank from the date of their acquisition)</b>
Net Interest Income	2 103	2 965	1 461	1 294
Total Operating Income	2 730	2 226	1 755	1 587
Total Operating Expenses	-1 280	-1 123	-1 052	-1 071
Pre Provision Income	1 450	1 103	703	516
Credit Risk Losses	-1 273	-1 328	-1 655	-1 920
PSI losses		-6 012	-363	
Other Losses		-737	-373	-522
Net Profit/Loss	84	-5 496	-1 440	-1 157
<b>Selective Volume figures (EUR million)</b>	<b>31 December 2010</b>	<b>31 December 2011</b>	<b>31 December 2012</b>	<b>31 December 2013 (includes New TT Bank and Nea Proton Bank)</b>
Total Loans and Advances to Customers	53 412	48 094	43 171	45 610
Total Deposits	41 173	32 459	30 752	41 535
Total Assets	87 188	76 822	67 653	77 586
Total Equity <sup>31</sup>	6 094	875	-685	4 523

Sources:

2013: *Financial results 2013 – Consolidated financial statements, p. 3 and p. 4:*

<http://www.eurobank.gr/Uploads/pdf/EN%20Consol%20AR%202013.pdf>

2012 and 2011: *Financial results 2012 – Consolidated financial statements, p. 3 and p. 4:*

<http://www.eurobank.gr/Uploads/pdf/Annual%20Report%202012.pdf>

2010: *EFG Eurobank-Press Release, Full Year 2011 Results, pp. 5 and 6:*

<http://www.eurobank.gr/Uploads/pdf/Annual%20Report%20AQ2011.pdf>

- (44) Table 5 illustrates that, apart from the huge losses it booked in 2011 due to the PSI programme (EUR 5 781 million<sup>32</sup>), the Bank suffered from declining income (due, among other reasons, to the higher costs of deposits) and from high and rising

<sup>31</sup> Those amounts of equity include, for 2010, 2011 and 2012, EUR 950 million of preference shares granted by Greece in 2009; those amounts do not include the two bridge recapitalisations received by the Bank in 2012, for an amount of EUR 5 311 million. The equity figure for 31 December 2013 includes the May 2013 recapitalisation (during which the two bridge recapitalisations were converted into ordinary shares).

<sup>32</sup> See Table 2.

impairment losses on its loan portfolios in Greece and abroad. The liquidity position of the Bank was badly hit by deposit outflows and its loan-to-deposit ratio reached 148% at 31 December 2011, while 42% of its balance sheet was funded by the Eurosystem at that date.

- (45) Under the stress test of 2013, the results of which were announced on 6 March 2014, the Bank of Greece estimated the capital needs of the Bank at EUR 2 945 million for the baseline scenario. That amount was net of mitigating measures, that is to say, it already assumed that the Bank would carry out mitigating measures in the form of divestments, which were assumed to contribute to the reduction of capital needs.
- (46) To cover the identified need for EUR 2 945 million of capital, the Bank proposed enhanced mitigating measures, which will, however, in total generate only slightly more than assumed by the Bank of Greece when calculating the capital needs. Those mitigating measures include the sale of additional assets (sale of [...], sale of [...])% of the insurance subsidiary and the reduction of the participation in the real estate activities to 20% by [...]<sup>33</sup>.
- (47) Since those enhanced mitigating measures are able to cover only a very small part of the identified capital needs, the extraordinary general meeting of shareholders decided on 12 April 2014 to proceed with a capital increase of EUR 2 864 million. It takes the form of a non-pre-emptive equity offering (that is to say, a capital increase with cancellation of pre-emption rights) to international investors and a public offering in Greece. If the demand from private investors is insufficient to cover the entire capital increase, the HFSF will cover the gap by subscribing the remaining new shares, subject to prior conversion of the existing subordinated capital instruments of the Bank into shares.

## **2.2. The Bank's acquisitions of Greek banking activities**

- (48) On 15 July 2013, the Bank signed two binding agreements with the HFSF to acquire 100% of the shares and voting rights of Nea Proton Bank and New TT Bank.

### **2.2.1. Acquisition of Nea Proton Bank**

#### *Resolution of Proton Bank and Nea Proton Bank*

- (49) On 9 October 2011, the Bank of Greece proceeded with the resolution of Proton Bank. The license of Proton Bank was recalled by the Bank of Greece which put it into liquidation<sup>34</sup>.
- (50) On a proposal from the Bank of Greece and following the decision of the Minister of Finance<sup>35</sup>, Nea Proton Bank was created as an interim credit institution and all the deposits (retail, bank and government), the branch network and selected assets (loans and securities portfolios) of Proton Bank were transferred to it. Equity claims, subordinated debt, and high-risk loans remained with Proton Bank. HFSF injected initial share capital of EUR 250 million<sup>36</sup> into Nea Proton Bank and was its only

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<sup>33</sup> The initial capital raising plan was less ambitious as, for example, the Bank had planned to retain a significant presence in [...], and had only committed to a disposal of [...])% of the insurance subsidiary.

<sup>34</sup> Decision 20/3/9.10.2011 of the Credit and Insurance Committee of the Bank of Greece.

<sup>35</sup> Decision 9250/9.10.2011 of the Minister of Finance, establishing the interim credit institution by the name of "Nea Proton Bank S.A." (Greek Government Gazette FEK B' 2246/2011).

<sup>36</sup> The initial share capital was paid pursuant to the Ministerial decision of 9 October 2011 in two installments; EUR 220 million on 9 October 2011 and EUR 30 million on 3 February 2012. See HFSF, *Annual Financial report for the period from 01/01/2012 to 31.12.2012*, August 2013, available online at: [http://www.hfsf.gr/files/hfsf\\_annual\\_report\\_2012\\_en.pdf](http://www.hfsf.gr/files/hfsf_annual_report_2012_en.pdf).

shareholder. The size of the opening balance sheet of Nea Proton Bank was approximately EUR 3 billion.

- (51) At the end of 2011, Nea Proton Bank's risk weighted assets ("RWA"<sup>37</sup>) amounted to EUR 1,2 billion.

#### *Acquisition of Nea Proton Bank by the Bank*

- (52) The Greek law on bank resolution requires that the HFSF must dispose of its shares in an interim credit institution within two years from the date of the Ministerial decision establishing that interim credit institution<sup>38</sup>. In line with that obligation and pursuant to the MEFP, the HFSF proceeded with the sale of its shares in Nea Proton Bank. The financial advisor of the HFSF contacted a wide range of potential investors (including Greek banks, foreign banks and financial sponsors) but only two parties, the Bank and a US hedge fund, submitted final offers. Only the offer made by the Bank was considered to be compliant with the process letter of the HFSF and was therefore valid.
- (53) At 31 May 2013, Nea Proton Bank's RWA were EUR 811 million and its regulatory capital was EUR -203 million. At the same date, Nea Proton Bank needed a total recapitalisation of EUR 276 million to reach a 9% Core Tier One capital ratio. The Bank paid cash consideration of EUR 1 in exchange for 100% of the shares and voting rights of Nea Proton Bank. The Bank requested the HFSF to recapitalise Nea Proton Bank by EUR 395 million which, apart from the EUR 276 million needed to bring the capital adequacy ratio of Nea Proton Bank back to 9%, would allow for an additional EUR 119 million of provisions to deal with additional loan loss provisions and expected pre-tax losses until 2016. Under the terms of the sale, the HFSF committed to cover the capital needs of Nea Proton Bank prior to the completion of the transaction by contributing EUR 395 million in cash.

#### **2.2.2. Acquisition of New TT Bank**

##### *Resolution of TT Bank and New TT Bank*

- (54) On 18 January 2013, the Greek authorities proceeded with the resolution of TT Bank. The license of TT Bank was recalled by the Bank of Greece which put it into liquidation<sup>39</sup>.
- (55) On a proposal from the Bank of Greece and following the decision of the Minister of Finance<sup>40</sup>, New TT Bank was created as an interim credit institution and EUR 10,8 billion of assets (in the form of cash, T-bills, performing loans, retail deposits, central funding and GGBs<sup>41</sup>) were transferred to New TT Bank. A total amount of EUR 1,2 billion of net assets remained in TT Bank: "in the form of" equity claims, non-performing loans, tax assets and liabilities of TT, and levies and duties of any kind. HFSF injected initial share capital of EUR 500 million into New TT Bank and was its only shareholder. The size of the opening balance sheet of New TT Bank after the capital injection was approximately EUR 15,1 billion.

##### *Acquisition of New TT Bank by the Bank*

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<sup>37</sup> The *risk weighted assets* is a regulatory aggregate which measures the risk exposure of a financial institution, and which is used by supervisors to monitor the capital adequacy of financial institutions.

<sup>38</sup> See Article 63E, paragraph 9, of Law 3601/2007.

<sup>39</sup> Decision 7/3/18.1.2013 of the Resolution Measures Committee of the Bank of Greece.

<sup>40</sup> Decision No. 2124/B95/18.1.2013 of the Minister of Finance, establishing the interim credit institution by the name of "New TT Hellenic Postbank S.A." (Greek Government Gazette, FEK B' 74/2013).

<sup>41</sup> Annex 1, Article 1 ιγ (13) of the 2124/B95/2013 Ministerial decision.



- (56) As part of the MEFP commitments, the HFSF proceeded with the sale of its shares in New TT Bank. In that way, it also fulfilled its obligation to dispose of its shares in that interim credit institution within two years of the latter's creation. Its financial advisor contacted a wide range of potential investors, including Greek banks, foreign banks and financial sponsors. Only the four largest Greek banks submitted final offers, of which the Bank's offer was preferred.
- (57) The Bank agreed to pay a total of EUR 681 million in the form of newly issued ordinary shares to purchase New TT Bank. According to the Subscription Agreement, the initial consideration paid by the Bank was subject to further adjustments based on a Net Asset Value evaluation<sup>42</sup>.
- (58) Consequently, the Bank's extraordinary general meeting of shareholders of 26 August 2013 approved the increase of the Bank's share capital by EUR 425 625 000, by issuing 1 418 750 000 new ordinary shares<sup>43</sup> with a nominal value of EUR 0,3 each and an offer price of EUR 0,48 each. The capital increase was subscribed entirely by the HFSF by way of contribution in kind. That contribution in kind took the form of all the shares of New TT Bank owned by the HFSF, with a total value of EUR 681 million. Following that transaction, the shareholding of HFSF in the Bank increased from 93,5% to 95,2%.

### **2.3. Aid measures**

- (59) The Bank benefited from capital support measures A, B1, B2, B3, B4 and C and liquidity support measures L1 and L2. Proton Bank and Nea Proton bank benefited from following measures: Pr1, Pr2 Pr3, NP1, NP2 and NP3. T Bank, TT bank and New TT bank benefited from measures T, TT, NTT1 and NTT2.

#### **2.3.1. Aid measures granted to the Bank under the Greek Banks Support Scheme**

- (60) The Bank has obtained several forms of aid under the Greek Banks Support Scheme, under the recapitalisation measure, the guarantee measure and the government bond loan measure.

##### **2.3.1.1. State liquidity support granted under the guarantee measure and the government bond loan measure (measure L1)**

- (61) The Bank has benefited and continues to benefit from aid under the guarantee measure and the government bond loan measure. That aid will be described in this Decision as "measure L1". As of 30 November 2013<sup>44</sup>, the guarantees granted to the Bank amounted to around EUR 13,9 billion. At that date, there was no outstanding loan of government bonds to the Bank. As of 15 April 2011, the Bank had received loans of government bonds amounting to EUR 1 737 million and benefited from EUR 13,6 billion of State guarantees granted under the Greek Banks Support Scheme.

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<sup>42</sup> Deloitte performed an assessment of the Net Asset Value of New TT Bank, as at 30 August 2013, and on 15 November 2013, HFSF disbursed to the Bank the amount of EUR 54,9 million in cash, as indicated in the Report of the Hellenic Financial Stability Fund's Activities for the period July - December 2013, p. 2, available online at: [http://www.hfsf.gr/files/HFSF\\_activities\\_Jul\\_2013\\_Dec\\_2013\\_en.pdf](http://www.hfsf.gr/files/HFSF_activities_Jul_2013_Dec_2013_en.pdf).

<sup>43</sup> The final number of shares received by the HFSF was determined based on the volume-weighted average price of the Bank's shares on the Athens Stock Exchange over the ten working days prior to the date of the extraordinary general meeting (with a minimum of 1 418 750 000 shares). See footnote 36.

<sup>44</sup> According to the report on the operation of the guarantee and the bond loan measures submitted by the Ministry of Finance on 13 December 2013.

- (62) In the restructuring plan for the Bank submitted by the Greek authorities to the Commission on 16 March 2014 the Greek authorities signalled their intention to continue granting guarantees and lending government bonds under the scheme during the restructuring period.

### **2.3.1.2. State recapitalisation granted under the recapitalisation measure of the Greek Banks Support scheme (measure A)[**

- (63) In May 2009, the Bank received a capital injection of EUR 950 million<sup>45</sup> (measure A) under the recapitalisation measure of the Greek Banks Support scheme. That capital injection was equivalent to around 2% of the RWA the Bank had at that time.
- (64) The recapitalisation took the form of preference shares subscribed by Greece which had a coupon of 10% and a maturity of five years. In 2010 the duration of the preference shares was extended while their remuneration was increased. From this point forward, if the preference shares are not redeemed within five years from their issue and no decision has been taken by the general meeting of shareholders as to the redemption of those shares, the Greek Minister of Finance will increase the coupon by 2% per year on a cumulative basis (that is to say, a coupon of 12% for year six, 14% for year seven, etc...).

### **2.3.2. State-guaranteed ELA (measure L2)**

- (65) ELA is an exceptional measure enabling a solvent financial institution, facing temporary liquidity problems, to receive Eurosystem funding without such operation being part of the single monetary policy. The interest rate paid by such financial institution for ELA is [...] basis points higher than the interest it pays for regular Central Bank refinancing.
- (66) The Bank of Greece is responsible for the ELA programme, which means that any cost of, and the risks arising from, the provision of ELA are incurred by the Bank of Greece<sup>46</sup>. Greece granted to the Bank of Greece a State guarantee which applies to the total amount of ELA granted by the Bank of Greece. The adoption of Article 50, paragraph 7 of law 3943/2011, which amended Article 65, paragraph 1 of law 2362/1995, allowed the Minister of Finance to grant guarantees on behalf of the State to the Bank of Greece in order to safeguard the Bank of Greece's claims against the credit institutions. The banks benefiting from ELA have to pay a guarantee fee to the State amounting to [...] basis points.
- (67) As of 31 December 2011, the Bank had benefited from EUR 14,95 billion of State-guaranteed ELA<sup>47</sup>, while as of 31 December 2012, the Bank had benefited from EUR 12 billion of State-guaranteed ELA.

### **2.3.3. Aid measures granted to the Bank through the HFSF**

- (68) Since 2012, the Bank has benefited from several capital support measures granted by the HFSF. Table 6 provides an overview of those aid measures.

*Table 6 – Capital support measures granted to the Bank through the HFSF*

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<sup>45</sup> EUR 950 million is the amount net of expenses. The amount was EUR 950,125 million. See *Annual Financial Report for the year ended 31 December 2009* of Eurobank, p. 6, available online at: <http://www.eurobank.gr/Uploads/pdf/REPORTSITE%202009Final1.pdf>.

<sup>46</sup> According to the letter of the Bank of Greece of 7 November 2011, "Guarantees apply on the total amount of Emergency Liquidity Assistance (ELA)".

<sup>47</sup> Information provided by Bank of Greece on 7 April 2014.

	1st bridge recapitalisation - May 2012 (EUR million)	2nd bridge recapitalisation - Dec 2012 (EUR million)	Commitment letter - Dec 2012 (EUR million)	Spring 2013 recapitalisation - May 2013 (EUR million)	Recapitalisation commitment – April 2014 (EUR million)
Measure	B1	B2	B3	B4	C
Amount (EUR million)	3 970	1 341	528	5 839	2 864

### 2.3.3.1. The first bridge recapitalisation (measure B1)

- (69) Recitals 15 to 32 of the Eurobank Opening Decision give a detailed description of the first bridge recapitalisation of May 2012 (measure B1). The background and main features of that measure are set out in this section.
- (70) On 20 April 2012, the HFSF provided a letter to the Bank committing to participate in a planned share capital increase of the Bank for an amount of up to EUR 4,2 billion.
- (71) Under measure B1, the HFSF transferred EUR 3,97 billion of EFSF bonds to the Bank on 28 May 2012, in line with the provisions for bridge recapitalisations laid down in the law 3864/2010 establishing the HFSF ("HFSF Law"). The EFSF bonds transferred to the Bank were EFSF floating notes with maturities of six and ten years and an issue date of 19 April 2012. The Commission has already established in recital (48) of the Eurobank Opening Decision that *"The bridge recapitalisation finalised on 28 May 2012 is the implementation of the obligation undertaken in the commitment letter and thus a continuation of the same aid"*. Both the amounts provided in the commitment letter and in the first bridge recapitalisation were calculated by the Bank of Greece to ensure the Bank reached a total capital ratio of 8% as of 31 December 2011, the date of retroactive booking of the bridge recapitalisation in the Bank's records. As can be seen from Table 3, measure B1 only covered a limited part of the total capital needs identified by the stress test of 2012. The Bank was supposed to raise the capital through a future capital increase and the bridge recapitalisation was intended only to preserve the Bank's eligibility for ECB financing until that capital increase had taken place.
- (72) For the period between the date of the first bridge recapitalisation and the date of the conversion of the first bridge recapitalisation into ordinary shares and other convertible financial instruments, the pre-subscription agreement between the Bank and the HFSF stipulated that the Bank had to pay the HFSF a 1% annual fee on the nominal value of the EFSF notes and that any coupon payments and accrued interest to the EFSF notes for that period would count as an additional capital contribution by the HFSF<sup>48</sup>.

<sup>48</sup> The pre-subscription agreement provided that: "The Effective Risk payable to the Bank shall include the EFSF bonds and any coupon payments and accrued interest to the EFSF bonds for the period from the issuance of the bonds until the conversion of the Advance into share capital and other convertible financial instruments as prescribed herein".

### **2.3.3.2. The second bridge recapitalisation (measure B2)**

- (73) The Bank booked further losses in the autumn of 2012. Its capital therefore again fell below the minimum capital requirements for it to remain eligible for ECB refinancing.
- (74) A second bridge recapitalisation became necessary as a result. On 21 December 2012, the HFSF implemented a second bridge recapitalisation of EUR 1 341 million (measure B2), which was again paid by transferring EFSF bonds to the Bank.

### **2.3.3.3. The commitment letter of 21 December 2012 (measure B3)**

- (75) In addition to the second bridge recapitalisation, on 21 December 2012 the HFSF provided the Bank with a commitment letter for its participation in the share capital increase of the Bank and in the convertible instruments to be issued, for a total amount up to EUR 528 million (measure B3).
- (76) The total of the two bridge recapitalisations (measures B1 and B2) and of the additional amount committed in December 2012 (measure B3) meant that the HFSF had committed the total capital needs identified under the stress test of 2012 (EUR 5 839 million<sup>49</sup>).

### **2.3.3.4. The Spring 2013 recapitalisation (measure B4)**

- (77) On 30 April 2013, the general meeting of shareholders approved an increase in the share capital of the Bank for an amount of EUR 5 839 million ("the Spring 2013 recapitalisation"). The Bank therefore issued 3 789 317 357 new shares with a nominal value of EUR 0,30 at a price of EUR 1,54 per share.
- (78) On the same date the general meeting of shareholders also decided that the full amount of capital would be provided by the HFSF and would be paid in kind, in the form of EFSF bonds.
- (79) As a result, the HFSF injected a total of EUR 5 839 million into the Bank in the form of ordinary shares in May 2013 (measure B4). That amount is equal to the sum of measures B1, B2 and B3.
- (80) By means of the Spring 2013 recapitalization the first and second bridge recapitalisations (measures B1 and B2) were converted into a permanent recapitalisation, and the commitment to grant additional capital aid (measure B3) was implemented.
- (81) The price of new shares was set at 50% of the volume-weighted average stock price over the 50 trading days preceding the determination of the offer price. As a result of a reverse stock split decided by the general meeting of shareholders on 30 April 2012<sup>50</sup>, the price of new shares was set at EUR 1,54 per share.
- (82) Immediately after the Spring 2013 recapitalisation, the HFSF became the major shareholder of the Bank with a stake of 98,56%. However, after the Bank completed another liability management exercise, that stake decreased to 93,55% in June 2013 (see section 2.4.5). In August 2013, the Bank issued new shares to the HFSF in order to purchase New TT Bank as a result of which the HFSF stake increased to 95,23%<sup>51</sup>.

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<sup>49</sup> See Table 3.

<sup>50</sup> Announcement of Eurobank of 30 April 2013 on Resolutions of the Bank's Extraordinary Shareholders General Meeting of 30.4.2013, available online at: [http://www.eurobank.gr/Uploads/pdf/ΑΠΟΦΑΣΕΙΣ%20ΕΓΣ%2030%204%202013\\_ENG\(FINAL\).pdf](http://www.eurobank.gr/Uploads/pdf/ΑΠΟΦΑΣΕΙΣ%20ΕΓΣ%2030%204%202013_ENG(FINAL).pdf)

<sup>51</sup> See recital (57).

### 2.3.3.5. The 2014 recapitalisation commitment (measure C)

- (83) On 6 March 2014, the Bank of Greece reported the results of a stress test exercise carried out in the second half of 2013. The Bank of Greece indicated that in the baseline scenario the capital needs of the Bank for the period 2014-2016 would reach EUR 2 945 million.
- (84) On 31 March 2014 the HFSF sent a letter to the Bank indicating that it had the intention and ability to backstop any share capital increase implemented under the HFSF law 3864/2010 as amended on 30 March 2014 required to comply with capital needs identified during the stress test. The HFSF law provides that if, at the end of the subscription period, there is insufficient demand of private investors at a price determined by the General Council of the HFSF based on two independent valuations, the HFSF would subscribe any remaining shares, subject to prior conversion of the existing subordinated capital instrument of the Bank into shares as stated in Article 6a.
- (85) On 12 April 2014 the extraordinary meeting of shareholders approved a share capital increase amounting to EUR 2 864 million under the HFSF law and indicated that the offer price could not be lower than the nominal price of EUR 0,30 per share and the minimum price to be set by the HFSF<sup>52</sup>.
- (86) In line with the HFSF Law, the HFSF appointed two independent advisors to determine the value of the Bank. On 10 April 2014, the two advisors concluded their work by each providing a range for the value of the Bank. The two ranges overlap to a significant extent. Based on those valuations, the General Council of the HFSF determined on 14 April 2014 the price that corresponds to the minimum price at which the Bank's new shares may be offered to investors and the price at which it will back stop the equity offering if required<sup>53</sup>. On 15 April 2014 it approved the offer made by a consortium of investors to subscribe EUR 1,3 billion of new shares at a price of EUR 0,30 per share ("cornerstone investor"<sup>54 55</sup>).
- (87) On 24 April 2014 Eurobank announced the beginning of the book building at a price ranging from EUR 0,30 to EUR 0,33<sup>56</sup>. If there is sufficient demand to cover the entire EUR 2 864 million at a price higher than EUR 0,30, the cornerstone investor will have to adjust its price to the higher price or to cancel its orders, in which case it will receive a compensation fee. If there is sufficient demand from private investors (including demand from the cornerstone investor) to cover the entire EUR 2 864 million at a price of EUR 0,30, the cornerstone investor will receive priority allocation. If there is insufficient demand (including demand from the cornerstone investor) at a price of EUR 0,30, subordinated debt will be converted into new shares. As foreseen under the HFSF law, any unsubscribed shares after the conversion of subordinated debt will be subscribed by the HFSF at the same price, namely EUR 0,30 per share.

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[http://www.eurobank.gr/Uploads/pdf/EGM\\_12042014\\_RESOLUTIONSVOTING\\_RESULTS\\_ENG\(FINAL\).pdf](http://www.eurobank.gr/Uploads/pdf/EGM_12042014_RESOLUTIONSVOTING_RESULTS_ENG(FINAL).pdf)

53 [http://www.eurobank.gr/Uploads/pdf/Press\\_Release\\_Capital\\_increase\\_ENG\\_\(04042014\)\\_FINAL.pdf](http://www.eurobank.gr/Uploads/pdf/Press_Release_Capital_increase_ENG_(04042014)_FINAL.pdf)

54 [http://www.hfsf.gr/files/press\\_release\\_20140415\\_en.pdf](http://www.hfsf.gr/files/press_release_20140415_en.pdf)

55 [http://www.eurobank.gr/Uploads/pdf/Press\\_Release\\_Commitment\\_Letter\\_ENG.pdf](http://www.eurobank.gr/Uploads/pdf/Press_Release_Commitment_Letter_ENG.pdf)

56 [http://www.eurobank.gr/Uploads/pdf/PRICE\\_RANGE\\_ENG\\_FINAL.pdf](http://www.eurobank.gr/Uploads/pdf/PRICE_RANGE_ENG_FINAL.pdf)

## 2.3.4. Aid measures to the acquired businesses

### 2.3.4.1. Aid measures to Proton Bank and Nea Proton Bank

(88) Since 2008, Proton Bank and Nea Proton Bank have benefited from several aid measures. Table 7 provides an overview of those aid measures.

Table 7 - Overview of the capital support measures to Proton and Nea Proton Bank

Aid beneficiary	Measure	Nature of aid	Entity which granted the aid	Date of disbursement	Amount (in EUR million)
Proton Bank's activities	<b>Pr1</b>	Capital under recapitalisation measure: Greek State's preference shares	State	May 2009	<b>80</b>
	<b>Pr2</b>	Lending of Greek government securities under Greek bond loan measure	State	April 2009	<b>78</b>
	<b>Pr3</b>	State guarantee for issued bonds under the Greek guarantee measure	State	July 2010	<b>149,4</b>
Nea Proton Bank's activities	<b>NP1</b> Funding gap from PB to NPB	Financing of funding gap from PB to NPB (part 1)	HDIGF	9.10.2011	862
		After the finalization of the calculation of the funding gap, financing of the balance of the funding gap from PB to NPB (part 2)	HFSF	14.5.2012	259,6
		<b>Total amount of NP1</b>			<b>1 121,6</b>
	<b>NP2</b> Share capital injections to NPB in 2011 and 2012	Initial share capital	HFSF	9.10.2011	220
		Initial share capital	HFSF	3.2.2012	30
		<i>Total initial capital</i>			<i>250</i>
		Additional share capital	HFSF	1.8.2012	230
		Additional share capital	HFSF	31.12.2012	35
		<i>Total additional capital</i>			<i>265</i>
	<b>Total amount of NP2</b>			<b>515</b>	
<b>NP3</b> Recapitalisation prior its sale to Eurobank	Share capital	HFSF	28.08.2013	<b>395</b>	

#### 2.3.4.1.1 Aid measures to Proton Bank

i) State recapitalisation received by Proton Bank (measure Pr1)

(89) In May 2009, Greece injected EUR 80 million into Proton Bank, which was equivalent to around 4.6% of its RWA at that time. That capital injection was made under the recapitalisation measure which is part of the Greek Banks Support Scheme. The recapitalisation took the form of preference shares.

ii) State liquidity support received by Proton Bank (measures Pr2 and Pr3)

- (90) Proton Bank has also benefited from aid measures under the guarantee and government bond loan measures which are part of the Greek Banks Support Scheme. In April 2009 Proton Bank received Greek government securities amounting to EUR 78 million (measure Pr2) and in July 2010 it received a State guarantee for issued bonds with a nominal value of EUR 149,4 million (measure Pr3). The State-guaranteed bonds were transferred to Nea Proton Bank on the resolution day but they were cancelled on 5 January 2012. The Greek government securities matured in December 2011 and were not renewed.

#### **2.3.4.1.2 Aid measures to Nea Proton Bank**

i) Coverage of Nea Proton Bank's funding gap of EUR 1 121,6 million (measure NP1)

- (91) In the context of the resolution of Proton Bank, the Greek authorities identified a funding gap in Nea Proton Bank. In line with a decision of 9 October 2011 of the Bank of Greece, the Resolution Scheme of the HDIGF paid EUR 862 million to Nea Proton Bank in December 2011. After the Bank of Greece finalised the calculation of the funding gap on 19 January 2012 at EUR 1 121,6 million, in line with a decision of the Bank of Greece of 9 April 2012<sup>57</sup> the HFSF<sup>58</sup> paid the remaining amount of EUR 259,6 million on 14 May 2012. The Resolution Scheme of the HDIGF and the HFSF thereby closed that funding gap.

ii) Capital injections by the HFSF into Nea Proton Bank in 2011 and 2012 (measure NP2)

- (92) The HFSF provided State aid to Nea Proton Bank in the form of the initial share capital (common shares) of EUR 250 million, paid out in two tranches on 9 October 2011 and 3 February 2012.

- (93) According to the updated restructuring plan of Nea Proton Bank submitted on 16 July 2012, which was the latest version of the plan which had been notified to the Commission at the time of the Nea Proton Opening Decision, Nea Proton Bank needed additional capital of EUR 300 million. That additional capital was required in part because Nea Proton Bank had suffered losses as a result of the PSI programme (impairment losses for 2011 amounted to EUR 146,5 million in relation to the GGBs and additional impairments of EUR 22 million were incorporated in the results of the first quarter of 2012). Additional capital was also needed by Nea Proton Bank because the provision charges from 2011 until 2016 had risen from the levels assumed when Nea Proton Bank was established.

- (94) According to the updated restructuring plan of Nea Proton Bank submitted on 16 July 2012, those anticipated capital needs were to take the form of an expected capital injection of EUR 285 million in 2012 and an expected capital injection of EUR 15 million in 2014. In fact, the HFSF ultimately injected EUR 230 million into Nea Proton Bank on 1 August 2012 and EUR 35 million on 31 December 2012.

iii) Capital injection by the HFSF into Nea Proton Bank before the sale to Eurobank (measure NP3)

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<sup>57</sup> Decision 2/3/9.4.2012 of the Resolution Measures Committee of the Bank of Greece.

<sup>58</sup> The remaining amount was paid by the HFSF, as according to Article 9(12) of Law 4051/2012, as applicable, the latter substituted the HDIGF in its role covering the funding gap as of 29 February 2012.

- (95) Under the sale contract of 15 July 2013, the HFSF had already committed to inject the amount of EUR 395 million into Nea Proton Bank<sup>59</sup>. The HFSF paid out the amount of EUR 395 million on 28 August 2013.

**2.3.4.2. Aid measures to New TT Bank**

- (96) T Bank, TT Bank and New TT Bank have benefited from several aid measures since 2008. Table 8 provides an overview of those aid measures.

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<sup>59</sup> See recital (53).



Table 8 - Overview of the aid measures to T Bank and TT bank.

Aid beneficiary	Measure	Description	Entity which granted the aid	Date	State aid amount (in EUR million)
<b>T Bank's activities transferred to TT Bank<sup>60</sup></b>	<b>T</b>	Financing of funding gap from T Bank to TT Bank (part 1)	HDIGF	December 2011	<b>450</b>
		After the finalization of the calculation of the funding gap, financing of the balance of the funding gap from T Bank to TT Bank (part 2)	HFSF	14.2.2013	<b>227</b>
		<b>Total amount of T</b>			<b>677</b>
<b>TT Bank</b>	<b>TT</b> Capital injection	Capital under recapitalisation measure: Greek State's preference shares	State	May 2009	<b>224,96</b>
<b>New TT Bank (bridge bank)</b>	<b>NTT1</b> Funding gap from TT to NTT	Financing of funding gap from TT Bank to New TT Bank (part 1)	HFSF	29.1.2013	2 730,8
		After the finalization of the calculation of the funding gap, financing of the balance of the funding gap from TT Bank to New TT Bank (part 2)	HFSF	14.6.2013	1 001,7
		<b>Total amount of NTT1</b>			<b>3 732,6</b>
	<b>NTT2</b> Initial share capital injection	Initial share capital of New TT Bank	HFSF	29.1.2013	<b>500</b>

#### 2.3.4.2.1 Aid measure to T Bank

##### **Intervention by the Resolution Scheme of the HDIGF in favour of T Bank of EUR 677 million (measure T)**

- (97) The Resolution Scheme of the HDIGF and the HFSF financed the funding gap resulting from the transfer of activities from T Bank to TT Bank, representing the difference between the fair value of the assets transferred from T Bank to TT Bank and the fair value of the transferred liabilities. In line with a decision of the Bank of Greece of 17 December 2011, the Resolution Scheme of the HDIGF paid the amount

<sup>60</sup> The measure was assessed as State aid benefiting the activities of T Bank that had been transferred to TT Bank, in Commission Decision of 16 May 2012 in State Aid case SA. 34115 (2012/NN) - Greece, "Resolution of T-bank" ("T Bank Decision", (OJ 284, 20.9.2012, p. 9), and the New TT Opening Decision.

of EUR 450 million<sup>61</sup>, which corresponded to around two-thirds of the estimated funding gap. After the finalisation of the calculation of the funding gap at approximately EUR 677 million, in line with a decision of the Bank of Greece of 9 April 2012<sup>62</sup>, on 14 February 2013 the HFSF<sup>63</sup> paid the balance of EUR 227 million<sup>64</sup> to New TT Bank.

#### **2.3.4.2.2 Aid measure to TT Bank**

##### **State recapitalisation received by TT Bank (measure TT)**

- (98) In May 2009, TT Bank received a capital injection of EUR 224,96 million, equivalent to around 2.9% of its RWA at that time, from Greece TT Bank received the capital injection under the recapitalisation measure which is part of the Greek Banks Support Scheme. The capital injection took the form of preference shares.

#### **2.3.4.2.3 Aid measures to New TT Bank**

##### **i) Coverage of the funding gap of New TT Bank of EUR 3 732,6 million (measure NTT1)**

- (99) The HFSF financed the funding gap in New TT Bank, representing the difference between the value of the assets transferred from TT Bank to New TT Bank and the nominal value of the transferred liabilities. In line with a Bank of Greece decision of 18 January 2013, the HFSF paid on 29 January 2013 the amount of EUR 2 730,8 million<sup>65</sup>, which corresponded to around two-thirds of the estimated funding gap. After the Bank of Greece finalised the calculation of the funding gap at EUR 3 732,6 million<sup>66</sup>, in line with a Bank of Greece decision of 21 May 2013 the HFSF paid on 14 June 2013 the remaining amount of EUR 1 001,7 million to New TT Bank.

##### **ii) Capital injections by the HFSF into New TT Bank (measure NTT2)**

- (100) The HFSF constituted the sole shareholder of New TT Bank and provided it with State aid in the form of the initial share capital (common shares) of EUR 500 million.

#### **2.4. The restructuring plan and the new business model**

- (101) On 16 April 2014 Greece submitted the restructuring plan of the Bank, which explains how the Bank, as a combined entity resulting from the acquisition of Nea Proton Bank and New TT Bank, intends to restore its long-term viability.

##### **2.4.1. Domestic operations**

- (102) Through the restructuring plan, the Bank will focus on its core banking activities in Greece. While its international operations accounted for around 26% of loans in

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<sup>61</sup> The initial funding gap was estimated at EUR 700 million, according to the Decision 26/2/17.12.2011 of the Credit and Insurance Committee of the Bank of Greece.

<sup>62</sup> Decision 2/1/9.4.2012 of the Resolution Measures Committee of the Bank of Greece.

<sup>63</sup> The remaining amount was paid by the HFSF, as according to Article 9(12) of Law 4051/2012, as applicable, the latter substituted the HDIGF in its role covering the funding gap as of 29 February 2012.

<sup>64</sup> As regards the amount of EUR 227 million paid by the HFSF to New TT Bank, the decision of the Resolution Measures Committee of the Bank of Greece of 3 May 2012 provided that in line with Article 9(12) of Law 4051/2012, HFSF was obliged to pay instead of the HDIGF not only the new but also the pending HDIGF liabilities not fulfilled until the enactment of Law 4051/2012 on 29 February 2012. Therefore, the HFSF filed an application for the annulment of the relevant decision of the Bank of Greece to the Council of State. For that reason, New TT Bank has committed to the HFSF by letter of 11 February 2013 that if the Court decides in favour of the HFSF, New TT Bank will return the amount of EUR 227 million to the HFSF. See footnote 36, pp. 6 and 48.

<sup>65</sup> The initial funding gap was estimated at approximately EUR 4 096 million, according to the Decision 7/1/18.1.2013 of the Resolution Measures Committee of the Bank of Greece.

<sup>66</sup> Decision 11/1/21.5.2013 of the Resolution Measures Committee of the Bank of Greece.

2010<sup>67</sup>, that share had already fallen to 20% at the end of 2012 and will further decrease to [...] % by the end of 2018<sup>68</sup>.

- (103) The key priority of the Bank is to bring its Greek banking operations back to profitability and viability by the end of the restructuring period (31 December 2018). To that end, the restructuring plan includes a number of measures aimed at improving the Bank's operational efficiency and net interest margin, as well as measures enhancing its capital position and balance sheet structure.
- (104) As regards operational efficiency, the Bank had already started a vast programme of rationalization well before the acquisitions of New TT Bank and Nea Proton Bank. Since 2010 the Bank has reduced its physical footprint in Greece. On a stand-alone basis (excluding the acquisitions of New TT Bank and Nea Proton Bank), it has reduced its branches from 564 in June 2008 to [...] in 2014 and also reduced its Greek workforce (from 10 142 in 2008 to 9 037 in 2012)<sup>69</sup>.
- (105) Until the end of the restructuring plan, the Bank plans to further decrease both the number of branches, from 645 pro-forma at 31 December 2012 to [...] at 31 December 2018, and the number of employees, from 12 430 to [...] on a pro-forma basis, that is to say taking into account Nea Proton Bank and New TT Bank<sup>70</sup>.
- (106) The increased efficiency in terms of branches and personnel will help to bring down the total cost of the combined Greek banking activities by [...] % from EUR 913 million on an annual basis in 2013<sup>71</sup> to EUR [...] million in 2018<sup>72</sup>. As a result, the expected cost-to-income ratio of the Bank's Greek banking activities will fall below [...] % at the end of the restructuring period, down from 60% in 2012.
- (107) The restructuring plan also describes how the Bank will improve its funding costs, which is key to the restoration of viability. The Bank expects to be able to pay lower interest rates on its deposits on the back of the more stable environment and in particular the foreseen stabilisation and recovery of the Greek economy, which is expected to grow again from 2014 onwards. Spreads on deposits (average of time deposits, sight deposits and savings rates) are expected to decrease in Greece from 223 basis points in 2012 to [...] basis points in 2018<sup>73</sup>. That decrease in spreads would be mainly achieved by paying much lower rates on time deposits. Similarly, the Bank's reliance on the emergency liquidity assistance and wider Eurosystem funding will decrease from 42,9% of its total assets at group level in 2012 to [...] % in 2018<sup>74</sup>.
- (108) The restructuring plan anticipates that the Bank will also strengthen its balance sheet. Its net loan-to-deposit ratio in Greece will decrease to [...] % in 2018 (down from 160% in 2012 and 115% in 2013)<sup>75</sup>, while its capital adequacy will improve with a Core Tier One ratio of [...] % at group level in 2018<sup>76</sup> (instead of negative equity prior to the first bridge recapitalisation).

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<sup>67</sup> EFG Eurobank, Annual report 2010, p. 9, available online at: <http://www.eurobank.gr/Uploads/pdf/Eurobank%20FIN%20AR%202010%20en.pdf>.

<sup>68</sup> Restructuring plan p. 50, based on net loans.

<sup>69</sup> Restructuring plan, pp. 62-63.

<sup>70</sup> Restructuring plan p. 64 (2012 figures on a pro-forma basis).

<sup>71</sup> Bank's submission dated 10 September 2013.

<sup>72</sup> Restructuring plan p. 64.

<sup>73</sup> Restructuring plan, p. 61.

<sup>74</sup> Financial projections annexed to the restructuring plan, notified to the Commission on 16 April 2014.

<sup>75</sup> Restructuring plan, p. 76.

<sup>76</sup> Restructuring plan, p. 76.

- (109) Another strategic priority of the Bank is the management of non-performing loans. In addition to enhanced credit processes regarding both the origination of loans and the restructuring of non-performing loans, the restructuring plan focusses on the handling of impaired exposures, with the creation of a new remedial unit. That unit will be dedicated to the restructuring of impaired exposures. It will benefit from the expertise of 30 to 50 remedial relationship managers<sup>77</sup>. The rate of non-performing loans will reach [...] % at Group level in 2015 ([...] % in 2015 for the Greek domestic market<sup>78</sup>) and then start to decrease, with an expected rate of [...] % at the end of the restructuring period<sup>79</sup> (30% in Greece before debt write-offs). The loan impairments of the Bank in Greece will decrease from EUR 1 652 million in 2013 to EUR [...] million in 2018<sup>80</sup>, due to the recovery of the Greek economy.
- (110) The improvement of operational efficiency, the reduction of the net interest margin, and the decreasing cost of risk will enable the Bank to be profitable in Greece from 2015 onwards. The Bank anticipates that, at consolidated level, its losses will amount to EUR [...] million in 2014 and EUR [...] million in 2015, while its profits will amount to EUR [...] million, EUR [...] million, and EUR [...] million in 2016, 2017 and 2018 respectively<sup>81</sup>. Its consolidated return on equity will reach [...] % in 2018<sup>82</sup>. That level of profitability will be mainly driven by the Greek market (with a return on equity of [...] % at the end of the restructuring period) while [...] and [...] will report lower levels of profitability (at [...] % and [...] % respectively).

#### **2.4.2. International banking activities**

- (111) The Bank has already started to deleverage and restructure its international network. It has already sold subsidiaries in Turkey (Eurobank Tefken) and Poland (EFG Poland). The commercial gap, that is to say the difference between the outstanding amount of deposits and the outstanding amount of loans for a given subsidiary, of the remaining international network has fallen from EUR 1,7 billion in 2010 to EUR 0.8 billion, while operating costs were reduced by 9% between 2010 and 2012<sup>83</sup>.
- (112) The Bank will continue to restructure and deleverage its international network. In particular, the Bank has committed to reduce the size of its portfolio of international assets to EUR 8,77 billion by 30 June 2017. The Bank has also committed to further downsize that portfolio to EUR 3,5 billion should the HFSF need to inject more than one billion euros in the upcoming share capital increase.
- (113) One option explored by the Bank in the restructuring plan to comply with that target is to sell its activities in [...] <sup>84</sup>.
- (114) Those divestments represent [...] % of the Bank's foreign assets as of 31 December 2012. Foreign assets would therefore amount to EUR [...] billion as of 31 December 2018, with an international network focussed on [...] and [...].

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<sup>77</sup> Restructuring plan, p. 62.

<sup>78</sup> Restructuring plan, p. 51.

<sup>79</sup> Financial projections annexed to the restructuring plan, notified to the Commission on 16 April 2014.

<sup>80</sup> Restructuring plan, p. 51.

<sup>81</sup> The net result of the Greek activities will turn positive in 2015 with EUR 20 million, EUR 304 million, EUR 471 million and EUR 554 million of profits respectively in 2015, 2016, 2017 and 2018.

<sup>82</sup> Financial projections annexed to the restructuring plan, notified to the Commission on 16 April 2014.

<sup>83</sup> Figures submitted by the Bank on 9 May 2013.

<sup>84</sup> The Bank has not committed to implement that particular divestment programme, and remain free, as described in Annex I, to choose a different strategy to comply with the overall target.

- (115) The restructuring plan highlights the need to reduce the reliance of the foreign subsidiaries on their Greek mother company as regards their funding needs and to continue safeguarding the capital position of the Bank.
- (116) To that end, the Bank is planning to implement a significant cost reduction programme in the international network, [...]. In [...] for instance, [...] branches will be closed while the workforce will decrease by [...] employees from 31 December 2012 until the sale of the subsidiary in [...] <sup>85</sup>.
- (117) The Bank will reduce its total funding to the foreign subsidiaries from EUR 2 billion in 2012 to [...] in 2018<sup>86</sup>, while the return on equity will reach [...] % and [...] % in [...] and [...] respectively.

#### **2.4.3. Non-banking activities: sale of insurance business and real estate activities**

- (118) The Bank has reduced its ownership in its real estate subsidiary Eurobank Properties below 35% by means of a share capital increase, with a positive impact on the Core Tier One ratio of the Bank<sup>87</sup>. The Bank will fully divest that subsidiary by 31 December 2018.
- (119) The Bank also plans to sell its insurance subsidiaries by [...].

#### **2.4.4. Private capital raising and contribution by existing shareholders and subordinated creditors**

- (120) The Bank succeeded in raising capital on the market and thereby reduced the State aid which was needed by the Bank.
- (121) The shareholders were heavily diluted by the Spring 2013 recapitalisation, since the HFSF received 98,56% of the Bank's shares, leaving the pre-existing shareholders with only a 1,44% shareholding. Therefore, the HFSF took full control over the Bank in June 2013. No dividend has been paid in cash since 2008.
- (122) In February 2012 the Bank offered to buy back hybrid instruments from private investors at a price between 40% and 50% of their nominal value. That buy-back price was determined on the basis of the market value of the instruments and contained a premium of not more than ten percentage points, which was added to encourage investors to participate in the buy-back. The offer was accepted for almost 50% of the instruments' total nominal value which, after taking the costs of the transaction into consideration, left the Bank with a profit of EUR 248 million<sup>88</sup>.
- (123) In May 2013 the Bank announced another liability management exercise. The Bank offered debt holders the opportunity to convert their lower tier one and lower tier two securities, with an outstanding amount of EUR 662 million, into ordinary shares, at par. The conversion price was set so as to equal the subscription price paid by the HFSF in the Spring 2013 recapitalisation<sup>89</sup>. The acceptance rate was 48%. Since the lower tier one and lower tier two bond holders converted their securities into lower

<sup>85</sup> Financial projections annexed to the restructuring plan, notified to the Commission on 16 April 2014.

<sup>86</sup> Financial projections annexed to the restructuring plan, notified to the Commission on 16 April 2014.

<sup>87</sup> Announcement of Eurobank of 19 June 2013, available online at: [http://www.eurobank.gr/Uploads/pdf/EuproVeryFinalEnglish\\_190613.pdf](http://www.eurobank.gr/Uploads/pdf/EuproVeryFinalEnglish_190613.pdf).

<sup>88</sup> Announcement of the results of the invitations to tender existing tier one and lower tier II securities, 20 February 2013, available online at: [http://www.eurobank.gr/Uploads/pdf/Harper%20-%20Final%20Results%20Press%20Release%20\\_Eng.pdf](http://www.eurobank.gr/Uploads/pdf/Harper%20-%20Final%20Results%20Press%20Release%20_Eng.pdf).

<sup>89</sup> Liability Management Exercise, available online at: [http://www.eurobank.gr/Uploads/pdf/Press%20Release\\_Offer%20Results\\_ENGLISH.pdf](http://www.eurobank.gr/Uploads/pdf/Press%20Release_Offer%20Results_ENGLISH.pdf) and Report of the Hellenic Financial Stability Fund for the period January - June 2013, available online at: [http://www.hfsf.gr/files/HFSF\\_activities\\_Jan\\_2013\\_Jun\\_2013\\_en.pdf](http://www.hfsf.gr/files/HFSF_activities_Jan_2013_Jun_2013_en.pdf).

subordinated instruments with no cash consideration, the capital raised reached EUR 317 million.

- (124) As a result of the two buy backs, the stock of subordinated and hybrid debt decreased from EUR 1 045 million at 31 December 2011 to EUR 283 million at 31 December 2013<sup>90</sup>.

## **2.5. Commitments of the Greek authorities**

- (125) Greece gave a commitment that the Bank and its affiliates will implement the restructuring plan submitted on 16 April 2014 and gave further commitments regarding the implementation of the restructuring plan (“the Commitments”). The Commitments, listed in Annex I, are summarized in this section.
- (126) First Greece has given a commitment that the Bank will restructure its commercial operations in Greece, setting a maximum number of branches and employees as well as a maximum amount of total costs to be complied with at 31 December 2017<sup>91</sup>.
- (127) Greece has also given a commitment that the Bank will reduce the cost of deposits collected in Greece and will comply with a maximum ratio of net loans to deposits by 31 December 2017<sup>92</sup>.
- (128) Regarding the Bank's foreign subsidiaries, Greece has given a commitment that the Bank will not provide additional capital support unless predefined conditions are met. Greece has also given a commitment that the Bank will significantly deleverage its international assets by 30 June 2018<sup>93</sup>.
- (129) Greece has given a commitment that the Bank will divest its insurance activities, its real estate subsidiary and a number of securities and will reduce the size of its private equity portfolio. In addition, the Bank will not purchase non-investment grade securities, with limited exceptions<sup>94</sup>.
- (130) Greece gave a number of commitments related to the corporate governance of the Bank. It committed to limit the remuneration of the Bank’s employees and managers, to make the Bank comply with Greek laws on corporate governance and set up an efficient and adequate organizational structure<sup>95</sup>.
- (131) Greece has also given a commitment that the Bank will enhance its credit policy, in order to prevent any discrimination at any stage of the credit process and to ensure decisions on granting and restructuring loans aim at maximizing the profitability of the Bank. Greece has given a commitment that the Bank will improve the monitoring of credit risk as well as the restructuring of loans<sup>96</sup>.
- (132) A number of commitments deal with the operations of the Bank with connected borrowers. Those commitments aim at ensuring that the Bank does not deviate from prudent banking practices when granting or restructuring loans to its employees, managers and shareholders, as well as to public entities, political parties and media companies<sup>97</sup>.

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<sup>90</sup> See consolidated financial statements for 2011 and 2013.

<sup>91</sup> See Commitments in Annex I, chapter II.

<sup>92</sup> See Commitment in Annex I, chapter II.

<sup>93</sup> See Commitments in Annex I, chapter II.

<sup>94</sup> See Commitments in Annex I, chapter II.

<sup>95</sup> See Commitments in Annex I, chapter III, section A.

<sup>96</sup> See Commitments in Annex I, chapter III, section A.

<sup>97</sup> See Commitments in Annex I, chapter III, section A.

- (133) Finally Greece has given a commitment to impose further restrictions for the Bank, such as a coupon and dividend ban, an acquisition ban and an advertising ban<sup>98</sup>.
- (134) Those commitments will be monitored until 31 December 2018 by a monitoring trustee.
- (135) Separately, in the framework of the current capital increase of the Bank, since the HFSF is backstopping the capital increase, Greece gave a commitment that it would implement the measures provided for in Article 6a of the HFSF Law as amended on 30 March 2014, a provision which aims at allocating the residual amount of the capital shortfall of a credit institution to the holders of its capital instruments and other subordinated liabilities, as may be necessary, prior to any injection of capital by the HFSF.

### **3. GROUNDS FOR INITIATING THE FORMAL INVESTIGATION PROCEDURES**

#### **3.1. Grounds for initiating the formal investigation procedure regarding the first bridge recapitalisation**

- (136) On 27 July 2012, the Commission opened the formal investigation procedure in order to verify whether the conditions of the 2008 Banking Communication<sup>99</sup> were met regarding the appropriateness, necessity and proportionality of the first bridge recapitalisation provided by the HFSF in favour of the Bank (measure B1).
- (137) Regarding the appropriateness of the measure, given the fact that the aid came after prior recapitalisation and liquidity aid and given the protracted rescue period, the Commission expressed doubts as to whether all actions possible had been taken by the Bank to avoid a need for aid in the future<sup>100</sup>. In addition, the Commission was not clear who would control the Bank once the first bridge recapitalisation was replaced by a permanent recapitalisation<sup>101</sup> as the Bank might come under the control either of the State or of minority private owners. The Commission noted that it would wish to ensure that the quality of the Bank's management and notably its lending process should not deteriorate in either case.
- (138) Regarding the necessity of the first bridge recapitalisation, in recital 66 of the Eurobank Opening Decision the Commission questioned whether all the measures possible had been taken to avoid that the Bank again would need aid in the future. Moreover, since the duration of the bridge recapitalisation period was uncertain the Commission could not conclude whether it was sufficient and complied with the remuneration and burden-sharing principles under State aid rules. Furthermore, as the terms of the conversion of the first bridge recapitalisation into a permanent recapitalisation were not known at the time the Eurobank Opening Decision was adopted, the Commission could not assess them.
- (139) Regarding the proportionality of the measure, the Commission expressed doubts as to whether the safeguards (advertisement ban, coupon and dividend ban, call option ban and buy-back ban as described in recital 71 of the Eurobank Opening Decision) were sufficient in relation to the first bridge recapitalisation. Furthermore, in recital 72 of the Eurobank Opening Decision the Commission stated that distortions of competition could be caused by the lack of rules preventing the HFSF from

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<sup>98</sup> See Commitments in Annex I, chapter III, section C.

<sup>99</sup> Communication from the Commission - 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. 2).

<sup>100</sup> Recital 59 of the Eurobank Opening Decision.

<sup>101</sup> Recital 63 of the Eurobank Opening Decision.

coordinating all the four largest Greek banks (namely, the Bank, Alpha Bank, NBG and Piraeus) and the absence of adequate safeguards to avoid them sharing commercially sensitive information. The Commission, therefore, proposed the appointment of a monitoring trustee who would be physically present in the Bank.

### **3.2. Grounds for initiating the formal investigation procedure regarding Nea Proton Bank**

- (140) On 26 July 2012, the Commission opened the formal investigation procedure in order to verify whether the EUR 1 122 million intervention by the Resolution Scheme of the HDIGF (measure NP1), as well as the EUR 250 million capital injection by the HFSF and the capital injections by the HFSF amounting to a total of EUR 300 million (measure NP2), in favour of Nea Proton Bank complied with the general criteria for compatibility and the requirements of the 2008 Banking Communication, the Recapitalisation Communication<sup>102</sup> and the Restructuring Communication<sup>103</sup> (restoration of long-term viability, burden-sharing and limitation of the aid to the minimum necessary, and limitation of distortions of competition).
- (141) Regarding the appropriateness of the measures, the Commission stated that those measures were appropriate as rescue aid.
- (142) Regarding the necessity of the measures, the Commission noted that the intervention of the Resolution Scheme of the HDIGF was necessary in both its amount and form, while the capital injections by the HFSF were necessary only in their form. However, as regards the amount of capital injections by the HFSF, in recital 59 of the Nea Proton Opening Decision the Commission expressed doubts as to whether Nea Proton Bank would be able to restore its long-term viability on a stand-alone basis and whether a stand-alone restructuring was the cheapest option available. Furthermore, in recitals 60 and 61 of the Nea Proton Opening Decision the Commission stated that the inability of Nea Proton Bank to sufficiently remunerate the recapitalisation by the HFSF created doubts as to whether it was a fundamentally sound bank and therefore triggered the need for in-depth restructuring.
- (143) As regards the proportionality of the measures, the Commission considered that they were proportionate as rescue aid.
- (144) Regarding the restoration of long-term viability of Nea Proton Bank, in recital 65 of the Nea Proton Opening Decision the Commission expressed doubts as to whether that bank could be made viable on a stand-alone basis.
- (145) The Commission doubted that the restructuring proposed was sufficient compared to the depth of the restructuring required given the absence of sufficient remuneration.

### **3.3. Grounds for initiating the formal investigation procedure regarding New TT Bank**

- (146) On 6 May 2013, the Commission opened the formal investigation procedure in order to verify whether the EUR 4,1 billion financing of the funding gap to the transferred activities from TT Bank to New TT Bank (measure NTT1), the EUR 500 million capital injection by the HFSF into New TT Bank (measure NTT2), the EUR 224,96 million capital injection in the form of preference shares under the Greek Banks

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<sup>102</sup> 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).

<sup>103</sup> Commission Communication "The return to viability and the assessment of restructuring measures in the financial sector in the current crisis under the State aid rules" (OJ C 195, 19.8.2009, p. 9).



Support Scheme to TT Bank (measure TT) and the EUR 0,68 billion intervention by the Resolution Scheme of the HDIGF in favour of T Bank's assets which were transferred to TT Bank (measure T) complied with the general criteria for compatibility and the requirements of the 2008 Banking Communication, the Recapitalisation Communication and the Restructuring Communication (restoration of long-term viability, burden-sharing and limitation of the aid to the minimum necessary, and limitation of distortions of competition).

- (147) The Commission considered that both measures NTT2 and NTT1 were appropriate and necessary in their form as rescue aid. As regards the necessity of measure NTT2 in terms of its amount, the Commission, doubting the long-term viability of New TT Bank on a stand-alone basis, considered that restructuring on a stand-alone basis might not be the only and the cheapest option available<sup>104</sup>. As regards the remuneration of both measures, the Commission stated that the coverage of the funding gap was a definitive cost without offsetting future revenues which triggered a need for in-depth restructuring<sup>105</sup>.
- (148) Regarding the proportionality of both measures, the Commission considered that measures NTT2 and NTT1 were proportionate as rescue aid in the short-term but in recital 79 of the New TT Opening Decision required measures to be introduced rapidly that would limit negative spill-over effects.
- (149) Regarding the compatibility of measure T, the Commission had already temporarily approved it as rescue aid on 16 May 2012 in its Decision on the resolution of T Bank ("T Bank Decision")<sup>106</sup> but could not give a definitive approval of the aid to T Bank's activities which were transferred to TT Bank. The Commission prolonged in the New TT Opening Decision<sup>107</sup> the authorisation of the measure as rescue aid until such time as it would take a final decision on an updated version of the restructuring plan for TT Bank.
- (150) Regarding the compatibility of those measures with the Restructuring Communication, the Commission doubted whether New TT Bank would restore its long-term viability on a stand-alone basis. That scepticism was based on the limited number of the proposed measures to be taken by New TT Bank to generate profits in the future, the uncertainty of the voluntary retirement scheme as regards the timing and the acceptance rate by the employees, the absence of further measures to reduce personnel costs, the lack of measures for rationalization of the branch network after the acquisition of T Bank and a concomitant failure to exploit potential synergies<sup>108</sup>.
- (151) In recitals 90 and 91 of the New TT Opening Decision the Commission raised concerns about whether the ambitious decrease in interest margins on existing deposits and increase in loan margins on new loan production could be implemented without New TT Bank losing a significant amount of customers and without making risky lending. Moreover, the Commission doubted whether New TT Bank would double its corporate loan book as planned and whether, given the lack of expertise, it could achieve the planned strong growth rate of the net interest income.
- (152) Therefore, in recital 95 of the New TT Opening Decision the Commission took the view that the reintegration of TT Bank into a larger viable financial company would

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<sup>104</sup> Recital 73 of the New TT Opening Decision.

<sup>105</sup> Recitals 75 and 77 of the New TT Opening Decision.

<sup>106</sup> Commission decision of 16 May 2012 in State Aid SA.34115 (2012/NN) "Resolution of T Bank" (OJ C284, 20.9.2012, p. 9).

<sup>107</sup> Recital 83 of the New TT Opening Decision.

<sup>108</sup> Recitals 88 and 89 of the New TT Opening Decision.

increase the viability prospects of the New TT Bank, as it would allow for rationalisation of costs, re-pricing of deposits and new loans, and the offer of a wider range of products.

- (153) As New TT Bank harboured the economic activities previously carried out within TT Bank, including those of T Bank, the Commission opened a formal investigation procedure regarding whether measures T and TT offered a long-term solution for the viability of New TT Bank and invited interested parties to submit comments.
- (154) Regarding burden-sharing, the Commission considered that restructuring on a stand-alone basis inflated the restructuring costs and therefore it doubted that State aid was limited to the minimum. Moreover, the Commission noted that, despite the fact that sufficient burden-sharing of shareholders and subordinated debt holders was achieved, which was probably the maximum feasible, the absence of remuneration triggered the need for in-depth restructuring, both in terms of viability measures and in terms of measures to limit distortions of competition. The Commission also observed that the fact that a large part of the losses incurred stemmed from the waiver of debt in favour of the State justified a lower remuneration<sup>109</sup>.
- (155) Regarding distortions of competition, the Commission noted that the huge amount of aid received by TT Bank and transferred activities of T Bank and the lack of remuneration called for a deep restructuring and reduction of the market presence of New TT Bank. Moreover, while the losses stemmed mainly from the holding of GGBs, the Commission observed that TT Bank had held more GGBs than other Greek banks in proportion to its size and considered that it reflected inappropriate risk taking<sup>110</sup>. Lastly, it noted that, although New TT Bank remained on the market almost as TT Bank had been before, the distortions of competition would be limited given the former's relatively small size and the absence of foreign activities. However, the Commission doubted whether sufficient measures had been taken to limit undue distortions of competition and took the view that a price leadership ban and other behavioural measures might be necessary<sup>111</sup>.

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<sup>109</sup> Recital 103 of the New TT Opening Decision.

<sup>110</sup> Recital 104 of the New TT Opening Decision.

<sup>111</sup> Recital 107 of the New TT Opening Decision.

#### **4. COMMENTS FROM INTERESTED PARTIES ON THE FORMAL INVESTIGATION PROCEDURE REGARDING THE FIRST BRIDGE RECAPITALISATION**

##### **Comments from a Greek bank**

- (156) On 3 January 2013, the Commission received comments submitted by a Greek bank on the Eurobank Opening Decision. That Greek bank commented that the recapitalisation of Greek banks by the HFSF constituted, in principle, a welcome step towards a healthier and more viable banking system and expressed no objection to the recapitalisation of Eurobank.
- (157) However, while expressing its entire support for the principle of the recapitalisation of Greek banks by the HFSF, that Greek bank explained that, in order to minimize distortions of competitions and to avoid discrimination, it expected that recapitalisation by the HFSF to be open to all banks operating in Greece under similar conditions.

#### **5. COMMENTS FROM GREECE ON THE FORMAL INVESTIGATION PROCEDURES**

##### **5.1. Comments from Greece on the formal investigation procedure regarding the first bridge recapitalisation**

- (158) On 5 September 2012, Greece submitted comments which had been prepared by the Bank of Greece and the HFSF on the Eurobank Opening Decision.

##### **5.1.1. Comments prepared by the Bank of Greece**

- (159) Regarding the appropriateness of the first bridge recapitalisation, the Bank of Greece noted that the amount of EUR 18 billion of capital with which the HFSF recapitalised the four largest Greek banks in May 2012 was less than the final amount which was needed in order for those banks to gradually reach and maintain a Core Tier One capital ratio set at 10% by June 2012 and a Core Tier One capital ratio set at 7% under a three-year adverse stress scenario. It also noted that the first bridge recapitalisation was temporary, given that the recapitalisation process would be concluded with share capital increases by those four banks.
- (160) The Bank of Greece also observed that the recapitalisation of the largest Greek banks is part of the longer term restructuring of the Greek banking sector. It noted that where a bank remains in private hands, the management will most probably remain the same, while if a bank becomes State-owned (that is to say, owned by the HFSF), the HFSF may appoint new management which, in any case, will be assessed by the Bank of Greece. The Bank of Greece noted that it assesses the corporate governance framework, the adequacy of management and the risk profile of every bank on an ongoing basis in order to ensure that excessive risks are not taken. It also pointed out that the HFSF had already appointed representatives in the Board of Directors of the recapitalized banks.
- (161) Regarding the necessity of the first bridge recapitalisation, the Bank of Greece observed that the Bank's recapitalisation was limited so as to ensure that the then applicable minimum capital requirements (8%) were met. It also stated that the protracted period of time prior to the recapitalisations was due to the sharp deterioration of the operating environment in Greece and the impact of the PSI programme, to the complexity of the whole project and to the need to maximize private investors' participation in the share capital increases.

(162) Regarding the proportionality of the first bridge recapitalisation, the Bank of Greece pointed out that the full implementation of the restructuring plan to be submitted to the Commission is safeguarded by the fact that the suspension of the voting rights of the HFSF will be lifted if, inter alia, the restructuring plan is substantively violated. The Bank of Greece also observed that the Bank's difficulties were not due either to an underestimation of risks by the Bank's management or to commercially aggressive actions.

#### **5.1.2. *Comments prepared by the HFSF***

(163) Regarding the appropriateness of the first bridge recapitalisation, to address the issue of potential State interference if the State provides high amounts of State aid through the HFSF and the HFSF has full voting rights, the HFSF stated that the HFSF-funded banks are not considered to be public entities or under State control and that they would not be controlled by the State after they have been permanently recapitalised by the HFSF. The HFSF pointed out that it is a fully independent private-law legal entity with autonomy of decision. It is not subject to government control, pursuant to Article 16C, paragraph 2 of the HFSF Law, according to which the credit institutions to which the HFSF has provided capital support are not part of the broader public sector. It also referred to the governing structure of the HFSF.

(164) As regards the intervention of the HFSF in the Bank's management, the HFSF noted that it would respect the Bank's autonomy and not interfere with its day-to-day management given that its role is limited to that laid down in the HFSF Law. It stated that there would not be any State interference or coordination and that the decisions of the Bank regarding the lending process (inter alia on collateral, pricing and solvency of borrowers) would be taken on the basis of commercial criteria.

(165) The HFSF pointed out that the HFSF Law and the pre-subscription agreement set appropriate safeguards in order to prevent existing private shareholders from excessive risk-taking. It pointed to elements such as i) the appointment of HFSF representatives as independent non-executive members of the Board of Directors of the Bank and their presence at committees, ii) the HFSF carrying out due diligence in the Bank and iii) the fact that, after the final recapitalisation, its voting rights would be restricted only for as long as the Bank complied with the terms of the restructuring plan.

(166) Regarding the necessity of the first bridge recapitalisation and specifically regarding the level of the remuneration of aid, the HFSF stated that the remuneration had been agreed with the representatives of the Commission, the ECB and the IMF. That agreed level took into account that the first bridge recapitalisation would be converted into a permanent recapitalisation before 30 September 2012, a deadline which was set in March 2012 in the MEFP between the Commission, the ECB and the IMF and Greece.

(167) Regarding the proportionality of the first bridge recapitalisation, the HFSF noted that the measures it adopted, such as those described in recital (165) of the present decision, are sufficient safeguards in view of the large amounts of aid received and the protracted rescue period. Moreover, the HFSF stated that there are appropriate measures in place in order to ensure that banks in which the HFSF participates do not share commercially sensitive information between them. Such measures include the appointment of different HFSF representatives to those banks, the mandates addressed to those representatives which specifically safeguard against the flow of information from one representative to another and clear internal instructions to those officers not to transmit commercially sensitive information of the banks. Moreover,

the HFSF stated that it does not exercise its rights in relation to the banks in a manner which may prevent, restrict, distort or significantly lessen or impede effective competition. Lastly, the HFSF pointed out that the members of its Board of Directors and its employees are subject to strict confidentiality rules and fiduciary duties and are bound by provisions concerning professional secrecy with regards to its affairs.

## **5.2. Comments from Greece on the formal investigation procedure regarding Nea Proton Bank**

(168) On 5 September 2012, Greece submitted comments which had been prepared by the Bank of Greece and the HFSF on the Nea Proton Opening Decision.

### **5.2.1. Comments prepared by the Bank of Greece**

(169) The Bank of Greece observed that Nea Proton Bank, as an interim credit institution owned by the HFSF, could not provide a longer term business plan on a stand-alone basis. Moreover, the Bank of Greece noted that it is closely following the implementation of the business plan prepared by the HFSF for Nea Proton Bank and submitted to the Commission in order to ensure that Nea Proton Bank could be sold within the period laid down by law.

(170) Regarding the profitability growth rate, the Bank of Greece pointed out that the biggest part of the growth was anticipated to occur during 2013 (when net interest income was expected to rise to EUR 55,3 million, compared to EUR 22,7 million for 2012), would stem mainly from the reduction of total interest expenses and would be the result of two factors: a roll-over of term deposits that used to bear high yields at better terms and a reduction by 30% of the total outstanding amount of deposits during the first half of 2012. Moreover, the Bank of Greece stressed the fact that from 2013 onwards net interest income figures would move quite smoothly and would raise no doubts about the ability of Nea Proton Bank to meet the target.

### **5.2.2. Comments prepared by the HFSF**

(171) Regarding the necessity of the measures in favour of Nea Proton Bank, the HFSF noted that the Bank of Greece is the pertinent authority to decide on any resolution measure and that the HFSF injected the minimum capital required for regulatory purposes.

(172) Regarding the restoration of long-term viability of Nea Proton Bank, the HFSF referred to the resolution framework under which the HFSF had to sell Nea Proton Bank within two years and agreed with the Commission that Nea Proton Bank could be a part of larger and viable entity. Although the restructuring plan for Nea Proton Bank was based on a "stand-alone basis" model, the HFSF explained that its objective was to facilitate the sale of that bank by improving its attractiveness to investors and its financial results. The HFSF commented that the capital injections not only allowed Nea Proton Bank to respect the minimum capital adequacy ratio but also improved its financial position and its attractiveness for any future merger with other small banks. The HFSF also noted that the additional capital injection had been needed to cover impairment losses related to the PSI programme and the increased provision charges for loans.

(173) The HFSF observed that Nea Proton Bank had improved its cost of funding and the loyalty of deposits. Nea Proton Bank's reliance on the Eurosystem fell during 2012 and it had improved its liquidity position. The additional capital injection had helped to reduce interest rates on deposits and to improve interest rate margins. Nea Proton Bank had already re-priced some of its loan portfolio, using risk-based pricing with interest rates well above the cost of funding. Moreover, the planned growth rate of

the net interest income would occur with a conservative expansion in the corporate market segment and by enhancing portfolio quality.

- (174) The HFSF observed that in 2012 Nea Proton Bank had significantly reduced its operating costs, that its two only subsidiaries would cease operations, that its participation in insurance brokers was being greatly reduced and that its proprietary trading activities would end.
- (175) Finally, the HFSF noted that distortions of competition would be limited given the small share of Nea Proton Bank in total banking assets in Greece and the fact that it was not considering aggressive deposit-taking.

### **5.3. Comments from Greece on the formal investigation procedure regarding New TT Bank**

- (176) On 19 July 2013, the Ministry of Finance submitted comments on the New TT Opening Decision.
- (177) Regarding the necessity of measure NTT1, the Ministry of Finance added that the exact value of the assets and liabilities that were transferred to New TT Bank was defined based on the external auditors' report in accordance with Article 63E, paragraph 6, of Law 3601/2007.
- (178) Regarding the necessity of measure NTT2, the Ministry of Finance commented that the Second Adjustment Programme for Greece (second Review-May 2013) required the sale of New TT Bank to a third party by 15 July 2013.
- (179) Regarding the remuneration of measures NTT1 and NTT2, the Ministry of Finance noted that the HFSF, which fills the funding gap until 31 December 2013 instead of the HDIGF, obtains a preferential claim ahead of other unsecured creditors in case of the liquidation of the assets that remained in the ownership of TT Bank and that only the claims of employees to receive 50% of their compensation rank before the HFSF's claim. Therefore, it observed that the product of the liquidation of those assets will benefit the HFSF mainly and so reduce the cost borne by the State.
- (180) Regarding the restoration of long-term viability of New TT Bank, the Ministry of Finance observed that, as an interim credit institution, New TT Bank had to be sold within two years of its establishment, in accordance with Article 63E of Law 3601/2007. The sale of New TT Bank would, in line with the MEFP of May 2013, be completed by 15 July 2013, thus ensuring the long-term viability of its activities.

## **6. ASSESSMENT OF AID RELATED TO THE ACQUIRED BUSINESSES**

### **6.1. Assessment of aid related to Nea Proton Bank**

#### **6.1.1. Existence and the amount of aid**

- (181) The Commission has to establish the existence of State aid within the meaning of Article 107(1) of the Treaty. 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 or the production of certain goods, in so far as it affects trade between Member States.

##### **6.1.1.1. Existence of aid in the measures granted under the Greek Banks Support Scheme (measures Pr1, Pr2 and Pr3)**

- (182) The EUR 80 million capital injection by the Greek State into Proton Bank in May 2009 (measure Pr1), the Greek government securities amounting to EUR 78 million obtained by Proton Bank in April 2009 (Measure Pr2) and the State guarantee given

to Proton Bank for issued bonds with a nominal value of EUR 149,4 million in July 2010 (Measure Pr3) were granted under the Greek Banks Support Scheme<sup>112</sup>. In the Decision approving that scheme, the Commission concluded that measures granted under that scheme would constitute State aid.

- (183) As concluded in recital (38) of the Nea Proton Opening Decision, Nea Proton Bank harbours the economic activities of Proton Bank. Measures Pr1, Pr2 and Pr3 have benefited Nea Proton Bank, as they contributed to the stabilisation and the continuance of the economic activities which were transferred to it and would otherwise no longer exist. Therefore, the Commission considers that they have benefited the economic activities transferred to Nea Proton Bank.

**6.1.1.2. Existence of aid in the coverage of the funding gap of Nea Proton Bank (measure NP1)**

- (184) In recitals (31) to (37) of the Nea Proton Opening Decision the Commission has already established that measure NP1, the intervention by the Resolution Scheme of the HDIGF and the HFSF to cover the funding gap, constitutes State aid within the meaning of Article 107(1) of the Treaty. In recital (38) of the same decision the Commission considered Nea Proton Bank to be the economic beneficiary of that measure as Nea Proton Bank harbours the economic activity of Proton Bank which continues to exist because of the aid received.

**6.1.1.3. Existence of aid in the initial share capital injection by the HFSF and additional share capital injection by the HFSF in 2012 (measure NP2)**

- (185) In recitals (41) to (43) of the Nea Proton Opening Decision the Commission has already established that the capital injection by the HFSF of EUR 250 million and the additional capital injections anticipated at the time of that Decision, amounting to a total of EUR 300 million, were State aid within the meaning of Article 107(1) of the Treaty. As mentioned in recital (93) of the present Decision, out of the possible additional EUR 300 million in capital, HFSF eventually contributed an additional EUR 265 million in 2012, which brings the total recapitalisation aid in 2011 and 2012 to EUR 515 million (measure NP2).

**6.1.1.4. Existence of aid in capital injection from the HFSF into Nea Proton Bank prior to its sale to the Bank (NP3)**

- (186) The Commission considers the capital injection by the HFSF into Nea Proton Bank prior to its sale to the Bank, amounting to EUR 395 million, to be State aid within the meaning of Article 107(1) of the Treaty.
- (187) The capital injection was provided by the HFSF, which is an entity set up and financed by Greece to support banks, and so was made by using State resources. Furthermore, the measure is selective in nature, since the capital injection only benefits Nea Proton Bank.
- (188) Moreover, the intervention provides Nea Proton Bank with a clear advantage since it enables its banking activities to remain alive. Without the capital injection, Nea Proton Bank, which had deeply negative capital, would have gone bankrupt. In such circumstances, it would not have been possible to sell Nea Proton Bank and integrate it into a larger entity. Furthermore, that recapitalisation does not comply with the market investor principle. On the contrary, the EUR 395 million recapitalisation allowed the sale of Nea Proton Bank to take place for a price of one euro. A private

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<sup>112</sup> See footnotes 4 and 6.

investor would have chosen not to proceed with the recapitalisation and to let Nea Proton Bank go bankrupt, therefore saving EUR 395 million.

- (189) Nea Proton Bank competes with other banks, including subsidiaries of foreign banks, which are active in Greece or potentially interested in entering the Greek market. Hence, the capital injection has an effect on trade between Member States and potentially distorts competition.
- (190) The Commission therefore concludes that the capital injection of EUR 395 million into Nea Proton Bank constitutes State aid within the meaning of Article 107(1) of the Treaty.

***Beneficiary of measure NP3***

- (191) As already explained in recital (188), the Commission regards Nea Proton Bank as being the beneficiary of the capital injection of EUR 395 million into Nea Proton Bank, as the aid allowed the continuation of its economic activities within the Bank.
- (192) As to whether the sale of Nea Proton Bank entails State aid to the Bank, in line with point 49 of the 2008 Banking Communication the Commission needs to assess whether certain requirements are met. It needs to examine in particular whether: i) the sale process was open and non-discriminatory; ii) the sale took place on market terms; and iii) the financial institution or the government maximised the sale price for the assets and liabilities involved.
- (193) The Bank acquired the shares in Nea Proton Bank because it submitted the only valid bid in the framework of a non-discriminatory tender procedure open to other banks and financial institutions. A financial advisor of the HFSF contacted a wide number of banks, financial institutions and sponsors and only four expressed their interest in acquiring Nea Proton Bank, of which only two, the Bank and a hedge fund<sup>113</sup>, submitted final offers. The Bank's offer was the only one which complied with the process letter of the HFSF.
- (194) Because the financial advisor contacted a wide number of banks and had set in advance the requirements and the time frame that offers should meet in order to be valid, the Commission considers that the tender was open and non-discriminatory. The Commission therefore concludes that the tender procedure allows it to exclude the presence of aid to the buyer.
- (195) The Bank paid consideration of one euro and the HFSF gave a commitment to recapitalise Nea Proton Bank prior to its sale. That negative price (that is to say, taking into account the recapitalisation of Nea Proton Bank just before the sale) does not preclude that the sale price reflects the market value of the business<sup>114</sup> since the net equity of Nea Proton Bank was clearly negative and it was expected to continue registering losses. The Commission has no reason to believe that the offer made and the price paid did not reflect the market price of the business. As a result, in line with point 49 of the 2008 Banking Communication, point 20 of the Restructuring

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<sup>113</sup> The offer of the hedge fund did not comply with the process letter of the HFSF. The offer of the hedge fund was conditional upon the completion of due diligence, for which it requested additional time, a request that was not compatible with the MEFP deadline. Moreover, it requested substantial representations and warranties and the hedge fund inserted a EUR 25 million cap on the amount of additional capital it was prepared to inject should the need arise and do so only for one year.

<sup>114</sup> See also recital 82 of Commission Decision of 28 November 2012 in State aid SA. 34053 (2012/N) – Spain Recapitalisation and Restructuring of Banco de Valencia S.A.(OJ C75, 14.3.2013, p. 3).



Communication and its own decisional practice<sup>115</sup>, the Commission concludes that the sale price was the market price and that aid to the Bank can be excluded.

#### 6.1.1.5. Conclusion on the existence and total amount of aid received

- (196) On the basis of recitals (182) to (190), the Commission considers that measures Pr1, Pr2 and Pr3, NP1, NP2 and NP3 all fulfil the conditions laid down in Article 107(1) of the Treaty and constitute State aid. Regarding measures Pr1, Pr2 and Pr3, the Commission concludes that, as they contributed to the continued existence of the activities of Proton Bank which were later transferred to Nea Proton Bank, they may be considered to also benefit Nea Proton Bank which harbours those activities. As already stated in recital (184), the beneficiary of measure NP1 is Nea Proton Bank, which harbours the transferred activities of Proton Bank. Moreover, Nea Proton Bank is also the beneficiary of measures NP2 and NP3.
- (197) Therefore, the Commission concludes that the activities of Nea Proton Bank have received State aid in form of capital support of EUR 2 111,6 million (measures Pr1, NP1, NP2 and NP3), in addition to State guarantees of EUR 149,4 million (measure Pr3) and Greek government securities of EUR 78 million (measure Pr2), as summarized in Table 9.

Table 9 - Overview of the total aid received by Proton Bank and Nea Proton Bank

Aid beneficiary	Measure	Nature of aid	Amount of aid (in EUR million)
Proton Bank's activities	<b>Pr1</b>	Recapitalisation	80
Nea Proton Bank's activities	<b>NP1</b>	Financing of funding gap from PB to NPB	1 121,6
	<b>NP2</b>	Recapitalisation	515
	<b>NP3</b>	Recapitalisation	395
<b>Total capital aid granted</b>			<b>2 111,6</b>
Aid beneficiary	<b>Measure</b>	<b>Nature of aid</b>	
<b>Proton Bank's activities</b>	<b>Pr2</b>	Bond Loan	78
	<b>Pr3</b>	Guarantee	149,4
<b>Total liquidity aid granted</b>			<b>227,4</b>

#### 6.1.2. Legal basis of the compatibility assessment

- (198) Article 107(3)(b) of the Treaty empowers the Commission to find that aid is compatible with the internal market if it is intended "to remedy a serious disturbance in the economy of a Member State".
- (199) The Commission has acknowledged that the global financial crisis can create a serious disturbance in the economy of a Member State and that measures supporting banks may remedy that disturbance. This has been confirmed in the 2008 Banking Communication, the Recapitalisation Communication and the Restructuring

<sup>115</sup> See Commission decision of 25 January 2010 in State aid case NN 19/2009 – Restructuring aid to Dunfermline Building Society (OJ C 101, 20.4.2010, p. 8), recital 47; Commission decision of 25 October 2010 in State aid case N 560/2009 – Aid for the liquidation of Fionia bank (OJ C 76, 26.3.2011, p. 3), recital 55; Commission decision of 8 November 2010 in State aid case N 392/2010 – Restructuring of CajaSur (OJ C357, 30.12.2011, p. 13), recital 52.

Communication. The Commission still considers that requirements for State aid to be approved pursuant to Article 107(3)(b) of the Treaty are fulfilled in view of the reappearance of stress in financial markets. The Commission confirmed that view by adopting the 2011 Prolongation Communication<sup>116</sup> and the 2013 Banking Communication<sup>117</sup>.

- (200) In respect to the Greek economy, in its decisions approving and prolonging the Greek Banks Support Scheme as well as in its approvals of State aid measures granted by Greece to individual banks<sup>118</sup>, the Commission has acknowledged that there is a threat of serious disturbance in the Greek economy and that State support of banks is suitable to remedy that disturbance. Therefore, the legal basis for the assessment of the aid measures should be Article 107(3)(b) of the Treaty
- (201) In order for an aid to be compatible under Article 107(3)(b) of the Treaty it must comply with the general criteria for compatibility:
- (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 both its amount and form, be necessary to achieve the objective; therefore it must be of the minimum amount necessary to achieve 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 achieve the measure's objectives.
- (202) During the financial crisis, the Commission has developed compatibility criteria for different types of aid measures. Principles for assessing aid measures were first laid down in the 2008 Banking Communication.
- (203) The Recapitalisation Communication<sup>119</sup> sets out further guidance on the level of remuneration required for State capital injections.
- (204) Finally, the Commission has explained in the Restructuring Communication<sup>120</sup> how it will assess restructuring plans. In its assessment of the restructuring plan of the Bank under the Restructuring Communication, the Commission will take into account all the measures listed in Table 7.

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<sup>116</sup> Communication from the Commission on the application, from 1 January 2012, of State aid rules to support measures in favour of financial institutions in the context of the financial crisis (OJ C 356, 6.12.2011, p. 7).

<sup>117</sup> Communication from the Commission on the application, from 1 August 2013, of State aid rules to support measures in favour of banks in the context of the financial crisis (OJ C 216, 30.7.2013, p. 1).

<sup>118</sup> See footnotes 9, 11.

<sup>119</sup> See footnote 102.

<sup>120</sup> See footnote 103.

### **6.1.3. Compatibility assessment of the aid measures under the 2008 Banking Communication and Recapitalisation Communication**

#### **6.1.3.1. Compatibility of measures Pr1, Pr2 and Pr3 with the 2008 Banking Communication**

- (205) Measures Pr1, Pr2 and Pr3 were granted under the Greek Banks Support Scheme. The measures included under that scheme have already been assessed as compatible with the internal market in the Commission's decision of 19 November 2008.

#### **6.1.3.2. Compatibility of measures NP1 and NP2 with the 2008 Banking Communication and Recapitalisation Communication**

- (206) The Commission approved measures NP1 and NP2 as rescue aid in the Nea Proton Opening Decision. However, as mentioned in recital (142), the Commission raised concerns regarding the necessity of the amount of measure NP2, as to whether Nea Proton Bank would be able to restore its long-term viability on a stand-alone basis, and therefore queried that the stand-alone option would be the cheapest option available. Those concerns have been addressed by the sale of Nea Proton Bank to the Bank on 15 July 2013. Since Nea Proton Bank was sold in an open, transparent and non-discriminatory process to the Bank, the consideration paid by the Bank is considered as the market price. As a result, the amount of the equity injected by the State prior to the sale was necessary for the success of the sale. The integration of Nea Proton Bank into the Bank's activities will solve the long-term viability issues of Nea Proton Bank, in the light of the restructuring plan submitted by the Bank to the Commission.

#### **6.1.3.3. Compatibility of measure NP3 with the 2008 Banking Communication and Recapitalisation Communication**

##### **6.1.3.3.1. Appropriateness**

- (207) As regards the appropriateness of measure NP3, the capital injection by the HFSF of EUR 395 million into Nea Proton Bank before its sale to the Bank, the Commission considers that the measure is appropriate because it helped to keep Nea Proton Bank's activities alive. Those activities would not have been able to continue without the aid by the HFSF, as Nea Proton Bank had a negative equity at the time of its sale to the Bank and continued to register losses. No bank would have bought Nea Proton Bank without a prior recapitalisation. The measure therefore ensures that financial stability in Greece is maintained. On that basis, the Commission finds that the measure is appropriate as rescue aid.

##### **6.1.3.3.2. Necessity**

- (208) According to the 2008 Banking Communication, the aid measure must, in its amount and form, be necessary to achieve the objective of the measure. It implies that a capital injection must be of the minimum amount necessary to reach that objective.
- (209) As the Bank of Greece stated in its letter of 19 July 2013, if Nea Proton Bank had been liquidated it could have caused contagion, sparking a new systemic crisis and undermining the confidence that had recently been restored in the banking system following the completion of the recapitalisation process. The Commission considers that those financial stability elements support the necessity of measure NP3.
- (210) As regards the scale of the intervention, the figure of EUR 395 million was determined by an open and non-discriminatory tender process. The Bank had

completed a due diligence of Nea Proton Bank. The Bank's offer, which required the recapitalisation of EUR 395 million prior to it purchasing Nea Proton Bank, was calculated so as to meet the minimum capital adequacy ratio of 9% and to allow for provisions of an additional EUR 119 million due to expected additional loan losses and expected pre-tax losses until 2016. The Commission concludes that the aid of EUR 395 million was necessary.

- (211) As regards the remuneration of the aid, given that the sale price is set at one euro, the HFSF will not recover any money. Its contribution is similar to a grant. As indicated in point 44 of the Recapitalisation Communication, an insufficiently remunerated recapitalisation can only be accepted in the case of distressed banks which cannot pay any remuneration. The Commission considers that to be the case for Nea Proton Bank. The absence of remuneration triggers the need for in-depth restructuring, in line with the Recapitalisation Communication.
- (212) In conclusion, the measure is necessary as rescue aid in both its amount and form to achieve the objective of limiting the disturbance in the Greek banking system and the economy as a whole.

#### **6.1.3.3.3. Proportionality**

- (213) The Commission notes that following the merger by absorption of Nea Proton Bank with the Bank, the economic activities of Nea Proton Bank have been transferred to the Bank. The fact that the aid rescues those economic activities could, in theory, create distortions of competition. However, the Commission notes the small size of Nea Proton Bank and the sale process, in which competitors had the opportunity to bid for Nea Proton Bank. Moreover, immediately after their transfer, the economic activities of Nea Proton Bank will be fully integrated within the Bank and will cease to exist as a separate economic activity or competitor. The Commission therefore concludes that the aid does not create undue distortions of competition.

#### **6.1.3.3.4 Conclusion on the compliance of measure NP3 with the 2008 Banking Communication and the Recapitalisation Communication.**

- (214) The Commission thus concludes that measure NP3 is appropriate, necessary and, in the light of the deep restructuring foreseen for the Bank in which the economic activities of Nea Proton Bank are now contained, are proportionate to the intended objective.

#### **6.1.4. *Compatibility of the aid measures with the Restructuring Communication***

- (215) In recitals (60), (61), (78) and (79) of the Nea Proton Opening Decision regarding measures NP1 and NP2 the Commission noted that Nea Proton Bank would probably not be able to remunerate the State aid it received and underlined that the absence of remuneration triggered the need for in-depth restructuring. In recital (211) the Commission noted as regards the remuneration of measure NP3 that, given that the sale price of Nea Proton is set at one euro, the HFSF will not recover any of the EUR 395 million injected just before the sale (measure NP3). Moreover, Greece will not recover anything from the preference shares issued to it in May 2009, since the equity claims related to them were left in the liquidated Proton Bank. The Commission therefore concludes that the absence of remuneration triggers the need for in-depth restructuring, both in terms of viability measures and in terms of measures to limit distortions of competition.

#### **6.1.4.1. Long-term viability of Nea Proton Bank's activity through sale**

- (216) Point 21 of the Restructuring Communication provides that where the credit institution in difficulty cannot credibly return to long term-viability, its orderly liquidation or its auctioning off should be considered. Member States may therefore encourage the exit of non-viable players while allowing for the exit process to take place within an appropriate time frame that preserves financial stability.
- (217) In the Nea Proton Opening Decision, the Commission raised serious doubts as to whether Nea Proton Bank could restore its long-term viability on a stand-alone basis and pointed out the synergies that could be achieved by its integration into a large financial entity.
- (218) In that respect, point 17 of the Restructuring Communication clarifies that the sale of an ailing bank to another financial institution can contribute to the restoration of long-term viability, if the purchaser is viable and capable of absorbing the transfer of the ailing bank and may help to restore market confidence. Moreover, in line with the MEFP, further consolidation of the banking sector had to be achieved and the HFSF had to sell Nea Proton Bank by 15 July 2013.
- (219) As stated in section 7.5.2, on the basis of its restructuring plan, the Bank can be considered as a viable entity. Therefore, the fact that the activities of Nea Proton Bank have been transferred to the Bank allows their long-term viability to be restored. Moreover, the fact that Nea Proton Bank is fully integrated within the Bank and disappears as a stand-alone competitor constitutes in-depth restructuring as required by the insufficient remuneration of the State aid.

#### **6.1.4.2. Own contribution and burden-sharing**

- (220) In the Nea Proton Opening Decision, the Commission expressed doubts as to whether the restructuring costs were limited to the minimum. Those doubts derived from the observation that Nea Proton Bank could not return to long-term viability on a stand-alone basis without incurring high costs. The integration of Nea Proton Bank into the Bank, a larger entity with IT infrastructure and risk management structure in place, addresses those concerns. The sale to the Bank contributes to limiting the restructuring costs to the minimum.
- (221) Concerning the contribution of shareholders and subordinated debt holders to the restructuring costs, the Commission has already established in recital (77) of the Nea Proton Opening Decision that the shareholders and subordinated debt holders were not transferred to Nea Proton Bank but remained in Proton Bank, that is to say, the entity in liquidation. Hence, the Commission considered that sufficient burden-sharing of shareholders and subordinated debt holders was achieved.

#### **6.1.4.3. Measures to limit distortions of competition**

- (222) Regarding measures to limit distortions of competition, point 30 of the Restructuring Communication provides that *"the Commission takes as a starting point for its assessment of the need for such measures, the size, scale and scope of the activities that the bank in question would have upon implementation of a credible restructuring plan. The nature and form of such measures will depend on two criteria: first, the amount of the aid and the conditions and circumstances under which it was granted and, second, the characteristics of the market or markets on which the beneficiary bank will operate."*
- (223) Regarding the amount of aid received, the Commission notes the amount of the total aid received in the form of capital of EUR 2 111,6 million (Pr1, NP1, NP2, NP3), in

addition to State liquidity support of EUR 149,4 million (Pr3) and Greek government securities of EUR 78 million (Pr2). Measure Pr1 corresponded to 4,6% of Proton Bank's RWA at that time. Measure NP1, the financing of the funding gap from the transfer of activities from Proton Bank to Nea Proton Bank, corresponded to around 36% of the RWA of Proton Bank at the end of 2010 or 84% of the RWA of Nea Proton Bank at the time of its creation. The initial share capital injection by the HFSF into Nea Proton Bank, which was part of measure NP2, corresponded to around 18,8 % of the latter's RWA at the time of its creation. The additional share capital injections, which were part of measure NP2, corresponded to around 34,2% of the RWA of Nea Proton Bank (based on the data of 31 December 2012<sup>121</sup>). As stated in recital 80 of the New Proton Opening Decision, measures NP1 and NP2 represented more than 50% of Proton Bank's RWA or more than 130% of Nea Proton Bank's RWA. The share capital injection, prior to the sale to the Bank, that is to say, measure NP3, corresponded to around 48.7% of the RWA of Nea Proton Bank (based on data of 31 May 2013). Such amounts of aid in combination with the absence of remuneration call for a deep reduction of the market presence of the beneficiary.

- (224) Regarding the market on which Nea Proton Bank operated, in recital (82) of the Nea Proton Opening Decision the Commission pointed out that Proton Bank was a very small bank (approximately 1% market share of Greek banks' total assets) and consequently the assets and liabilities of Proton Bank which were transferred into Nea Proton Bank were relatively small compared to the size of the Greek banking system. Therefore, it concluded that, despite the exceptionally large aid amount, the distortions of competition caused by the aid to Nea Proton Bank could be considered to be limited.
- (225) Moreover, the activities of Nea Proton Bank were offered to competitors through an open auction. Following its sale, Nea Proton Bank ceased to exist as a stand-alone competitor as it was fully integrated within the Bank.
- (226) The Commission concludes that given the small size of Nea Proton Bank the open sale process, and the fact that Nea Proton Bank will not continue to exist as a stand-alone competitor, there are no undue distortions of competition, despite the very large amount of aid and the absence of remuneration.

#### **6.1.4.4. Conclusion on the compatibility with the Restructuring Communication**

- (227) On the basis of the analysis in recitals (216) to (226) above, the Commission concludes that the sale of Nea Proton Bank and its integration into the Bank ensure Nea Proton Bank's long-term viability, that the aid is limited to the minimum necessary and that there is no undue distortion of competition.
- (228) All the aid measures listed in Table 7 should therefore be declared compatible with the internal market.

## **6.2. Assessment of aid related to New TT Bank**

### **6.2.1. Existence and the amount of aid**

- (229) The Commission has to assess whether the measures constitute State aid within the meaning of Article 107(1) of the Treaty.

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<sup>121</sup> Annual financial report for the extended period from 9 October 2011 to 31 December 2012, according to which the RWA amounted to EUR 775,62 million on 31 December 2012.

**6.2.1.1. Existence of aid in the coverage of the funding gap of the transferred assets and liabilities of T Bank (measure T)**

- (230) In recitals 26 to 32 of the T Bank Decision, the Commission has already established that measure T, the intervention by the Resolution Scheme of the HDIGF and the HFSF to cover the funding gap of the assets and liabilities transferred to TT Bank, constitutes State aid within the meaning of Article 107(1) of the Treaty. In recital 33 of that Decision the Commission considered the economic activities of T Bank which were transferred to TT Bank to be the beneficiary of State aid as they continued to exist because of the aid received.

**6.2.1.2. Existence of aid in the recapitalisation granted under the recapitalisation measure to TT Bank (measure TT)**

- (231) The EUR 224,96 million capital injection by the Greek State into TT Bank (measure TT) was granted under the recapitalisation measure forming part of the Greek Banks Support Scheme<sup>122</sup>. In the Decision approving that scheme, the Commission concluded that the measures granted under that scheme would constitute State aid. Measure TT therefore constituted aid to TT Bank.
- (232) As the Commission observed in recital 98 of the New TT Opening Decision, New TT Bank harbours the economic activities previously carried out within TT Bank, including T Bank.

**6.2.1.3. Existence of aid in the financing of the funding gap of New TT Bank (measure NTT1)**

- (233) In recitals 53 to 57 of the New TT Opening Decision, the Commission has already established that measure NTT1, the intervention by the HFSF to cover the funding gap of New TT Bank, constitutes State aid within the meaning of Article 107(1) of the Treaty. In recital 54 of that Decision the Commission considered New TT Bank to be the economic beneficiary as New TT Bank harbours the economic activities of TT Bank which continue to exist because of the aid received.

**6.2.1.4. Existence of aid in the initial share capital injection (measure NTT2)**

- (234) In recitals 49 to 52 of the New TT Opening Decision, the Commission has already established that measure NTT2, the initial share capital injection by the HFSF amounting to EUR 500 million in favour of New TT Bank, constitutes State aid to New TT Bank within the meaning of Article 107(1) of the Treaty.

**6.2.1.5. Existence of aid to the Bank as the acquirer of New TT Bank**

- (235) The Bank acquired the shares in New TT Bank in the framework of an open and non-discriminatory tender process. According to information received from the Greek authorities on 15 July 2013, a financial advisor contacted a large number of foreign and Greek banks and investors and only the four largest Greek banks submitted final offers. The fact that the financial advisor contacted a large number of banks allows the Commission to conclude that the tender process was open and non-discriminatory. The Bank's offer was considered to be the best one considering the amount and type of consideration offered.
- (236) More precisely, the Bank agreed to pay the HFSF a total of EUR 681 million in the form of newly issued ordinary shares. The second-highest offer was a cash offer of EUR 500 million. It was therefore 26,58% lower than the offer of the Bank.

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<sup>122</sup> See footnote 4.

According to the letter from the Bank of Greece of 8 July 2013, any cash offer by a domestic bank could not be considered to the extent that it still relied on Eurosystem funding and particularly not if it was receiving emergency liquidity assistance. The second-highest offer therefore did not comply with the requirements of the Bank of Greece.

- (237) It should also be noted that under the sale contract the HFSF received 1 418,75 million new ordinary shares of the Bank at the offer price of EUR 0,48 each<sup>123</sup>. The shareholding of the HFSF in the Bank increased from 93,55% to 95,23%.
- (238) Therefore, the Commission concludes that the acquisition does not constitute aid to the buyer.

#### **6.2.1.6. Conclusion on the existence of aid**

- (239) On the basis of the foregoing, the Commission considers that measures T, TT, NTT1 and NTT2 all constitute State aid. Regarding measure T, the Commission concludes that the aid benefited the activities of T Bank as they were transferred to TT Bank and later to New TT Bank. Regarding measure TT, the Commission concludes that it benefited the activities of TT Bank which were transferred to New TT Bank. The beneficiary of measures NTT1 and NTT2 is New TT Bank.
- (240) Therefore, the Commission concludes that the economic activities of T Bank, as they were harboured in TT Bank and later in New TT Bank, have benefited from recapitalisation aid amounting to EUR 677 million while the activities carried out by TT Bank harboured in New TT Bank have benefited from State aid in the form of capital support of EUR 4 457,96 million (measures TT, NTT1 and NTT2).

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<sup>123</sup>

The number of shares was determined based on the volume weighted average price of the Bank's share on the Athens Stock Exchange over the ten working day period to the date of the Extraordinary General meeting of Shareholders (with a minimum of 1 418,75 million shares). See footnote 36, pp. 14 and 56. Since the volume-weighted average market price during that period was higher than EUR 0,48, the HFSF received the minimum number of shares, that is 1 418,75 million at the offer price of EUR 0,48 each.  $EUR\ 0,48 \times 1\ 418,75\ \text{million} = EUR\ 681\ \text{million}$ , that is to say, the consideration paid by the Bank to the HFSF.



Table 10 - Overview of the total aid received by T Bank, TT Bank and New TT Bank

Aid beneficiary	Measure	Description	Amount of aid (in EUR million)
<b>T-Bank's activities</b>	<b>T</b>	Financing of funding gap from T to TT	<b>677</b>
<b>TT Bank's activities</b>	<b>TT</b>	Recapitalisation	<b>224,96</b>
<b>New TT Bank's activities</b>	<b>NTT1</b>	Financing of funding gap from TT Bank to New TT Bank	<b>3 732,6</b>
	<b>NTT2</b>	Initial share capital	<b>500</b>

### 6.2.2. Legal basis of the compatibility assessment

- (241) Article 107(3)(b) of the Treaty empowers the Commission to find that aid is compatible with the internal market if it is intended "to remedy a serious disturbance in the economy of a Member State".
- (242) As explained in recitals (199) and (200), the legal basis for the assessment of aid measures to Greek banks should, at present, be Article 107(3)(b) of the Treaty.
- (243) As explained in recital (201), in order for an aid to be compatible under Article 107(3)(b) of the Treaty it must comply with the general criteria for compatibility: appropriateness, necessity and proportionality.
- (244) Principles for assessing aid measures were first laid down in the 2008 Banking Communication.
- (245) The Recapitalisation Communication<sup>124</sup> sets out further guidance on the level of remuneration required for State capital injections.
- (246) Finally, the Commission has explained in the Restructuring Communication<sup>125</sup> how it will assess restructuring plans. In its assessment of the restructuring plan of the Bank under the Restructuring Communication, the Commission will take into account all the measures listed in Table 8.

### 6.2.3. Compatibility of the aid measures with the 2008 Banking Communication and the Recapitalisation Communication

#### 6.2.3.1. Compatibility of measure T with the 2008 Banking Communication and the Recapitalisation Communication

- (247) Regarding measure T, in its T Bank Decision the Commission found that the intervention fulfils the requirements of Article 107(3)(b) of the Treaty and decided it was compatible with the internal market for reasons of financial stability for a period of six months as from the date of adoption of that Decision. The Greek authorities

<sup>124</sup> See footnote 102.

<sup>125</sup> See footnote 103.

did not submit an updated restructuring plan for TT Bank which took into account the integration of T Bank's activities into TT Bank before the end of that six-month period. However, in recital 83 of the New TT Opening Decision the Commission considered that omission was understandable as a decision had been taken in the meanwhile that TT Bank would be resolved. As the Greek authorities submitted a restructuring plan for New TT Bank in January 2013 and an updated one in March 2013, both of which deal with the activities transferred from T Bank to TT Bank, the Commission, in its New TT Opening Decision, approved measure T provisionally as rescue aid until a final decision was taken on measures T, TT, NTT1 and NTT2.

#### **6.2.3.2. Compatibility of measure TT with the 2008 Banking Communication**

- (248) In its Decision of 19 November 2008<sup>126</sup> the Commission has already concluded that measure TT, which was granted in May 2009 under the recapitalisation measure which is part of the Greek Banks Support Scheme, is compatible rescue aid under the 2008 Banking Communication. The decision of 19 November 2008 did not refer to the Recapitalisation Communication, which had not been adopted at that time.

#### **6.2.3.3. Compatibility of measures NTT1 and NTT2 with the 2008 Banking Communication and the Recapitalisation Communication**

- (249) The Commission has already temporarily approved measures NTT1 and NTT2 as rescue aid in the New TT Opening Decision.

#### **6.2.4. Compatibility of aid measures T, TT, NTT1 and NTT2 with the Restructuring Communication**

##### **6.2.4.1. Lack of appropriate remuneration of the aid: to be taken into account in the assessment under the Restructuring Communication**

- (250) In recital 45 of the T Bank Decision, the Commission noted that the HDIGF and the HFSF will probably not recover any money and that the financing of the funding gap from T Bank to TT Bank is therefore similar to a grant. Moreover, as concluded in recital 101 of the New TT Opening Decision, the HFSF could expect to recover only part of its initial share capital injection of EUR 500 million (measure NTT2). Moreover, the Commission observed that there will be no remuneration for the HFSF covering the funding gap from TT Bank to New TT Bank (measure NTT1) and there is a very small likelihood that the HFSF will recover much of the EUR 3,7 billion. Finally, the Commission notes that the State will most probably not recover any amount in respect of measure TT since its equity claims, related to the preference shares issued in May 2009, remained in TT Bank, which was put into liquidation.
- (251) As indicated in recitals 77 and 102 of the New TT Opening Decision, the absence of remuneration triggers the need for in-depth restructuring, both in terms of viability measures and in terms of measures to limit distortions of competition.

##### **6.2.4.2. Long-term viability of New TT Bank's activity through sale**

- (252) Point 21 of the Restructuring Communication provides that where the credit institution in difficulty cannot credibly return to long term-viability, its orderly liquidation or its auctioning off should be considered.
- (253) In section 3.2.4.1 of the New TT Opening Decision, the Commission raised serious doubts as to whether New TT Bank could restore its long-term viability on a stand-alone basis and whether New TT Bank could achieve the planned growth of income.

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<sup>126</sup> See footnote 2.

Moreover, it pointed out that New TT Bank had taken only a limited number of measures to generate profits and that there was a lack of measures on the part of New TT Bank to reduce personnel costs and to rationalise the branch network. It also referred to the synergies that could be achieved by the integration of New TT Bank into a large financial entity.

- (254) In that respect, point 17 of the Restructuring Communication clarifies that the sale of an ailing bank to another financial institution can contribute to the restoration of long-term viability, if the purchaser is viable and capable of absorbing the transfer of the ailing bank and may help to restore market confidence. Moreover, in line with the MEFP, the sale of the New TT Bank was a priority action, taking into consideration the public interest and financial stability, as well as the protection of the HFSF's assets.
- (255) As stated in section 7.5.2, on the basis of its restructuring plan, the Bank can be considered as a viable entity. Therefore, the fact that the activities of New TT Bank are now placed within the Bank allows their long-term viability to be restored. New TT Bank ceases to exist as an autonomous competitor. The operational merger between New TT Bank and the Bank was completed by 14 April 2014. The "Hellenic Postbank"-branded branch network will be reduced (the Bank intends to keep the brand "Hellenic Postbank" for certain branches, while the "T-bank" brand will not be kept and the "T-bank" branch network will be nearly entirely closed) in combination with the full operational integration of back office and other headquarter functions within the Bank. The Commission concludes that the restructuring plan ensures that an in-depth restructuring as required by the insufficient remuneration will be achieved.

#### **6.2.4.3. Own contribution and burden-sharing**

- (256) The Commission's concerns expressed in recital 99 of the New TT Opening Decision, as to whether the restructuring costs were inflated given the restructuring of New TT Bank on a stand-alone basis, were addressed by the Voluntary Exit Scheme<sup>127</sup>, which was implemented by New TT Bank on a stand-alone basis in July 2013, and by the sale of New TT Bank to the Bank. More precisely, the rationalisation of the branch network, the full integration of T Bank and the full operational integration of New TT Bank into the Bank limit the restructuring costs to the minimum.
- (257) Concerning burden-sharing of shareholders and subordinated debt holders, the Commission has already established, in recital 100 of the New TT Opening Decision, that the shareholders and subordinated debt holders were not transferred to New TT Bank but have remained in TT Bank, that is to say, the entity in liquidation. Hence, the Commission considered that sufficient burden-sharing of shareholders and subordinated debt holders was achieved.
- (258) Therefore, the Commission considers that the restructuring costs are limited to the minimum and that sufficient burden-sharing has been achieved. However, as already concluded in recital (251), the absence of remuneration triggered the need for in-depth restructuring, both in terms of viability measures and in terms of measures to limit distortions of competition.

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<sup>127</sup> HFSF, Report of the Hellenic Financial Stability Fund for the period January - June 2013: "One of the prerequisites regarding the targeted operational cost reduction in NHPB after its establishment was a headcount reduction via a Voluntary Retirement Scheme (VRS). (...) 605 employees accepted the exit packages offered and the total cost of the scheme amounted to circa EUR 35.7 million", available online at: [http://www.hfsf.gr/files/HFSF\\_activities\\_Jan\\_2013\\_Jun\\_2013\\_en.pdf](http://www.hfsf.gr/files/HFSF_activities_Jan_2013_Jun_2013_en.pdf).

#### 6.2.4.4. Measures to limit distortions of competition

- (259) Regarding measures to limit distortions of competition, point 30 of the Restructuring Communication provides that *"the Commission takes as a starting point for its assessment of the need for such measures, the size, scale and scope of the activities that the bank in question would have upon implementation of a credible restructuring plan. The nature and form of such measures will depend on two criteria: first, the amount of the aid and the conditions and circumstances under which it was granted and, second, the characteristics of the market or markets on which the beneficiary bank will operate."*
- (260) Regarding the amount of aid received, the Commission recalls that, in recital 104 of the New TT Opening Decision, it noted that New TT Bank has received EUR 4,6 billion of aid (measures NTT1 and NTT2), which represents more than 70% of the RWA of TT Bank and more than 90% of the RWA of New TT Bank. Further the Commission noted that TT Bank (which is the legal entity which previously performed the activities which were harboured in New TT Bank) had previously received aid under the Greek Banks Support Scheme<sup>128</sup> TT Bank received a first capital injection of EUR 224,96 million in the form of preference shares (measure TT), which was equivalent to 2,9% of its RWA at that time. Furthermore, on the resolution of T Bank, the activities of T Bank that were transferred to TT Bank received a resolution aid of approximately EUR 678 million (measure T), which was equivalent to 37,7% of the RWA of T Bank as at the merger reference date (31 March 2011). Such amounts of aid in combination with the absence of remuneration call for a deep restructuring.
- (261) On the other hand, in recital 104 of the New TT Opening Decision, the Commission pointed out the circumstances under which the aid was granted. More precisely, a significant part of the losses which TT Bank has incurred in recent years do not seem to stem from risk-taking activities but from the holding of GGBs. The Commission also observed that the high loan losses on lending to households and corporations stem mainly from the exceptionally deep and long recession and not from risky lending. The aid therefore seems to create few distortions of competition. However, the Commission observed that, proportionally to its size, TT Bank had held far more GGBs than the other banks in Greece, a factor that reflects some inappropriate risk-taking.
- (262) As already noted, New TT Bank ceases to exist as an autonomous competitor that determines its policy on a stand-alone basis. The restructuring plan of the Bank is based on the assumption of the full integration of New TT Bank, even if the Bank will continue to use the brand "Hellenic Postbank" for some branches and products.
- (263) Regarding the market on which New TT Bank operated, in recital 106 of the New TT Opening Decision, the Commission pointed out that TT Bank was a medium-sized bank in Greece (approximately 6% in terms of deposits) and that the assets and liabilities of TT Bank that were transferred into New TT Bank were relatively small compared to the size of the Greek banking system. Therefore, it concluded that, despite the exceptionally large aid amount, the distortions of competition caused by the aid to New TT Bank could be considered to be rather limited.
- (264) The planned downsizing of the "Hellenic Postbank"-branded branch network, with a reduction of approximately 50 branches<sup>129</sup> out of 196, further confirms the

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<sup>128</sup> See footnote 4.

<sup>129</sup> Eurobank, "Proposed combination of the New Hellenic Postbank with Eurobank", 16 May 2013.

assessment in recital (263) that the distortions of competition caused by the aid to New TT Bank could be considered to be rather limited.

- (265) Moreover, the activities of New TT Bank were offered to competitors through an open and non-discriminatory auction.
- (266) A significant part of aid measures NTT1 and NTT2 was needed because of a waiver of debt in favour of the State (in the form of the PSI programme) and because of the exceptionally long recession rather than as a consequence of inappropriate lending practices. Additionally, the size of the activities of New TT Bank was small, the sale process was open, transparent and non-discriminatory, and New TT Bank will not continue to exist as an autonomous competitor. Therefore the Commission concludes that, despite the large amount of aid and the absence of appropriate remuneration for the State aid granted, there is no undue distortion of competition.

#### **6.2.4.5. Conclusion on the compatibility of aid measures T, TT, NTT1 and NTT2 with the Restructuring Communication.**

- (267) The Commission concludes that the sale of New TT Bank to the Bank and the associated restructuring ensure New TT Bank's long-term viability, the limitation of aid to the minimum necessary and the absence of undue distortions of competition.
- (268) All the aid measures listed in Table 8 should be declared compatible with the internal market.

### **7. ASSESSMENT OF AID GRANTED TO THE BANK**

#### **7.1. Existence and the amount of aid**

- (269) The Commission has to establish the existence of State aid within the meaning of Article 107(1) of the Treaty.

##### **7.1.1. Existence of aid in the measures granted under the Greek Banks Support Scheme**

###### **7.1.1.1. State liquidity support granted under the guarantee and the government bond loan measures (measure L1)**

- (270) The Commission has already established in the decisions approving and prolonging the Greek Banks Support Scheme<sup>130</sup> that liquidity support granted under the scheme constitutes aid. The outstanding amount of guarantees as of 15 April 2011 was EUR 13 600 million, and reached EUR 13 932 million as of 30 November 2013. Future liquidity support granted under that scheme would also constitute aid.

###### **7.1.1.2. State recapitalisation granted under the Recapitalisation Scheme (measure A)**

- (271) The Commission has already established in the Decision of 19 November 2008 on the Greek Banks Support Scheme that recapitalisations to be granted under the recapitalisation measure included under that scheme will constitute aid. The Bank has received EUR 950 million by means of preference shares, which represents 2% of the Bank's RWA<sup>131</sup>.
- (272) In 2010 Greece introduced several changes to the technical parameters of those preference shares. Given that the changes increase the remuneration of the State, with an automatic increase of the coupon by 2% each year if the preference shares

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<sup>130</sup> See footnotes 4 and 6

<sup>131</sup> See Eurobank Opening decision, recital (36).

are not redeemed within five years, the Commission concludes that the modifications of the technical parameters do not provide any advantage to the Bank and hence do not involve additional State aid.

### **7.1.2. Existence of aid in the State-guaranteed ELA (measure L2)**

- (273) The Commission clarified in point 51 of the 2008 Banking Communication that the provision of central banks' funds to financial institutions does not constitute aid if four cumulative conditions are met regarding the solvency of the financial institution, the collateralisation of the facility, the interest rate charged to the financial institution, and the absence of counter-guarantee from the State. Since the State-guaranteed ELA to the Bank does not comply with those four cumulative conditions, notably because it is State guaranteed and it is granted in conjunction with other support measures, it constitutes aid.
- (274) The State-guaranteed ELA meets the conditions laid down in Article 107(1) of the Treaty. First, because this measure includes a State guarantee in favour of the Bank of Greece, any loss will be borne by the State. The measure therefore involves State resources. ELA enables banks to get funding at a time when they have no access to the wholesale funding market and to the regular Eurosystem refinancing operations. The State-guaranteed ELA to the Bank therefore grants an advantage to it. Since ELA is limited to the banking sector the measure is selective. And since the State-guaranteed ELA allows the Bank to continue operating on the market and avoids it defaulting and having to exit the market, it distorts competition. Since the Bank is active in other Member States and since financial institutions from other Member States operate or would potentially be interested in operating in Greece, the advantage granted to the Bank affects trade between Member States.
- (275) The State-guaranteed ELA (measure L2) constitutes State aid. The amount of State-guaranteed ELA has varied over time. At 31 December 2012 it amounted to around EUR 12 billion.

### **7.1.3. Existence of aid in the measures granted through the HFSF**

#### **7.1.3.1. First bridge recapitalisation (measure B1)**

- (276) In section 5.1 of the Eurobank Opening Decision, the Commission has already concluded that the first bridge recapitalisation constitutes State aid. The capital received amounted to EUR 3 970 million.

#### **7.1.3.2. Second bridge recapitalisation (measure B2)**

- (277) Measure B2 was implemented with HFSF resources, which, as explained in recital (47) of the Eurobank Opening Decision, involve State resources.
- (278) As regards the existence of an advantage, measure B2 increased the Bank's capital ratio to a level that allowed it to continue to function on the market and to access Euro-system funding. Furthermore, the remuneration of measure B2 consists of the accrued interests on EFSF notes and an additional 1% fee. Because that remuneration is manifestly lower than the remuneration of similar capital instruments in the market, the Bank would have certainly been unable to raise that capital on such terms in the market. Therefore, measure B2 granted an advantage to the Bank from State resources. As the measure was made available only to the Bank, it is selective in nature.
- (279) As a result of measure B2, the position of the Bank was strengthened since the Bank was provided with the financial resources necessary to continue to comply with the capital requirements, thus leading to competition distortions. Since the Bank is active

in other European banking markets and since financial institutions from other Member States operate in Greece, notably in the insurance market, measure B2 is also likely to affect trade between Member States.

- (280) The Commission considers that measure B2 constitutes State aid. It was notified as aid by the national authorities. The capital received amounted to EUR 1 341 million.

#### **7.1.3.3. Commitment letter (measure B3)**

- (281) By measure B3, the HFSF committed to provide the additional capital necessary to complete the recapitalisation of the Bank up to the amount requested by the Bank of Greece in the framework of the stress test of 2012. The HFSF receives its resources from the State. The Commission therefore concludes that the letter commits State resources. The circumstances in which the HFSF can grant support to financial institutions are precisely defined and limited by law. Accordingly the use of those State resources is imputable to the State. The HFSF gave a commitment to provide up to EUR 528 million of additional capital.
- (282) The commitment letter granted an advantage to the Bank because it reassured depositors that the Bank would be able to raise the entire amount of capital it had to raise, that is to say, the HFSF would provide the capital should the Bank fail to raise it on the market. That commitment also facilitates the raising of private capital from the market, since investors are reassured that, if the Bank cannot find part of the capital from the market, the HFSF will provide it. No private investor would have accepted to commit before the terms of the recapitalisation were known, and at that time the Bank had no access to capital market.
- (283) Since the Bank is active in other European banking markets and since financial institutions from other Member States operate in Greece, notably in the insurance market, measure B3 is also likely to affect trade between Member States and to distort competition.
- (284) Measure B3 therefore constitutes aid and was notified as State aid by the Greek authorities on 27 December 2012.

#### **7.1.3.4. The Spring 2013 recapitalisation (measure B4)**

- (285) The Spring 2013 recapitalisation (measure B4) is the conversion of the first and second bridge recapitalisations (measures B1 and B2) and of the commitment letter (measure B3) into a permanent recapitalisation of EUR 5 839 million in ordinary shares. Since measure B4 is the conversion of aid already granted, it still involves State resources but it does not increase the nominal amount of aid. However, it increases the advantage to the Bank (and therefore the distortions of competition) since it is a permanent recapitalisation and not a temporary recapitalisation as in the case of measures B1 and B2. Compared to measure B3, which is only a commitment and not an actual recapitalisation, measure B4 increased the capital adequacy of the Bank and is therefore more advantageous.
- (286) The Commission notes that such support was not granted to all banks operating in Greece. As regards distortions of competition and effect on trade, the Commission notes for instance that the aid enabled the Bank to pursue its operations in other Member States, such as Romania or Bulgaria. A liquidation of the Bank would have led to the termination of its activities abroad, through the liquidation of those activities or the sale of the businesses. In addition, the insurance activities of the Bank in Greece compete with the activities of subsidiaries of insurance companies from other Member States. Therefore, the measure distorts competition and affects trade between Member States. Measure B4 therefore constitutes State aid.

#### **7.1.3.5. Conclusion on measures B1, B2, B3 and B4**

- (287) Measures B1, B2, B3 and B4 constitute State aid within the meaning of Article 107(1) of the Treaty. The amount of State aid included in measures B1, B2, B3 and B4 is EUR 5 839 million, which was also the amount of State support actually paid out by HFSF to the Bank.
- (288) Point 31 of the Restructuring Communication indicates that, besides the absolute amount of aid, the Commission has to take into account the aid "*in relation to the bank's risk-weighted assets*". Measures B1, B2, B3 and B4 have been granted over the course of a one-year period, from April 2012 until May 2013. During that period, the RWA of the Bank changed. The question therefore arises as to which level of RWA should be used, that is to say, that which existed at the beginning of the period or that which existed at the end of the period. Measures B1, B2, B3 and B4 aim at covering a capital need identified by the Bank of Greece in March 2012 (the stress test of 2012). In other words, the capital needs those measures covered already existed in March 2012. The Commission therefore considers that the aid amount included in measures B1, B2, B3 and B4 should be compared to the RWA of the Bank at 31 March 2012. It is also recalled that the Bank of Greece, after March 2012 and until the Spring 2013 recapitalisation, did not take into account acquisitions made by Greek banks to adjust – upwards or downwards - their capital needs. That factor further demonstrates that measures B1, B2, B3 and B4 were aid measures related to the perimeter of the Bank as it existed at 31 March 2012.
- (289) The first and second bridge recapitalisations and the commitment letter altogether amounted to EUR 5 839 million. That amount represents 13,8% of the RWA of the Bank at 31 March 2012.

#### **7.1.3.6. The 2014 recapitalisation commitment (measure C)**

- (290) On 31 March 2014 the Bank received a commitment letter from the HFSF, by which the HFSF gave a commitment to participate in the share capital increase of the Bank for an amount of up to EUR 2 864 million (measure C). For the reasons explained in recital (277), that measure involves the use of State resources. That measure constitutes an advantage to the Bank since it ensures that the Bank it will find the capital it needs, which will reassure depositors and facilitate it in raising capital from private investors.
- (291) If private investors do not subscribe to the entire amount of the capital increase, the HFSF has to actually inject capital into the Bank in application of the commitment letter. Such a capital injection would, compared to the commitment letter, constitute a larger advantage in favour of the Bank. Unlike a mere commitment letter, the actual injection of capital increases the capital adequacy of the Bank.
- (292) Neither the commitment letter nor its potential implementation in the form of an actual capital injection complies with the market economy investor principle. Even if the HFSF were to purchase the new shares at the same price as private investors, the circumstances of the participation of the HFSF are very different from those of the private investors who will subscribe to new shares. The HFSF has committed to subscribe the entire share capital increase if needed, before any private investor has formally committed to buy shares. Private investors who buy new shares will be certain that in any event the Bank will raise the entire amount of capital needed, since the HFSF will act as a backstop and purchase any shares not subscribed by private investors. Secondly, the HFSF will participate only if there is insufficient demand from private investors at the floor of the announced price range. As such, the



HFSF will provide capital which the Bank cannot find on the market at the same price per share. In consequence, the HFSF provides capital for an amount or at a price which the market is not ready to provide.

- (293) Because it was only granted to the Bank, measure C is selective. The position of the Bank was strengthened since the Bank was provided with the financial resources necessary to continue to comply with the regulatory capital requirements set by the Bank of Greece. It therefore provides an advantage which distorts competition. Since the Bank is active in other European banking markets and since financial institutions from other Member States operate in Greece, notably in the insurance market, measure C is also likely to affect trade between Member States.
- (294) The 2014 recapitalisation commitment constitutes State aid within meaning of Article 107(1) of the Treaty. The amount of aid included in that measure is EUR 2 864 million, which represents 7,5% of the RWA of the Bank at 31 December 2013<sup>132</sup>.
- (295) If the HFSF actually injects further capital in the Bank in implementation of that commitment, it will increase the advantage to the Bank and the distortions of competition but will not increase the nominal amount of aid<sup>133</sup>.

#### **7.1.4. Conclusion on the existence and total amount of aid received**

- (296) Measures A, B1, B2, B3, B4 and C constitute State aid within the meaning of Article 107(1) of the Treaty.

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<sup>132</sup> [http://www.eurobank.gr/Uploads/pdf/Pillar\\_3\\_2013\\_Final%20Values\\_2\\_310313.pdf](http://www.eurobank.gr/Uploads/pdf/Pillar_3_2013_Final%20Values_2_310313.pdf).  
<sup>133</sup> See recital (285) of the present decision in respect of measure B3.

Table 11 - Overview of the total aid received by the Bank

Ref.	Measure	Type of measure	Amount of aid	Aid/RWA
A	Preference Shares	Capital support	EUR 950 million	2%
B1 B2 B3 B4	First bridge recapitalisation Second bridge recapitalisation Commitment letter Spring 2013 recapitalisation	Capital support	EUR 5 839 million	13,8%
C	2014 recapitalisation commitment	Commitment to provide capital support	EUR 2 864 million	7,5%
<b>Total capital aid granted to the Bank</b>			<b>EUR 9 653 million</b>	<b>15,8%</b>
<b>Total capital paid out to the Bank</b>			<b>EUR 6 789 million</b> [could go to EUR 9 653 million if the HFSF has to provide the entire amount of the capital increase of April 2014]	<b>23,7%</b>
Ref.	Measure	Type of measure	Nominal amount of aid	
L1	Liquidity support	Guarantee	EUR 13 932 million	<i>As of 30 November 2013</i>
L2	State-guaranteed ELA	Funding and Guarantee	EUR 12 000 million	<i>As of 31 December 2012</i>
<b>Total liquidity aid granted to the Bank</b>			<b>EUR 25 932 million</b>	

## 7.2. Legal basis for the compatibility assessment

- (297) As concluded in recital (200), the legal basis for the assessment of the aid measures should be Article 107(3)(b) of the Treaty<sup>134</sup>.
- (298) During the financial crisis, the Commission has developed compatibility criteria for different types of aid measures. Principles for assessing aid measures were first laid down in the 2008 Banking Communication.
- (299) Guidance for recapitalisation measures can be found in the Recapitalisation Communication and the 2011 Prolongation Communication.
- (300) The Restructuring Communication defines the approach adopted by the Commission as regards the assessment of restructuring plans, in particular the need to return to viability, to ensure a proper contribution from the beneficiary and to limit distortions of competition.

<sup>134</sup> It is also noted that Greece granted the aid to the bank under the Greek Banks Support Scheme which has been authorised by the Commission on the basis of Article 107(3)(b) of the Treaty as well as through the HFSF whose creation has also been approved by Commission decision.

(301) That framework was complemented by the 2013 Banking Communication, which applies to aid measures notified after 1 August 2013.

**7.2.1. Legal basis of the compatibility assessment of the liquidity support to the Bank (measure L1)**

(302) The liquidity support already received by the Bank has been definitively approved through the successive decisions authorizing the measures under the Greek Banks Support Scheme and the Scheme's amendments and prolongations<sup>135</sup>. Any future liquidity support for the Bank will have to be granted under a scheme duly approved by the Commission. The terms of such aid will have to be authorized by the Commission before it is granted and therefore do not have to be further assessed in this decision.

**7.2.2. Legal basis of the compatibility assessment of the preference shares (measure A)**

(303) The recapitalisation granted in 2009 in the form of preference shares (measure A), was granted under the recapitalisation measure approved in 2008 as part of the Greek Banks Support Scheme under the 2008 Banking Communication. It therefore does not have to be reassessed under the 2008 Banking Communication and has only to be assessed under the Restructuring Communication.

**7.2.3. Legal basis of the compatibility assessment of the State-guaranteed ELA (measure L2)**

(304) The compatibility of the State-guaranteed ELA (measure L2) should be first assessed on the basis of the 2008 Banking Communication and the 2011 Prolongation Communication. Any State-guaranteed ELA granted after 1 August 2013 falls under the 2013 Banking Communication.

**7.2.4. Legal basis of the compatibility assessment of the HFSF recapitalisations (measures B1, B2, B3, and B4)**

(305) The compatibility of the HFSF recapitalisations (measures B1, B2, B3 and B4), in particular as regards remuneration, should first be assessed on the basis of the 2008 Banking Communication, the Recapitalisation Communication and the 2011 Prolongation Communication. In the Eurobank Opening Decision the Commission expressed doubts as to the compatibility of measure B1 with those Communications. Since they were implemented before 1 August 2013, those measures do not fall under the 2013 Banking Communication. The compatibility of the HFSF recapitalisations (measures B1, B2, B3 and B4) should also be assessed on the basis of the Restructuring Communication.

**7.2.5. Legal basis of the compatibility assessment of the 2014 recapitalisation commitment (measure C)**

(306) The compatibility of the 2014 recapitalisation commitment (measure C) should be assessed on the basis of the 2013 Banking Communication, which sets out new requirements as regards the contribution of subordinated creditors and the remuneration of managers, and of the Recapitalisation Communication and the 2011 Prolongation Communication. The compatibility of measure C should also be assessed on the basis of the Restructuring Communication.

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<sup>135</sup> See footnotes 4 and 3.

### **7.3. Compliance of measure L2 with the 2008 Banking Communication, the 2011 Prolongation Communication and the 2013 Banking Communication**

- (307) In order for an aid to be compatible under Article 107(3)(b) of the Treaty it must comply with the general criteria for compatibility: appropriateness, necessity and proportionality.
- (308) Because Greek banks were shut out from wholesale markets and became entirely dependent on central bank financing, as indicated in recital (32), and since the Bank could not borrow a sufficient amount of funds through the regular refinancing operations, the Bank needed State-guaranteed ELA to obtain sufficient liquidity thereby preventing it from defaulting. The Commission considers measure L2 to be an appropriate mechanism to remedy a serious disturbance, which would have been caused by the default of the Bank.
- (309) Since the State-guaranteed ELA entails a relatively high cost of funding for the Bank, the Bank has a sufficient incentive to avoid relying on that source of funding for developing its activities. The Bank had to pay an interest rate of [...] bps higher than regular refinancing operations with the Eurosystem. In addition, the Bank had to pay a guarantee fee of [...] bps to the State. As a result, the total cost of State-guaranteed ELA for the Bank is much higher than the normal costs of ECB refinancing. In particular, the difference between the former and the latter is higher than the level of the guarantee fee requested by the 2011 Prolongation Communication. As a result, the total remuneration charged by the State can be considered as sufficient. As regards the amount of the State-guaranteed ELA, it is regularly reviewed by the Bank of Greece and the ECB based on the actual needs of the Bank. They closely monitor its use and ensure it is limited to the minimum necessary. Therefore measure L2 does not provide the Bank with excess liquidity which could be used to finance activities distorting competition. It is limited to the minimum amount necessary.
- (310) Such close scrutiny of the use of the State-guaranteed ELA and regular verification that its use is limited to the minimum also ensures that this liquidity is proportional and does not lead to undue distortion of competition. The Commission also notes that Greece has committed to implement a number of measures aiming at reducing negative spill-over effects, as analysed in section 7.6, which further ensures that the reliance on liquidity support will end as soon as possible and that such aid is proportional.
- (311) Measure L2 therefore complies with the 2008 Banking Communication and the 2011 Prolongation Communication. As the 2013 Banking Communication has not introduced further requirements as regards guarantees, measure L2 also complies with the 2013 Banking Communication.

### **7.4. Compliance of measures B1, B2, B3 and B4 with the 2008 Banking Communication, the Recapitalisation Communication and the 2011 Prolongation Communication**

- (312) As indicated in recital (201), in order for an aid to be compatible under Article 107(3)(b) of the Treaty it must comply with the general criteria for compatibility<sup>136</sup>: appropriateness, necessity and proportionality.

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<sup>136</sup> See recital 41 of Commission decision in Case NN 51/2008 Guarantee scheme for banks in Denmark, (OJ C 273, 28.10.2008, p. 2).

(313) The Recapitalisation Communication and the 2011 Prolongation Communication set out further guidance on the level of remuneration required for State capital injections.

#### **7.4.1. Appropriateness of the measures**

(314) The Commission considers the HFSF recapitalisations (measures B1, B2, B3, and B4), to be appropriate because they prevent the bankruptcy of the Bank. Without them, its activities could not have continued as the Bank had a negative equity at the end of 2012<sup>137</sup>.

(315) In that respect, the Commission noted in the Eurobank Opening Decision that the Bank is one of the largest banking institutions in Greece, both in terms of lending and collection of deposits. As such, the Bank is a systemically important bank for Greece. Consequently, a default of the Bank would have created a serious disturbance in the Greek economy. Under the then prevailing circumstances, financial institutions in Greece had difficulties in accessing funding. That lack of funding limited their ability to provide loans to the Greek economy. In that context, the disturbance to the economy would have been aggravated by the default of the Bank. Moreover, measures B1, B2, B3, and B4 came about mainly because of the PSI programme, a highly extraordinary and unpredictable event, and not as a result of mismanagement or excessive risk-taking by the Bank. The measures thereby deal principally with the results of the PSI programme and contribute to maintaining financial stability in Greece.

(316) In the Eurobank Opening Decision, the Commission expressed doubts as to whether all steps possible had been taken immediately to avoid the Bank needing aid again in the future. As indicated in recitals (130) to (132) of the present Decision Greece has given a commitment to implement a number of actions related to the corporate governance and commercial operations of the Bank. As described in recitals (102) to (104) and in recital (111), the Bank has also comprehensively restructured its activities, with many cost reductions and divestments already implemented. Therefore the Commission's doubts have been allayed.

(317) In the Eurobank Opening Decision, the Commission also expressed doubts as to whether sufficient safeguards existed in case the Bank came under State control, or in case private shareholders retained control while the majority of the ownership would be held by the State. The Commission notes that commitments described in recitals (131) and (132) ensure the credit operations of the Bank will be run on a commercial basis and daily business will be protected from State interference. The relationship framework agreed between the HFSF and the Bank also ensures that interests of the State as main shareholder are protected against excessive risk-taking by the management of the Bank.

(318) Measures B1, B2, B3 and B4 thereby ensure that financial stability in Greece is maintained. Significant actions have been taken to minimize future losses and to ensure that the activities of the Bank are not jeopardized by inappropriate governance. On that basis, the Commission finds that measures B1, B2, B3 and B4 are appropriate.

#### **7.4.2. Necessity – limitation of the aid to the minimum**

(319) According to the 2008 Banking Communication, the aid measure must, in its amount and form, be necessary to achieve the objective. It means that the capital injection must be of the minimum amount necessary to achieve the objective.

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<sup>137</sup> <http://www.eurobank.gr/Uploads/pdf/Eurobank%20FY2012%20Results%20Press%20Release.pdf>.

- (320) The amount of capital support was calculated by the Bank of Greece in the framework of a stress test so as to ensure that Core Tier One capital remained above a certain level over the period 2012-2014, as reflected in Table 3. It therefore does not provide the Bank with excess capital. As explained in recital (316), actions have been taken to reduce the risk that the Bank might need additional aid in the future.
- (321) As regards the remuneration of the first and second bridge recapitalisations (measures B1 and B2), the Commission recalls that they were granted in May 2012 and December 2012, and paid in kind in the form of EFSF notes. The HFSF has received as remuneration, from the date of disbursement of those EFSF notes to the date of the Spring 2013 recapitalisation, the accrued interests on the EFSF notes plus a 1% fee<sup>138</sup>. As underlined in the Eurobank Opening Decision, that remuneration is lower than the 7% to 9% range as defined in the Recapitalisation Communication. However, the period of low remuneration was limited to one year for measure B1 and five months for measure B2 (that is to say, until the conversion of the bridge recapitalisation into a standard recapitalisation in ordinary shares, namely measure B4). While the first and second bridge recapitalisations did not trigger the dilution of existing shareholders, the Spring 2013 recapitalisation, which was the conversion of the first and second bridge recapitalisations, heavily diluted those shareholders, as their stake in the Bank's equity fell to 1,4%. The abnormal situation which prevailed from the date of the first bridge recapitalisation was then terminated. The doubts raised in the Eurobank Opening Decision have therefore been allayed.
- (322) Furthermore, given the atypical source of the Bank's difficulties, where losses come mainly from a debt waiver in favour of the State (the PSI programme and the debt buy-back, which provide a significant advantage to the State, that is to say, a debt reduction) and from the consequences of a protracted recession in its domestic market, the Commission can accept such a temporary deviation from the standard remuneration requirements set in the Recapitalisation Communication<sup>139</sup>.
- (323) Measure B3 was a commitment to provide capital. That commitment made in December 2012 was implemented in an actual injection of capital in May- June 2013, a mere five months later. For that reason and for the reasons set out in recital (322), it is acceptable that no remuneration was paid for that commitment.
- (324) As regards measure B4, according to point 8 of the 2011 Prolongation Communication capital injections should be subscribed at a sufficient discount to the share price adjusted for the dilution effect to give a reasonable assurance of an adequate remuneration for the State. While that recapitalisation did not provide for a significant discount to the share price as adjusted for the dilution effect, it was, in fact, impossible to achieve a significant discount to the theoretical ex-right price<sup>140</sup>. Prior to the Spring 2013 recapitalisation, the capital of the Bank was negative and its market capitalisation was only a couple of hundred millions of euros. In such circumstances, the question arises whether the existing shareholders should have been fully wiped out. The Commission notes that the issue price was set at a 50% discount to the average market price over the fifty days preceding the determination of the issue price. The Commission also notes that the dilution of the pre-existing shareholders has been huge, since after that recapitalisation they held only 1,4% of the shareholding of the Bank. Therefore, applying a further discount on the market

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<sup>138</sup> See recital (72): the accrued interests count as additional contribution by the HFSF and therefore reduced the payment which HFSF had to make to the Bank to pay the Spring 2013 recapitalisation.

<sup>139</sup> See also section 7.6.1.

<sup>140</sup> The theoretical ex-right price ("TERP") is a generally accepted market methodology for quantifying the dilution effect of share capital increase.

price would only have had a negligible impact on the remuneration of the HFSF. In view of the specific situation of the Greek banks explained in recital (322), and given the fact that the need for aid stems from a waiver of debt in favour of the State, the Commission considers the issue price to be sufficiently low.

- (325) In conclusion, measures B1, B2, B3 and B4 are necessary as rescue aid in both their amount and form.

#### **7.4.3. Proportionality – measures limiting negative spill-over effects**

- (326) The Bank has received a very large amount of State aid. That situation may therefore lead to serious distortions of competition. However, Greece has given a commitment to implement a number of measures aiming at reducing negative spill-over effects. In particular, the commitments provide that the Bank's operations will continue to be run on a commercial basis, as explained in recitals (131) and (132). Greece has also committed to an acquisition ban, as well as to a number of divestments abroad and in non-banking activities in Greece, as set out in recital (133). Limits to distortions of competition will be further assessed in section 7.6.

- (327) A monitoring trustee has also been appointed in the Bank to monitor the correct implementation of commitments on corporate governance and commercial operations. It will avoid any detrimental change in the Bank's commercial practice and thereby reduce the potential negative spill-over effects.

- (328) Finally a new comprehensive restructuring plan was submitted on 16 April 2014 to the Commission. That restructuring plan will be assessed in section 7.6.

- (329) To conclude, the doubts raised in the Eurobank Opening Decision have been allayed. Measures B1, B2, B3 and B4 are proportionate in the light of point 15 of the 2008 Banking Communication.

#### **7.4.4. Conclusion on the compliance of the HFSF recapitalisations with the 2008 Banking Communication, Recapitalisation Communication and the 2011 Prolongation Communication**

- (330) The Commission thus concludes that the HFSF recapitalisations (measures B1, B2, B3 and B4) are appropriate, necessary and proportionate, in the light of point 15 of the 2008 Banking Communication, of the Recapitalisation Communication and the 2011 Prolongation Communication.

#### **7.5. Compliance with the Restructuring Communication of the purchases of New TT Bank and Nea Proton Bank by the Bank**

- (331) Points 23 and 40 of the Restructuring Communication explain that acquisitions of undertakings by aided banks are normally contrary to the obligations to limit the restructuring costs and to limit distortions of competition. In addition, they may endanger or complicate the restoration of viability. The Commission must therefore assess whether the acquisitions made by the Bank can be reconciled with the Restructuring Communication.

### **7.5.1. Compliance of the acquisition of New TT Bank with the Restructuring Communication**

#### **7.5.1.1. Effect of the acquisition of New TT Bank on the long-term viability of the Bank**

- (332) In terms of operating profitability, the acquisitions made by the Bank will enhance the Bank's return to long-term viability as merging two banks in the same geographical market gives the opportunity to realise meaningful synergies, for instance in the form of personnel reduction, branch closures and reduced overhead costs. The Bank will acquire the customers and depositors, while significantly reducing the distribution costs. It will close most of the "T-Bank"-branded branches and some of the "Hellenic Postbank"-branded branches, in addition to rationalizing headquarters functions.
- (333) In terms of liquidity positions, the transaction also has a favourable impact on the Bank's loan-to-deposit ratio, bringing it down significantly from an excessive level, since New TT Bank had significantly more deposits than loans. In particular, the Bank of Greece noted in its letter to the HFSF dated 8 July 2013 that the Bank had been under much pressure for the two years preceding the transaction. The Bank of Greece observed that the Bank had lost market shares in Greece, and that it was relying significantly on Eurosystem funding and emergency liquidity assistance. In its letter the Bank of Greece referred to the large funding gap, to the consolidated loan-to-deposit ratio of 132% and to the deteriorated perception of the Bank by customers. In that letter the Bank of Greece indicated that the acquisition of New TT Bank by the Bank would lead to *"a substantial increase of deposits of [the Bank], thereby improving its overall funding profile, depositors' perception and its ability to attract new deposits at more attractive terms than currently"*.
- (334) The acquisition therefore contributes to repairing the liquidity position of the Bank, which is essential to the restoration of long-term viability. The Commission acknowledged the positive impact of the acquisition in a letter from its services to the HFSF dated 8 July 2013. In that letter the Commission indicated that the draft restructuring plan of the Bank, which had been submitted by Greece prior to the acquisition of New TT Bank, did not meet the requirement of restoration of long-term viability, due to the vulnerability of the Bank's balance sheet at the end of the restructuring period. In the same letter the Commission indicated that the *"acquisition of the deposit-rich [New TT Bank] would be a key contributor to the repair of the balance sheet of [the Bank] and thereby the restoration of its long term viability"*. That assessment was justified in view of the impact of such an acquisition on the liquidity position of the Bank: *"Based on end 2012 figures, the acquisition would make [the] loan-to-deposit ratio drop immediately from 155% to 123%, such that it should be possible to meet [the Commission's] requirement [at] end 2017"*.
- (335) The Commission therefore considers that the acquisition is positive for the restoration of the long-term viability of the Bank.

#### **7.5.1.2. Effect of the acquisition on the aid amount needed by the Bank**

- (336) In line with point 23 of the Restructuring Communication, restructuring aid should not be used for the acquisition of other companies but merely to cover restructuring costs which are necessary to restore the viability of the Bank.
- (337) The Bank paid the purchase price in new shares, so that the acquisition was not financed through State aid. As a result, the capital need created by the payment of the purchase price was immediately covered by the issuance of new shares so that the



payment of the purchase price did not create a net increase of the capital needs of the Bank. Moreover, the HFSF was the 100% owner of New TT Bank, which implies that all the new shares issued by the Bank were given to the HFSF, that is to say, to the State.

- (338) The acquisition as such will not trigger additional State aid as New TT Bank complied with its regulatory capital requirements. In addition, that interim credit institution had been created only a few months before it was acquired. Since the assets of a failing bank are assessed and valued at fair value before they are transferred to an interim credit institution, it can be assumed that the loan book of New TT Bank did not contain losses that were hidden or were not adequately provisioned.
- (339) In conclusion, in the specific circumstances of this case the acquisition of New TT Bank exceptionally does not contravene the principle that aid should be the minimum necessary.

#### **7.5.1.3. Distortive effect of the acquisition on competition**

- (340) In line with points 39 and 40 of the Restructuring Communication, State aid should not be used to the detriment of non-aided companies for the acquisition of competing businesses. Point 41 of the Restructuring Communication also states that acquisitions may be authorized if they are part of a consolidation process necessary to restore financial stability or to ensure effective competition, that the acquisition process should be fair and that the acquisition should ensure the conditions of effective competition in the relevant market.
- (341) New TT Bank was not a viable bank on a stand-alone basis. The consolidation of that bank was requested under the MEFP dated 15 May 2013. The transaction can therefore be considered to be part of a consolidation process which is necessary to restore financial stability of the kind described in point 41 of the Restructuring Communication.
- (342) No non-aided bidder submitted a valid bid for acquiring New TT Bank, and the sale process was open, transparent and non-discriminatory. There was therefore no crowding out of a non-aided bidder by the Bank. Since that acquisition was authorized by the Hellenic Competition Authority<sup>141</sup>, the Commission assumes that the outcome of the sale process ensures the conditions of effective competition in Greece.
- (343) Against that background, it can be concluded that the acquisition of New TT Bank is compatible with section 4 of the Restructuring Communication.

#### **7.5.1.4. Conclusion on the acquisition of New TT Bank**

- (344) The Commission concludes that, in the light of the unique situation of Greek banks<sup>142</sup> and the specificities of the acquisition of New TT Bank, that acquisition is compatible with the requirements laid down in the Restructuring Communication.

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<sup>141</sup> Decision 584/VII/2013 of Hellenic Competition Authority, not yet published.

<sup>142</sup> See also section 7.6.1.

## **7.5.2. Compliance of the acquisition of Nea Proton Bank with the Restructuring Communication**

### **7.5.2.1. Effect of the acquisition of Nea Proton Bank on the long-term viability of the Bank**

- (345) In terms of operating profitability, the acquisition of Nea Proton Bank should enhance the return to long-term viability of the Bank as merging two companies in the same geographical market gives the opportunity to realise meaningful synergies, for instance in the form of personnel reduction, branch closures and reduced overhead costs.
- (346) The acquisition of Nea Proton Bank allows the Bank to benefit from synergies. The Bank will acquire the customers and depositors while closing most of the branches and rationalizing the information system as well as headquarter functions. The transaction also reduced the Bank's loan-to-deposit ratio, since Nea Proton Bank had a lower loan-to-deposit ratio. As at the end of June 2013, the Bank's ratio of net loans to deposits was around 135,79% while Nea Proton Bank's ratio of net loans to deposits was around 52,68%.
- (347) In conclusion, the acquisition had a positive effect on the viability of the Bank.

### **7.5.2.2. Effect of the acquisition of Nea Proton Bank on the amount of aid needed by the Bank**

- (348) In line with point 23 of the Restructuring Communication, restructuring aid should not be used for the acquisition of other companies but merely to cover restructuring costs which are necessary to restore viability.
- (349) The Bank paid a symbolic price to purchase Nea Proton Bank (one euro), while the acquired entity had been adequately recapitalised prior to the sale. That recapitalisation included provisions for future loan losses and operating losses<sup>143</sup>. As a consequence, the acquisition for one euro of an adequately capitalised bank has not increased the capital needs of the Bank.
- (350) In conclusion, the acquisition of Nea Proton Bank does not contravene the principle that aid should be limited to the minimum necessary

### **7.5.2.3. Distortive effect of the acquisition of Nea Proton Bank on competition**

- (351) In line with points 39 and 40 of the Restructuring Communication, State aid should not be used to the detriment of non-aided companies for the acquisition of competing businesses.
- (352) Nea Proton Bank was not a viable bank on a stand-alone basis. The consolidation of that bank was requested under the MEFP dated 15 May 2013. The acquisition can therefore be considered to be part of a consolidation process which is necessary to restore financial stability of the kind described in point 41 of the Restructuring Communication.
- (353) The Commission also observes that no non-aided bidder submitted a valid bid for acquiring Nea Proton Bank, and that the sale process was open, transparent and non-discriminatory. There was therefore no-crowding out of a non-aided bidder by the Bank. Since that acquisition was authorized by the Hellenic Competition

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<sup>143</sup> See recital (53).

Authority<sup>144</sup>, the Commission assumes that the outcome of the sale process ensures the conditions of effective competition in Greece.

- (354) Against that background, it can be concluded that the acquisition of New Proton Bank is compatible with section 4 of the Restructuring Communication.

#### **7.5.2.4. Conclusion on the acquisition of Nea Proton Bank**

- (355) The Commission concludes that, in the light of the specificities of the acquisition of Nea Proton Bank, that acquisition is reconcilable with the requirements laid down in the Restructuring Communication.

### **7.6. Compliance of measures A, B1, B2, B3, B4 and C with the Restructuring Communication and of measure C with the 2013 Banking Communication**

#### **7.6.1. Sources of difficulties and consequences on the assessment under the Restructuring Communication**

- (356) As indicated in sections 2.1.1 and 2.1.2, the difficulties faced by the Bank come mainly from the Greek sovereign crisis and the deep recession in Greece and southern Europe. As regards the former factor, the Greek government lost access to financial markets and finally had to negotiate an agreement with its domestic and international creditors, the PSI programme, which resulted in a haircut of the claims held against the State by 53,3%. In addition, 31,5% of the claims was exchanged for new GGBs with lower interest rates and longer maturities. Those new GGBs were bought back by the State from the Greek banks in December 2012 at a price between 30,2% and 40,1% of their nominal value, thereby crystalizing a further loss for the Greek banks. Beside the impact on its capital position of the PSI programme and the debt buy-back, the Bank also observed huge deposit outflows between 2010 and mid-2012, due to the risk that Greece would exit the euro area as a consequence of an unsustainable public debt and the economic recession.
- (357) Measures B1, B2, B3 and B4 amount to EUR 5 839 million, which is approximately the amount of the loss booked following the PSI programme (EUR 5 781 million). In such a case, and if the difficulties do not come primarily from excessive risk-taking behaviour, point 14 of the 2011 Prolongation Communication provides that the Commission will lighten its requirements.
- (358) The Commission acknowledges that part of the capital needs stem from regular exposure of a financial institution to the sovereign risk of its domestic country. That fact was also pointed out in recitals 58 and 69 of the Eurobank Opening Decision. As a consequence there is less need for the Bank to address moral hazard issues in its restructuring plan than for other aided financial institutions which had accumulated excessive risks. As the aid measures are less distortive, the measures taken to limit distortions of competition should therefore be proportionately softened. Since the PSI programme and the debt buy-back constitute a debt waiver in favour of the State, the remuneration of the State when recapitalising banks can be lower.
- (359) However since the Greek economy has contracted by about 25% since 2008, the Bank has to adapt its organization, cost structure and its commercial network to that new environment, in order to restore profitability. Therefore, notwithstanding the absence of moral hazard issue, the Bank must restructure its operations in Greece to secure its long-term viability.

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<sup>144</sup> Decision 578/VII/2013 of Hellenic Competition Authority, available online at: [http://www.epant.gr/img/x2/apofaseis/apofaseis715\\_1\\_1391497451.pdf](http://www.epant.gr/img/x2/apofaseis/apofaseis715_1_1391497451.pdf)

- (360) The Commission also observes that the Bank's exposure to the Greek sovereign risk was larger than that of some other banks in Greece. As a result, not all the losses on GGBs (the loss on the PSI programme) can be attributed to the regular exposure of a financial institution to the sovereign risk of its domestic country.
- (361) The second source of losses for the Bank is the losses on its loans to Greek households and corporations. The Commission considers that those losses are mainly due to the exceptionally deep and protracted GDP contraction of approximately 25% over five years, and are not due to risky lending practices by the Bank. As a result, the aid granted to cover those losses does not create moral hazard, which is the case when aid shelters a bank from the consequences of past risky behaviours. The aid is therefore less distortive<sup>145</sup>.
- (362) However, part of the capital needs and loan losses of the Bank come from some international subsidiaries (Romania, Bulgaria, Poland and Ukraine). For instance in 2012, the Bank booked losses in Romania, Bulgaria and Ukraine, while those subsidiaries benefited from intragroup funding amounting to EUR 1,8 billion.
- (363) The stress tests performed in 2012 to determine the capital needs of the Bank also indicated that part of the capital needs stemmed from losses on foreign loans. Credit loss projections on those loans amounted to EUR 1 228 million in the base scenario and EUR 1 622 million in the adverse scenario.
- (364) In conclusion, point 14 of the 2011 Prolongation Communication covers a significant part of the losses and the resulting need for aid, which allows the Commission to lighten its requirements. Part of the need for aid stems from Greek loan losses due to the exceptionally deep and long recession and not from risky lending. Aid granted in such circumstances does not create moral hazard and is therefore less distortive.
- (365) Finally, part of the need for aid comes from the Bank's own risk taking, especially as regards its foreign subsidiaries and its higher holding of GGBs.

### **7.6.2. Viability**

- (366) A restructuring plan must ensure that the financial institution is able to restore its long-term viability by the end of the restructuring period (section 2 of the Restructuring Communication). In the case at hand, the restructuring period is defined as the period between the date of the adoption of this Decision and 31 December 2018.
- (367) In line with points 9 to 11 of the Restructuring Communication, Greece submitted a comprehensive and detailed restructuring plan which provides complete information on the Bank's business model. The plan also identifies the causes of the difficulties faced by the Bank, as well as the measures taken to tackle all viability issues which it faced. In particular, the restructuring plan describes the strategy chosen to preserve the Bank's operational efficiency and to tackle the high level of non-performing loans, low operational efficiency, its vulnerable liquidity and capital positions, and its foreign businesses, which relied on their parent company for their funding and capital.

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<sup>145</sup> See point 28 of the Restructuring Communication and see recital (320) of the Commission decision of 5 April 2011 on the measures No C 11/2009 (ex NN 53b/2008, NN 2/2010 and N 19/2010) implemented by the Dutch State for ABN AMRO Group NV (created following the merger between Fortis Bank Nederland and ABN AMRO N), (OJ L 333, 15.12.2011, p. 1).

### 7.6.2.1. Greek banking activities

- (368) As regards liquidity and the Bank's reliance on Eurosystem funding, the restructuring plan foresees a limited growth of the balance sheet in Greece while the deposit base should grow again. The reliance on ELA, which has already fallen, will continue to decrease which will also help the Bank to reduce the cost of its funding.
- (369) The loan-to-deposit ratio commitment described in recital (127) ensures that the Bank's balance sheet structure will be sustainable by the end of the restructuring period. The sale of securities and of other non-core activities will also strengthen the liquidity position of the Bank and ensure it does not rely on wholesale markets. Due to the still stressed liquidity position of the Bank, the Commission can accept the request of the Greek authorities to be authorized to provide liquidity to the Bank under the guarantee and government bond loan measures of the Greek Banks Support Scheme.
- (370) To decrease its funding costs, the Bank has also given a commitment to continue reducing the interest rates it pays on deposits, as described in recital (127). The Commission observes that such a decrease of the cost of deposits will be a key contribution to improving the pre-provisioning profitability of the Bank.
- (371) Since the start of the crisis the Bank has significantly rationalized its commercial network in Greece, through a reduction in the number of branches and employees. By 2018, the total costs of the Bank will have decreased by a further [...] % compared to 2013<sup>146</sup>. To achieve that target the Bank has committed to reduce its branches and employees in Greece to a maximum of [...] and [...] respectively as of 31 December 2017, with maximum total costs in Greece of EUR 800 million. The expected cost-to-income ratio will be less than [...] % at the end of the restructuring period. The Commission considers that the restructuring plan preserves the efficiency of the Bank in the new market environment.
- (372) One other key area is the management of non-performing loans, since they amounted to 29,4% of the portfolio at 31 December 2013<sup>147</sup>. The Bank plans to establish a dedicated department to deal with the management of non-performing loans. It has also given a commitment to comply with high standards as regards its credit policy in order to maximise the value for the Bank at each stage of the credit process, as described in recitals (131) and (132).

### 7.6.2.2. Corporate governance

- (373) Another point of attention is the governance of the Bank given that the HFSF owned 95,23% of the Bank's shares at 31 December 2013. In the light of the track record of State-owned banks in Greece, a specific relationship framework was agreed between the Bank and the HFSF in 2013. That agreement protects the day-to-day business of the Bank from excessive interference from its main shareholder, while ensuring the HFSF can monitor the implementation of the restructuring plan and prevent excessive risk-taking by the Bank's management through appropriate consultation procedures. The Bank has also committed to monitor closely its exposure to connected borrowers.
- (374) The HFSF law, as amended in 2014, provides that the shares subscribed by the HFSF in the Spring 2013 recapitalisation will become non-voting if at least 50% of the 2014 capital increase is subscribed by private investors. As regards the restoration of

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<sup>146</sup> See recital (106).

<sup>147</sup> 2013 Full year results, p3:  
[http://www.eurobank.gr/Uploads/pdf/Eurobank\\_4Q2013\\_Financial\\_Results.pdf](http://www.eurobank.gr/Uploads/pdf/Eurobank_4Q2013_Financial_Results.pdf).

the long-term viability of the Bank, the Commission would not take a negative view of the control granted to private shareholders if they invest a significant amount of own money in the Bank. The Commission observes that the limitation of the HFSF voting rights will not apply to votes related to the articles of association of the Bank or to corporate actions or other strategic decisions. The Commission notes positively the fact that the HFSF will automatically regain its full voting rights if the Bank does not implement its restructuring plan. Those provisions ensure that, while the HFSF will not intervene in the daily operations of the Bank, it can preserve its interests as shareholder and as an authority in charge of ensuring the correct implementation of the restructuring plan.

#### **7.6.2.3. International activities**

- (375) Some of the Bank's international activities have drained its capital, liquidity and profitability in the past, as explained in recitals (362) and (363).
- (376) The restructuring plan foresees a shift in the business model of the Bank towards that of being a bank which is more focussed on [...]. The Bank has already sold its non-profitable subsidiary in Poland, EFG Poland. It has also started to rationalize the other subsidiaries, to strengthen the loan underwriting process and to reduce the subsidiaries' funding gap. It is planning to divest the [...] subsidiary [...] <sup>148</sup>. It will also further restructure the operations of the [...] and [...] subsidiaries before their potential sale at a later stage, as mentioned in recital (116).
- (377) The overall profitability of the foreign operations will be restored from [...] onwards. At the same date, the funding granted to the foreign subsidiaries will have been reduced by [...] compared to the level as of 31 December 2012.
- (378) Therefore the Commission believes that the Bank will have sufficiently restructured and reduced those foreign subsidiaries in size to avoid it being exposed to additional capital needs and liquidity shortages in the future. The commitment described in recital (128) to refrain from injecting large amounts of capital into the Bank's international subsidiaries also ensures that foreign subsidiaries will not represent a threat for capital or liquidity.

#### **7.6.2.4. Conclusion on viability**

- (379) The base case scenario as described in section 2.4 shows that at the end of the restructuring period the Bank will be able to realise a return which allows it to cover all its costs and provide an appropriate return on equity taking into account its risk profile. In fact, the return on equity of the Bank will amount to [...] % in 2018 according to the base scenario. At the same time, the Bank's capital position is projected to remain at a satisfactory level, since the capital adequacy ratio will not fall below [...] % from 2014 onwards.
- (380) Finally, the Commission also takes note of the adverse scenario described in the restructuring plan of the Bank as submitted by the Greek authorities. That adverse scenario is based on a set of assumptions agreed with the HFSF. It takes into account a longer and deeper recession, as well as a more severe deflation of real estate prices <sup>149</sup>. The restructuring plan shows that the Bank is able to withstand a reasonable amount of stress as, in the adverse scenario, the Bank remains profitable

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<sup>148</sup> The [...] subsidiary has been loss-making since 2009, with a small market share (less than [...] % on loans and deposits), a high cost/income ratio and a significant funding gap.

<sup>149</sup> The financial projections reported in the restructuring plan differ from the outcome of the stress test performed by the Bank of Greece, since the latter was not based on the same set of assumptions and factored in additional adjustments made by the Bank of Greece.

at the end of the restructuring period, with a return on equity of [...] % and a Core Tier One ratio of [...] % in 2018.

- (381) The 2013 stress tests performed by the Bank of Greece confirm that the amount of additional capital which will be raised in 2014, namely EUR 2 864 million, is sufficient to cope with the baseline scenario in the restructuring period. The Bank will also submit a contingent capital plan to the Bank of Greece with measures to be implemented if the economic environment should deteriorate further. The Commission recalls that in the assessment of the capital needs under the baseline scenario, the Bank of Greece already introduced several adjustments which resulted in an increase of the estimated capital needs compared to the capital needs estimated by the Bank in its own baseline scenario. The baseline capital needs estimated by the the Bank of Greece can therefore be considered as a kind of stress test. To conclude that the Bank is viable, the Commission does not require that the Bank has enough capital upfront to cover the stressed scenario capital needs estimated by the Bank of Greece, as the latter estimated level represents a high level of stress.
- (382) In addition, it is positive that the Bank will not make additional investments in non-investment grade paper, which will help to preserve its capital and liquidity position.
- (383) The Commission can therefore conclude that the Bank has taken sufficient measures to address the viability issues for the Greek domestic banking activities and the foreign activities.

### **7.6.3. *Own contribution and burden-sharing***

#### **7.6.3.1. Assessment of the compliance of measures A, B1, B2, B3 and B4 with the Restructuring Communication**

- (384) As stated in the Restructuring Communication, banks and their stakeholders need to contribute to the restructuring as much as possible in order to ensure that aid is limited to the minimum necessary. Thus banks should use their own resources to finance the restructuring, for instance by selling assets, while the stakeholders should absorb the losses of the bank where possible. The commitments made by the Bank should ensure that own resources are used and that original shareholders and private investors, holding hybrid capital of the Bank, contribute to the restructuring.

#### **7.6.3.1.1 Own contribution by the Bank: divestments and cost cutting**

- (385) The Bank has divested significant businesses in order to enhance its capital adequacy. The sale of its large Polish and Turkish subsidiaries has improved its capital position by about EUR 750 million. Those sales have also improved the liquidity position of the Bank. The share capital increase of Eurobank Properties enabled the Bank to increase its capital by EUR 200 million.
- (386) The restructuring plan provides for the sale of further assets in [...] and [...]. In particular, the Bank has given a commitment that it will reduce the size of its foreign assets to EUR 8,77 billion. Considering the deleveraging and divestments already implemented and following the implementation of this additional downsizing, the Bank will have significantly reduced its geographical footprint in [...]
- (387) In addition, the Bank has given a commitment that it will further reduce the size of its foreign activities if it needs a capital injection from the HFSF of more than EUR 1 billion. In such a scenario, the Bank would reduce its portfolio of international assets to no more than EUR 3,5 billion. If the capital injection under measure C is less than EUR 1 billion, private investors will have injected at least EUR 1,5 billion, that is to say more than the HFSF. That larger participation from private investors

would significantly reduce the amount of aid needed, thereby enhancing the burden-sharing.

- (388) The Bank has also given a commitment that it will sell its large and profitable insurance subsidiary.
- (389) In order to limit its capital needs, the Bank has given a commitment that it will not use capital to support or increase the size of its foreign subsidiaries, as described in recital (128). Additionally, the commitments provide that the Bank will not make further acquisitions.
- (390) The Bank has also engaged in a far-reaching cost reduction programme, as indicated in section 2.4.2. Its costs will further decrease until 2018. [...]
- (391) Greece has in particular committed that until [...] the Bank will not pay to any employee or manager a total annual remuneration (wage, pension contribution, bonus) higher than [...]. Additionally, if HFSF has to subscribe to any share of the Bank, Greece has committed to apply a salary cap in line with the 2013 Banking Communication<sup>150</sup>.

#### **7.6.3.1.2 Burden-sharing by historical shareholders and new capital raised on the market.**

- (392) The existing shareholders of the Bank were heavily diluted by the Spring 2013 recapitalisation (measure B4). Indeed, the stake held by existing shareholders had been reduced from 100% prior to the Spring 2013 recapitalisation to only 1,44%. The Commission also notes that the Bank has paid no cash dividend since 2008. Finally the Commission takes a favourable view of the fact that the HFSF will inject additional capital only if the Bank fails to raise it from the market at a price deemed reasonable and established on the basis of two independent valuers.

#### **7.6.3.1.3 Burden-sharing by subordinated debt holders**

- (393) The Bank's subordinated debt holders have contributed to paying for the restructuring costs of the Bank. The Bank performed several liability management exercises in order to generate capital. The total amount of liabilities exchanged amounted to EUR 748 million, with a capital gain of EUR 565 million, as described in recitals (122) and (123).
- (394) The still outstanding instruments are subject to the coupon ban described in recital (133). Therefore, the Commission considers that an adequate burden-sharing from the bank's private hybrid investors is ensured and the requirements of the Restructuring Communication in that respect are met.
- (395) In conclusion, considering the elements developed in section 7.6.1, the Commission considers sufficient own contribution and burden-sharing measures have been implemented by Greece to limit the amount of aid measures A, B1, B2, B3 and B4 to the minimum necessary.

#### **7.6.3.2. Assessment of the compliance of measure C with the 2013 Banking Communication**

- (396) The 2013 Banking Communication complements the Restructuring Communication and calls for enhanced burden-sharing and for banks obtaining capital support to undertake additional measures to limit the aid to the minimum. Point 29 of the 2013 Banking Communication requires the Member State to demonstrate that all measures to limit such aid to the minimum have been exploited to the maximum extent. To that

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<sup>150</sup> See Commitments in Annex I, chapter II.



end, the Member State must present a capital raising plan, ensure adequate burden-sharing by the shareholders and subordinated creditors, and prevent the outflow of funds prior to the restructuring decision. According to the 2013 Banking Communication, the capital raising plan should include right issues, voluntary liability management exercises, capital accretive divestments, deleveraging measures, earning retention and other measures such as, for example, strict costs and remuneration policies.

- (397) Point 47 of the 2013 Banking Communication provides that once capital shortfalls are identified, a bank must prevent outflows of funds through a number of measures which aim at ensuring the same outcome as regular dividend and coupon bans, acquisition bans, price leadership bans or advertising bans. The Commission notes that such bans are already complied with by the Bank as they are included in the list of commitments submitted by Greece, as described in recital (133), and that the Bank has not paid any cash dividend since 2008.
- (398) The 2014 recapitalisation commitment (measure C) provides a cushion to absorb future losses as determined by the stress test exercise performed by the Bank of Greece in 2013 and disclosed on 6 March 2014. The results of the stress test show that the Bank needs EUR 2 945 million of additional capital to cover its future losses in a stress scenario. Measure C only covers the capital need which will remain insofar as (i) it cannot be covered through further divestments or capital enhancement measures (the Commission considers that the Bank has analysed all potential divestments and committed to all those which can reduce the capital needs in the framework of the capital plan submitted to the Bank of Greece) and (ii) it is not covered by private investors in the framework of the share capital increase which will take place in April 2014. Therefore it does not provide the Bank with any excess capital.
- (399) As explained in recitals (385) to (395), the Bank has already taken actions before the stress test to limit the amount of capital needed to the minimum. If, in the framework of the current capital raising exercise, the Bank manages to raise most of the capital needed from private investors and the additional aid paid out by the HFSF remains below EUR 1 billion, no further own contribution by the Bank will be necessary. However, if the aid paid out under measure C is above that level, it would be appropriate for the Bank to divest more activities.
- (400) As regards burden-sharing, the 2013 Banking Communication provides that adequate burden-sharing entails contributions by shareholders, hybrid capital holders and subordinated debt holders before aid in the form of capital support is granted. The Commission notes that Greece has amended its national legislative framework to ensure that subordinated creditors will contribute to the costs of restructuring of the Bank before any additional capital is injected into the Bank. The Commission also notes that Greece has given a commitment that it will implement the measures provided for in Article 6a of the HFSF law as amended in 2014<sup>151</sup>, which provide for the allocation of the capital shortfall to the holders of its capital instruments and other subordinated liabilities as may be necessary. While such burden-sharing will only take place after the date of the 2014 recapitalisation commitment (measure C), on the basis of point 45 of the 2013 Banking Communication the Commission considers disproportionate results would follow if mandatory conversion of subordinated debt and hybrid capital had to occur already at the moment of the commitment. If the Bank were to raise sufficient private capital to cover all of its

capital need as determined by the stress test performed by the Bank of Greece, the conversion of subordinated debt holders would be disproportionate. The commitment by Greece to bail-in subordinated creditors before any capital support is actually paid out to the Bank is therefore sufficient to ensure proper burden-sharing.

- (401) Moreover, in order to ensure that the owners of the Bank participate to the maximum extent in the reconstitution of an adequate capital basis over the restructuring period, Greece gave a commitment that, until the end of the restructuring period, the Bank will retain dividends and not pay any coupons which it is not under law obliged to pay. Thereby, in line with point 26 of the Restructuring Communication and point 47 of the 2013 Banking Communication the Bank will not use State aid to make payments on own funds if there are insufficient profits to make such payments.
- (402) The Bank has also committed that until 31 December 2017 the Bank will not pay to any employee or manager a total annual remuneration (wage, pension contribution, bonus) higher than the total annual remuneration of the Governor of the Bank of Greece (not taking into account any voluntary partial waiver of remuneration by the Governor). Additionally, in case HFSF has to subscribe to any share of the Bank, Greece has committed to apply a salary cap in line with the 2013 Banking Communication<sup>152</sup>.
- (403) The Commission has to assess whether that commitment covering two scenarios fulfils the requirements laid down in the 2013 Banking Communication.
- (404) In the first scenario where the HFSF does not actually inject new capital into the Bank, the aid enshrined in measure C will be limited to a mere underwriting commitment of a capital increase, and the HFSF will not disburse a single euro since all the new shares will have been subscribed by private investors. The 2013 Banking Communication provides that the remuneration limitation can end when the aid has been repaid. However, the aid included in such an underwriting commitment in relation to a prospective capital increase cannot be repaid where the commitment in question is never put into effect (since no money was ever disbursed by the State to the Bank). In such circumstances, the Commission can accept that the remuneration limitation applies for a fixed period of time. The Commission considers that the commitment made by Greece, which lasts until 31 December 2017 (i.e. for three years and eight months, ending one year before the end of the restructuring plan) is a correct application of the last paragraph of point 38 of the 2013 Banking Communication. Because the annual remuneration of the Governor of the Bank of Greece is lower than the cap set in the second paragraph of point 38 of the 2013 Banking Communication, and because that commitment will apply to the entire group, the Commission then considers that the commitment proposed by Greece for the case where no share is subscribed by the HFSF in the framework of the planned capital increase is in line with point 38 of the 2013 Banking Communication.
- (405) In the second scenario where the HFSF would have to subscribe any share of the bank, Greece committed to amend the commitment to put it in line with the 2013 Banking Communication. The Commission notes that, if the HFSF would subscribe any share, to remain in line with the 2013 Banking Communication, the duration of the remuneration cap would be amended, to last until the earlier of the end of the restructuring plan - 31 December 2018 - or a transaction equivalent to the repayment of the aid. Since ordinary shares cannot be repaid by the Bank, the Commission

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<sup>152</sup> Commitments in Annex I, chapter II

accepts that a sale of the shares on the secondary market at a profit could be considered equivalent to a repayment of the aid.

- (406) In conclusion, in both scenarios, the commitment on limitation of remuneration issued by Greece complies with the requirements of the 2013 Banking Communication.
- (407) As regards the remuneration of the State, the 2011 Prolongation Communication requires that new shares are issued at a discount to market price, after adjustment for dilution. The Commission observes that the purpose of that requirement is to ensure that the State receives a sufficient remuneration for its shareholding in the Bank and that the historical shareholders are correspondingly diluted. In the case of measure C, the State is already the main shareholder of the Bank, holding more than 90% of the shares. Therefore an excessive discount to market price would decrease the remuneration of the State on measure B4, and may entail aid to the investors if the discount underestimates the value of the Bank. In order to avoid such a situation, the subscription price cannot be lower than a floor price determined on the basis of two appraisals from independent valuers. Therefore the detailed arrangements of the price determination protect the HFSF from an excessive dilution by the new investors, while ensuring the HFSF subscribes new shares at a price which reflects the value of the Bank. In those circumstances, the Commission can accept that the new shares may be issued at a lower discount to current market price than that envisaged by the 2011 Prolongation Communication and it considers the floor price to be acceptable.
- (408) If the shares were issued at a higher price, it would have risked discouraging private investors from participating in the share capital increase and consequently would have limited private capital raising.
- (409) Therefore, the Commission considers the level of own contribution and burden-sharing to be appropriate for measure C.

#### **7.6.3.3. Conclusion on own contribution and burden-sharing**

- (410) The Commission observes that, in comparison with the total State recapitalisation received, the own contribution and burden-sharing in the form of sale of assets is much lower than the levels the Commission would usually consider as sufficient. However, in view of the elements developed in section 7.6.1, under which the Commission can accept a lower own contribution and burden-sharing, the restructuring plan can be considered as providing for sufficient own contribution and burden-sharing measures.
- (411) The restructuring plan also complies with the requirements of the 2013 Banking Communication as regards measure C.

#### **7.6.4. Measures to limit distortions of competition**

- (412) The Restructuring Communication requires a restructuring plan to propose measures limiting distortions of competition and ensuring a competitive banking sector. Moreover, those measures should also address moral hazard issues and ensure that State aid is not used to fund anti-competitive behaviour.
- (413) Point 31 of the Restructuring Communication states that when assessing the amount of aid and the resulting competition distortions, the Commission has to take into account both the absolute and relative amount of the State aid received as well as the degree of burden-sharing and the position of the financial institution on the market after the restructuring. In that respect, the Commission recalls that the Bank has

received capital from the State equivalent to 16% of its RWA (excluding measure C). With measure C, the Bank gets a commitment to inject an additional EUR 2 864 billion, bringing the total capital aid to 23,7% of the Bank's RWA. Apart from capital support, the Bank has also received liquidity support. The Bank has obtained liquidity guarantees that amounted to EUR 13 600 million as of 15 April 2011 and to EUR 13 932 million as of 30 November 2013, representing 17% of the Bank's balance sheet at the same date. The Bank also benefited from State-guaranteed ELA for an amount of EUR 12 billion as of 31 December 2012, which represented 18% of the balance sheet of the Bank on that date. The need to implement measures to limit potential distortions of competition is thus justified in view of that relatively large amount of aid. In addition, the market share of the Bank in Greece is large, with market shares of 17% for loans and 12% for deposits at 31 December 2012. The acquisitions of New TT Bank and Nea Proton Bank increased the market shares of the Bank to 20,7% for loans and 18,8% for deposits in September 2013<sup>153</sup>.

- (414) The Commission recalls that the difficulties of the Bank come mainly from external shocks such as the Greek sovereign crisis and the protracted recession which has disrupted the Greek economy since 2008, as was noted in recital (69) of the Eurobank Opening Decision. The need to address moral hazard issues is reduced as the Bank does not seem to have taken excessive risks. As discussed in section 7.6.1, the distortive effect of the aid measures is lower in the light of those factors and so is the need for measures to limit distortions of completion. For those reasons, the Commission can exceptionally accept that, in spite of the high aid amount, the restructuring plan does not envisage any downsizing of the balance sheet and loans in Greece.
- (415) However, the Commission notes that the State recapitalisations enabled the Bank to continue its banking activities in foreign markets and its insurance activities in Greece.
- (416) In that respect, the Commission notes, in addition to the deleveraging and restructuring already implemented, the Bank's commitment to sell its insurance activities by [...] as well as its commitment to reduce the size of its international assets by 31 December 2018, which will probably entail further divestments in [...] and [...], and its commitment not to use aid to fund the growth of those businesses. The Commission finds it proportionate that the reduction of foreign assets be deeper if, under measure C, the HFSF pays the Bank additional capital aid of more than EUR 1 billion. As indicated in recital (295), such a payment would make the aid more distortive than a mere commitment to participate in the capital increase. However, if the additional capital injected is less than EUR 1 billion, it would entail a larger participation of at least EUR 1,5 billion from private investors. Additionally, the larger private participation would constitute additional burden-sharing, as explained in recital (388). Point 31 of the Restructuring Communication states that both the price paid for assistance obtained from the State and the degree of burden-sharing will be taken into account when assessing burden-sharing measures. Therefore additional distortions of competition will remain limited if the HFSF injects less than EUR 1 billion.
- (417) Greece has also committed to an acquisition ban, ensuring that the Bank will not use the State aid received to acquire any new business. That ban contributes to ensuring

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<sup>153</sup> Restructuring plan, p. 14.

that the aid is strictly used to support the restoration of the viability of the Greek banking activities and not to grow, for instance, in foreign markets.

- (418) The commitment to decrease the interest paid on Greek deposits from unsustainably high levels also ensures that the aid will not be used to finance unsustainable deposit collection strategies which distort competition on the Greek market. Similarly, the commitment to implement strict guidelines as regards the pricing of new loans, based on a proper credit risk assessment, will prevent the Bank from distorting competition on the Greek market with inappropriate pricing strategies on loans to customers.
- (419) Taking into account the specific situation described in section 7.6.1 and the measures provided for in the restructuring plan, the Commission considers there are sufficient safeguards to limit distortions of competition.

### **7.7. Monitoring**

- (420) Pursuant to section 5 of the Restructuring Communication, regular reports are required to allow the Commission to verify that the restructuring plan is being implemented properly. As stated in the commitments<sup>154</sup>, Greece will ensure that the Monitoring Trustee, which has already been appointed by the Bank with the approval of the Commission, will monitor the commitments undertaken by Greece on the restructuring of activities in Greece and abroad and on corporate governance and commercial operations. The Commission therefore finds that proper monitoring of the implementation of the restructuring plan is ensured.

## **8. CONCLUSION**

- (421) The Commission finds that Greece has unlawfully implemented aid measures SA.34825 (2012/C), SA.34825 (2014/N), SA.36006 (2013/NN), SA.34488 (2012/C, ex 2012/NN) SA.31155 (2013/C) (2013/NN) in breach of Article 108(3) of the Treaty on the Functioning of the European Union, since they were implemented before their formal notification. However the Commission finds that the restructuring plan when taken together with the commitments in the Annexes ensures the restoration of long-term viability of the Bank, is sufficient with respect to burden-sharing and own contribution, and is appropriate and proportional to offset the competition distorting effects of the aid measures examined in this Decision. The restructuring plan and commitments submitted fulfil the criteria of the Restructuring Communication and the aid measures can therefore be considered compatible with the internal market,

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<sup>154</sup> See recital (134).

## HAS ADOPTED THIS DECISION:

### Article 1

1. The following measures implemented or planned by Greece constitute State aid within the meaning of Article 107(1) of the Treaty:
  - (a) The emergency liquidity assistance provided to Eurobank Ergasias SA. ("Eurobank") by the Bank of Greece and guaranteed by Hellenic Republic (measure L2);
  - (b) the second bridge recapitalisation of EUR 1 341 million granted by the Hellenic Financial Stability Fund ("HFSF") to Eurobank in December 2012 (measure B2);
  - (c) the commitment letter of EUR 528 million granted by the HFSF to Eurobank on 21 December 2012 (measure B3);
  - (d) the recapitalisation of EUR 5 839 million granted by the HFSF to Eurobank in May 2013 (measure B4);
  - (e) the recapitalisation commitment of EUR 2 864 million granted by the HFSF following the EUR 2 864 million share capital increase approved by the extraordinary meeting of shareholders on 12 April 2014 under the HFSL law 3864/2010 as amended (measure C);
  - (f) the capital injection of EUR 395 million granted by the HFSF to Nea Proton Bank on 28 August 2013 (measure NP3).
2. In the light of the restructuring plan relating to the Eurobank Group (Eurobank Ergasias S.A and all its subsidiaries (Greek and non-Greek subsidiaries and branches, both banking and non-banking).submitted on 16 April 2014 and the commitments provided by Greece on 16 April 2014, the following State aid is compatible with the internal market:
  - (a) the capital injection of EUR 950 million granted by Greece to Eurobank in May 2009 under the Recapitalisation Scheme (measure A);
  - (b) the emergency liquidity assistance provided to Eurobank by the Bank of Greece and guaranteed by Greece since July 2011, for an amount of EUR 12 billion as of 31 December 2012 (measure L2);
  - (c) the first bridge recapitalisation of EUR 3 970 million granted by the HFSF to Eurobank in May 2012 (measure B1);
  - (d) the second bridge recapitalisation of EUR 1 341 million granted by the HFSF to Eurobank in December 2012 (measure B2);
  - (e) the commitment letter of EUR 528 million granted by the HFSF to Eurobank on 21 December 2012 (measure B3);
  - (f) the recapitalisation of EUR 5 839 million granted by the HFSF to Eurobank in May 2013 (measure B4);
  - (g) the recapitalisation commitment of EUR 2 864 million granted by the HFSF to Eurobank following the EUR 2 864 million share capital increase approved by

the extraordinary meeting of shareholders on 12 April 2014 under the HFSL law 3864/2010 as amended (measure C);

- (h) the capital injection of EUR 80 million granted by Greece to Proton Bank in May 2009 (measure Pr1);
- (i) the financing of the total funding gap of EUR 1 121,6 million by the Hellenic Deposit and Investment Guarantee Fund (HDIGF) and the HFSF to the activities transferred from Proton Bank to Nea Proton Bank, in October 2011 and May 2012 (measure NP1);
- (j) the total capital injection of EUR 515 million granted by the HFSF to Nea Proton Bank in October 2011, February 2012, August 2012 and December 2012 (measure NP2);
- (k) the capital injection of EUR 395 million granted by the HFSF to Nea Proton Bank on 28 August 2013 (measure NP3);
- (l) the financing of the total funding gap of EUR 677 million by the HDIGF and the HFSF to activities which were transferred from T Bank to Hellenic Postbank ("TT Bank"), in December 2011 and February 2013 (measure T);
- (m) the capital injection of EUR 224,96 million granted by Greece to TT Bank in May 2009 (measure TT) ;
- (n) the financing of the total funding gap of EUR 3 732,6 million by the HFSF to the activities transferred from TT Bank to New Hellenic Postbank ("New TT Bank"), in January and June 2013 (measure NTT1);
- (o) The capital injection of EUR 500 million granted by the HFSF to New TT Bank on 29 January 2013 (measure NTT2).

## **Article 2**

This Decision is addressed to the Hellenic Republic.

Done at Brussels, 29.04.2014

For the Commission

Joaquín ALMUNIA  
Vice-President

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Notice

If the Decision contains confidential information which should not be published, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to publication of the full text of the Decision. Your request specifying the relevant information should be sent by registered letter or fax to:

European Commission  
Directorate-General for Competition  
COMP State Aid Greffe  
B-1049 Brussels  
Fax No: +32-2-296 12 42



## ANNEX I

### Eurobank – Commitments by the Hellenic Republic

The Hellenic Republic shall ensure that **the Bank** is implementing the restructuring plan submitted on 16/04/2014. The restructuring plan is based on macro-economic assumptions as provided by the European Commission (the "Commission") in Appendix I as well as regulatory assumptions.

The Hellenic Republic hereby provides the following Commitments (the "**Commitments**") which are integral part of the restructuring plan. The Commitments include the commitments regarding to the implementation of the restructuring plan (the "**Restructuring Commitments**") and the **Commitments on Corporate Governance and Commercial Operations**.

The Commitments shall take effect upon the date of adoption of the Commission's decision approving the restructuring plan (the "Decision").

The restructuring period shall end on 31 December 2018. The Commitments apply throughout the restructuring period unless the individual Commitment states otherwise.

This text shall be interpreted in the light of the Decision in the general framework of Union law, and by reference to Council Regulation (EC) No. 659/99.

#### Chapter I. Definitions

For the purpose of the Commitments, the following terms shall mean:

- (1) **Bank:** Eurobank Ergasias S.A. and all its subsidiaries. Therefore, it includes the entire Eurobank Group with all its Greek and non-Greek subsidiaries and branches, both banking and non-banking.
- (2) **Capital accretive bid in the banking sector:** a bid which results in an increase in the regulatory capital ratio of the Bank, taking into account all relevant elements, in particular the profit/loss booked on the transaction and the reduction of RWA resulting from the sale (if necessary corrected for the increase of RWA resulting from remaining financing links).
- (3) **Capital accretive bid in the insurance sector:** a bid which results in an increase in the regulatory capital ratio of the Bank. Any bid above the book value of the insurance activity in the account of the Bank is automatically assumed to be capital accretive.
- (4) **Closing:** the date of transfer of the legal title of the Divestment Business to the Purchaser.
- (5) **Divestment Business:** all the businesses and assets that the Bank commits to sell.
- (6) **Effective Date:** the date of adoption of the Decision.
- (7) **End of restructuring period:** 31 December 2018.

- (8) **Foreign assets or non-Greek assets:** assets related to the activities of customers outside Greece, independently of the country where the assets are booked. For instance, assets booked in Luxemburg but related to the activities of customers in Greece are not included in the scope of this definition. Conversely, assets booked in Luxembourg or Greece but related to the activities of customers in other SEE countries are considered as foreign assets and are included in the scope of this definition.
- (9) **Foreign businesses:** foreign banking and non-banking subsidiaries and branches of the Bank.
- (10) **Foreign subsidiaries:** all banking and non-banking subsidiaries of the Bank outside Greece.
- (11) **Greek banking activities:** the Bank's Greek banking activities independently from where the assets are booked.
- (12) **Greek non-banking activities:** the Bank's Greek non-banking activities independently from where the assets are booked.
- (13) **Greek subsidiaries:** all Greek banking and non-banking subsidiaries of the Bank.
- (14) **Monitoring Trustee:** one or more natural or legal person(s), independent from the Bank, approved by the Commission and appointed by the Bank; the Monitoring Trustee has the duty to monitor the Bank's compliance with the Commitments.
- (15) **Purchaser:** one or more natural or legal person(s) to acquire, in whole or in part, the Divestment Business.
- (16) **Sale:** the sale of 100% of the shareholding held by the Bank, unless the individual Commitment states otherwise.

For the purpose of the Commitments, the singular of those terms shall include the plural (and vice versa), unless the Commitments provide otherwise.

## **Chapter II. Restructuring Commitments**

- (1) **Number of branches in Greece:** The number of branches in Greece shall amount to [...] at the maximum on 31 December 2017.
- (2) **Number of employees in Greece:** The number of Full Time Equivalent (the "FTEs") in Greece (Greek banking and non-banking activities) shall amount to [...] at the maximum on 31 December 2017.
- (3) **Total costs in Greece:** The total costs in Greece (Greek banking and non-banking activities) shall amount to EUR 800 million at the maximum on 31 December 2017.
- (4) **Costs of deposits in Greece:** In order to restore its pre-provisioning profitability on the Greek market, the Bank shall decrease the cost of funding through the decrease of cost of deposits collected in Greece (including savings, sight and term deposits, and other similar products offered to customers and which costs are borne by the Bank) [...].
- (5) **Ratio net loans to deposits in Greece:** For the Greek banking activities, the ratio net loans to deposits shall amount at the maximum to 115% on 31 December 2017. [...]
- (6) **Support to foreign subsidiaries:** For each foreign subsidiary, cumulatively from the Effective Date until 30 June 2018, the Bank shall not provide additional equity or subordinated capital for an amount larger than the higher of (i) [...] % of the RWA of

that subsidiary on 31 December 2012 or (ii) EUR [...] million. If the Bank intends to inject equity or subordinated debt to the foreign subsidiary for an amount higher than the defined threshold, it must request the Greek Authorities to seek a Commission decision to amend the restructuring plan.

[...]

a. [...]

b. [...].

c. [...]

d. [...]

e. [...]

[...]

(7) **Deleverage of non-Greek assets by 30 June 2018:** The total size of the portfolio of foreign assets shall be reduced to a maximum amount of EUR 8,77 billion by 30 June 2018.

(7.1) If the Bank receives an additional aid larger than EUR 1 billion and lower than the notified aid amount, then the total size of the portfolio of foreign assets shall be reduced to a maximum amount of EUR 3,5 billion by 30 June 2018. If the sale of foreign businesses is used to reach that target, the closing of each sale shall not be later than 31 December 2018.

(7.2) [...]

(7.3) [...]

(8) **Sale of insurance activities:** The sale of the insurance activities (life and non-life) shall be completed (i.e. closed) by [...]. [...]

The Bank and its advisers shall invite potential buyers to submit a bid for a minimum 80% shareholding and the Bank shall indicate its willingness to enter into a bank assurance partnership agreement, offering its distribution network, and to retain up to 20% minority stake.

(9) **Sale of Real Estate subsidiary:** The Bank shall reduce its participation to 20% in Eurobank Properties REIC by 31 December 2016. [...]

(10) **Sale of equity investments, subordinated bonds and hybrid bonds:** The book value of the Bank's (excluding the regulated insurance subsidiaries) portfolio of securities defined as follows, shall be lower than EUR 35 million by 31 December 2015. [...]

(11) For any sale, the Hellenic Republic commits that:

a. The Purchaser shall be independent of and unconnected to the Bank;

b. For the purpose of acquiring the Divestment Business, the Purchaser shall not be financed directly or indirectly by the Bank;

- c. The Bank shall, for a period of 5 years after the closing of the sale, not acquire direct or indirect influence over the whole or part of the Divestment Business without a pre-approval from the Commission.
- (12) **Investment policy:** Until 31 December 2017, the Bank shall not purchase non-investment grade securities.  
[...]
- (13) **Salary cap:** Until [...], the Bank will not pay to any employee or manager a total annual remuneration (wage, pension contribution, bonus) higher than [...]. In case of a capital injection from HFSF, the remuneration cap will be re-evaluated according to the European Banking Communication of 1st August 2013.

### **Chapter III. Commitments on Corporate Governance and Commercial Operations – Prolongation and amendments**

- (1) The Bank shall continue to implement the Commitments on Corporate Governance and Commercial Operations, as submitted by the Hellenic Republic on 20 November 2012, with the subsequent amendments provided in Chapter III of the Commitments, until 30 June 2018. Regarding Eurobank Properties REIC, the Commitments provided in Chapter III, Section A (4) (i.e. compliance with the HFSF Relationship Framework), Section C (paragraph (27)) (Dividend, Coupon, Repurchase, Call and Buy Back ban), Section C (paragraph (28)) (Acquisition ban), as well as Chapter IV (Monitoring Trustee), shall cease to apply to the subsidiary from the moment the shareholding of the Bank in Eurobank Properties REIC is reduced below [...]%.  
(2) In case an individual Commitment does not apply at the Bank's level, the Bank shall not use the subsidiaries or activities not covered by that individual Commitment to circumvent the Commitment.

#### **Section A. Setting up an efficient and adequate internal organization**

- (3) The Bank, excluding its foreign subsidiaries, shall abide at all times with the totality of the provisions of law 3016/2002 on Corporate Governance and law 2190/1920 on the Sociétés Anonymes and especially the provisions in connection to the functions of corporate bodies such as the shareholders' meeting and Board of Directors in order to secure a clear distribution of responsibilities and transparency. The powers of the shareholders' meeting shall be restricted to the tasks of a general meeting in line with company law, in particular as regards rights related to information. More extensive powers, which would allow improper influence on management, shall be rescinded. Responsibility for day-to-day operational management shall clearly rest with the executive Directors of the Bank.
- (4) The Bank, excluding its foreign subsidiaries, shall comply at all times with the Hellenic Financial Stability Fund (the "HFSF") Relationship Framework.
- (5) The Bank shall abide by the provisions of Governor's Act 2577/9.3.2006, as in force, in order to maintain, on an individual and a group basis, an effective organisational structure and an adequate Internal Control System including the three key pillars,

namely the Internal Audit, Risk Management and Compliance functions and best international corporate governance practices.

- (6) The Bank shall have an efficient organizational structure, so as to ensure that the Internal Audit and the Risk Management departments are fully independent from commercial networks and report directly to the Board of Directors. An Audit Committee and a Risk Committee - created within the Board of Directors - shall assess all issues raised by those respective departments. An adequate Internal Audit Charter and Risk Management Charter shall specify the roles, responsibilities and resources of those departments. Those charters shall comply with international standards and secure a full independence to the departments. A Credit Policy shall provide guidance and instructions regarding the granting of loans, including the pricing of loans and the restructuring of loans.
- (7) The Bank shall make public to the competent authorities the list of shareholders holding at least 1% of ordinary shares.

## **Section B. Commercial practices and risk monitoring**

### **General principles**

- (8) The Credit Policy shall specify that all customers shall be treated fairly through non-discriminatory procedures other than those related to credit risk and ability to pay. The Credit Policy defines the thresholds above which the granting of loans must be approved by higher levels of management. Similar thresholds shall be defined regarding the restructuring of loans and the handling of claims and litigations. The Credit Policy shall centralize in selected centres the decision-making process at national level, and provide clear safeguards to ensure a consistent implementation of its instructions within all the Greek banking activities.
- (9) For all the Greek banking activities, the Bank shall fully incorporate the Credit Policy rules in their loan origination and loan refinancing workflow and disbursement systems.

### **Specific provisions**

- (10) The specific provisions listed in paragraphs (8) to (18) of Chapter III of the Commitments shall apply to the Greek banking activities, unless explicitly stated otherwise
- (11) The Credit Policy shall require that the pricing of loans and mortgages to comply with strict guidelines. Those guidelines shall include the obligation to respect strictly the credit policy's standard tables of interest rate bands (ranges) depending on the maturity of the loan, the credit risk assessment of the customer, the expected recoverability of pledged collateral (including the time frame to a potential liquidation), the overall relationship with the Bank (e.g. level and stability of deposits, fee structure and other cross-sales activities) and the funding cost of the Bank. Specific loan asset classes are generated (e.g. commercial loan, mortgage, secured/unsecured, etc.) and their pricing framework is tabulated to an appropriate Credit Policy table that shall be updated on a regular basis by the Credit Committee. Any exception must be duly authorized by the Credit Committee, or at lower level of authority when allowed by the Credit Policy. Tailor-made transactions such as syndicated loans or project finance shall respect the same principles, with due account being taken of the fact that they may not fit in standardized credit policy

tables. Infringements of that pricing policy shall be reported to the Monitoring Trustee.

- (12) The Risk Management Department shall be responsible for the assessment of credit risk and the valuation of collateral. When assessing the loan quality, the Risk Management Department shall act independently, providing its written opinion so as to ensure that criteria used in the assessment are applied consistently over time and among customers and in respect of the Bank's credit policy.
- (13) Regarding loans to individuals and legal entities, for all the Greek banking activities, on the basis of the best international practices, the Bank shall apply strict individual and aggregated limits governing the maximum loan amount that can be granted to a single credit risk (if at all allowed under Greek and EU law). Those limits shall take into account the maturity of the loan and the quality of any collateral/security provided and shall be set against key benchmarks including against capital.
- (14) Granting loans<sup>1</sup> to enable borrowers to purchase shares or hybrid instruments of the Bank and other banks<sup>2</sup> shall be prohibited, whoever are those borrowers<sup>3</sup>. This provision shall apply and shall be monitored at the Bank's level.
- (15) All loan requests by non-connected borrowers greater than [[...]% of the Bank's RWA] or any loan which keeps the exposure to one group (defined as a group of connected borrowers that represent a single credit risk) higher than [[...]% of the Bank's RWA] shall be reported to the Monitoring Trustee, which may, if the conditions do not appear to be set at arm's-length or if no sufficient information has been provided to the Monitoring Trustee, postpone the granting of the credit line or the loan by [...] working days. In emergency cases, that period may be reduced to [...] working days provided sufficient information has been provided to the Monitoring Trustee. That period will enable the Monitoring Trustee to report the case to the Commission and the HFSF before any definitive decision is taken by the Bank.
- (16) The Credit Policy shall give clear instructions on the restructuring of loans. It clearly defines which loans are eligible, under which circumstances, and indicates the terms and conditions that can be proposed to eligible customers. For all the Greek banking activities, the Bank shall ensure that all restructurings aim at enhancing the future recoveries by the Bank, thus safeguarding the interest of the Bank. In no case the restructuring policy will jeopardize the future profitability of the Bank. For that purpose, the Bank's Risk Management Department shall be responsible for developing and deploying adequate restructuring effectiveness reporting mechanisms, for performing in-depth analyses of internal and/or external best practices, reporting its findings at least on a quarterly basis to the Credit Committee and the Board Risk Committee, suggesting actionable improvements to the processes and policies involved and oversee and reporting on their implementation to the Credit Committee and the Board Risk Committee.
- (17) For all the Greek banking activities, the Bank shall enact a claim and litigation policy aiming at maximizing recovery and preventing any discrimination or preferential treatment in the management of litigations. The Bank shall ensure that all necessary actions are taken to maximize the recoveries for the Bank and protect its financial

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<sup>1</sup> For the purpose of that Commitment, the term "loans" shall be interpreted *largo sensu*, as any kind of financing, e.g. credit facility, guarantee, etc.

<sup>2</sup> For clarification, "other banks" refer to any bank – financial institution in the world.

<sup>3</sup> For clarification, all borrowers, including the Bank's private banking clients are covered by that Commitment.

position in the long-term. Any breach in the implementation of that policy shall be reported to the Monitoring Trustee.

- (18) The Bank shall monitor credit risk through a well-developed set of alerts and reports, which enable the Risk Management Department to: (i) identify early signals of loan impairment and default events; (ii) assess recoverability of the loan portfolio (including but not limited to alternative repayment sources such as co-debtors and guarantors as well as collateral pledged or available but not pledged); (iii) assess the overall exposure of the Bank on an individual customer or on a portfolio basis; and (iv) propose corrective and improvement actions to the Board of Directors as necessary. The Monitoring Trustee shall be given access to that information.

### **Provisions applying to connected borrowers**

- (19) All the provisions applying on connected borrowers shall apply at the Bank's level.
- (20) Within the Credit Policy, a specific section shall be devoted to the rules governing relations with connected borrowers. Connected borrowers include employees, shareholders, directors, managers, as well as their spouses, children and siblings and any legal entity directly or indirectly controlled by key-employees (i.e. employees involved in the decision-making process of the Credit Policy), shareholders, directors or managers or their spouses, children and siblings. By extension, any public institution or government-controlled organization, any public company or government agency shall be considered as a connected borrower. Political parties shall also be treated as connected borrowers in the Credit Policy. Particular focus shall be on decisions regarding any restructuring and write downs of loans to current or former employees, directors, shareholders, managers and their relatives as well as policies followed in the appropriateness, valuation, registration of liens and foreclosure of loan collateral. The definition of connected borrowers has been further specified in a separate document.
- (21) The Risk Management Department shall be responsible for the mapping of all connected groups of borrowers that represent a single credit risk with a view to properly monitoring credit risk concentration.
- (22) Regarding loans to individuals and legal entities, the Bank, on the basis of the best international practices, applies strict individual and aggregated limits governing the maximum loan amount that can be granted to a single credit risk which relates to connected borrowers (if at all allowed under Greek and EU law).
- (23) The Bank shall monitor separately its exposure to connected borrowers including the public sector entities and political parties. The new production of loans<sup>4</sup> to connected borrowers (annual % of Y-1 stock<sup>5</sup>) shall be no higher than the new production of the total loan portfolio in Greece (annual % of Y-1 stock). That Commitment shall be complied with separately for each type of connected borrower (employees, shareholder, managers, public entities, political party). The credit assessment of the connected borrowers, as well as the pricing conditions and possible restructuring offered to them, shall not be more advantageous compared to conditions offered to similar but unconnected borrowers, in order to secure a level-playing field in the Greek economy. That obligation does not apply to existing general schemes benefiting employees, offering them subsidized loans. The Bank shall report every

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<sup>4</sup> For clarification, the new production of loans covers also the rolling over of loans and the restructuring of existing loans.

<sup>5</sup> For clarification, "annual % of Y-1 stock" refers to the new production as a percentage of the stock at the end of the previous year. The amount of RWA is the one at the end of the year.

month about the evolution of that exposure, the amount of the new production and the recent requests greater than [[...]]% of the Bank's RWA] to be addressed at the Credit committee.

- (24) The credit criteria applied to employees/managers/shareholders shall be no less strict than those applied to other, non-connected borrowers. If the total credit exposure to a single employee/manager/shareholder exceeds an amount equal to a [[...]] fixed salary for secured loans and an amount equal to a [[...]] fixed salary for unsecured loans, the exposure shall be reported promptly to the Monitoring Trustee who may intervene and postpone the granting of the loan pursuant to the procedure described in paragraph (25) of Chapter III of the Commitments.
- (25) All loan requests by connected borrowers greater than [[...]]% of the Bank's RWA] or any loan which keeps the exposure to one group (defined as a group of connected borrowers that represent a single credit risk) higher than [[...]]% of the Bank's RWA] shall be reported to the Monitoring Trustee, which may, if the conditions do not appear to be set at arm's-length or if no sufficient information has been provided to the Monitoring Trustee, postpone the granting of the credit line or the loan by [...] working days. In emergency cases, that period may be reduced to [...] working days provided sufficient information has been provided to the Monitoring Trustee. That period will enable the Monitoring Trustee to report the case to the Commission and the HFSF before any definitive decision is taken by the Bank.
- (26) The restructuring of loans involving connected borrowers shall comply with the same requirements as for non-connected borrowers. Furthermore, established frameworks and policies to deal with troubled assets shall be assessed and improved, if necessary. However, it is expected that restructured loans of connected borrowers shall be reported separately, at least per loan asset class and connected borrower type.

### **Section C: Other restrictions**

- (27) **Dividend, Coupon, Repurchase, Call and Buy Back ban:** Unless the Commission otherwise agrees to an exemption, the Hellenic Republic commits that:
- a. The Bank shall not pay any coupons on hybrid capital instruments (or any other instruments for which the coupon payment is discretionary) or dividends on own funds instruments and subordinated debt instruments other than where there is a legal obligation to do so. The Bank shall not release reserves to put itself in such a position. In case of doubt as to whether, for the purpose of the present Commitment, a legal obligation exists, the Bank shall submit the proposed coupon or dividend payment to the Commission for approval;
  - b. The Bank shall not repurchase any of its own shares or exercise a call option in respect of those own funds instruments and subordinated debt instruments;
  - c. The Bank shall not buy back hybrid capital instruments.
- (28) **Acquisition ban:** The Hellenic Republic commits that the Bank shall not acquire any stake in any undertaking, be it an asset or share transfer. That ban on acquisitions covers both undertaking which have the legal form of a company and any package of assets which forms a business<sup>6</sup>.

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<sup>6</sup> For clarification, for the purpose of that Commitment, the Bank's Private Equity/Venture Capital business shall be excluded from the scope of that Commitment. In that respect, the Bank shall make a formal request to the Commission, which shall include a business plan for that entity.



- i. **Exemption requiring Commission's prior approval:** Notwithstanding that prohibition, the Bank may, after obtaining the Commission's approval, and, where appropriate, on a proposal of the HFSF, acquire businesses and undertakings if it is in exceptional circumstances necessary to restore financial stability or to ensure effective competition.
  - ii. **Exemption not requiring Commission's prior approval:** The Bank may acquire stakes in undertakings provided that:
    - a. The purchase price paid by the Bank for any acquisition is less than [...] % of the balance sheet size<sup>7</sup> of the Bank at the Effective Date of the Commitments<sup>8</sup>; and
    - b. The cumulative purchase prices paid by the Bank for all such acquisitions starting with the Effective Date of the Commitments until the end of the restructuring period, is less than [...] % of the balance sheet size of the Bank at the Effective Date of the Commitments.
  - iii. **Activities not falling under the acquisition ban:** The acquisition ban shall not cover acquisitions that take place in the ordinary course of the banking business in the management of existing claims towards ailing firms.
- (29) **Advertising ban:** The Hellenic Republic commits that the Bank shall refrain from advertising referring to state support and from employing any aggressive commercial strategies which would not take place without the support of the Hellenic Republic.

#### Chapter IV. Monitoring Trustee

- (1) The Hellenic Republic commits that the Bank shall amend and extend the mandate of the Monitoring Trustee approved by the Commission and appointed by the Bank on 22 February 2013 until the end of the restructuring period. The Bank shall also broaden the scope of that mandate to incorporate the monitoring of (i) the restructuring plan and (ii) all Commitments set out in this catalogue.
- (2) Four weeks after the Effective Date of the Commitments, the Hellenic Republic shall submit to the Commission the full terms of the amended mandate, which shall include all provisions necessary to enable the Monitoring Trustee to fulfil its duties under those Commitments.
- (3) Additional provisions on the Monitoring Trustee are specified in a separate document.

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<sup>7</sup> For clarification, for the purpose of that Commitment, the size of the balance sheet is equal to the Bank's total assets.

<sup>8</sup> For clarification, in case the Commission's approval to lift the acquisition ban is obtained according to point i., paragraph (28), Chapter III of the Commitments, the balance sheet of the Bank at the Effective Date of the Commitments shall be calculated to include also the assets of the acquired entities or the acquired assets at the date of acquisition.

## Appendix I: Macro-economic projections for Greek domestic operations

<b>% annual growth (unless otherwise stated)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Cumulative growth rate 2013-2017</b>
Real GDP	-6,4	-4,2	0,6	2,9	3,7	3,5	6,4
Nominal loan growth Greece	-6,4	-4,2	0,6	2,9	3,7	3,5	6,4
GDP deflator	-0,8	-1,1	-0,4	0,4	1,1	1,3	1,3
Property prices	-11,7	-10	-5	0	2	3,5	
Nominal household disposable income	-8,8	-9,5	-0,3	-0,4	2,6	3,6	-4,5
Private Sector deposits	-7	1,3	1	3,4	5	5	16,6
Unemployment (%)	24,2	27	26	24	21	18,6	
ECB refinancing rate (%)	0,75	0,5	0,5	1	1,5	1,75	
NPL formation peak			2H2014				
Euribor 3 months (average, %)		0,24	0,43	0,75	1,25	1,80	
Access to capital markets – repos		YES-No Cap					
Access to capital market – covered/senior unsecured		YES – up to EUR 500 million each	YES - up to EUR 1 billion each	YES-No Cap			