



EUROPEAN COMMISSION

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COMMISSION DECISION

of 09.07.2014

ON THE STATE AID

SA.34823 (2012/C), SA.36004 (2013/NN), SA.37965 (2013/N),

SA.37966 (2013/N), SA.37967 (2013/N)

implemented by Greece

for Alpha Bank Group relating to:

- **Recapitalisation and restructuring of Alpha Bank S.A.;**
- **Resolution of Cooperative Bank of Western Macedonia through a transfer order to Alpha Bank S.A.;**
- **Resolution of Evia Cooperative Bank through a transfer order to Alpha Bank S.A.;**
- **Resolution of the Cooperative Bank of Dodecanese through a transfer order to Alpha Bank S.A.**

(Only the English version is authentic)

(Text with EEA relevance)

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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,

Whereas,

1. PROCEDURE

1.1. Procedure related to Alpha Bank

- (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 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 measure¹. In May 2009, the Alpha Bank Group ("the Bank") 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 Bank 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 SA.32786 (2011/PN).
- (4) The Bank has repeatedly benefited from State guarantees on debt instruments and government bond loans under the Greek Bank Support Scheme². It also benefited from State-guaranteed emergency liquidity assistance ("State-guaranteed ELA").
- (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 1 900 million to the Bank ("first bridge recapitalisation").

¹ Commission Decision of 19 November 2008 in State Aid N 560/2008 *"Support Measures for the Credit Institutions in Greece"*, OJ C 125, 05.06.2009, p. 6. It was attributed the number SA.26678 (N 560/2008). That scheme was subsequently prolonged and amended as described in footnote 2

² On 2 September 2009, Greece notified a number of amendments to the support measures and a prolongation until 31 December 2009 that were approved on 18 September 2009 (See Commission decision of 18 September 2009 in State Aid N 504/2009 *"Prolongation and amendment of the Support Measures for the Credit Institutions in Greece"*, OJ C 264, 06.11.2009, p. 5). On 25 January 2010, the Commission approved a second prolongation of the support measures until 30 June 2010 (See Commission Decision of 25 January 2010 in State Aid N 690/2009 *"Prolongation of the Support Measures for the Credit Institutions in Greece"*, OJ C 57, 09.03.2010, p. 6). On 30 June 2010, the Commission approved a number of amendments to the support measures and an extension until 31 December 2010 (See Commission decision of 30 June 2010 in State Aid N 260/2010 *"Extension of the Support Measures for the Credit Institutions in Greece"*, OJ C 238, 03.09.2010, p. 3). On 21 December 2010 the Commission approved a prolongation of the support measures until 30 June 2010 (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, 19.02.2011, 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, 02.06.2011, 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, 17.09.2011, 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, 04.04.2012, 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, 15.03.2013, 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, 07.06.2013, 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"*, OJ C 141, 09.05.2014, p. 3). 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).

- (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.34823 (2012/NN)) as the measure had already been implemented.
- (7) By decision of 27 July 2012, the Commission opened a formal investigation procedure on the first bridge recapitalisation ("the Alpha Opening Decision")³.
- (8) On 12 October 2012, the HFSF gave its consent to the Bank for the acquisition of Emporiki Bank from Crédit Agricole S.A. ("Crédit Agricole"). On 16 October 2012, Crédit Agricole and the Bank signed a share purchase agreement.
- (9) Before that date, the Greek authorities had informed the Commission services about the evolution of the process and the terms of the potential acquisition of Emporiki Bank.
- (10) On 23 November 2012, the Commission services sent a letter to the Greek authorities, including their preliminary assessment of the acquisition.
- (11) In December 2012, the HFSF granted a second bridge recapitalisation of EUR 1 042 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 of up to EUR 1 629 million⁴. The Greek authorities notified those measures to the Commission on 27 December 2012⁵.
- (12) In May 2013, the Bank announced the successful completion of its EUR 457,1 million rights issue and the allocation of all shares offered in an additional EUR 92,9 million private placement. On 3 June 2013, the HFSF converted the first and second bridge recapitalisations into equity and injected a further EUR 1 079 million of capital into the Bank (the "Spring 2013 recapitalisation").
- (13) On 19 December 2013, the Greek authorities submitted information to the Commission regarding the terms of the Spring 2013 recapitalisation.
- (14) On 12 June 2014 the Greek authorities submitted a final restructuring plan for the Bank ("the restructuring plan") to the Commission. On the same date they provided information on the State-guaranteed ELA. They indicated that they intended to continue providing the Bank with liquidity support, as well as State guarantees on debt instruments and government bond loans under the Greek Banks Support Scheme⁶.
- (15) The Commission has had numerous meetings, teleconferences and electronic mail exchanges with representatives of the Greek authorities and the Bank.
- (16) Greece accepts that exceptionally this Decision is adopted in the English language only.

³ See Commission decision of 27 July 2012 in State Aid SA.34823 (2012/C) (ex 2012 NN), "Recapitalisation Alpha Bank by the Hellenic Financial Stability Fund", OJ C 357, 20.11.2012, p. 36.

⁴ HFSF press release, 24 December 2012, available online at: http://www.hfsf.gr/files/press_release_20121224_en.pdf.

⁵ Those measures were registered by the Commission as case SA.36004 (2013/NN).

⁶ The notification was registered under number SA.34823 (2012/C) (ex 2012 NN).

1.2. Procedure related to the State support granted to the three Cooperative Banks

- (17) On 3 December 2013, Greece informed the Commission about the anticipated resolution of three cooperative banks ("the three Cooperative Banks"), namely Co-operative Bank of Dodecanese ("Dodecanese Bank"), Co-operative Bank of Evia ("Evia Bank") and Co-operative Bank of Western Macedonia ("Western Macedonia Bank").
- (18) On 4 December 2013, the Commission services asked Greece to submit information regarding the anticipated resolution of the three Cooperative Banks.
- (19) On 5 December 2013, Greece submitted the requested information to the Commission services.
- (20) On 8 December 2013, the Bank of Greece proceeded with the resolution of the three Cooperative Banks and the transfer of the selected liabilities of the three Cooperative Banks to the Bank.
- (21) On 17 December 2013, Greece notified the State support provided in the framework of the resolution of the three Cooperative Banks.

2. DESCRIPTION

2.1. The Bank and its difficulties

2.1.1. General context of the Greek banking sector

- (22) Greece's real gross domestic product ("GDP") fell by 20% from 2008 to 2012, as shown in Table 1. As a result, Greek banks faced a rapidly increasing default rate on loans to Greek households and companies⁷. 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	-7,0	-3,9

Source: Eurostat, available online at

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

- (23) 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 maturities⁸. The Greek authorities announced the results of that exchange of bonds on 9 March 2012⁹. 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

⁷ 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.

⁸ 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.

⁹ 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>.

needs which were retroactively booked in the Greek banks' 2011 financial statements.

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

Banks	Face amount of GGBs (1)	Face amount of state related loans (2)	Total face amount (3)=(1)+(2)	PSI loss of GGBs (4)	state-related loans (5)	Total gross PSI loss (6)=(4)+(5)	Total gross PSI loss / Core Tier 1 ¹⁰ (Dec 2011)	Total gross PSI loss / Total assets (Dec 2011)
NBG	13 748	1 001	14 749	10 985	751	11 735	161,0%	11,0%
Eurobank	7 001	335	7 336	5 517	264	5 781	164,5%	7,5%
Alpha	3 898	2 145	6 043	3 087	1 699	4 786	105,7%	8,1%
Piraeus	7 063	280	7 343	5 686	225	5 911	226,0%	12,0%
Emporiki	351	415	766	270	320	590	40,3%	2,7%

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

- (24) 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 those banks' recapitalisation. The Greek authorities estimated the total bank recapitalisation needs and resolution costs to be financed under that programme at EUR 50 billion¹¹. 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 Blackrock¹². 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.

¹⁰ The Core Tier 1 ratio of a bank is one of the regulatory capital ratio watched by the banking supervisor in the framework of the Capital Requirement Directive.

¹¹ See footnote 7, p. 106.

¹² See footnote 8.

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

Banks	Reference Core Tier 1 (Dec 2011) (1)	Total gross PSI loss (Dec 2011) (2)	Provisions related to PSI (June 2011) (3)	Gross Cumulative Loss Projections for credit risk (4)	Loan loss reserves (Dec 2011) (5)	Internal capital generation (6)	Target Core Tier 1 (Dec 2014) (7)	Capital needs (8)=(7)-[(1)+(2)+(3)+(4)+(5)+(6)]
NBG	7 287	-11 735	1 646	-8 366	5 390	4 681	8 657	9 756
Eurobank	3 515	-5 781	830	-8 226	3 514	2 904	2 595	5 839
Alpha	4 526	-4 786	673	-8 493	3 115	2 428	2 033	4 571
Piraeus	2 615	-5 911	1 005	-6 281	2 565	1 080	2 408	7 335
Emporiki	1 462	-590	71	-6 351	3 969	114	1 151	2 475
Postbank (TT Bank)	557	-3 444	566	-1 482	1 284	-315	903	3 737

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

- (25) According to the MEFP, “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”¹³. The Bank of Greece found that only the four largest banks (Eurobank, National Bank of Greece, Piraeus Bank and Alpha Bank) submitted viable capital raising plans¹⁴. They received a first bridge recapitalisation by the HFSF in May 2012.
- (26) Domestic deposits in the banks in Greece decreased by 37% in total between the end of 2009 and June 2012 due to the 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 financing¹⁵, a growing portion of which was in the form of State-guaranteed ELA granted by the Bank of Greece.
- (27) On 3 December 2012, Greece launched a buy-back programme on the new GGBs received by the investors in the framework of the PSI programme, at prices ranging from 30,2% to 40,1% of their nominal value¹⁶. The Greek banks participated in that buy-back programme which crystallised further losses on their balance sheets, since most of the accounting loss (that is, the difference between market value and nominal

¹³ See footnote 7, p. 104.

¹⁴ See footnote 8.

¹⁵ The European Central Bank and the national central banks together constitute the Eurosystem, the system of central banks of the euro area.

¹⁶ 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 face value generated a significant debt reduction for Greece.

value) booked on those new GGBs at the time of the PSI programme became definitive and irreversible¹⁷.

- (28) In December 2012, the four largest Greek banks received a second bridge recapitalisation from the HFSF.
- (29) In spring 2013, the bridge recapitalisation of the four banks was converted into permanent recapitalisation in ordinary shares, with the HFSF holding more than 80% of the shareholding of each of the four banks. For the banks which managed to attract a pre-determined amount of private capital (the Bank, Piraeus Bank S.A. and National Bank of Greece S.A.), the HFSF received non-voting shares and private investors were granted warrants on the shares of the HFSF.
- (30) 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 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.
- (31) Based on the advisor's assessment of the CLPs, in autumn 2013 the Bank of Greece launched a new stress test exercise ("the stress test of 2013") to assess the robustness of the Greek banks' capital position under both a baseline and an adverse scenario. The Bank of Greece conducted the capital needs assessment with the technical support of a second advisor.
- (32) The key components of the capital needs assessment under the stress test of 2013 were i) the CLPs¹⁸ 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 the 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 under the baseline scenario for that stress test of 2013.

¹⁷ In the absence of such a buy-back, the market value of those new GGBs could have increased depending on the evolution of market parameters such as interest rates and the probability of default of Greece.

¹⁸ 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 ¹⁹ (4)	Internal Capital Generation (5)	Stress test Core Tier 1 ratio (December 2016) (6)	Capital needs (7)=(6)-(1)-(2)-(3)-(4)-(5)
NBG ²⁰	4 821	8 134	-8 745	-3 100	1 451	4 743	2 183
Eurobank ²¹	2 228	7 000	-9 519	-1 628	2 106	3 133	2 945
Alpha	7 380	10 416	-14 720	-2 936	4 047	4 450	262
Piraeus	8 294	12 362	-16 132	-2 342	2 658	5 265	425
Attica	225	403	-888	0	106	243	397
Panellinia	61	66	-237	0	-26	31	169

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

- (33) On 6 March 2014, the Bank of Greece announced the results of the stress test of 2013 and requested the banks to submit, by mid-April 2014, their capital raising plans to cover the capital needs under the baseline scenario.
- (34) Between the end of March 2013 and early May 2014, banks proceeded with capital increases.

2.1.2. The beneficiary

- (35) The Bank provides universal banking services mainly in Greece and in South-Eastern Europe (Cyprus, Romania, Bulgaria, Serbia, Albania and the Former Yugoslav Republic of Macedonia ("FYROM")) as well as in the United Kingdom. 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, treasury and investment banking. The Bank is incorporated in Greece and its shares are listed on the Athens Stock Exchange. On 30 September 2012, the Bank employed a total of 17 119 people, of which around one-third were employed in South-Eastern Europe and in the United Kingdom, while the remaining two-thirds were employed in Greece²².
- (36) The Bank participated in the PSI programme, exchanging GGBs and State-related loans with a face value of EUR 6 043 million. Its total PSI-related charge amounted to around EUR 4 786 million before tax and was entirely booked in its 2011 accounts²³. During the buy-back programme of December 2012, the Bank sold the

¹⁹ The impact of the foreign risk CLPs was calculated after foreign tax and taking into account the disposal commitments which had been provided to the Directorate-General for Competition Policy at that time.

²⁰ NBG loan loss reserves at 30 June 2013 pro-forma of the provisions of First Business Bank and Probank.

²¹ Eurobank loan loss reserves at 30 June 2013 pro-forma of the provisions of New Hellenic Postbank and New Proton Bank, which were acquired in August 2013.

²² http://www.alpha.gr/files/investorrelations/IFRS_Alphagroup_Q3_2013_en.pdf.

²³ See Table 2.

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.

- (37) 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 – Alpha Bank key figures, 2010, 2011, 2012 and 2013

Profit and loss (EUR million)	2010	2011	2012	Pro forma 2012 (including Emporiki)	2013 (including Emporiki)
Net Interest Income	1 819	1 784	1 397	1 755	1 658
Total Operating Income	2 249	2 283	1 506	1 826	2 344
Total Operating Expenses	-1 148	-1 096	-1 179	-1 746	-1 426
Pre Provision Income	1 101	1 187	327	80	918
Impairment Losses to cover credit risk	-885	-1 130	-1 669	-2 802	-1 923
Impairment losses on GGBs and loans eligible to PSI	-	-4 789	-	-	-
Negative goodwill					3 283
Net Profit/Loss	86	-3 810	-1 086	n/a	2 922
Selective Volume figures (EUR million)	2010	2011	2012	Pro forma 2012 (including Emporiki)	2013 (including Emporiki)
Total Loans and Advances to Customers (Net)	49 305	44 876	40 495	55 459	51 678
Deposits	38 293	29 399	28 451	41 348	42 485
Total Assets	66 798	59 148	58 357	76 518	73 697
Total Equity ²⁴	5 784	1966	773	3 423	8 312

Sources:

²⁴ Those amounts of equity include, for 2010, 2011 and 2012, EUR 940 million of preference shares granted by Greece in 2009; for 2012 those amounts do not include the two bridge recapitalisations received by the Bank in 2012, for an amount of EUR 2 942 million. The amount of equity for 2013 includes the full 2012 and 2013 HFSF and private recapitalisation, which amounted to a total of EUR 4 571 million.

2013: http://www.alpha.gr/files/investorrelations/Deltio_Typou_20140310EN.pdf

Pro forma 2012: Restructuring Plan of Alpha Bank, June 2014, p. 24

2012 and 2011: Financial results 2012 – Consolidated financial statements:

http://www.alpha.gr/files/investorrelations/IFRS_Alphagroup_FY_2012_en.pdf

2010: Financial results 2011 – Consolidated financial statements:

http://www.alpha.gr/files/investorrelations/IFRS_Alphagroup_FY_2011_en.pdf

- (38) Table 5 illustrates that, apart from the huge losses it booked in 2011 due to the PSI programme (EUR 4 786 million²⁵), the Bank suffered from declining income (due, among other reasons, to the higher costs of deposits) and from high and rising 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 152% at 31 December 2011²⁶, while 34% of its balance sheet was funded by the Eurosystem at that date²⁷.
- (39) Under the stress test of 2013, the Bank of Greece estimated the capital needs of the Bank at EUR 262 million for the baseline scenario.
- (40) In March 2014, the Bank proceeded with a capital increase of EUR 1,2 billion to cover the capital needs mentioned in recital (39) and to repay the preference shares held by Greece for EUR 940 million²⁸. In contrast to Eurobank's capital increase of April 2014, the HFSF did not commit to inject capital in the Bank's capital increase in case of insufficient private demand. The latter's capital increase was achieved through a non-pre-emptive equity offering (that is to say a capital increase with cancellation of shareholders' pre-emption rights) to international investors and through a public offering in Greece. The subscription price was set at EUR 0,66 per share.
- (41) Following the capital increase, the Bank announced on 17 April 2014 that it had redeemed the preference shares to Greece, for a total amount of EUR 940 million.

2.2. The Bank's acquisitions of Greek banking activities

2.2.1. Acquisition of Emporiki Bank

- (42) Emporiki Bank was established in 1882.
- (43) In 2000, Crédit Agricole Group initially acquired a 6,7% stake in Emporiki Bank. Emporiki Bank became a subsidiary of Crédit Agricole in 2006, when it acquired a controlling interest. Crédit Agricole increased its shareholding to 94,99% in Emporiki Bank at that time.
- (44) Emporiki Bank operated in all banking activities (retail, corporate) as well as in investment banking, asset management, portfolio management and in general financial services. It offered its services in Greece through its network of 323 branches and abroad through its branch in Cyprus as well as through subsidiaries in Cyprus, Bulgaria, Albania and Romania²⁹. It employed 4 230 employees at 31 December 2012.

²⁵ See Table 2.

²⁶ Alpha Bank submission of information to the Commission, 25 June 2013.

²⁷ 2011 Financial Statements,

http://www.alpha.gr/files/investorrelations/GROUP_IAS_FY_2011_en1.pdf.

²⁸ See section 2.3.1.2 State recapitalisation granted under the recapitalisation measure.

²⁹ Consolidated Financial Statements at 31 December 2011 of Emporiki Bank, p. 9.

- (45) The Bank participated in the PSI programme, exchanging GGBs and other eligible securities with a face value of EUR 766 million. As illustrated in Table 2, its total PSI-related charge amounted to around EUR 590 million before tax and was entirely booked in its 2011 accounts. As illustrated in Table 3, the capital needs of Emporiki Bank were estimated at EUR 2 475 million and were calculated on the basis of a stress test of 2012 performed by the Bank of Greece for the period starting 31 December 2011 and ending 31 December 2014, which relied on the loan losses forecast performed by Blackrock.
- (46) On 12 October 2012, the HFSF gave its consent to the Bank for the acquisition of Emporiki Bank from Crédit Agricole.
- (47) On 16 October 2012, Crédit Agricole and the Bank signed the "Share Purchase Agreement dated 16 October 2012 between Crédit Agricole S.A. and Alpha Bank S.A. for the sale and purchase of Emporiki Bank of Greece S.A.". Following the completion of the financial due diligence, Crédit Agricole injected an aggregate capital amount of EUR 2 893 million, while it subscribed in full to a EUR 150 million convertible bond issued by the Bank³⁰. The Bank was then to acquire the fully recapitalized Emporiki Bank for one euro. Under the share purchase agreement, the Bank did not acquire the foreign subsidiaries of Emporiki Bank, which remained within Crédit Agricole, except for the Cypriot branch of Emporiki Bank, which accounted for EUR 0,5 billion of assets and which was part of the perimeter acquired by the Bank.
- (48) At 31 December 2012, following the recapitalisation by Crédit Agricole, Emporiki Bank's capital adequacy ratio was 17,6% while its Tier 1 ratio was 13,5%.
- (49) On 1 February 2013, the Bank announced the completion of the transfer of Emporiki Bank's entire share capital to the Bank³¹.
- (50) The key figures of Emporiki Bank in December 2010, December 2011, December 2012 and January 2013 are presented in Table 6.

³⁰ HFSF Annual Financial report for the period from 1/1/2012 to 31/12/2012, p. 8, available online at: http://www.hfsf.gr/files/hfsf_annual_report_2012_en.pdf.

³¹ http://www.alpha.gr/files/deltia_typou/Deltio_Typou_20130201EN.pdf.

Table 6 – Emporiki Bank key figures, 2010, 2011, 2012 and January 2013

In EUR billion	31 December 2010 (consolidated)	31 December 2011 (consolidated)	December 2012 (perimeter acquired by the Bank)	January 2013 (perimeter acquired by the Bank)
Total Assets	26,78	21,7	19,5	18,2
Total Gross Loans and advances to customers	24	23,48	19,85	19,8
Provisions	2,8	4,4	5	5
Due to Customers	12,2	11,3	12,68	12,9
Eurosystem funding	0,3	1,77	1,2	1,2
Total Equity	0,9	0,9	1,73	2,3
Loss after tax	-0,87	-1,76	-1,5	
Net Loans/Deposits	173,8%	169,1%	117,2%	114,1%

Sources:

January 2013: Alpha Bank FY 2012 Results, presentation of 27 March 2013 (available online at:

http://www.alpha.gr/files/investorrelations/2012_FY_Financial_Report1.pdf)

December 2012: Key indicators of Alpha Bank and Emporiki Bank, available online at:

<http://www.alpha.gr/page/default.asp?id=9&la=2>

2011 and 2010: Consolidated financial statements of Emporiki Bank at 31 December 2011

2.2.2. Acquisition of selected liabilities of the three Cooperative Banks

- (51) On 8 December 2013, the Bank of Greece decided to proceed with the resolution of the three Cooperative banks, Dodecanese Bank, Evia Bank and Western Macedonia Bank.
- (52) The Bank of Greece proceeded with a Purchase & Assumption³² where all deposits, including interbank deposits, and the claims and liabilities towards the Hellenic Deposit and Investment Guarantee Fund but no loans would be transferred to an acquirer. The Bank of Greece contacted the four systemic Greek banks as, according to the Bank of Greece, deposits should be transferred to fully recapitalised institutions. Only the Bank and Eurobank submitted binding offers, on 5 December 2013. The Bank of Greece considered the Bank's offer as the preferred one. The Bank offered an amount equal to 2,1% of the transferred deposits as consideration.

2.2.2.1. Dodecanese Bank

- (53) Dodecanese Bank was established in 1994.

³² A Purchase & Assumption is a resolution procedure which consists of identifying, in a legal entity under liquidation, the assets and liabilities of high quality and auctioning them in order to transfer them to a viable company.

- (54) On 22 July 2013, the Bank of Greece requested Dodecanese Bank to restore its Core Tier 1 ratio. Dodecanese Bank proceeded with a capital increase through a public offering of cooperative shares. According to the offering circular, the Core Tier 1 ratio of Dodecanese Bank, calculated on the basis of the financial data of that bank on 30 June 2013, was estimated at 3,5% and was therefore below the minimum capital adequacy requirements set by the Bank of Greece. However, the capital raising failed to attract sufficient demand from investors.
- (55) For that reason, on 8 December 2013, the Bank of Greece proceeded with the resolution of Dodecanese Bank. The license of Dodecanese Bank was withdrawn and it was put into liquidation³³. Selected liabilities of Dodecanese Bank were transferred to the Bank³⁴. According to the Bank of Greece³⁵, the fair value of the transferred assets amounted to around EUR 6 million while the fair value of the transferred liabilities amounted to EUR 255 million, the difference being the funding gap³⁶ of EUR 249 million. The funding gap was covered by the HFSF pursuant to Article 63(D)(13) of law 3601/2007. In December 2013, the HFSF disbursed two-thirds of the total funding gap, meaning EUR 166 million, in EFSF Notes while it committed that the remaining amount of EUR 83 million would be paid upon the final determination of the funding gap. On 16 June 2014, the Bank of Greece determined that the final funding gap of Dodecanese Bank amounted to EUR 258,5 million. The HFSF will cover the undisbursed part of the funding gap.
- (56) At 30 September 2013, Dodecanese Bank employed 132 people and had 11 branches. In the framework of the resolution, the Bank took over no branches of Dodecanese Bank but it indicated that it would maintain a physical presence in areas where no network overlaps exist (namely, in four islands with no banking alternatives) by renting the four small branches managed by the liquidator. The employees of Dodecanese Bank were laid off and selectively re-hired by the Bank.

2.2.2.2. Evia Bank

- (57) Evia Bank was established in 1995.
- (58) On 22 July 2013, the Bank of Greece requested Evia Bank to restore its Core Tier 1 ratio. Evia Bank proceeded with a capital increase through a public offering of cooperative shares. According to the offering circular, the Core Tier 1 ratio of Evia Bank was estimated at 1,8%, calculated on the basis of the financial data of the bank at 30 June 2013, and was therefore below the minimum capital adequacy requirements set by the Bank of Greece. However, the capital raising failed to attract sufficient demand from investors.
- (59) For that reason, on 8 December 2013, the Bank of Greece proceeded with the resolution of Evia Bank. The license of Evia Bank was withdrawn and Evia Bank was put into liquidation³⁷. Selected liabilities of Evia Bank were transferred to the Bank³⁸. According to the Bank of Greece³⁹, the fair value of the transferred assets amounted to EUR 2 million while the fair value of the transferred liabilities

³³ See the decision 97/3/8.2.2013 of the Credit and Insurance Committee of the Bank of Greece.

³⁴ See the decision 14/4/8.12.2013 of the Resolution Measures Committee of the Bank of Greece.

³⁵ See the decision 14/5/8.12.2013 of the Resolution Measures Committee of the Bank of Greece.

³⁶ The term "funding gap" may therefore be misleading since it describes a capital support measure and not liquidity support.

³⁷ See the decision 97/2/8.2.2013 of the Credit and Insurance Committee of the Bank of Greece.

³⁸ See the decision 14/1/8.12.2013 of the Resolution Measures Committee of the Bank of Greece.

³⁹ See the decision 14/2/8.12.2013 of the Resolution Measures Committee of the Bank of Greece.

amounted to EUR 98 million, the difference being the funding gap of EUR 96 million. The funding gap was covered by the HFSF pursuant to Article 63(D)(13) of law 3601/2007. In December 2013 the HFSF disbursed two-thirds of the total funding gap, meaning EUR 64 million, in EFSF Notes, while it committed that the remaining amount of EUR 32 million would be paid upon the final determination of the funding gap. On 16 June 2014, the Bank of Greece determined that the final funding gap of Evia Bank amounted to EUR 105 million. The HFSF will cover the undisbursed part of the funding gap.

At 30 September 2013, Evia Bank employed 59 people and had 4 branches. The Bank took over no branches of Evia Bank. The employees of Evia Bank were laid off and selectively re-hired by the Bank.

2.2.2.3. Western Macedonia Bank

- (60) In 1995, the Development Credit Cooperative Society of Prefecture of Kozani was established. In 2008, the Cooperative operated under the new name "Cooperative Bank of Western Macedonia".
- (61) On 22 July 2013, the Bank of Greece requested Western Macedonia Bank to restore its Core Tier 1 ratio. Western Macedonia Bank proceeded with a capital increase through a public offering of cooperative shares. According to the offering circular, the Core Tier 1 ratio of Western Macedonia Bank was estimated at -11%, calculated on the basis of the financial data of the bank on 30 September 2013, and was therefore below the minimum capital adequacy requirements set by the Bank of Greece. However, the capital raising failed to attract sufficient demand from investors.
- (62) For that reason, on 8 December 2013, the Bank of Greece proceeded with the resolution of Western Macedonia Bank. The license of Western Macedonia Bank was withdrawn and the bank was put into liquidation⁴⁰. Selected liabilities of Western Macedonia Bank were transferred to the Bank⁴¹. According to the Bank of Greece⁴², the fair value of the transferred assets amounted to EUR 2 million while the fair value of the transferred liabilities amounted to EUR 84 million, the difference being the funding gap of EUR 82 million. The funding gap was covered by the HFSF pursuant to Article 63(D)(13) of law 3601/2007. In December 2013, the HFSF disbursed two-thirds of the total funding gap, meaning EUR 55 million, in EFSF Notes while it committed that the remaining amount of EUR 27 million would be paid upon the final determination of the funding gap.
- (63) At 30 September 2013, Western Macedonia Bank employed 36 people and had 3 branches. The Bank took over no branches of Western Macedonia Bank. The employees of Western Macedonia Bank were laid off and selectively re-hired by the Bank.
- (64) The key figures of the three Cooperative Banks are presented in Table 7.

⁴⁰ See the decision 97/1/8.2.2013 of the Credit and Insurance Committee of the Bank of Greece.

⁴¹ See the decision 14/7/8.12.2013 of the Resolution Measures Committee of the Bank of Greece.

⁴² See the decision 14/8/8.12.2013 of the Resolution Measures Committee of the Bank of Greece.

Table 7: Key data of the three Co-operative Banks (EUR million)

	(A)	(B)	(C)	(D) = (B)-(A)	(E) = 2.1%* (C)
	Fair Value of Transferred Assets	Fair Value of Transferred Liabilities	Of which Transferred deposits	Initial funding gap	Consideration (2.1% of transf. deposits)
Dodecanese Bank	6	255	255	249	5
Evia Bank	2	98	95	96	2
Western Macedonia Bank	2	84	82	82	2
Total				427	9

Sources:

Decisions 97/1, 97/2, 97/3 of 8.2.2013 of the Credit and Insurance Committee of the Bank of Greece.
Decisions 14/1, 14/2, 14/3, 14/4, 14/5 14/6, 14/7, 14/8 of 8.12.2013 of the Resolution Measures Committee of the Bank of Greece.

2.2.3. Acquisition of Citibank Greece

- (65) Citibank International was founded in 1812. Citibank was established in Greece in 1964 primarily to serve the needs of the maritime and corporate sectors. In 1980, Citibank Greece started to expand into retail banking. Citibank Greece is currently active in both the consumer and corporate business and runs a network of 20 branches across the country.
- (66) On 29 May 2014, the HFSF received a request from the Bank for consent for the acquisition of Citibank Greece, including Diners Club Greece ("Diners")⁴³.
- (67) The Bank expressed its intention to purchase Citibank Greece's activities, including customers' loans (for a net total amount of EUR 442 million and EUR 1 115 million of non-performing loans ("NPL") fully written off), customers' deposits (a total of EUR 1 067 million), assets under management (EUR 1 186 million), the retail

⁴³ Diners Club International is a credit card company which was founded in 1950 and established in Greece in 1959. Diners Club Greece is held by Citibank International and Citibank Overseas Investment Corporation.

branches, the ATM network⁴⁴ and the employees⁴⁵. Furthermore, the Bank expressed its intention to purchase 100% of the ordinary share capital of Diners.

- (68) The price has been set at EUR 2 million.
- (69) On 5 June 2014, the HFSF granted its consent regarding the acquisition of Citibank Greece by the Bank.

2.3. Aid measures

2.3.1. Aid measures granted to the Bank under the Greek Banks Support Scheme (measures L1 and A)

- (70) 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 and the government bond loan measures (measure L1)

- (71) 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". At 30 November 2011, the guarantees granted to the Bank amounted to around EUR 14,0 billion. At 30 September 2011, the Bank had received loans of government bonds amounting to EUR 1,6 billion⁴⁶.
- (72) In the restructuring plan for the Bank submitted by the Greek authorities to the Commission on 12 June 2014, the Greek authorities signalled their intention to continue granting guarantees and lending government bonds under the Greek Banks Support Scheme during the restructuring period.

2.3.1.2. State recapitalisation granted under the recapitalisation measure (measure A)

- (73) In May 2009, the Bank received a capital injection of EUR 940 million (measure A) under the recapitalisation measure of the Greek Bank Support Scheme. That capital injection was equivalent to around 2% of the risk weighted assets⁴⁷ ("RWA") of the Bank at that time.
- (74) The recapitalisation took the form of preference shares subscribed by Greece which had a coupon of 10% and a maturity of five years.
- (75) The Bank redeemed the preference shares on 17 April 2014, as described in recital (41).

2.3.2. State-guaranteed ELA (measure L2)

- (76) ELA is an exceptional measure enabling a solvent financial institution, facing temporary liquidity problems, to receive Eurosystem funding without such an operation being part of the single monetary policy. The interest rate paid by a financial institution for ELA is [...] basis points higher than the interest it pays for regular Central Bank refinancing.

⁴⁴ An ATM (Automated Teller Machine) is an electronic banking outlet, which allows customers to complete basic transactions without the aid of a branch representative (or "teller"), such as withdrawing cash.

⁴⁵ Submission of information of the Greek authorities dated 24 June 2014

⁴⁶ Restructuring plan of Alpha Bank, June 2014, p. 64.

⁴⁷ The term "*risk weighted assets*" refers a regulatory aggregate which measures the risk exposure of a financial institution and is used by supervisors to monitor the capital adequacy of financial institutions.

- (77) 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. Greece granted the Bank of Greece a State guarantee which applies to the total amount of ELA granted by the Bank of Greece⁴⁸. 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.
- (78) At 31 December 2011 the Bank had benefited from EUR 6,7 billion of State-guaranteed ELA⁴⁹, while at 31 December 2012 the Bank had benefited from EUR 23,6 billion of State-guaranteed ELA⁵⁰.

2.3.3. Aid measures granted to the Bank through the HFSF (measures B1, B2, B3 and B4)

- (79) Since 2012, the Bank has benefited from several capital support measures granted by the HFSF. Table 8 provides an overview of those aid measures.

Table 8 – Aid measures granted to the Bank through the HFSF

	1st bridge recapitalisation - May 2012	2nd bridge recapitalisation - Dec 2012	Commitment letter - Dec 2012	HFSF's participation in the Spring 2013 recapitalisation – May 2013
Measure	B1	B2	B3	B4
Amount (EUR million)	1 900	1 042	1 629	4 021

2.3.3.1. The first bridge recapitalisation (measure B1)

- (80) Recitals (14) to (32) of the Alpha Opening Decision⁵¹ described in detail the first bridge recapitalisation of May 2012 (measure B1). The background and main features of that measure are set out in this section.
- (81) 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 1,9 billion.
- (82) Under measure B1, the HFSF transferred EUR 1,9 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 established in recital (48) of the Alpha Opening Decision that "*The bridge recapitalisation finalised on 28 May 2012*

⁴⁸ According to the letter of the Bank of Greece of 7 November 2011, "*Guarantees apply on the total amount of Emergency Liquidity Assistance (ELA)*".

⁴⁹ Information provided by Bank of Greece on 7 April 2014.

⁵⁰ Financial projections attached to the Restructuring plan of Alpha Bank, June 2014.

⁵¹ See footnote 4.

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% at 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 further 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.

- (83) 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 provided that the Bank would 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 to the Bank⁵².

2.3.3.2. The second bridge recapitalisation (measure B2)

- (84) The Bank booked further losses in the autumn of 2012. Its capital therefore fell again below the minimum capital requirements for it to remain eligible for ECB refinancing.
- (85) A second bridge recapitalisation became necessary as a result. On 21 December 2012, the HFSF implemented a second bridge recapitalisation of EUR 1 042 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)

- (86) 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 1 629 million (measure B3).
- (87) 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 4 571 million⁵³).

2.3.3.4. HFSF's participation in the Spring 2013 recapitalisation (measure B4)

- (88) On 16 April 2013, the general meeting of shareholders of the Bank approved an increase in the share capital of the Bank. On 1 May 2013, the Bank announced the full underwriting of the EUR 457 million rights offering and the launch of a private placement for an amount of up to EUR 93 million, at a price of 0,44 euro per new share⁵⁴.

⁵² 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*".

⁵³ See Table 3.

⁵⁴ http://www.alpha.gr/files/investorrelations/deltio_typou_20130501EN.pdf.

- (89) The Bank announced the completion of the rights issue as well as the full allocation of the private placement on 3 June 2013⁵⁵. The total private participation in the Bank's share capital increase therefore reached EUR 550 million.
- (90) On the same date, the Bank also announced that the HFSF would subscribe 9 138 636 364 shares at a price of EUR 0,44 per share. As a result, by the Spring 2013 recapitalisation, the HFSF injected into the Bank capital totalling EUR 4 021 million in the form of ordinary shares (measure B4). That amount is equal to the sum of measures B1, B2 and B3, after deduction of the amount of private participation. The shares held by the HFSF give it limited voting power as the total private participation had reached 12% of the capital increase. The HFSF law provided that private investors would retain control of the Bank if they injected more than 10% of the capital needed by the Bank. However the HFSF retain full voting rights for key corporate decisions.
- (91) By means of the Bank's share capital increase (measure B4), 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 partially implemented.
- (92) 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 split⁵⁶ decided by the extraordinary general meeting of shareholders on 16 April 2012⁵⁷, the price of new shares was set at EUR 0,44 per share.
- (93) Immediately after the Spring 2013 recapitalisation, the HFSF became the major shareholder of the Bank with a stake of 83,66%⁵⁸. The HFSF issued 1 233 503 482 warrants and granted private investors one warrant for each share subscribed, for no consideration⁵⁹. Each warrant gives the right to buy 7,40 shares of the HFSF, at selected intervals and strike prices. The first exercise date was 10 December 2013, and the warrants can then be exercised twice per year until 10 December 2017. The exercise price is equal to the subscription price of EUR 0,44 increased by an annual interest rate (4% for year one, 5% for year two, 6% for year three, 7% for year four and then 8% annualized for the last six months)⁶⁰.
- (94) The HFSF law as amended in 2014 provides that only the warrants' strike prices may be adjusted in the event of a rights issue. In addition, any such adjustment will take place ex post and only up to the amount of the realised proceeds from the sale of pre-emption rights of the HFSF. No adjustment is provided for in the event of a non-pre-emptive share capital increase.

⁵⁵ http://www.alpha.gr/files/investorrelations/Deltio_Typou_20130603EN.pdf.

⁵⁶ A stock split is a corporate action in which a company divides its existing shares into multiple shares.

⁵⁷ <http://www.alpha.gr/files/investorrelations/EA20130416EN.pdf>.

⁵⁸ http://www.hfsf.gr/files/HFSF_activities_Jan_2013_Jun_2013_en.pdf.

⁵⁹ http://www.alpha.gr/files/investorrelations/1306010_Warrants_en.pdf.

⁶⁰ See footnote 43. For instance, the exercise price on 10 December 2013 was EUR 0,4488, on 10 June 2014 it will be EUR 0,4576, on 10 December 2014, it will be 0,4686, on 10 June 2015, it will be EUR 0,4796 and so forth. See Alpha Bank's announcement of 10 June 2013 on "Final Terms of Listing and Characteristics of the Titles representing shares ownership rights (Warrants) that resulted from the concluded share capital increase", available online at:

http://www.alpha.gr/files/investorrelations/1306010_Warrants_en.pdf.

2.3.4. State support measures to the three Cooperative Banks

- (95) As already mentioned in section 2.2.2., the funding gaps of Dodecanese Bank, Evia Bank and Western Macedonia Bank were estimated by the Bank of Greece at EUR 249 million, EUR 96 million and EUR 82 million respectively. Therefore, the total amount of the funding gaps was estimated at EUR 427 million. They were covered by the HFSF, which granted a corresponding amount of EFSF bonds to the Bank.

2.4. The restructuring plan

- (96) On 12 June 2014, Greece submitted the restructuring plan of the Bank, which explains how the Bank, as a combined entity resulting from the acquisition of Emporiki Bank and the deposits of the three Cooperative Banks, intends to restore its long-term viability.

2.4.1. Domestic operations

- (97) Through the restructuring plan, the Bank will focus on its core banking activities in Greece. While its international operations accounted for more than 20% of total assets in December 2009 and for 15% of total assets in June 2013⁶¹, that proportion should decrease to around [...] at the end of 2018⁶².
- (98) The key priority of the Bank is to bring its Greek banking operations back to profitability and viability. 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.
- (99) As regards operational efficiency, the Bank had already started a vast programme of rationalization well before the acquisitions of Emporiki Bank and the three Cooperative Banks. From 31 December 2010 to 30 September 2012, the Bank reduced its physical footprint in Greece. It reduced its branches from 458 in 2010 to 426 in 2012⁶³ and also reduced the workforce in Greek banking and non-banking activities by several hundred employees over the same period⁶⁴.
- (100) From December 2012 to December 2017, the Bank plans to further decrease the number of branches in Greece from 739 to [...]. The number of employees in banking and non-banking activities in Greece will decrease from 11 435 to [...]⁶⁵.
- (101) Increased efficiency in terms of branches and personnel will help to bring down the total cost of the Bank's Greek activities by [...] % from EUR 1 345 million on a pro forma basis in 2012 to EUR [...] million in 2017⁶⁶. As a result, the expected cost-to-income ratio of its Greek banking activities will fall below [...] % at the end of the restructuring period.
- (102) The restructuring plan also describes how the Bank will reduce 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

⁶¹ Restructuring plan of Alpha Bank, June 2014, p. 22.

⁶² The Bank committed to limit the amount of foreign assets to EUR [...] billion, while the total assets of the Bank will amount to EUR [...] billion in 2018 according to the financial projections.

⁶³ Restructuring plan of Alpha Bank, June 2014, p.132, prior to the acquisition of Emporiki Bank.

⁶⁴ Restructuring plan of Alpha Bank, June 2014, p. 129.

⁶⁵ Restructuring plan of Alpha Bank, June 2014, pp. 102-103. The increase in the number of branches and employees between September 2012 and December 2013 is due to the acquisition of Emporiki Bank.

⁶⁶ Restructuring plan of Alpha Bank, June 2014, p. 103.

particular the foreseen stabilisation and recovery of the Greek economy, which is expected to grow again from 2014 onwards. Interest paid on deposits (average of time deposits, sight deposits and savings rates) are expected to decrease in Greece. That decrease would be mainly achieved by paying much lower rates on time deposits. Similarly, the Bank's reliance on State-guaranteed ELA and wider Eurosystem funding will decrease from 32% of its total assets in 2012 to only [...]% in 2017⁶⁷.

- (103) 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 131% in 2012⁶⁸), while its capital adequacy will continue to improve.
- (104) Another priority of the Bank is the management of non-performing loans. The Bank will enhance its credit processes regarding both the origination of loans (better collateral coverage, reduced limits) and the management of non-performing loans. The ratio of NPL will reach [...]% in 2014 and then start to decrease, with an expected rate of [...]% at the end of the restructuring period⁶⁹. The cost of risk (impairments) will decrease from EUR 2 799 million in 2012 on a pro forma basis (that is to say including Emporiki Bank) to EUR [...] million in 2018⁷⁰, due to the recovery of the Greek economy.
- (105) The improvement of operational efficiency, the increase of the net interest margin, and the decreasing cost of risk will enable the Bank to be profitable in Greece from 2015 onwards. [...]. Its return on equity will reach [...]% in Greece in 2018⁷¹.

2.4.2. International banking activities

- (106) The Bank has already started to deleverage and restructure its international network. It sold its Ukrainian subsidiary in August 2013. The number of branches in South-Eastern Europe was reduced from 622 in 2009 to 488 in 2012⁷².
- (107) The Bank will continue to restructure and deleverage its international network. The Bank intends to limit the size of its international assets to EUR [...] billion. To comply with that target, the Bank will consider any combination of divestments or deleverage of its portfolio. That intended size of the Bank's international assets represents a reduction by [...]% of its foreign assets at 31 December 2012 [...].
- (108) The restructuring plan highlights the need to reduce the reliance of the foreign subsidiaries on their Greek mother company as regards the liquidity position. Intra-group funding to the foreign subsidiaries will decrease from EUR 4 172 million to EUR [...] million from 2013 to 2017⁷³.
- (109) To improve the profitability of its foreign activities, the Bank is planning to implement a significant cost reduction programme in the international network, with a reduction in the number of branches and employees. For example, in [...],[...]

⁶⁷ Financial projections attached to the Restructuring plan of Alpha Bank, June 2014, figure for Alpha Bank Greece.

⁶⁸ Restructuring plan of Alpha Bank, June 2014, p. 105.

⁶⁹ Restructuring plan of Alpha Bank, June 2014, p. 96.

⁷⁰ Restructuring plan of Alpha Bank, June 2014, p. 96.

⁷¹ Financial projections attached to the Restructuring plan of Alpha Bank, June 2014, figures for Greek operations.

⁷² Restructuring plan of Alpha Bank, June 2014, p. 132.

⁷³ Financial projections attached to the Restructuring plan of Alpha Bank, June 2014.

branches out of [...] will be closed while the workforce will decrease by [...] employees (-[...]) between 2012 and 2018⁷⁴.

- (110) As a result the return on equity will reach [...] ⁷⁵.

2.4.3. Private capital raising and contribution by existing shareholders and subordinated creditors

- (111) The Bank has succeeded in raising significant amounts of capital on the market and thereby reduced the amount of State aid which was needed by the Bank.
- (112) First, the Bank raised some private capital in 2009 with a rights issue of EUR 986 million⁷⁶. As mentioned in recital (89), the Bank also managed to raise capital from private investors through the Spring 2013 recapitalisation. The pre-existing shareholders were also heavily diluted by the Spring 2013 recapitalisation, since the HFSF received 83,66% of the Bank's shares following the Spring 2013 recapitalisation, leaving them with only a 4,9% shareholding. No dividend has been paid in cash since 2008.
- (113) The Bank raised EUR 1,2 billion of capital from the market in March 2014 to cover its additional capital needs and to repay the preference shares held by Greece. Those new shares were issued at a higher price per share than had been paid by the HFSF in the Spring 2013 recapitalisation.
- (114) On 20 April 2012, the Bank offered to buy back Tier 1 securities, upper Tier 2 securities and lower Tier 2 securities at purchase prices of 40%, 60% and 60% of their respective nominal value in cash. 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. On 7 May 2012, the Bank announced the results of the buy-back⁷⁷. The aggregate participation reached 66%, with an overall capital gain of EUR 333 million. On 19 April 2013, the Bank announced another liability management exercise for an outstanding nominal amount of EUR 316 million. The Bank offered to buy back Tier 1 securities, upper Tier 2 and lower Tier 2 securities at purchase prices of 35%, 55% and 55% of their respective nominal value in cash. The 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 acceptance rate was 58% and the capital gain was EUR 103 million.
- (115) As a result of the two buy-backs, the outstanding amount of subordinated and hybrid debt decreased from EUR 985 million to EUR 134 million.

2.5. Commitments of the Greek authorities

- (116) On 12 June 2014, Greece gave a commitment that the Bank and its affiliates will implement the restructuring plan submitted on the same date and gave further commitments regarding the implementation of the restructuring plan. Those further commitments, which are listed in the Annex, are summarized in this section.

⁷⁴ Restructuring plan of Alpha Bank, June 2014, section 5.4.2.

⁷⁵ Restructuring plan of Alpha Bank, June 2014, section 5.4.2.

⁷⁶ <http://www.alpha.gr/files/investorrelations/EA20091130EN.pdf>.

⁷⁷ <http://www.alpha.gr/files/investorrelations/EA20120507EN.pdf>.

- (117) First, Greece gave 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 2017⁷⁸.
- (118) Greece also gave 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 2017⁷⁹.
- (119) Regarding the Bank's foreign subsidiaries, Greece gave a commitment that the Bank will not provide additional capital support unless predefined conditions are met. Greece also gave a commitment that the Bank will significantly deleverage its international assets by 30 June 2018⁸⁰.
- (120) Greece gave a commitment that the Bank will divest 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 exceptions⁸¹.
- (121) 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 structure⁸².
- (122) Greece also gave a commitment that the Bank will enforce a high quality credit policy, in order to ensure decisions on granting and restructuring loans aim at maximizing the viability and profitability of the Bank. Greece gave a commitment that the Bank will comply with high standards regarding the monitoring of credit risk as well as the restructuring of loans⁸³.
- (123) 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 companies⁸⁴.
- (124) Finally Greece gave a commitment that the Bank will comply with some behavioural limitations, such as a coupon and dividend ban, an acquisition ban and a State support advertising ban⁸⁵.
- (125) Those commitments will be monitored until 31 December 2018 by a monitoring trustee.
- (126) Separately, Greece has indicated that it will seek the approval of the Commission prior to any buy-back of the warrants by the Bank or by any State entity including the HFSF⁸⁶.

⁷⁸ See Annex, chapter II.

⁷⁹ See Annex, chapter II.

⁸⁰ See Annex, chapter II.

⁸¹ See Annex, chapter II.

⁸² See Annex, chapter III, section A.

⁸³ See Annex, chapter III, section A.

⁸⁴ See Annex, chapter III, section A.

⁸⁵ See Annex, chapter III, section C.

⁸⁶ "Finally • as regards the warrants issued by the HFSF, it should be clarified that Hellenic Republic will seek the approval of the European Commission • prior to any buy-back to the warrants by Alpha Bank or by any State entity (including HFSF) • so that the European Commission can verify that the

3. GROUNDS FOR INITIATING THE FORMAL INVESTIGATION PROCEDURE ON THE FIRST BRIDGE RECAPITALISATION

- (127) On 27 July 2012, the Commission opened the formal investigation procedure in order to verify whether the conditions of the 2008 Banking Communication⁸⁷ were met regarding the appropriateness, necessity and proportionality of the first bridge recapitalisation provided by the HFSF in favour of the Bank (measure B1).
- (128) 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 future⁸⁸. In addition, the Commission was not clear who would control the Bank once the first bridge recapitalisation was replaced by a permanent recapitalisation⁸⁹ as the Bank might come under the control of either 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 would not deteriorate in either case.
- (129) Regarding the necessity of the first bridge recapitalisation, in recital (66) of the Alpha Opening Decision the Commission questioned whether all the measures possible had been taken to avoid the Bank needing aid again 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 Alpha Opening Decision was adopted, the Commission could not assess them.
- (130) Regarding the proportionality of the measure, the Commission expressed doubts as to whether the safeguards (State support advertisement ban, coupon and dividend ban, call option ban and buy-back ban as described in recital (71) of the Alpha Opening Decision) were sufficient in relation to the first bridge recapitalisation. Furthermore, in recital (72) of the Alpha Opening Decision the Commission stated that distortions of competition could be caused by the lack of rules preventing the HFSF from coordinating the four largest Greek banks (namely, the Bank, Eurobank, National Bank of Greece and Piraeus Bank) and the absence of adequate safeguards to avoid them sharing commercially sensitive information. The Commission, therefore, proposed the appointment of a monitoring trustee, physically present in the Bank.

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

4.1. Comments from the Bank

- (131) On 30 August 2012, the Commission received comments from the Bank on the Alpha Opening Decision.

envisaged buy-back of the warrants is not contrary to the State remuneration requirements under State aid rules."

⁸⁷ 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.

⁸⁸ Recital (59) of the Alpha Bank Opening Decision.

⁸⁹ Recital (63) of the Alpha Bank Opening Decision.

- (132) Regarding the appropriateness of the measure, the Bank noted that it is systemically important both in Greece and in the banking markets in which it operates. It also added that its business model is viable and this has been demonstrated over its long distinguished history.
- (133) The Bank also observed that both waves of recapitalisation were a by-product of a severely deteriorating economic environment and that the additional aid measures came as a result of the deepening of the financial crisis. It stated that it has been the lowest proportionate recipient of State aid to date among the large Greek banks. The Bank noted that in terms of whether all measures possible had been immediately taken to avoid further need of aid by the Bank in the future, the restructuring plan would provide extensive details on the burden-sharing measures already implemented, underway and planned. The Bank also observed that those measures ensured that no stakeholder was left untouched. They would contribute, together with the existing strong business base and the robustness of the capital assessment process, to ensuring that the Bank is adequately capitalised, leading to a return to viability and an ultimate exit from State support.
- (134) Moreover, the Bank welcomed clarity on the terms of the permanent recapitalisation, which in its view should fully reflect the reasons why it required State support. It also noted that the recapitalisation addresses the capital loss resulting from its participation in the PSI programme, a highly extraordinary and unpredictable event. It supported the view that it had not taken excessive risks in acquiring sovereign debt by Greek and European standards. It stated that without the PSI it would have avoided the need for recapitalisation in 2012 and would have been well positioned to repay the preference shares in accordance with their contractual terms. Moreover, it commented that even after recording significant capital losses as a result of the participation of the Bank in the PSI, it still had a positive net asset value.
- (135) The Bank added that it is operating on a very strong base and has been extremely proactive in implementing measures to successfully work through a period of extreme stress. It commented that since the beginning of the crisis it had not engaged in any aggressive commercial policies or inappropriate risk taking while it focused on managing credit risk, it addressed imbalances in its funding profile by orderly deleveraging and it actively managed its cost base by rationalising the operating platform and optimising procurement spending.
- (136) Moreover, it stressed the considerable burden-sharing among stakeholders. It also pointed to the significant safeguards available to the official sector to prevent excessive risk-taking by recapitalised banks and to closely monitor the proper implementation of the restructuring plans, such as the appointment of representatives of the Ministry of Finance and the HFSF in the Bank's board of directors and respective committees. It also underlined that the HFSF would monitor implementation of the restructuring plan, and that the suspension of the HFSF's voting rights would be lifted in case of material failure.
- (137) For those reasons, the Bank believed that the architecture and terms of the permanent recapitalisation should provide strong incentives to existing and new shareholders to participate in forthcoming capital increases.
- (138) Regarding the necessity of the measure, the Bank noted that the aid measure addressed the capital deficit caused by PSI so that the bank complied with the minimum capital adequacy ratios imposed by the Bank of Greece, continued to have access to ECB refinancing operations and would be able to support its customers and the Greek economy during a difficult juncture.

- (139) Regarding the proportionality of the measure, the Bank declared its intention not to use its aid to distort competition. It also stressed that it had not engaged in any aggressive commercial policies since receiving the State aid. It also noted that since all large Greek banks were aid recipients and that since the appetite of foreign players in the Greek market for Greek risk was diminishing, the ability of any aid recipient to distort competition to the detriment of a non-aided recipient was minimised.

4.2. Comments from another Greek bank

- (140) On 3 January 2013, the Commission received comments submitted by a Greek bank on the Alpha 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 the Bank.
- (141) 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 would be open to all banks operating in Greece under similar conditions.

5. COMMENTS FROM GREECE ON THE FORMAL INVESTIGATION PROCEDURE ON THE FIRST BRIDGE RECAPITALISATION

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

5.1. Comments from the Bank of Greece

- (143) Regarding the appropriateness of the first bridge recapitalisation, the Bank of Greece noted that the first bridge recapitalisation was temporary, given that the recapitalisation process would be concluded with share capital increases by the four banks concerned.
- (144) 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 was to remain in private hands, the management would most probably remain the same, while if a bank was to become State-owned (that is to say, owned by the HFSF), the HFSF could appoint new management which, in any case, would have to 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 Boards of Directors of the recapitalised banks.
- (145) 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.
- (146) 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 was safeguarded by the fact that the suspension of the voting rights of the HFSF would be lifted if the restructuring plan were 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.

5.2. Comments from the HFSF

- (147) Regarding the appropriateness of the first bridge recapitalisation, to address the issue of potential State interference in case 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 will 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 16(C)(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 pointed to the governing structure of the HFSF.
- (148) 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.
- (149) The HFSF pointed out that the HFSF Law and the pre-subscription agreement contained 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.
- (150) 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. They 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 representatives 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.

6. ASSESSMENT OF THE STATE SUPPORT RELATED TO THE ACQUISITION OF SELECTED LIABILITIES OF THE THREE COOPERATIVE BANKS

- (151) The Commission first has to assess whether the State support related to the resolution of the three Cooperative Banks (meaning the financing of the funding gaps which enabled the transfer of the deposits, including interbank liabilities, and the claims and liabilities against the HDIGF) constitutes 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, in so far as it affects trade between Member States.

- (152) The Commission will start by assessing whether or not the following potential beneficiaries benefited from an advantage: (i) the Cooperative Banks and the potentially transferred "activities" to the Bank; and (ii) the Bank.

(i) Existence of aid to the Cooperative Banks and the potentially transferred "activities" to the Bank

- (153) With regards to the Cooperative Banks, the Commission notes that Dodecanese Bank, Evia Bank and Western Macedonia Bank have been put in liquidation and their banking licenses withdrawn. Therefore, they will no longer carry out economic activities on the banking market.

- (154) The State support, that is to say the financing of the funding gaps, would constitute aid to the transferred claims and liabilities within the meaning of Article 107(1) of the Treaty only if they together constituted an undertaking. The concept of an undertaking encompasses every entity engaged in an economic activity, regardless of legal status and the way in which it is financed. Any activity consisting in offering goods or services on a given market is regarded as an economic activity. Therefore, in order to conclude whether there is aid to an undertaking, it should be assessed whether the transfer of the claims and liabilities entails the transfer of an economic activity.

- (155) As mentioned in section 2.2.2, following the resolution of the Cooperative Banks, only the deposits, the interbank liabilities and the claims and liabilities towards the HDIGF were transferred to the Bank. The three Cooperative Banks employed 227 employees and had 18 branches in total. It should be noted that there was no automatic transfer of branches or employment contracts or loans between the three Cooperative Banks and the Bank. Therefore, the fact that loans are not transferred to the Bank but remain with the three Cooperative Banks into liquidation, the fact that no branch is transferred and the lack of automatic transfer of labour contracts contribute⁹⁰ to the conclusion that there is no transfer of economic activity. The transferred liabilities (that is to say deposits) cannot be considered to be the beneficiary of State support, as they do not constitute an "undertaking".

- (156) In summary, the three existing legal entities have been put into liquidation and no longer carry out any banking activities. At the same time, the transferred assets and liabilities do not constitute an economic activity.

- (157) It is therefore concluded that the grant of EFSF bonds by the HFSF to the Bank to cover the funding gap of the acquired assets and liabilities of the three Cooperative Banks does not allow the continuation of the latter's economic activities. Therefore, the HFSF support constitutes neither aid to the liquidated entities nor aid to the transferred assets and liabilities.

(ii) Existence of aid to the Bank

- (158) With regards to whether the sale of the three Cooperative Banks' assets and liabilities entails State aid to the Bank, the Commission must assess whether certain

⁹⁰ See Recital (146) of the Commission Decision of 12.11.2008 in State Aid Case SA. 510/2008 – Italia "Vendita dei beni della compagnia aerea ALITALIA", OJ C 46, 25.2.2009, p. 6.

requirements are met and in particular whether i) the sale process is open, unconditional and non-discriminatory; ii) the sale takes place on market terms; and iii) the State maximises the sale price for the assets and liabilities involved⁹¹.

- (159) As mentioned in recital (52) the Bank of Greece only contacted the four systemic Greek banks in order to auction the selected assets and liabilities of the three Cooperative Banks, as it considered that deposits should be transferred to fully recapitalised institutions. Only the Bank and Eurobank submitted binding offers. Alpha Bank was selected as best bidder in a competitive tender organised by the resolution authority, which took into account the price proposed and the ability to take over and integrate the purchased deposits in a seamless and rapid manner.
- (160) The package for sale comprised only deposits without any infrastructure. The Buyer could therefore only be a bank with infrastructure and a branch network in Greece, to serve the depositors.
- (161) As the Commission has no reason to believe that the sale did not take place on market terms, it concludes that aid to the Bank can be excluded, in line with point 80 of the 2013 Banking Communication, point 20 of the Restructuring Communication and the Commission's decisional practice⁹².

(iii) Conclusion on the existence of aid

- (162) The State support involved in the sale of the three Cooperative Banks does not favour any economic activity or any undertaking. Therefore, the measure does not constitute aid within the meaning of Article 107 (1) of the Treaty.

7. ASSESSMENT OF AID GRANTED TO THE BANK

7.1. Existence and the amount of aid

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

7.1.1. Existence of aid in the measures granted under the Greek Bank Support Scheme (measures L1 and A)

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

- (164) The Commission has already established in the decisions approving and prolonging the Greek Banks Support Scheme⁹³ that liquidity support granted under that scheme constitutes aid. Future liquidity support granted under that scheme would also constitute aid.

7.1.1.2. State recapitalisation granted under the recapitalisation measure (measure A)

- (165) The Commission has already established in the decision of 19 November 2008 on the Greek Banks Support Scheme that recapitalisations to be granted under its

⁹¹ See point 80 of the 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 ('2013 Banking Communication'), OJ C 216, 30.7.2013, p. 1.

⁹² See Commission decision of 25.01.2010 in the State aid case NN 19/2009 – Restructuring aid to Dunfermline Building Society, recital (47); Commission decision of 25.10.2010 in State aid case N 560/2009 – Aid for the liquidation of Fionia bank, recital (55); Commission decision of 8.11.2010 in State aid case N 392/2010 – Restructuring of CajaSur, recital (52).

⁹³ See footnotes 1 and 2.

recapitalisation measure would constitute aid. The Bank received EUR 940 million by means of preference shares, which represented 2% of the Bank's RWA at that date.

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

- (166) 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 a counter-guarantee from the State. Since the State-guaranteed ELA to the Bank does not comply with those four cumulative conditions, in particular because it is State guaranteed and it is granted in conjunction with other support measures, it constitutes aid.
- (167) The State-guaranteed ELA is in line with the requirements laid down in Article 107(1) of the Treaty. First, because that 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 therefore grants an advantage to the Bank. Since ELA is limited to the banking sector the measure is selective. Because 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.
- (168) 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 23,6 billion.

7.1.3. Existence of aid in the measures granted through the HFSF (measures B1, B2, B3 and B4)

7.1.3.1. First bridge recapitalisation (measure B1)

- (169) In section 5.1 of the Alpha Opening Decision, the Commission has already concluded that the first bridge recapitalisation constitutes State aid. The capital received amounted to EUR 1,9 billion.

7.1.3.2. Second bridge recapitalisation (measure B2)

- (170) Measure B2 was implemented with HFSF resources, which, as explained in recital (47) of the Alpha Opening Decision, involve State resources.
- (171) 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 Eurosystem funding. Furthermore, the remuneration of measure B2 consisted of the accrued interest 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 was selective in nature.
- (172) As a result of measure B2, the position of the Bank was strengthened since the Bank was provided with the financial resources to continue complying with the capital

requirements, thus leading to competition distortions. Since the Bank is active in other European Union banking markets and since financial institutions from other Member States operate in Greece, measure B2 is also likely to affect trade between Member States.

- (173) The Commission considers that measure B2 constitutes State aid. It was notified as aid by the national authorities. The capital received amounted to EUR 1 042 million.

7.1.3.3. Commitment letter (measure B3)

- (174) 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 committed to provide up to EUR 1 629 million of additional capital.
- (175) 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 facilitated the raising of private capital from the market, since investors were reassured that, if the bank could not find part of the capital from the market, the HFSF would provide it. No private investor would have accepted to commit to inject capital before the terms of the recapitalisation were known, and at that time the Bank had no access to the capital market. That advantage is selective since it was not granted to all banks operating in Greece.
- (176) Since the Bank is active in other European Union banking markets and since financial institutions from other Member States operate in Greece, measure B3 is also likely to affect trade between Member States and to distort competition.
- (177) Measure B3 therefore constitutes aid and was notified as State aid by the Greek authorities on 27 December 2012.

7.1.3.4. HFSF's participation in the Spring 2013 recapitalisation (measure B4)

- (178) HFSF's participation in the Spring 2013 recapitalisation (measure B4) is the conversion of the first and second bridge recapitalisations (measures B1 and B2) and the partial implementation of the commitment letter (measure B3) into a permanent recapitalisation of EUR 4 021 million in ordinary shares. The fact that not the entire amount of capital committed through measure B3 had to actually be injected is due to the raising of EUR 550 million of capital from private investors. 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.
- (179) The Commission notes that such support was not granted to all banks operating in Greece. Therefore the advantage granted to the Bank is selective. As regards distortion 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. A liquidation of the Bank would have led to the termination of its activities abroad,

through the liquidation of those activities or their sale. Therefore, the measure distorts competition and affects trade between Member States. The measure constitutes State aid.

7.1.3.5. Conclusion on measure B1, B2, B3 and B4

- (180) 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 4 571 million. As indicated in section 7.1.3.4, only part of the amount committed in December 2012 (measure B3) was converted into an actual capital injection (measure B4). The amount of State support actually paid out was therefore only EUR 4 021 million.
- (181) 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 were granted over the course of a one-year period, from April 2012 until May 2013. During that period, the RWA of the Bank changed, rising after the acquisition of Emporiki Bank. The question therefore arises as to which level of RWA should be used, and more particularly whether the State aid should be assessed by reference to the RWA that existed at the beginning of the period or 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 that those State support measures aim to address 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. The fact that the Bank acquired Emporiki Bank, well after March 2012, should not lead to a reduction of the ratio "aid to RWA". Indeed, the aid is not less distortive because the Bank made an acquisition which increases its RWA. It is also recalled that after March 2012 and until the Spring 2013 recapitalisation, the Bank of Greece did not take into account acquisition made by the Greek banks to adjust their capital needs – upwards or downwards. That element further demonstrates that measures B1, B2, B3 and B4 were aid measures related to the perimeter of the Bank such as it existed at 31 March 2012.
- (182) The first and second bridge recapitalisations and the commitment letter altogether amounted to EUR 4 571 million. That amount represents 10,3% of the RWA of the Bank at 31 March 2012⁹⁴.
- (183) Since the Bank managed to attract private capital, the actual amount injected by the HFSF into the Bank only amounted to EUR 4 021 million, which represents 9,1% of the RWA of the Bank at 31 March 2012.

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

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

Ref.	Measure	Type of measure	Amount of aid	Recapitalisation aid/ RWA
A	Preference Shares	Capital support	EUR 940 million	2%

⁹⁴ The RWA of the Bank at 31 March 2012 stood at EUR 44,2 billion.

B1 B2 B3 B4	First bridge recapitalisation Second bridge recapitalisation Commitment letter HFSF's participation in the Spring 2013 recapitalisation	Capital support	EUR 4 571 million (amount paid-out by the HFSF: EUR 4 021 million)	10,3% (amount paid out by the HFSF: 9,1%)
Total capital aid granted to the Bank			EUR 5 511 million (amount paid-out by the HFSF: EUR 4 961 million)	12,3% (amount paid out by the HFSF: 11,1%)
Ref.	Measure	Type of measure	Nominal amount of aid	
L1	Liquidity support	Guarantee Bond Loan	Guarantees: EUR 14 billion at 30 November 2011 Bond Loan: EUR 1,6 billion at 30 September 2011	
L2	State-guaranteed ELA	Funding and Guarantee	EUR 23,6 billion at 31 December 2012	
Total liquidity aid granted to the Bank			EUR 39,2 billion	

7.2. Legal basis for the compatibility assessment

- (185) 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".
- (186) 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 Communication. The Commission still considers that the 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 Communication⁹⁵ and the 2013 Banking Communication.
- (187) 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 banks⁹⁶, 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.
- (188) 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.

⁹⁵ 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 ('2011 Prolongation Communication'), OJ C 356, 6.12.2011, p. 7.

⁹⁶ See footnote 6.

- (189) In line with point 15 of the 2008 Banking Communication, in order for 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 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.
- (190) Guidance for recapitalisation measures can be found in the Recapitalisation Communication and the 2011 Prolongation Communication.
- (191) 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 proper contribution from the beneficiary and to limit distortions of competition.
- (192) That framework was complemented by the 2013 Banking Communication, which applies to aid measures notified after 31 July 2013.

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

- (193) 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 its amendments and prolongations⁹⁷. 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 for the assessment of the compatibility of the preference shares (measure A)

- (194) 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 to be assessed only under the Restructuring Communication.

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

- (195) 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.

⁹⁷ See footnote 6.

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

- (196) 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 Alpha Opening Decision the Commission expressed doubts as to the compatibility of measure B1 with those Communications. Since they were implemented before 31 July 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.

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

- (197) In order for 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.
- (198) Because Greek banks were shut out from wholesale markets and became entirely dependent on central bank financing, as indicated in recital (26), 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 to prevent 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.
- (199) 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.
- (200) 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 that liquidity is proportional and does not lead to undue distortion of competition. The Commission also notes that Greece has committed that the Bank will implement restructuring measures reducing its reliance on central bank funding and that the Bank will comply with behavioural limitations, as analysed in section 7.6. Those factors ensure that the reliance on liquidity support will end as soon as possible and that such aid is proportional.
- (201) 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

- (202) As indicated in recital (189), and in line with point 15 of the 2008 Banking Communication, in order for aid to be compatible under Article 107(3)(b) of the Treaty it must comply with the general criteria for compatibility⁹⁸: appropriateness, necessity and proportionality.
- (203) The Recapitalisation Communication and the 2011 Prolongation Communication elaborate further on the level of remuneration required for State capital injections.

7.4.1. Appropriateness of the measures

- (204) As regards the appropriateness of the HFSF recapitalisations (measures B1, B2, B3, and B4), the Commission considers them appropriate because they enable the Bank to comply with capital requirements. Without the HFSF recapitalisations, the Bank would have been unable to pursue its activities and would have lost access to ECB refinancing operations.
- (205) In that respect, the Commission noted in the Alpha 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, default by 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 from the Bank. The measures therefore mainly aim at dealing with the results of the PSI programme and contribute to maintaining financial stability in Greece.
- (206) In the Alpha Opening Decision, the Commission expressed doubts as to whether all the measures possible had been taken immediately to avoid the Bank needing aid again in the future. As indicated in recitals (121) and (122) of this Decision, Greece has committed to implement a number of actions related to the corporate governance and commercial operations of the Bank. As described in recitals (99) and (106), the Bank has also significantly restructured its activities, with many cost reductions already implemented. Therefore the Commission's doubts have been allayed.
- (207) In the Alpha 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 commitments described in recitals (121) and (122) of this Decision ensure that 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

⁹⁸ 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.

State as main shareholder are protected against excessive risk-taking by the management of the Bank.

- (208) Measures B1, B2, B3 and B4 therefore ensure that financial stability in Greece is maintained. Significant actions are 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

- (209) According to the 2008 Banking Communication, the aid measure must, in its amount and form, be necessary to achieve its objective. It implies that the capital injection must be of the minimum amount necessary to achieve the objective.
- (210) 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 1 capital remained above a certain level over the period 2012-2014, as reflected in Table 3. It therefore does not provide the Bank with any excess capital. As explained in recital (206), actions have been taken to reduce the risk that the Bank will need additional aid in the future.
- (211) 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 respectively and paid in kind in the form of EFSF notes. The HFSF has received as remuneration, from the date of disbursement of the EFSF notes to the date of the Spring 2013 recapitalisation, the accrued interest on the EFSF notes plus a 1% fee⁹⁹. As underlined in the Alpha 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 the pre-existing shareholders, as their stake in the Bank's equity fell to 4,9%. The abnormal situation which prevailed from the date of the first bridge recapitalisation was then terminated. The doubts raised in the Alpha Opening Decision have therefore been allayed.
- (212) Second, given the atypical source of the Bank's difficulties, where losses came 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 economy, the Commission can accept such a temporary deviation from the standard remuneration requirements set out in the Recapitalisation Communication¹⁰⁰.
- (213) As regards measure B3, it 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 (212), it is acceptable that no remuneration was paid for that commitment.
- (214) 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

⁹⁹ See recital (83): 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.

¹⁰⁰ See also section 7.5.1.

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 price¹⁰¹. Prior to the Spring 2013 recapitalisation, the Bank's market capitalisation was only a few hundred million 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 existing shareholders has been huge, since after the recapitalisation they held only 4,9% of the shareholding of the Bank. Therefore, applying a further discount on the market price would have had a small impact on the remuneration of the HFSF. In view of the specific situation of the Greek banks explained in recital (212), and given the fact that the need for aid stems from a waiver of debt in favour of the State, the Commission considers that the issue price of the shares subscribed by the State was sufficiently low.

- (215) The HFSF also issued warrants and granted one warrant for each new share subscribed by a private investor participating in the Spring 2013 recapitalisation. The HFSF granted those warrants for no consideration. As explained in recital (93), each warrant incorporates the right to purchase 7,40 shares of the HFSF at selected intervals and strike prices. The exercise price is equal to the subscription price of the HFSF increased by an annual and cumulative margin (4% for year one, 5% for year two, 6% for year three, 7% for year four then 8% annualized for the last six months). The remuneration received by the HFSF on the shares it owns is de facto capped at those levels. That remuneration is lower than the 7% to 9% range as defined in the Recapitalisation Communication. However, because those warrants were a key factor in the success of the right issue and private placement launched by the Bank before the Spring 2013 recapitalisation, the Commission considers that they enabled the Bank to reduce the amount of aid by EUR 550 million. Indeed due to the low capital ratio of the Bank prior to the recapitalisation and the high uncertainty prevailing at the time, the simulations which were then available showed that without the warrants private investors would not achieve a sufficient return and would not participate. For the reasons explained in recital (205) and (212), because the HFSF would receive a minimal positive remuneration if the warrants were exercised and because it was an objective of the MEFP to attract private investors to keep some banks under private management and avoid situations where the whole banking sector would be controlled by the HFSF, the Commission can accept such a deviation from the standard remuneration requirements set out in the Recapitalisation Communication. That acceptance is also based on the fact that the HFSF law, as amended in March 2014, does not provide for any adjustment of the warrants in the event of a non-pre-emptive share capital increase, and that in the case of a rights issue only the warrant strike price may be adjusted and the adjustment may take place only ex post and only up to the amount of the realised proceeds from the sale of pre-emption rights of the HFSF. Moreover, the commitment given by Greece that it would seek the approval of the Commission prior to any buy-back of the warrants issued by the HFSF will allow the Commission to ensure that any future buy-back does not further reduce the remuneration of HFSF and increase the remuneration of the warrant holders.

¹⁰¹ The theoretical ex-right price ("TERP") is a generally accepted market methodology for quantifying the dilution effect of share capital increase.

- (216) As regards the fact that the HFSF shares are non-voting, the Commission recalls that the need for aid does not come mainly from excessive risk taking. In addition, it was an objective of the MEFP to keep some banks under private management. Moreover, the relationship framework and automatic reintroduction of voting rights in the event of non-implementation of the restructuring plan provide safeguards against future excessive risk taking by private managers. Finally, the PSI and the December 2012 buy-back are a kind of remuneration to the State, as the latter's debt towards the Bank was reduced by several billions of euros. For all those reasons, the Commission can accept that the HFSF receives non-voting shares. The Commission therefore concludes that measure B4 was necessary.

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

- (217) The Commission notes that the Bank received a very large amount of State aid. That situation may therefore lead to serious distortions of competition. However, Greece has committed 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 (121) and (122). Greece has also committed to an acquisition ban, and to a number of divestments, as described in recitals (123) to (124). Limits to distortions of competition will be further assessed in section 7.6.
- (218) 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.
- (219) Finally a new comprehensive restructuring plan was submitted on 12 June 2014 to the Commission. That restructuring plan will be assessed in section 7.6.
- (220) To conclude, the doubts raised in the Alpha 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, the Recapitalisation Communication and the 2011 Prolongation Communication

- (221) It is therefore concluded 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 of the 2011 Prolongation Communication.

7.5. Compliance of the acquisitions with the Restructuring Communication

- (222) Point 23 of the Restructuring Communication explains that acquisitions of undertakings by aided banks cannot be financed through State aid unless this is essential for restoring an undertaking's viability. Furthermore, points 40 and 41 of the Restructuring Communication state that banks should not use State aid for the acquisition of competing businesses, unless the acquisition is part of a consolidation process necessary to restore financial stability or to ensure effective competition. In addition, acquisitions 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 Emporiki Bank with the Restructuring Communication

7.5.1.1. Effect of the acquisition of Emporiki Bank on the long-term viability of the Bank

- (223) In terms of operating profitability, the acquisition of Emporiki Bank enhances the Bank's return to long-term viability as merging two banks in the same geographical market allows the Bank to realise meaningful synergies, for instance in the form of personnel reduction, branch closures and reduced overhead costs. The Bank acquires customers and deposits, while significantly reducing distribution costs. It is closing a significant number of branches of the combined entity, in addition to rationalizing headquarters functions.
- (224) In terms of liquidity positions, the acquisition has a positive effect on the Bank. Indeed, the loan-to-deposit ratio of the acquired entity was around 115%, well below the Bank's very high loan-to-deposit ratio¹⁰². It therefore contributes to significantly improving the loan-to-deposit ratio of the Bank.
- (225) From a static point of view, the transaction also has a positive impact on the Bank's capital ratio, since the Bank acquires a highly capitalised bank for one euro consideration. At 31 March 2012, the pro forma capital adequacy ratio of the combined entity was 11,8% whereas the Bank's capital adequacy ratio was only 8,8%. Similarly, the pro forma Core Tier 1 ratio of the combined entity stood at 11,1% while the Bank's Core Tier 1 ratio was 7,9%. The high capital of Emporiki Bank provides protection against future losses which could materialise in the stress test, as shown in Table 3. The static observation of the increase in the capital ratio of the Bank overestimated the positive effect on its long term capital position. The acquisition is therefore positive for the restoration of the long-term viability of the Bank.

7.5.1.2. Effect of the acquisitions on the amount of aid needed by the Bank

- (226) According to 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. In this case, although the acquisition has positive implications for the Bank's viability, it is not essential for its viability within the meaning of point 23 of the Restructuring Communication.
- (227) The Bank only paid one euro consideration to purchase Emporiki Bank. The purchase price was therefore not financed through State aid. That fact also implies that the payment of the purchase price did not create any capital need for the Bank. In addition, Emporiki Bank was adequately capitalised (that is to say up to the level required under the 2012 stress test illustrated in Table 3). As such, the acquisition is unlikely to create any future capital need for the Bank.
- (228) In conclusion, due to the atypical terms (purchase at EUR 1 of a fully capitalised bank to meet stress test requirements), the acquisition of Emporiki Bank exceptionally does not go against the requirement to minimise the aid.

¹⁰²

See Table 5.

7.5.1.3. Distortive effect of the acquisitions on competition

- (229) In line with points 39 and 40 of the Restructuring Communication, State aid should not be used to the detriment of non-aided companies and in particular for acquiring competing businesses. Point 41 of the Restructuring Communication also states that acquisitions may be authorised if they are part of a consolidation process necessary to restore financial stability or to ensure effective competition. In such circumstances the acquisition process should be fair and the acquisition should ensure the conditions of effective competition in the relevant market.
- (230) Emporiki Bank was not deemed viable on a stand-alone basis by the Bank of Greece, according to a viability review carried by an external consultant at the beginning of 2012. It was creating large losses for Crédit Agricole which therefore wanted to sell it. If no sale was possible, Crédit Agricole could have considered how to let it fail. 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.
- (231) No non-aided bidder submitted any valid bid to acquire Emporiki 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, the outcome of the sale process does not endanger the conditions of effective competition in Greece.
- (232) Furthermore, the Bank's need for aid does not stem from mismanagement or inappropriate risk taking. Finally, as concluded in recital (227), no State aid was used to fund this acquisition (purchase at EUR 1 of a bank capitalised up to the level required to pass the stress test of the Bank of Greece).
- (233) In view of those elements, it can be concluded that the acquisition of Emporiki Bank is in line with section 4 of the Restructuring Communication.

7.5.1.4. Conclusion on the acquisition of Emporiki Bank

- (234) In the light of the unique situation of Greek banks and the specificities of the acquisition of Emporiki Bank, it is concluded that that acquisition is in line with the requirements laid down in the Restructuring Communication.

7.5.2. Compliance of the acquisition of the selected assets and liabilities of the three Cooperative Banks with the Restructuring Communication

7.5.2.1. Effect of the acquisitions on the long-term viability of the Bank

- (235) The acquisition of the selected assets and liabilities of the three Cooperative Banks will enhance the long-term viability of the Bank.
- (236) More precisely, the integration of the deposits of the three Cooperative Banks into the Bank's balance sheet improved its liquidity profile. The net loan-to-deposit ratio of Alpha Bank S.A. decreased by around 1.5% and the reliance of Alpha Bank S.A. on the Eurosystem decreased.
- (237) Furthermore, the acquisitions gave the Bank the opportunity to enhance its revenues by broadening its client base in several geographic areas. The Bank did not take over any costly infrastructure or costly branch network. Nor did the Bank take over any loans. It therefore did not increase its risk or capital requirements.

7.5.2.2. Effect of the acquisition on the amount of aid needed by the Bank

- (238) 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. In this case, although the acquisition has positive implications for the Bank's viability, it is not essential for its viability within the meaning of point 23 of the Restructuring Communication.
- (239) The consideration paid by the Bank for the acquisition of the transferred assets and liabilities of all three Cooperative Banks was determined at 2.1% of the value of the transferred deposits and amounted to approximately EUR 9 million, equivalent to 0.01% of the total balance sheet of the Bank at the time of the acquisition. That consideration can therefore be considered as very small. In addition, the Bank had already raised EUR 550 million of private capital during the Spring 2013 recapitalisation.
- (240) It is concluded that the acquisition price of the transferred assets and liabilities (mainly deposits) of the three Cooperative Banks was so low that it did not prevent the aid from being limited to the minimum necessary.

7.5.2.3. Distortive effect of the acquisitions on competition

- (241) As stated in recital (229), according to points 39 and 40 of the Restructuring Communication, State aid should not be used to the detriment of non-aided companies and in particular for acquiring competing businesses, except under specific circumstances.
- (242) The Bank of Greece considered the three Cooperative Banks not to be viable and the adoption of the resolution measures to be necessary in order to maintain financial stability. The acquisitions 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.
- (243) In addition, no non-aided bidder submitted any valid bid to acquire the assets and liabilities of the three Cooperative Banks, and the only other bid came from a bank which had received even more aid. Moreover, the size of the acquired assets and liabilities was small, and did not change the market structure¹⁰³.
- (244) In conclusion, the Commission considers these exceptional circumstances justify the authorisation of the acquisitions, in accordance with point 41 of the Restructuring Communication

7.5.2.4. Conclusion on the acquisition of the selected assets and liabilities of the three Cooperative Banks.

- (245) It is concluded that, in the light of the specificities of the acquisitions of the selected assets and liabilities of the three Cooperative Banks, those acquisitions are in line with the requirements laid down in the Restructuring Communication.

¹⁰³ The acquisition of the transferred assets and liabilities of the Western Macedonia Bank and Evia Bank was not notified to the Hellenic Competition Commission since the turnover of the transferred part of each Cooperative Bank did not exceed the threshold of EUR 15 million, as set by the article. 6 (1) of law 3959/2011 in combination with article. 10 (3) (a) of the same law.

7.5.3. Compliance of the acquisition of Citibank Greece with the Restructuring Communication

7.5.3.1. Effect of the acquisition on the long-term viability of the Bank

- (246) The acquisition of Citibank Greece, including Diners, will enhance the long-term viability of the Bank. The Bank acquired a highly provisioned loan bank. In addition the net loan book is much smaller than the acquired deposits.
- (247) The integration of the deposits of Citibank Greece into the Bank's balance sheet will improve the Bank's medium- and long-term funding profile, while, at the same time, increasing the Bank's profitability.
- (248) Furthermore, through the acquisition, the Bank will enhance its deposit gathering franchise and capabilities, thereby achieving a balanced and sustainable business model.
- (249) Finally, the expected significant synergies – in terms of central functions, IT services and operating expenses – will contribute to the Bank's long-term viability.
- (250) The acquisition is therefore positive for the restoration of the long-term viability of the Bank.

7.5.3.2. Effect of the acquisition on the aid amount needed by the Bank

- (251) According to 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. In this case, although the acquisition has positive implications for the Bank's viability, it is not essential for its viability within the meaning of point 23 of the Restructuring Communication.
- (252) The Bank only paid EUR 2 million consideration¹⁰⁴ to purchase Citibank Greece and Diners.
- (253) The acquired portfolio includes a large number of loans which are totally written-off. Indeed, the valuation of that new portfolio of loans could offset the limited capital need stemming from their integration in the balance sheet of the Bank.
- (254) In addition, the Bank has raised EUR 1,2 billion of private capital at a price per share higher than the price per share at which the HFSF subscribed in the Spring 2013 recapitalisation.
- (255) In those specific circumstances, it cannot be claimed that the acquisition was financed through State aid. The acquisition will not increase the need for aid or reduce the remuneration of the existing aid.

7.5.3.3. Distortive effect of the acquisition on competition

- (256) As indicated in recital (241), State aid should not be used to the detriment of non-aided companies in particular for acquiring competing businesses.
- (257) The purchase price paid for Citibank Greece was extremely low and the Bank raised a large amount of private capital at a high price per share. It can therefore not be considered that aid was used to fund that acquisition.

¹⁰⁴ The consideration was calculated assuming a deposit attrition of 30% between the signing and the closing of the transaction. The consideration will be adjusted ex-post depending on the actual attrition observed before the closing.

- (258) In addition, since no non-aided bidder submitted any bid to acquire the perimeter of activities acquired by the Bank, there is no crowding out of non-aided investors.
- (259) In conclusion, in view of the elements in recitals (257) and (258), the acquisition does not fall under the prohibition in points 39 and 40 of the Restructuring Communication. In addition, the Commission recalls that the Bank's need for aid does not stem from mismanagement or inappropriate risk taking.

7.5.3.4. Conclusion on the acquisition of Citibank Greece

- (260) It is concluded that, in the light of the unique situation of the Bank¹⁰⁵ and the specificities of the acquisition of Citibank Greece, that acquisition is in line with the requirements laid down in the Restructuring Communication.

7.6. Compliance of measures A, B1, B2, B3, and B4 with the Restructuring Communication

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

- (261) 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 of the PSI programme and the debt buy-back on its capital position, the Bank also observed huge deposit outflows between 2010 and mid-2012, due to the risk that Greece might exit the euro area as a consequence of an unsustainable public debt and due to the economic recession.
- (262) Measures B1, B2, B3 and B4 amount to EUR 4 571 million, which is less than the amount of the loss booked following the PSI programme (EUR 4 786 million). In such a case, and if the difficulties do not result primarily from excessive risk-taking behaviour, point 14 of the 2011 Prolongation Communication provides that the Commission will lighten its requirements.
- (263) The largest 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 Alpha Opening Decision. The Commission also observes that the Bank's exposure to the Greek sovereign risk was smaller than that of the other main Greek banks, so it cannot be considered to have accumulated an excessive exposure to sovereign debt. 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 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.

¹⁰⁵ See also sections 7.5.1. and 7.5.2.

- (264) However since the Greek economy has contracted by about 25% since 2008 and since the Bank has acquired a less viable bank in the form of Emporiki Bank, the Bank has to adapt its organization, its 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 rationalize its operations in Greece to secure its long-term viability.
- (265) An important second source of losses for the Bank was its loans to Greek households and corporations. The Commission considers that those losses are mainly due to the exceptionally deep and protracted recession 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 the aid shelters a bank from the consequences of past risky behaviours. The aid is therefore less distortive¹⁰⁶.
- (266) However, part of the capital needs and loan losses of the Bank comes from some international subsidiaries. In 2012, for instance, activities in Cyprus, Romania, Serbia, FYROM and Bulgaria were loss-making, while activities in Albania only broke even. The stress tests performed in 2012 to determine the capital needs of the Bank indicated that credit loss projections on foreign loans amounted to EUR 921 million in the base scenario and EUR 1 201 million in the adverse scenario. The foreign assets also constituted a drain on liquidity since the intra-group funding amounted to several billion euros.
- (267) In conclusion, since, among the four largest Greek banks, the Bank had the lowest holding of GGBs at the time of the PSI and since the loss resulting from the PSI was larger than the aid received through measures B, B2, B3 and B4, it can be concluded that most of the losses and the need for aid fall under point 14 of the 2011 Prolongation Communication, 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. Such aid does not create moral hazard and is therefore less distortive.
- (268) Finally, a limited part of the need for aid comes from the Bank's own risk taking as regards its foreign subsidiaries.

7.6.2. Viability

- (269) 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 adoption of this Decision and 31 December 2018.
- (270) In line with points 9, 10 and 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

¹⁰⁶ 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).

NPL, its vulnerable liquidity and capital positions, and its foreign businesses, which, during the recent years, have relied on their parent company for their funding and capital.

7.6.2.1. Greek banking activities

- (271) 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 State-guaranteed ELA, which has already fallen, will continue to decrease which will also help the Bank to reduce its cost of funding.
- (272) The loan-to-deposit ratio commitment mentioned in recital (118) 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. 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 and under the State-guaranteed ELA.
- (273) To decrease its funding costs, Greece has also given a commitment that the Bank will continue reducing the interest rates it pays on deposits in Greece, as described in recital (118). The achievement of such a decrease in the cost of deposits will be a key contribution to improving the pre-provisioning profitability of the Bank.
- (274) Since the start of the crisis the Bank has started rationalizing its commercial network in Greece, through a reduction in the number of branches and employees¹⁰⁷. By 2017, the total costs of the Bank will have decreased by a further [...] % compared to 2013. To achieve that target Greece has committed that the Bank will reduce its branches and employees in Greece to [...] and [...] respectively at 31 December 2017, with maximum total costs¹⁰⁸ in Greece of EUR [...] 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.
- (275) One other key area is the handling of NPL, since they amounted to 32.4% of the portfolio at 31 December 2013¹⁰⁹. The Bank plans to enhance its credit policy (limits, collateral coverage) and to focus on the core activity in order to minimize its losses. Greece has also given a commitment that the Bank will comply with high standards as regards its credit policy in order to manage risks and to maximise the value for the Bank at each stage of the credit process, as described in recital (122).

7.6.2.2. Corporate governance

- (276) Another point of attention is the governance of the Bank given that the HFSF owns 69,9%¹¹⁰ of the Bank's shares following the 2014 share capital increase, but with restricted voting power. Additionally, some of the private investors which control the Bank also own warrants and thus would gain the full benefit should the share price soar during the restructuring period. Because that situation could create moral hazard, a specific relationship framework was agreed between the Bank and the

¹⁰⁷ See recital (99).

¹⁰⁸ Including contributions to the Deposit and Investment Guarantee Fund ("TEKE").

¹⁰⁹ Financial projections attached to the Restructuring plan of Alpha Bank, June 2014, figures for Alpha Bank S.A.

¹¹⁰ HFSF, *Annual financial report for the year ended 31 December 2013*, p 68, available at: http://www.hfsf.gr/files/hfsf_annual_report_2013_en.pdf.

HFSF in 2013. That agreement protects the day-to-day business of the Bank from any interference from its main shareholders, while ensuring that 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. The Commission notes positively the fact that the HFSF automatically regains voting rights if the Bank does not implement its restructuring plan.

7.6.2.3. International activities

- (277) Some of the Bank's international activities have drained the Bank's capital, liquidity and profitability in the past, as explained in recital (266).
- (278) The restructuring plan anticipates that the Bank will continue to re-focus on its domestic market. The Bank has already sold its unprofitable subsidiary in Ukraine. 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 further rationalisation of its network in retained subsidiaries, as described in recital (109).
- (279) The total amount of foreign assets will shrink by at least a further [...] % by 31 December 2017 (compared to 31 December 2012).
- (280) The overall profitability of international activities will be restored from [...] onwards.
- (281) Therefore the Commission believes that the Bank will have sufficiently restructured and reduced those foreign businesses in size to avoid it being exposed to additional capital needs and liquidity shortages in the future. The commitment described in recital (119) to refrain from injecting large amounts of capital in 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

- (282) 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. At the same time, the Bank's capital position is projected to remain at a satisfactory level.
- (283) Finally, the Commission 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 prices¹¹¹. 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 and well capitalised at the end of the restructuring period.
- (284) The amount of additional capital which was raised in 2014, namely EUR 1,2 billion, is sufficient to cope with the baseline scenario of the 2013 stress test in the restructuring period and to repay the preference shares, which the Bank did in April

¹¹¹ 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.

2014¹¹². The Bank will also submit a contingent capital plan to the Bank of Greece with measures to be implemented if the economic environment deteriorates 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 Commission therefore considers that the baseline capital needs estimated by the Bank of Greece assume a certain degree of stress. 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 and as the March 2014 capital raising shows that the Bank has regained access to capital markets.

- (285) 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.
- (286) It is therefore concluded that the Bank has taken sufficient measures to restore its long-term viability.

7.6.3. Own contribution and burden-sharing

- (287) 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.

7.6.3.1. Own contribution by the Bank: divestments and cost cutting

- (288) The Bank has already divested some small foreign businesses (Ukraine) and deleveraged part of its portfolio in order to enhance both its capital adequacy and its liquidity position. For instance the Bank has deleveraged EUR 1,9 billion of foreign assets from 2009 to 2013¹¹³.
- (289) The restructuring plan foresees the sale of further assets in South-Eastern Europe, as described in recital (107). Considering the deleveraging and the divestments already implemented and following the implementation of those commitments, the Bank will have significantly reduced its geographical footprint in South-Eastern Europe. The downsizing of the Bank's international assets will also significantly reduce the contingent risk that aid will be needed in the future. It therefore helps to reduce the amount of aid to the minimum.
- (290) The Bank sold its insurance activities in 2007. It therefore has no significant activity in that market which could be sold to generate resources.
- (291) In order to limit its capital needs, the Bank will not use capital to support or grow its foreign subsidiaries, as described in recital (119). Additionally, the commitments made by Greece provide that the Bank will not make further acquisitions.
- (292) 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 2017. Its workforce is being reduced and salaries adjusted downwards. Greece has also committed to limit the remuneration of the Bank's managers, [...].

¹¹² http://www.alpha.gr/files/deltia_typou/deltio_typou_170414EN.pdf.

¹¹³ Restructuring plan of Alpha Bank, June 2014, p. 107.

7.6.3.2. Burden-sharing by historical shareholders and new capital raised on the market

- (293) The historical shareholders of the Bank were diluted by the rights issue completed in 2009¹¹⁴ and then again by the HFSF recapitalisation (measure B4) and private capital raising of 2013 and March 2014. For instance, the stake held by the shareholders of the Bank, which at the time included the investors that injected money in 2009, was reduced from 100% prior to the Spring 2013 recapitalisation to only 4,9% after that recapitalisation. In addition, the Bank has not paid any dividend in cash since 2008. In addition to that burden-sharing by historical shareholders, the Bank has raised a significant amount of private capital since the crisis started in 2008, that is to say EUR 986 million in 2009, EUR 550 million in 2013 and EUR 1 200 million in 2014.

7.6.3.3. Burden-sharing by subordinated debt holders

- (294) The Bank's subordinated debt holders have contributed to the restructuring costs of the Bank. The Bank performed several liability management exercises in order to generate capital. The total amount of liabilities exchanged reached EUR 828 million, with a capital gain of EUR 436 million, as described in recital (114).
- (295) The still outstanding instruments are subject to the coupon ban mentioned in recital (124). 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.

7.6.3.4. Conclusion on own contribution and burden-sharing

- (296) In comparison with the total State recapitalisation received, the own contribution and burden-sharing, especially in the form of sale of assets and downsizing of the loan book, is much lower than what the Commission would usually consider sufficient. The downsizing only concerns the foreign activities¹¹⁵, which account for a limited part of the Bank¹¹⁶ and the restructuring does not envisage any reduction of the size of the loan and deposit books in Greece. However, in view of the elements discussed in section 7.6.1 and in particular the facts that Alpha Bank is the least aided bank among the large Greek banks and that the aid received fully qualifies for the exemption lay down in point 14 of the 2011 Prolongation Communication, 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.

7.6.4. Measures to limit distortions of competition

- (297) 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.
- (298) 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

¹¹⁴ See recital (116).

¹¹⁵ As indicated in the commitments (see Annex, chapter 2, point 7), that downsizing can be achieved through reduction of balance sheets of retained foreign entities and/or through the sale of foreign entities.

¹¹⁶ The size of the proposed own contribution measure has to be compared with the size of the Bank before the acquisitions of Emporiki Bank, the deposits of the three Cooperative Banks and Citibank Greece for the reason explained in section 7.1.3.5.

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 support from the State equivalent to 12% of its RWA¹¹⁷. In addition, the Bank has obtained liquidity guarantees amounting to EUR 14 billion at 30 November 2011 and government bond loans for an amount of EUR 1,6 billion at 30 September 2011, representing together 25% of the Bank's balance sheet at that date. In addition, the Bank received State-guaranteed ELA. The measures to limit potential distortions of competition are thus justified in view of that large amount of aid. Additionally, the market share of the Bank in Greece is large, with market shares of 15% for loans and 13% for deposits at 31 December 2012. The acquisition of Emporiki Bank and, to a much smaller extent, of the three Cooperative Banks and of the Greek activities of Citibank increased the market shares of the Bank. After the acquisition of Emporiki Bank, the Bank's market shares in deposits in Greece amounted to 21% as of 30 June 2013, while its market shares in residential mortgages, consumer loans and corporate loans were 23%, 20% and 21% respectively¹¹⁸. Following the acquisition of the Greek activities of Citibank, the Bank's market share in deposits increased by less than 1%.

- (299) The Commission recalls that the difficulties of the Bank resulted mainly from external shocks such as the Greek sovereign crisis and the protracted recession which has disrupted the Greek economy since 2008, as has already been noted in recital (69) of the Alpha Opening Decision. The need to address moral hazard issues is reduced as the Bank did not take excessive risks. As discussed in section 7.6.1 of this Decision, the distortive effect of the aid measures is lower in the light of those factors as is the need for measures to limit distortions of competition. For those reasons, the Commission can exceptionally accept that, in spite of the high aid amount and the high market share, the restructuring plan does not envisage any downsizing of the balance sheet and loans in Greece.
- (300) However, the Commission notes that the State recapitalisations enabled the Bank to continue its banking activities in foreign markets.
- (301) In that respect, the Commission notes, in addition to its deleveraging and restructuring already implemented, that the Bank will further restructure and deleverage its foreign assets by 30 June 2018¹¹⁹ in addition to the commitment not to use aid to fund the growth of those activities. The aid will therefore not be used to distort competition on those foreign markets.
- (302) Greece has also committed to an acquisition ban, ensuring that the Bank will not use the State aid received to acquire new business. That ban contributes to ensuring that the aid is strictly used to support the restoration of the viability of the Greek banking activities, and not, for instance, to grow in foreign markets.
- (303) 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 the loans to customers.

¹¹⁷ When taking into account only the aid actually paid out, which is the most advantageous and therefore the most distortive of competition, the amount of aid is reduced to 11% of the RWA of the Bank.

¹¹⁸ Restructuring plan of Alpha Bank, June 2014, p. 36.

¹¹⁹ See Annex, chapter II.

- (304) 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

- (305) In accordance with 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 given by Greece¹²⁰, Greece will ensure that until the end of the restructuring period, namely, 31 December 2018, the Monitoring Trustee, which has been appointed by the Bank with the approval of the Commission, will monitor the commitments given by Greece on the restructuring of activities in Greece and abroad and on corporate governance and commercial operations. It can therefore be concluded that implementation of the restructuring plan will be properly monitored.

¹²⁰ See recital (129).

8. CONCLUSION

It is concluded that Greece unlawfully implemented aid measures B1, B2, B3 and B4 in breach of Article 108(3) of the Treaty, since they were implemented before their formal approval by the Commission. However the Commission finds that the restructuring plan, when taken together with the commitments in the Annex, 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,

HAS ADOPTED THIS DECISION:

Article 1

1. The following measures implemented by Greece constitute State aid within the meaning of Article 107(1) of the Treaty:
 - (a) the emergency liquidity assistance provided to Alpha Bank S.A. by the Bank of Greece and guaranteed by Greece (measure L2);
 - (b) the second bridge recapitalisation of EUR 1 042 million granted by the Hellenic Financial Stability Fund ("HFSF") to Alpha Bank S.A. in December 2012 (measure B2);
 - (c) the commitment letter of EUR 1 629 million granted by the HFSF to Alpha Bank S.A. on 21 December 2012 (measure B3);
 - (d) the recapitalisation of EUR 4 021 million granted by the HFSF to Alpha Bank S.A. in Spring 2013 (measure B4).
2. The financing by the HFSF of the total funding gap of EUR 427 million, in the framework of the transfer of selected assets and liabilities of Cooperative Bank of Dodecanese, Evia Cooperative Bank and Cooperative Bank of Western Macedonia to Alpha Bank S.A. in December 2013, does not constitute State aid within the meaning of Article 107(1) of the Treaty.
3. In the light of the restructuring plan relating to the Alpha Bank Group (Alpha Bank and all its subsidiaries and branches) submitted on 12 June 2014 and of the commitments provided by Greece on that date, the following State aid is compatible with the internal market:
 - (a) the capital injection of EUR 940 million granted by Greece to Alpha Bank S.A. in May 2009 under the recapitalisation measure (measure A);
 - (b) the emergency liquidity assistance provided to Alpha Bank S.A. by the Bank of Greece and guaranteed by Greece since July 2011, for an amount of EUR 23,6 billion at 31 December 2012 (measure L2);
 - (c) the first bridge recapitalisation of EUR 1 900 million granted by the HFSF to Alpha Bank S.A. in May 2012 (measure B1);

- (d) the second bridge recapitalisation of EUR 1 042 million granted by the HFSF to Alpha Bank S.A. in December 2012 (measure B2);
- (e) the commitment letter of EUR 1 629 million granted by the HFSF to Alpha Bank S.A on 21 December 2012 (measure B3);
- (f) the recapitalisation of EUR 4 021 million granted by the HFSF to Alpha Bank S.A. in May 2013 (measure B4).

Article 2

This Decision is addressed to the Hellenic Republic.

Done at Brussels, 09.07.2014

For the Commission

Joaquín ALMUNIA
Vice-President

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

Alpha Bank – Commitments by the Hellenic Republic

The Hellenic Republic ("**HR**") shall ensure that Alpha Bank ("**the Bank**") is implementing the restructuring plan submitted on June 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:** Alpha Bank S.A. and all its subsidiaries. Therefore, it includes the entire Alpha Bank 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) **Closing:** the date of transfer of the legal title of the Divestment Business to the Purchaser.
- (4) **Divestment Business:** all the businesses and assets that the Bank commits to sell.
- (5) **Effective Date:** the date of adoption of the Decision.
- (6) **End of restructuring period:** 31 December 2018.
- (7) **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 Luxemburg 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.
- (8) **Foreign businesses:** foreign banking and non-banking subsidiaries and branches of the Bank.

- (9) **Foreign subsidiaries:** all banking and non-banking subsidiaries of the Bank outside Greece.
- (10) **Greek banking activities:** the Bank's Greek banking activities independently from where the assets are booked.
- (11) **Greek non-banking activities:** the Bank's Greek non-banking activities independently from where the assets are booked.
- (12) **Greek subsidiaries:** all Greek banking and non-banking subsidiaries of the Bank.
- (13) **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.
- (14) **Purchaser:** one or more natural or legal person(s) to acquire, in whole or in part, the Divestment Business.
- (15) **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 Equivalents (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 [...] 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 119% 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. [...].
- f. [...].

[...]

- (7) **Deleveraging 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 [...] billion by 30 June 2018 (foreign assets cap).

(7.1) [...]

(7.2) [...]

- (8) **Sale of securities:** The portfolio of listed securities, defined as follows, shall be divested by [...], while the portfolio of unlisted securities shall be divested by [...]: this portfolio includes all equity investments larger than EUR [...] million, as well as all investments in subordinated bonds and hybrid bonds. That Commitment shall not apply to the [...] shares (EUR [...] million). For non-core subsidiaries and associates ([...]), if, by [...], the Bank has actively searched for potential buyers and no capital neutral or capital accretive transaction can take place, then the deadline for divesting those participations shall be postponed to [...].

- (9) **Size of the private equity portfolio:** The size of the private equity portfolio shall be reduced to EUR [...] million by 31 December 2017.

- (10) 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. This does not apply to sale of real estate, in which case the Bank can provide financing to the purchaser, if this new lending is performed in line with prudent lending practice. For the purpose of verifying the compliance with the commitment on deleveraging of non-Greek assets, any new lending falling in the definition of non-Greek assets will be taken into account;
- 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.

- (11) **Investment policy:** Until 30 June 2017, the Bank shall not purchase non-investment grade securities.

This Commitment shall not apply to the following securities (the Exempted Securities):

- i. [...]
- ii. [...];
- iii. [...];
- iv. [...];
- v. [...];
- vi. [...].

- (12) **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.
- (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 (11) 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 loans¹ to enable borrowers to purchase shares or hybrid instruments of the Bank and other banks² shall be prohibited, whoever are those borrowers³. This provision shall apply and shall be monitored at the Bank's level.

¹ 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.

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

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

- (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 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 loans⁴ to connected borrowers (annual % of Y-1 stock⁵) 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 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

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

⁵ 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.

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 business⁶.
- (a) **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.
 - (b) **Exemption not requiring Commission's prior approval:** The Bank may acquire stakes in undertakings provided that:
 - (1) The purchase price paid by the Bank for any acquisition is less than [[...]]% of the balance sheet size⁷ of the Bank at the Effective Date of the Commitments⁸; and
 - (2) 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.

⁶ 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.

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

⁸ For clarification, in case the Commission's approval to lift the acquisition ban is obtained according to point a, 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.

- (c) **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, including the conversion of existing debt to equity instruments.
- (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 16 January 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.

The Secretary General

Christina Papakonstantinou

Appendix I: Macro-economic projections for Greek domestic operations

% annual growth (unless otherwise stated)	2012	2013	2014	2015	2016	2017	Cumulative growth rate 2013- 2017
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			