



EUROPEAN COMMISSION

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**Subject: State Aid SA.43363 (2015/N) – Greece
Amendment of the restructuring plan approved in 2014 and granting of new aid to Eurobank**

Sir,

1. PROCEDURE

- (1) By decision of 29 April 2014¹ the Commission approved the recapitalisation and restructuring of Eurobank (the "Bank"²). In the framework of the procedure leading to that decision ("the 2014 Restructuring Decision") the Greek authorities and the Bank undertook a number of Commitments ("the 2014 Commitments") and submitted a restructuring plan ("the 2014 restructuring plan").
- (2) On 19 August 2015 the Commission signed a Memorandum of Understanding (MoU) with Greece for a new stability support programme, after which the Commission, the Greek authorities and the Bank had numerous meetings, teleconferences and electronic mail exchanges.

¹ Commission Decision of 29 April 2014 in SA.34825 (2012/C), "HFSF Recapitalisation commitment to EFG Eurobank" (OJ L 357, 12.12.2014, p. 112).

² "The Bank" refers to the Eurobank Group.

Κύριος Νίκος ΚΟΤΖΙΑΣ
Υπουργός Εξωτερικών
Βασιλίσσης Σοφίας 5
Grèce - 10671 Αθήνα

- (3) On 9 November 2015 the Greek authorities notified the backstop by the Hellenic Financial Stability Fund ("HFSF")³ of a capital increase to cover the capital shortfall determined by the comprehensive assessment made by the competent prudential authority – the Single Supervisory Mechanism ("SSM"). They provided in that regard the letter of 30 October 2015 from the SSM, the request by the Bank for the backstop by the HFSF, its approval by the HFSF and the terms of the Contingent Convertible Bonds ("CoCos") to be subscribed by the HFSF in case a capital injection would be needed. The Greek authorities supplemented the notification with a draft amended restructuring plan, draft amended Commitments and a capital raising plan approved by the SSM. On 23 November 2015, the Greek authorities submitted to the Commission the final restructuring plan for the Bank ("the 2015 restructuring plan") and the final Commitments amending the 2014 Commitments ("the 2015 Commitments").
- (4) Greece accepts that exceptionally the present decision is adopted in the English language only.

2. DESCRIPTION

2.1. The Bank and its difficulties

2.1.1. General context of the Greek banking sector

- (5) The Greek banking sector has gone through a series of reforms since May 2010, including restructuring and significant consolidation. In the framework of the two Economic Adjustment Programmes for Greece, the banks in that Member State were recapitalised twice, in 2013 and in 2014 respectively. In that contest they were also subject to three Asset Quality Reviews ("AQRs") and stress tests. The results of the European Central Bank ("ECB") Comprehensive Assessment performed in 2014 and released in October 2014 ("the 2014 CA") confirmed that the four systemic Greek banks, i.e. Alpha Bank, Piraeus Bank, National Bank of Greece and the Bank, would not require additional capital under the dynamic balance sheet assumption, based on their restructuring plans approved by the Commission earlier in 2014. At the end of 2014, the banking sector had Core Equity Tier 1 ("CET1") ratios of 13,8% at consolidated level and 16% at solo level, while the coverage of non-performing loans ("NPLs") (excluding restructured loans) by provisions amounted to 55,8% (from 49,3% at end-2013)⁴.
- (6) However, from December 2014 onwards Greece experienced severe political uncertainty. Large deposit outflows from the Greek banks followed, as well as the loss of access to the wholesale funding market which they had regained in 2013-2014 (e.g. international counterparts did not roll over repurchase agreement collateralised with European Financial Stability Facility ("EFSF"))

³ The HFSF was established following the signature of the Memorandum of Understanding on Specific Economic Policy Conditionality between the Greek Government, the European Union, the International Monetary Fund and the European Central Bank on 3 May 2010. According to the HFSF Law, the objective of the HFSF is to safeguard the stability of the Greek banking system. The HFSF Law has been amended several times.

⁴ European Commission – Directorate-General Economic and Financial Affairs: "Greece - Assessment of the Commission, in liaison with the ECB, of the request for stability support in the form of an ESM loan, in compliance with Art 13 of ESM Treaty", 10 July 2015, p.2-3, available online at: http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm

notes). In addition, the Greek banks had to increase their participation in State T-bill issuances (as foreign investors retreated) and they had to cope with State deposit withdrawals as the liquidity of the State also began tightening. Hence the liquidity conditions of the Greek banks tightened considerably. Moreover, the ECB did not prolong the waiver⁵ on the minimum credit criteria for eligible collateral (based on the fact that it was not possible at that time to assume a successful conclusion of the programme review), so that the Greek banks lost access to normal ECB refinancing operations. As a consequence, the Greek banks once again became largely dependent on Emergency Liquidity Assistance ("ELA") from the Central Bank of Greece. To create part of the collateral needed to obtain ELA, the banks sought State guarantees on self-issued debt instruments, which were then pledged as collateral to the Central Bank of Greece.

- (7) The liquidity crisis experienced in the first half of 2015 led to the application of a bank holiday on 29 June⁶ and the maintenance of capital controls after banks reopened on 20 July. From the beginning of the political crisis on 9 December 2014 to the enforcement of the bank holiday on 29 June 2015, the banking system suffered a deposit outflow of EUR 47,6 billion – equivalent to a decrease of 27,5% of the deposit base. During the period of the bank holiday a further EUR 2,8 billion of household and corporate deposits were withdrawn. During the same period the banks' reliance on ELA skyrocketed from nearly zero to a peak of EUR 88,3 billion at the end of July 2015. Reliance on ELA significantly increased their funding costs in H1 2015.
- (8) Apart from that direct adverse effect on the liquidity position of the Greek banks, the solvency situation of the banks has also been affected. Uncertainty related to the reform programme and deteriorating liquidity conditions have undermined household and business confidence and investment. The capital controls also hurt economic activity in Greece. Instead of the economic recovery forecast previously, it is now expected that the Greek economy would again be in recession in 2015 and 2016. As a consequence, the ability of households and businesses to repay their loans will be significantly impaired, which will result in higher loan losses for the banks (increase in the stock of NPLs and lower recovery from the existing NPLs).
- (9) The deterioration in the political and economic environment from December 2014 and the introduction of capital controls were not envisaged in any of the adverse macroeconomic scenarios used in the national 2014 AQR and stress test, the 2014 CA, and in the 2014 Restructuring Decision.
- (10) A third economic adjustment programme ("the Programme"), with a budget of EUR 86 billion over the years 2015-2018 was signed by the Greek authorities on 19 August 2015. A buffer of up to EUR 25 billion is envisaged under the Programme to address potential bank recapitalisation needs of viable banks and

⁵ European Central Bank, Press Release: "Eligibility of Greek bonds used as collateral in Eurosystem monetary policy operations", 4 February 2015, available online at: <https://www.ecb.europa.eu/press/pr/date/2015/html/pr150204.en.html>

⁶ Legislative Act 65/28.06.2015 imposed a bank holiday on all credit institutions operating in Greece, under any form, from the 28th of June 2015 until the 6th of July 2015. By virtue of the Legislative Act 84/18.07.2015, the bank holiday, which was extended, by decision of the Minister of Finance, until the 19th of June 2015, ended on 20 July 2015.

resolution costs of non-viable banks, in full compliance with EU competition and State aid rules⁷.

- (11) The economic forecasts of the Programme project return to growth only in 2017 after two years of recession⁸.

Table 1: real GDP forecasts of the Programme over the restructuring period

	2015	2016	2017	2018
EUR billion	182,3	179,9	184,8	190,5
Growth %	-2,3	-1,3	2,7	3,1

Source: European Commission – Directorate-General Economic and Financial Affairs-The European Stability Mechanism Programme for Greece: Questions and Answers

- (12) In the framework of the Programme, the SSM was requested to provide a forward-looking view of the capital needs of the four Greek systemic banks and performed a new Comprehensive Assessment exercise ("the 2015 CA"). While the perimeter of the AQR was limited to the Greek banking activities, the stress test, both in its baseline and adverse scenarios, includes all the subsidiaries of the Greek banks. The results of the 2015 CA were published on 31 October 2015. The 2015 CA revealed a total capital shortfall of EUR 4,4 billion under the baseline scenario, and of EUR 14,4 billion under the adverse scenario, for the four significant Greek banks (including EUR 9,2 billion in AQR adjustments)⁹. While the 2015 CA baseline scenario is derived from a macroeconomic scenario close to the one on which the Programme is based, the 2015 CA adverse scenario is based on a significantly deeper recession in 2015-2016 than the one expected under the Programme.

Table 2: Stress Test of 2015

Bank	AQR impact June 2015			Baseline scenario (including AQR impact)		Adverse scenario (including AQR impact)		Difference between the adverse and the baseline scenario In EUR mil.
	Pre-AQR CET1%	Post AQR CET1 %	Shortfall vs. 9.5% post-AQR In EUR mil.	CET1% post-baseline In %	Shortfall vs. 9.5% post-ST In EUR mil.	CET1% post-adverse In %	Shortfall vs. 8% post-ST In EUR mil.	
Alpha Bank	12,7%	9,6%	0	9,0%	263	2,1%	2 743	2 480
Eurobank	13,7%	8,6%	339	8,6%	339	1,3%	2 122	1 783
NBG	11,6%	8,1%	831	6,8%	1 576	-0,2%	4 602	3 026
Piraeus Bank	10,8%	5,5%	2 188	5,2%	2 213	-2,4%	4 933	2 720
Total	12,1%	7,9%	3 358	7,6%	4 391	0,1%	14 401	10 010

⁷ European Commission – Directorate-General Economic and Financial Affairs, "Memorandum of Understanding between the European Commission, acting on behalf of the European Stability Mechanism and the Hellenic Republic and the Bank of Greece", 19 August 2015, p.18, available online at: http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm

⁸ Updated economic assumptions are provided by the European Commission – Directorate-General Economic and Financial Affairs for Autumn 2015, with growth rate for 2015 being -1,4% and the other figures remaining the same, available at http://ec.europa.eu/economy_finance/eu/forecasts/2015_autumn/el_en.pdf

⁹ European Central Bank, Press Release: "ECB finds total capital shortfall of €14.4 billion for four significant Greek banks", 31 October 2015, p.1, available online at: <https://www.bankingsupervision.europa.eu/press/pr/date/2015/html/sr151031.en.html>.

- (13) On 31 October 2015, the Greek Parliament approved the amended HFSF law¹⁰, followed by Cabinet Act No. 36 of 2 November 2015¹¹. Those legislative changes allow the four systemic banks to receive support from the HFSF in the form of both ordinary shares and CoCos in a precautionary recapitalisation¹² as well as in the scenario of resolution (where the HFSF would act as a vehicle implementing the government financial stabilisation tool). In the case of a precautionary recapitalisation, the HFSF's recapitalisation will take the form of shares – for 25% of the recapitalisation amount - and CoCos - for 75% of the recapitalisation amount. In the case of a resolution, for the part of the capital needs stemming from the AQR and the baseline scenario of the stress test, the recapitalisation of the HFSF can only take the form of ordinary shares, while the split between shares and CoCos for the recapitalisation addressing the capital needs under the adverse scenario is the same as that used for the precautionary recapitalisation (i.e. 25%-75% respectively).

2.1.2. The economic activities of the Bank

- (14) The Bank is currently active in retail banking, corporate banking, project finance, shipping, investment banking, e-Banking and green banking and provides equity brokerage, asset management, private banking and insurance products and services. It serves a broad range of customer types such as individuals (Mass, Affluent and High Net Worth), households and businesses (small businesses and professionals, SMEs and large corporate/multinationals). As at 30 June 2015, it has a network of 533 branches in Greece (retail and corporate), 401 branches in South Eastern Europe (excluding Ukraine), a subsidiary with one branch in Luxembourg, a branch in the United Kingdom, and a worldwide workforce of 16 760 employees (excluding Ukraine)¹³.
- (15) As of H1 2015, its net loan-to-deposit ratio stood at 132,4% for the Bank and 155% in Greece, due to the recent crisis and the consequent decrease in deposits¹⁴. The Bank has recorded EUR 1 billion losses in H1 2015, due to continuing market deceleration and worsening customers' asset quality in the framework of the worsening macroeconomic environment in Greece¹⁵.

¹⁰ On 1 November 2015, Law 4340/01.11.2015 (GG I 134) "Για το πλαίσιο ανακεφαλαιοποίησης των πιστωτικών ιδρυμάτων και άλλες διατάξεις του Υπουργείου Οικονομικών", on the framework for the recapitalization of credit institutions and other provisions of the Ministry of Finance, amended Law 3864/21.07.2010 (GG I 119) on the establishment of the Hellenic Financial Stability Fund. Further amendments to the law were adopted on 19 November 2015.

¹¹ Cabinet Act 36/02.11.2015 (GG I 135), regulating matters in implementation of paragraphs 2 and 5(c) of Article 7 of the Law 3864/2010 (GG I 119), as replaced by Article 1 of the Law 4340/2015 (GG I 134).

¹² In order to qualify for a precautionary recapitalisation and thus avoid resolution, State aid can cover only the capital shortfall stemming from the adverse scenario of the stress test, while capital needs stemming from the AQR and baseline scenario have to be covered by private means.

¹³ 2015 Restructuring plan, p. 10.

¹⁴ 2015 Restructuring plan, p. 74.

¹⁵ 2015 Restructuring plan, p. 142.

- (16) At the end of June 2015, at the date of the introduction of capital controls, the amount of ELA granted to the Bank stood at EUR 22,9 billion¹⁶. Liquidity conditions have improved since then, with the amount of ELA standing at EUR [...] billion as of 30 September 2015¹⁷. As of 30 June 2015 the amount of Greek Government Guaranteed Bonds ("GGGBs") held by the Bank was EUR 16 453 million¹⁸.
- (17) As indicated in Table 1, the 2015 CA results indicate a capital shortfall for the Bank (before any mitigating actions) of EUR 339 million under the "baseline" scenario and EUR 2 122 million under the "adverse" scenario¹⁹.

2.2. The aid measure granted to the Bank through the HFSF – 2015 underwriting (measure A)

- (18) By letter of 2 November 2015, the Bank sought authorisation from the HFSF to convoke the Bank's Extraordinary General Meeting ("EGM") of shareholders on 16 November 2015 to approve the capital increase to cover the entire capital shortfall determined by the 2015 CA in line with the HFSF law. The Bank sought the consent of the HFSF on the basis that the HFSF would act as a backstop (measure A), provided that the Bank respects the conditions and the process set up in the HFSF law²⁰.
- (19) On 3 November 2015, the HFSF gave its consent to that request. Measure A is therefore equivalent to the underwriting by the HFSF of the capital increase, namely the commitment to provide that amount of capital in case it is not provided by private investors in the framework of the capital increase. The HFSF law and related decrees describe how the HFSF is allowed to provide such support²¹. The form of the capital support was therefore already known on 3 November 2015.
- (20) On 3 November 2015, the Bank announced in a press release its intention to proceed with a capital increase of approximately EUR 2 122 million and to call for an EGM on 16 November to approve the capital increase in shares and to authorize the Board of Directors to issue CoCos²². On 4 November 2015, the Bank formally invited its shareholders to the EGM²³. As described in the invitation, the objective of that EGM is to approve an increase of the share capital of the Bank and to grant an authorisation to the Board of Directors of the Bank to approve the issuance of up to EUR 1 338 million CoCos to the HFSF (i.e. 75% of the capital shortfall arising from the difference between the baseline and the adverse scenario of the 2015 CA), both pursuant to the HFSF law. The investor presentation published on the Bank's website clearly mentioned that any

* Confidential information.

¹⁶ Eurobank Trading Update 2Q 2015, 28 September 2015, p.1, available at: http://www.eurobank.gr/Uploads/pdf/2Q2015%20Trading%20Update_eng.pdf

¹⁷ 2015 Restructuring plan, p. 50.

¹⁸ 2015 Restructuring plan, p. 55.

¹⁹ Eurobank Press Release: "ECB's COMPREHENSIVE ASSESSMENT RESULTS", 31 October 2015, available online at:

http://www.eurobank.gr/Uploads/pdf/ECBStressTests_2015_PressRelease_ENG.PDF

²⁰ See footnote 10.

²¹ Participation of the HFSF would be 25% in ordinary shares and 75% in CoCos. Specific terms of the CoCos are detailed in the Cabinet Act No. 36 (see footnote 11)

²² http://www.eurobank.gr/Uploads/pdf/ERB_CapitalIncreaseAnnouncement.pdf

²³ <http://www.eurobank.gr/online/home/viewNews2.aspx?id=2083&code=ANNOUNCE&lang=en>

remaining amount would be covered by the HFSF (after adequate burden sharing)²⁴. Finally, approval of the authorization of the Board of Directors to issue CoCos was confirmed by the EGM of 15 November 2015²⁵. All these documents published by the Bank made measure A publicly known.

2.3. The 2015 restructuring plan

2.3.1. Domestic operations

- (21) In line with the 2014 restructuring plan, the Bank pursued its efforts to bring its Greek banking operations back to profitability and viability and implemented additional restructuring measures.
- (22) Since January 2014, the Bank has reduced its branch network in Greece by a total of 47 branches²⁶. The Bank also achieved a marginal reduction of its workforce. At the end of H1 2015, the Bank already complied with the 2014 Commitments regarding the number of branches and full time equivalents ("FTE") which the Bank was to have at the end of 2017.
- (23) The 2015 restructuring plan includes ambitious additional restructuring measures in Greece compared to the 2014 restructuring plan.
- (24) For the same deadline – i.e. the end of 2017 - , the Bank now commits to decrease, in Greece, its headcount to below [...] FTE²⁷ (from [...] at the end of H1 2015²⁸), while the 2014 commitment was to decrease it to below [...].
- (25) The Bank also commits for the end of 2017 to have a branch network in Greece no larger than [...] branches²⁹ (from [...] branches at the end of H1 2015³⁰), while the 2014 commitment was to keep it below [...] branches.
- (26) The increased efficiency in terms of branches and personnel will help bring down the total cost of the Bank's Greek activities. For the accounting year 2017, the Bank now commits to keep the total costs of its Greek activities below EUR [...] million while the corresponding figure was EUR [...] million in the 2014 commitment³¹.
- (27) Funding costs will be also further reduced due to decreasing remuneration on deposits.
- (28) Similarly, the Bank's reliance on ELA, after a sharp increase in H1 2015 due to adverse economic conditions, will decrease progressively in Greece from EUR [...] billion of its total assets in H1 2015 to EUR [...] billion in 2018³².

²⁴ P. 7 http://www.eurobank.gr/Uploads/pdf/Presentation_TradingUpdate3Q2015_Updated.pdf

²⁵ http://www.eurobank.gr/Uploads/pdf/EGM_16112015_RESOLUTIONS_VOTING_RESULTS_ENGFINAL.pdf

²⁶ 2015 restructuring plan, pp. 115 (533 branches at H1 2015) and 144 (580 branches at end 2013).

²⁷ See annex I, chapter II.

²⁸ 2015 restructuring plan, p. 115.

²⁹ See annex I, chapter II.

³⁰ 2015 restructuring plan, p. 115.

³¹ Contributions to the deposit guarantee fund and resolution fund, included in the 2014 commitment, are not included in the 2015 commitment due to high volatility. Costs related to voluntary exit schemes necessary to comply with the new cap on FTE are also excluded from the 2015 commitment.

³² 2015 restructuring plan, p. 60.

- (29) In the 2015 restructuring plan, the Bank anticipates that it will also strengthen its balance sheet. Its net loan-to-deposit ratio in Greece, which sharply deteriorated due to deposits outflows in H1 2015, will decrease to [...] % in 2018 (from [...] % at the end of H1 2015³³).
- (30) Another priority of the Bank is the management of NPLs. In the past years, the Bank completely reorganised its operating model for troubled assets by establishing the Troubled Assets Group ("TAG") staffed with around 1 000 FTE³⁴.
- (31) In parallel, the Bank will continue enhancing its credit processes regarding the origination of loans (better collateral coverage and reduced limits).
- (32) The peak of NPL formation for the Bank took place during late 2012, while the peak of the NPL ratio is projected for year-end 2016 ([...] % from 35,4% as at year-end 2014), with a gradual decrease of NPLs thereafter ([...] % at year-end 2018)³⁵.
- (33) 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 [...] onwards. The Bank anticipates its profits will exceed EUR [...] million in 2018 for the domestic activities³⁶.

2.3.2. *International banking activities*

- (34) On 6 November 2015, the Bank announced the conclusion of an agreement regarding the acquisitions of the operations of Alpha Bank's Bulgarian branch by the Bank's subsidiary in Bulgaria³⁷. The Bank's subsidiary will acquire the entire banking operations of that Bulgarian branch, which, at the end of Q3 2015, consisted of EUR 464 million of assets. Synergies will help rationalizing the Bank's subsidiary in Bulgaria.
- (35) The total amount of foreign assets will be reduced from EUR 12 049 million³⁸ at the end of 2014 to less than EUR [...] million by June 2018, in line with the 2014 commitment.

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

- (36) In the April 2014 recapitalisation, the Bank raised significant amounts of private capital on the market and thereby reduced the State aid which was needed by the Bank at that point in time. In addition, the Bank generated capital by implementing several Liability Management Exercises ("LME")³⁹.

³³ 2015 restructuring plan, pp. 74 and 111.

³⁴ 2015 restructuring plan, p. 84.

³⁵ 2015 restructuring plan, p. 72.

³⁶ 2015 restructuring plan, excel document.

³⁷ <http://www.eurobank.gr/online/home/viewNews2.aspx?id=2085&code=ANNOUNCE&lang=en>

³⁸ 2015 restructuring plan, p. 146.

³⁹ As described in recital (123) of the 2014 Restructuring Decision.

- (37) Following the April 2014 recapitalisation, private ownership in the Bank increased, thereby diluting HFHS participation in the Bank's capital from 95,2% to 35,4%⁴⁰. No dividend has been paid in cash since 2008.
- (38) In 2015, the Bank successfully covered the capital shortfall determined by the 2015 CA by a private capital increase subscribed by international investors ("the equity placement") and by voluntary contribution of senior and subordinated security holders ("the 2015 LME"), so that it was not necessary for the HFSF to make any pay-out of capital.
- (39) On 29 October 2015 the Bank launched the 2015 LME, proposing to all its senior unsecured and subordinated security holders to participate in the coming capital increase by voluntarily accepting conversion of the bonds into new share.
- (40) On 10 November, the Bank announced preliminary results of the LME⁴¹ with a participation of 75% for lower Tier 2 securities and approximately 45% for Tier 1 securities having an overall impact of approximately EUR 0.7 billion.
- (41) On 11 November 2015 the Bank opened the book for an amount of EUR 2 122 million (i.e. the total capital shortfall determined by the 2015 CA) to be covered by equity placement and by the LME participation.
- (42) On 15 November 2015, the EGM approved the share capital increase for an amount reduced to EUR 2 039 million, reducing the book by EUR 83 million following the approval by the SSM of mitigating measures for the same amount⁴² (amount by which the Bank's pre-provision profit of Q3 2015 exceed the SSM's projection).
- (43) The book closed on 17 November 2015 after prolongation⁴³. It was fully covered at a price of EUR 0,01 pre-reverse split or EUR 1 post the 100 to 1 reverse split. The price was approved by the HFSF on 18 November 2015 based on an opinion from an independent financial advisor that the book building process complies with international best practice in the particular circumstances in line with HFSF law⁴⁴
- (44) On 23 November 2015, the Bank announced the exact split in the allocation of the book between the equity placement, 80% of the book or EUR 1 621 million, and the 2015 LME, 20% or EUR 417 million⁴⁵.

2.4. Commitments of the Greek authorities

- (45) On 14 April 2014 Greece gave a commitment that the Bank and its affiliates will implement the 2014 restructuring plan submitted on the same day and gave further commitments ("the 2014 Commitments"), regarding the implementation of the restructuring plan.

⁴⁰ Eurobank, financial report for the six months ended 30 June 2014, p. 2. <http://www.eurobank.gr/Uploads/pdf/REPORT2014T2SITE.pdf>

⁴¹ http://www.eurobank.gr/Uploads/pdf/Liability_Mngmnt_Exercise_Announcement_Q32015Results_10112015_EN.PDF

⁴² http://www.eurobank.gr/Uploads/pdf/EGM_16112015_RESOLUTIONS_VOTING_RESULTS_ENGFINAL.pdf

⁴³ http://www.eurobank.gr/Uploads/pdf/Press_16112015_EN.pdf

⁴⁴ Extract of minutes of the General Council of November 18 and assessment of the book building process undertaken by Eurobank for its recapitalisation.

⁴⁵ http://www.eurobank.gr/Uploads/pdf/PressRelease_23112015_EN.PDF

- (46) The 2014 Commitments have been respected by the Greek authorities and the Bank.
- (47) On 14 November 2015, the Greek authorities submitted an amended list of commitments ("the 2015 Commitments") in line with the 2015 restructuring plan. Amendments were necessary to take into account the additional aid measure received by the Bank (measure A) and to adapt the 2014 restructuring plan after the extraordinary adverse macro-economic conditions faced by the Bank since December 2014.
- (48) First, the Bank has set-up new and more ambitious restructuring targets for its commercial operations in Greece for the maximum number of branches and employees at 31 December 2017 as well as a maximum amount of total costs over the year 2017⁴⁶.
- (49) Greece has also given a commitment that the Bank will reinforce its processes and capacities regarding the resolution of NPLs⁴⁷.
- (50) Greece has also committed to an amended dividend, coupon, repurchase, call and buy back ban. The new commitment applies until the earlier of (i) 31 December 2017, or (ii) full repayment of any State-owned preference shares instruments. Moreover, Greece has committed that the coupon, repurchase and buy back ban do not apply to the State-owned preference share instruments.
- (51) Due to extraordinary deposits outflows in the first half of 2015 and distressed market conditions, Greece requested to delay the commitment that the Bank will comply with a maximum ratio of net loans-to-deposits of [...] % by one year, that is to say on 31 December 2018⁴⁸ and the divestment of securities by [...].
- (52) As with the 2014 Commitments, the 2015 Commitments will be monitored until 31 December 2018 by a Monitoring Trustee. The Greek authorities commit that the monitoring of the Monitoring Trustee will be enhanced, i.e. the Monitoring Trustee will participate as an observer in the meetings of the Board of Directors, including the Risk Management Committee and the Strategic Planning Committee, and the Group Executive Committee. That amendment will have immediate effect as from the date of adoption of the Commission decision.
- (53) At the time when it was not known yet whether the private capital increase would be successful, the Greek authorities had also committed to allocate the residual amount of the capital shortfall of a credit institution to the holders of its capital instruments and other subordinated liabilities, as may have been necessary, prior to any injection of capital by the HFSF, in line with points 41 and 44 of the 2013 Banking Communication.

3. ASSESSMENT OF AID GRANTED TO THE BANK

3.1. Existence and the amount of aid

- (54) The Commission has to establish the existence of State aid within the meaning of Article 107(1) of the Treaty. As stated in Article 107(1) TFEU any aid

⁴⁶ See Commitments in the Annex, chapter II.

⁴⁷ See Annex, chapter III, section A.

⁴⁸ See Commitment in the Annex, chapter II.

granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market.

- (55) The qualification of a measure as State aid therefore presupposes that the following conditions are met: it must be imputable to the State and financed by a Member State or through State resources, it must grant a selective advantage susceptible to favour certain undertakings or the production of certain goods and it must distort or threaten to distort competition and have the potential to affect trade between Member States.

3.1.1. Existence of aid in the 2015 underwriting (measure A)

Imputability and State resources

- (56) By measure A, the HFSF consented to the Bank calling an EGM of shareholders in November 2015 to approve the capital raising measures to cover the capital shortfall determined by the 2015 CA. That consent given to the Bank by the HFSF was based on both parties' understanding – which was presented as such to the private investors – that the HFSF would act as a backstop for the capital increase. The HFSF gave its consent to that request provided that the Bank complies with the conditions and the process set up in the HFSF law. The Bank could not have proceeded with the 2015 capital increase without both the consent and the backstop of the HFSF.
- (57) The Commission notes that the backstop provided by the HFSF and acknowledged by the private investors as such has the same effects as an underwriting commitment. Although the backstop provided by the HFSF did not take the form of a formal commitment letter, the documents exchanged between the Bank and the HFSF, as well as the references to the HFSF law provided in those documents, allow the Commission to conclude that they are legally and economically equivalent to an underwriting by the HFSF.
- (58) The Commission concluded in the 2014 Restructuring Decision that such an upfront commitment to participate in the share capital increase of the Bank involves the use of State resources. The HFSF receives its resources from the State. The Commission therefore concludes that the underwriting provided by the HFSF in the context of the 2015 capital increase 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.

Presence of an advantage

- (59) The 2015 underwriting 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, i.e. the HFSF would provide the capital should the Bank fail to raise it on the market. That commitment also facilitates the raising of private capital from the market, since investors are reassured that, if the Bank cannot find part of the capital from the market, the HFSF will provide it.
- (60) Measure A thus constitutes an advantage to the Bank since it ensures that the Bank will find the capital it needs, which will reassure depositors and facilitate it in raising capital from private investors.

- (61) If private investors do not cover the capital shortfall identified by the 2015 CA, the HFSF has to actually inject capital into the Bank, as provided in the HFSF law. Such a capital injection, compared to the HFSF underwriting, would constitute a larger advantage in favour of the Bank. Unlike a mere public underwriting, the actual injection of capital increases the capital adequacy of the Bank.
- (62) Based on each of the following considerations independently, the Commission concludes that the 2015 underwriting is not in line with the market economy operator principle (MEOP).
- (63) First, the HFSF has committed to subscribe the entire capital shortfall under the adverse scenario if needed, before any private investor has formally committed to buy shares. The underwriting by the HFSF is not related to a specific price but will be determined by the book building process. No private investor would have accepted to commit before the terms of the recapitalisation were known and independently of the price.
- (64) Second, the 2015 underwriting is not remunerated by a fee. The HFSF decided not to seek an underwriting fee from the Bank. The HFSF is therefore not acting as a normal investor would, who accepts certain types of underwriting in exchange for a significant fee, in particular in view of the high risk in this case.
- (65) Third, the HFSF will participate only if there is insufficient demand from private investors. As such, the HFSF will provide capital which the Bank cannot find on the market. Consequently, the HFSF agrees in advance to provide if needs be capital for an amount which the market is not ready to provide.
- (66) Fourth, the terms of the participation of the HFSF in the share capital increase are different from those of the private investors who will subscribe to new shares. Indeed, while private investors will subscribe exclusively ordinary shares, the HFSF commits to provide 75% of the needed capital support in the form of CoCos. Those CoCos bear a high risk and have a limited remuneration. There is no indication that they would be subscribed at par (i.e. at nominal value) by private investors. In that respect, the Commission notes that the Bank did not even try to sell them in the market. CoCos have been introduced to maximize private participation in the capital raising process by creating incentives for the private sector, inter alia by limiting the dilution of the new potential private investors. In conclusion, the HFSF commits to provide support in a form which would not have been acceptable for private investors.
- (67) Fifth, a private investor which was the majority shareholder of the Bank – as the HFSF is - would not have provided such an underwriting commitment. The size of the capital which the HFSF commits to provide is much higher than the stock market value of the HFSF shareholding before the 2015 capital increase. The additional money put at risk via the 2015 underwriting commitment is therefore disproportionately large compared to the value of the existing stake. In any event, the Commission observes that the HFSF is currently the main shareholder of the Bank, holding 35,4% of the Bank's shares, not as a consequence of a market-oriented investment but as a consequence of a recent State aid support - the spring 2013 recapitalisation - aimed at preserving financial stability. In addition, the Bank's restructuring associated with that recapitalisation is still on-going and the Bank has not returned to its envisaged level of profitability. In those circumstances where the existing shareholding is closely related to the intervention of the State as a public authority, an intention to preserve the value

of the existing shareholding cannot be taken into account when applying the MEOP test.

- (68) Sixth, apart from the State shareholding, the Bank still relies heavily on liquidity aid provided by the State, in particular State guarantees on its bonds (which are used as collateral for obtaining ELA). It does not appear possible, when applying the MEOP test, to assess the 2015 underwriting separately from that very large liquidity support to the Bank. If the aggregated exposure of the State liquidity and capital were to be considered, it is obvious that no private investor would have been in the position to build up such an exposure towards a Bank of a comparable size and nature, and would be even less likely to commit to increase it further via an underwriting.
- (69) Finally, the Commission observes that, during the previous recapitalisations of 2013 and 2014, no large private investor invested more than a limited amount in the capital of the Bank. In other words, each investor tried to limit its exposure to the Bank. That conduct is probably due to the high risk of such investments. As reflected in the deep drop in the price of the Bank's shares in the past year, that risk has certainly not decreased since the Bank's previous recapitalisation was implemented in 2014. In comparison with those large private investors who took part in the 2013 and 2014 recapitalisations, the Greek State (i.e. HFSF) would be investing a much larger amount. Its conduct hence would not be comparable to the investment decisions by any single private investor, even the large international private equity groups.

Selectivity

- (70) Because it was only granted to the Bank, measure A is selective.

Distortion of competition

- (71) As concluded, the backstop of the HFSF facilitated the capital raising and reassured deposits. The position of the Bank was therefore strengthened and provided an advantage which distorts competition.

Effect on trade

- (72) Since the Bank is active in other European banking markets and since financial institutions from other Member States operate in Greece, measure A is also likely to affect trade between Member States.
- (73) Measure A therefore constitutes aid and was notified as State aid by the Greek authorities.

3.2. Legal basis for the compatibility assessment

- (74) Article 107(3)(b) TFEU 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". 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 are apt to remedy that disturbance. This has been successively detailed and developed in

the seven Crisis Communications⁴⁹. The 2013 Banking Communication applies to State aid measures notified from 1 August 2013 onwards.

- (75) The Commission's various approvals of the measures undertaken by the Greek authorities to combat the financial crisis⁵⁰ confirm the presence of a serious disturbance in the Greek economy. Moreover, the need for a third sizeable macroeconomic adjustment programme for Greece confirms further continued existence of the serious disturbance in the Greek economy. Therefore, the legal basis for the compatibility assessment of measure A is Article 107(3)(b) TFEU.
- (76) Measure A constitute restructuring aid to the Bank. The Commission assesses that aid on the basis of the Crisis Communications.

3.3. Compliance of measure A with the Crisis Communications

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

- (77) After years of economic crisis when the Greek GDP contracted by one quarter since 2009, the 2014 restructuring plan paved the way for the Bank to return to profitability and viability. As described in recital (5), the 2014 CA confirmed that the Bank would not require additional capital under the dynamic balance sheet assumption based on the 2014 restructuring plan.
- (78) However, since December 2014, the Bank, like the other Greek banks, experienced extreme macro-economic conditions due to political uncertainty, which were not anticipated even under the adverse scenario of the 2014 restructuring plan. The political crisis lead to massive deposit outflows until the introduction of capital controls on 29 June 2015. Those deposits outflows increased the cost of funding for the Bank and damaged its profitability. Moreover, NPL formation began to rise again after one year of steady decrease, due to the inability of households and businesses to repay their loans and a further deterioration in the payment culture. As described in section 2.1.1, the recession in Greece is now expected to last until 2016. Due to that deteriorating

⁴⁹ Communication on the application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis ("2008 Banking Communication"), OJ C 270, 25.10.2008, p. 8; Communication on the recapitalisation of financial institutions in the current financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition ("Recapitalisation Communication"), OJ C 10, 15.1.2009, p. 2; the Impaired Assets Communication; the Restructuring Communication; Communication from the Commission on the application, from 1 January 2011, of State aid rules to support measures in favour of financial institutions in the context of the financial crisis ("2010 Prolongation Communication"), OJ C 329, 7.12.2010, p. 7, 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 and the 2013 Banking Communication.

⁵⁰ See Commission Decision of 9 July 2014 in State aid SA.34823 (2012/C), "HFSF Recapitalisation commitment to Alpha Bank" (OJ L 80, 25.3.2015, p. 1). Commission Decision of 23 July 2014 and Corrigendum decision adopted on 27 October 2014 in State aid SA.34824 (2012/C), "HFSF Recapitalisation commitment to National Bank of Greece" (OJ L 183, 10.7.2015, p. 29). Commission Decision of 29 April 2014 in SA.34825 (2012/C), "HFSF Recapitalisation commitment to EFG Eurobank" (OJ L 357, 12.12.2014, p. 112). Commission Decision of 23 July 2014 in State aid SA.34826 (2012/C), "HFSF Recapitalisation commitment to Piraeus Bank and additional recapitalisation" (OJ L 80, 25.3.2015, p. 49).

economic environment, the Bank made an exceptionally large loan loss provision in its H1 2015 accounts, which caused it to be deeply loss making. The results of the 2015 CA made by the SSM reflect those adverse macro-economic conditions. The adverse scenario of the CA assumes a deep recession in 2015-2016.

3.3.2. *Restoration of long-term viability*

- (79) The 2014 restructuring plan ensured that the Bank would be in a position to restore its long-term viability by 2018 in line with section 2 of the Restructuring Communication. The appropriate nature of the 2014 restructuring plan to achieve that goal was confirmed by the results of the 2014 CA.
- (80) However, due to the extreme adverse macro-economic conditions faced by the Bank since December 2014, the Bank submitted the 2015 restructuring plan including additional measures to restore its viability and its profitability in a changed macroeconomic environment.

3.3.2.1. *Greek banking activities*

- (81) As regards liquidity, the Bank expects over the next three years to progressively re-collect the deposits lost between December 2014 and July 2015. It also expects to progressively regain access to wholesale funding market. As a consequence, the Bank's reliance on Eurosystem funding and in particular on State-guaranteed ELA should progressively decrease.
- (82) The updated loan-to-deposit ratio commitment mentioned in recital (51) ensures that the Bank's balance sheet structure will be sustainable at the end of the restructuring period, i.e. 31 December 2018.
- (83) The pre-provisioning profitability of the Bank, in particular its net interest margin, is already satisfactory. The source of the net losses in H1 2015 and in previous years is due to the exceptionally high loan loss related to the exceptionally deep recession. Nevertheless, the Bank envisages taking further measures to reinforce and increase its pre-provisioning profitability.
- (84) Interest rates paid on customer deposits, which the Bank has already been able to decrease significantly over the last years, will be further reduced, thus decreasing the Bank's funding costs.
- (85) Regarding operational costs, the Bank will continue rationalizing its commercial network in Greece through a reduction in the number of branches and employees⁵¹. Greece has committed that the Bank will reduce its branches and employees in Greece to [...] and [...] respectively at 31 December 2017, with maximum total costs in Greece of EUR [...] million⁵². The expected cost-to-income ratio is expected to be close [...] % at the end of the restructuring period. The Commission considers that the restructuring plan will reinforce the efficiency of the Bank.

⁵¹ See recital (22).

⁵² Excluding voluntary exit scheme costs and contributions to a deposit guarantee fund or resolution fund.

- (86) One other key area is the handling of NPL. As described in recital (30), the Bank has devoted considerable resources to build and operate its internal NPL management units. Besides depending on its own efforts, the ability of the Bank to recover money for its large stock of NPLs depends on macroeconomic developments and on whether the legal framework is improved. Without a supportive legal framework, particularly for insolvency, the Bank will face difficulties recovering the expected amount from its stock of NPLs. That risk factor is expected to be addressed by the changes to the legislative and administrative framework in Greece as foreseen by the Memorandum of Understanding⁵³.

3.3.2.2. *International activities*

- (87) Some of the Bank's international activities have drained the Bank's capital and liquidity in the past.
- (88) The Bank will pursue the rationalisation of its foreign subsidiaries and achieve synergies from the acquisition of Alpha Bank's branch in Bulgaria as described in recital (34).
- (89) In line with the 2014 commitment, the Bank will comply with a cap of EUR [...] million of foreign assets at the end of June 2018.

3.3.2.3. *Conclusion on viability*

- (90) The base case scenario as described in section 2.4 shows that at the end of the restructuring period set down in the 2015 restructuring plan 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.
- (91) Finally, the Commission takes note of the adverse scenario described in the 2015 restructuring plan of the Bank as submitted by the Greek authorities. 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.
- (92) It is therefore concluded that the combination of the already implemented restructuring and the additional proposed restructurings are sufficient to restore the Bank's long-term viability.
- (93) In September 2014 Greece adopted legislation that put State guarantees in place on banks' deferred tax assets ("DTA"). The Commission has started a preliminary administrative procedure to collect more information about that measure to investigate whether it could raise any issue under State aid rules. That measure is not covered by the present decision. The MoU states that "The law relating to government guarantees on deferred tax assets (DTAs) will be amended to minimise programme funding and limit the link between the banks

⁵³ See Section 3 of the Memorandum of Understanding signed on 19 August 2015 http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/pdf/01_mou_20150811_en.pdf

and the state". At the end of October 2015 the large Greek banks published their H1 2015 accounts and Q3 2015 accounts, in which they created additional amounts of DTA eligible to be covered by State guarantees. Those State guaranteed DTA created in the accounts published at the end of October 2015 require a deeper scrutiny. Nevertheless, the Commission observes that the Bank would be viable even if there were no additional State guarantees on DTA created after 31 December 2014. The SSM did not take into account the DTA created after 31 December 2014 when it conducted the 2015 CA. Hence, even if the State guarantees on the DTA created after 31 December 2014 were to be removed, the Bank would not have higher regulatory capital needs. The Commission can therefore finalise its assessment of the viability of the Bank without having reached a preliminary assessment of the State guarantees on the DTA created after 31 December 2014. For the same reasons, the Commission can also finalise its assessment of whether the aid to the Bank is limited to the minimum necessary without having concluded its preliminary assessment of that measure.

3.3.3. *Own contribution and burden-sharing*

- (94) The Restructuring Communication supplemented by the 2013 Banking Communication⁵⁴ indicates that an appropriate contribution by the beneficiary is necessary to limit the aid to a minimum and to address distortions of competition and moral hazard. To that end, it provides (i) that both the restructuring costs and the amount of aid should be limited and (ii) that there should be a maximum burden-sharing by existing shareholders and subordinated creditors.

3.3.3.1. *Own contribution of the Bank by raising private capital*

- (95) The Commission observes that as in 2014, the Bank has been able to raise the full amount of the capital shortfall privately, making it unnecessary for the HFSF to pay out any capital.

3.3.3.2. *Burden-sharing by existing shareholders and subordinated debt holders*

- (96) As regards burden-sharing, the 2013 Banking Communication provides that adequate burden-sharing entails contributions by shareholders, hybrid capital holders and subordinated debt holders before aid in the form of capital support is granted. At the time when it was not known yet whether the private capital increase would be successful, Greece had committed, as described in recital (53) that before any new State aid is paid out to the Bank, the latter will convert in CET1 the entire amount of the outstanding hybrid capital and subordinated debt instruments in order to ensure compliance with the requirements of 2013 Banking Communication. That commitment aimed at ensuring that all existing hybrid capital and subordinated debt holders would fully contribute to the restructuring costs of the Bank prior to the HFSF stepping in.
- (97) The Commission observes that the Bank successfully raised enough private capital to cover fully the capital shortfall determined by the 2015 CA and

⁵⁴ See footnote 49.

therefore no capital had to be paid by the HFSF into the Bank and the commitment described in recital (53) will not be activated. In line with the assessment of the 2014 recapitalisation commitment made in the 2014 Restructuring Decision⁵⁵, the Commission considers on the basis of point 45 of the 2013 Banking Communication that disproportionate results would follow if mandatory conversion of subordinated debt and hybrid capital had to occur already at the moment of the aid measure A. The commitment by Greece to bail-in subordinated creditors before any capital support would have been actually paid out to the Bank is therefore sufficient to ensure proper burden-sharing.

- (98) Moreover, the 2015 capital increase ensured appropriate contribution of shareholders and subordinated debt holders.
- (99) Regarding the burden-sharing of shareholders, it can be recalled, first, that nearly all the shares of the Bank are owned by the HFSF and new investors who injected money in the framework of the capital increases of 2013 and 2014. The shareholders dating from before the 2013 recapitalisation have been nearly fully diluted as their shareholding fell below 1,4% after the 2013 capital increase⁵⁶. Second, it can be recalled that the stock market price of the Bank's shares dropped dramatically since the last quarter of 2014. In consequence, the issue price of new shares in the framework of the 2015 capital increase, i.e. 0,01 EUR before the reverse split of 100 to 1 or 1 EUR after the reverse split, is a very small fraction of the price at which private investors subscribed shares in 2014, i.e. EUR 0,3. As a consequence, investors who invested in 2013 and 2014 and are the current shareholders of the Bank will be deeply diluted by the 2015 capital increase. The shares issued in November 2015 will represent the vast majority of the total shares of the Bank. Due to the combination of the factors described above, the Commission considers that the burden-sharing by shareholders is sufficient. In particular, the objective of the requirement of the 2011 Prolongation Communication to ensure that the State subscribes new shares at a price which is sufficiently low, allowing for dilution and burden-sharing by existing shareholders (and sufficient remuneration on the shares subscribed), is achieved.
- (100) Senior and subordinated security holders contributed by participating in the 2015 LME. Voluntary participation amounted to EUR 721 million. However, as explained in recital (44), the Bank announced on 23 November 2015 that only 20% of the capital increase, or EUR 417 million, was finally allocated to the 2015 LME, the rest being covered by the equity placement.
- (101) It should also be noted that the cap on remuneration has not been amended.
- (102) In a similar manner to that explained in recitals (402) to (404) of the 2014 Restructuring Decision, the aid enshrined in measure A is limited to a mere underwriting commitment of a capital increase, and the HFSF will not disburse a single euro since all the new shares will have been subscribed by private investors. Point 38 of the 2013 Banking Communication envisages that the remuneration limitation can end when the aid has been repaid or at the end of the restructuring period, whichever is earlier. Aid in the form of an underwriting commitment in relation to a prospective capital increase cannot be repaid in the

⁵⁵ See recital 400 of the 2014 Restructuring Decision.

⁵⁶ As described in recital (321) of the 2014 Restructuring Decision.

manner contemplated by point 38 if the commitment in question is never put into effect (since no money was ever disbursed by the State to the Bank). In such circumstances, the Commission can accept that the remuneration limitation applies for a fixed period of time. The Commission considers that the commitment made by Greece, which lasts until [...] (i.e. [...]) is in line with the approach foreseen in point 38 of the 2013 Banking Communication.

3.3.3.3. *Own contribution of the Bank by internal measures*

- (103) As regards covering the restructuring costs stemming from the 2015 restructuring plan through internal measures, the Bank will carry out cost-cutting measures resulting in a decrease of operating costs in Greece from around EUR 779 million in 2014 to below EUR [...] million in 2017⁵⁷.
- (104) The 2015 restructuring plan provides that the Bank will divest a number of securities by 30 June 2016. That deadline constitutes a six-month extension compared to the 2014 restructuring plan, which is appropriate given the distressed market conditions in Greece.
- (105) In addition, the Bank's has already realised pre-provision profit for Q3 2015, which exceeds the respective figure projected in the baseline scenario of the 2015 CA by EUR 83 million. This positive difference has been accepted by the SSM as an appropriate capital measure to reduce the identified capital shortfall.
- (106) The Commission accepts the amendment of the dividend ban until the earlier of (i) 31 December 2017, or (ii) full repayment of any State-owned preference shares instruments as it will incentivise the Bank to repay the State-owned preference shares. Moreover, the new commitment has been adapted to allow the Bank to pay the coupon, and also repurchase and buy back the State-owned preference shares instruments.

3.3.3.4. *Conclusion on own contribution and burden-sharing*

- (107) The burden-sharing by shareholders, hybrid and subordinated debt-holders, the cost reductions, the divestments and the adequate remuneration for the aid represent a sufficient burden-sharing and own contribution by the Bank to the costs of its restructuring. Moreover, going beyond the minimal requirements set out in the Commission's guidance for State aid to banks to be declared compatible with the internal market, contribution of senior unsecured bondholders has also been achieved.
- (108) For those reasons, the Commission concludes that the 2015 restructuring plan provides for an appropriate own contribution and burden-sharing.

3.3.4. *Measures to limit distortions of competition*

- (109) The 2014 restructuring plan offered sufficient measures limiting distortions of competition and ensuring a competitive banking sector in line with the

⁵⁷ See recital (26).

Restructuring Communication. It also addressed moral hazard issues and ensured that State aid is not used to fund anti-competitive behaviour.

- (110) However, the Commission should assess the need to take additional measures given the additional restructuring aid granted to the Bank (measure A).
- (111) Point 31 of the Restructuring Communication states that when assessing the amount of aid and the resulting competition distortions, the Commission has to take into account both the absolute and relative amount of the State aid received as well as the degree of burden-sharing and the position of the financial institution on the market after the restructuring.
- (112) The nominal amount of Measure A is large, but the aid does not have the same distortive impact on competition distortions as a capital injection would have. Measure A is a short term commitment granted to facilitate the book building process to maximize private participation and thus to finally reduce the final amount of State aid paid out.
- (113) In addition, at the end of H1 2015, the State guarantees on Bank's debt instruments amounted to EUR 16 453 million⁵⁸.
- (114) The Bank holds a large market share in Greece, close to 22% for loans and 17% for deposits at the end of H1 2015⁵⁹.
- (115) Some additional measures to limit potential distortions of competition are therefore necessary in view of the measure A.
- (116) The Commission recalls that the need for additional State aid resulted to a large extent from the economic effects of political instability prevailing in H1 2015 as described in section 2.1.1. The need to address moral hazard issues is therefore reduced. 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.
- (117) The Commission also observes that all the four large banks in Greece, which account for more than 95% of the market, are under restructuring following the receipt of aid. It would have adverse macro-economic effects to accept commitments from the Member State concerned regarding each of them to reduce their lending to the Greek economy.
- (118) For those reasons, the Commission can exceptionally accept that, in spite of the additional restructuring aid and the total amount of aid paid out to the Bank in the past years, 23.7% of RWA⁶⁰, the 2015 restructuring plan does not envisage any downsizing of the loans to households and businesses in Greece. [...]
- (119) The Commission notes that the Bank will not [...]. The aid will therefore not be used to distort competition on those foreign markets.
- (120) Other measures to limit competition distortions included in the 2014 restructuring plan and assessed in the 2014 Restructuring Decision continue to apply over the restructuring period.
- (121) Taking into account the measures provided for in the 2015 restructuring plan, the Commission considers there are sufficient safeguards to limit distortions of competition.

⁵⁸ 2015 Restructuring plan, p. 55.

⁵⁹ 2015 restructuring plan, p. 20.

⁶⁰ 2014 Restructuring Decision, table 11.

3.4. Monitoring

- (122) 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. The 2014 Commitments already provide that a 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 until the end of the restructuring period, namely, 31 December 2018. The 2015 Commitments do not change those Commitments, but provide an enhanced monitoring role for the Monitoring Trustee. More specifically, the mandate of the Monitoring Trustee shall be amended in order to ensure that the Monitoring Trustee participates as an observer in the meetings of the Board of Directors, including the Risk Management Committee and the Strategic Planning Committee, and the Group Executive Committee. The 2015 Commitments provide that that amendment shall have immediate effect as from the Effective Date of the Commitments. The Commission therefore finds that proper monitoring of the implementation of the 2015 restructuring plan is ensured.

4. COMPLIANCE OF THE AID MEASURES WITH THE INTRINSICALLY LINKED PROVISIONS OF DIRECTIVE 2014/59/EU ON BANK RECOVERY AND RESOLUTION⁶¹

- (123) The Commission cannot deem a State aid measure compatible if the measure or the method of its financing, breaches intrinsically linked provisions of Union legislation⁶². In the case at hand, the Commission needs to verify whether any intrinsically linked provisions of Directive 2014/59/EU on bank recovery and resolution ("BRRD") have been breached. In order to do so, first the Commission needs to establish whether the aid measure can be granted outside resolution by virtue of Article 32(4)(d) BRRD.
- (124) The Commission notes that the BRRD was transposed into Greek law on 23 July 2015 and came into force by virtue of Law 4335/2015.
- (125) According to Article 32(4)(d) BRRD, an institution is deemed to be failing or likely to fail in case extraordinary public financial support is required. However, the exemption laid down in Article 32(4)(d)(iii) allows for an injection of own funds or purchase of capital instruments which does not result in that institution being considered to be "failing or likely to fail" provided the following conditions are met:

⁶¹ Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and EU No 648/2012, of the European Parliament and of the Council, OJ L 173, 12.6.2014, p. 190.

⁶² See recital (25) of the Commission Decision in State aid SA.40029 (2014/N) "Reintroduction of the winding-up scheme, compensation scheme, Model I and Model II – H1 2015", OJ C 136, 24.4.2015, p.4. See recital (29) of Commission Decision in State aid SA.42215 (2015/N) "Prolongation of the Greek financial support measures (art. 2 law 3723/2008)", OJ C 277, 21.8.2015, p.11.

- i. The aid is required *"in order to remedy a serious disturbance in the economy of a Member State and preserve financial stability"*;
 - ii. The aid is granted *"at prices and on terms that do not confer an advantage upon the institution"*;
 - iii. The aid *"shall be confined to solvent institutions"*;
 - iv. The aid *"shall be conditional on final approval under State aid framework"*;
 - v. The aid *"shall be of a precautionary and temporary nature"*;
 - vi. The aid *"shall be proportionate to remedy a serious disturbance in the economy of the Member State"*;
 - vii. The aid *"shall not be used to offset losses that the institution has incurred or is likely to incur in the near future"*;
 - viii. The aid is *"limited to injections necessary to address capital shortfall established in the national, Union or SSM-wide stress tests, asset quality reviews or equivalent exercises conducted by the European Central Bank, EBA or national authorities"*;
 - ix. The circumstances referred to in point (a), (b) or (c) of Article 32(4)(d) BRRD and the circumstances referred to in Article 59(3) BRRD are not met.
- (126) The Greek authorities submit that the aid measures envisaged for the Bank fall under the exemption provided in Article 32(4)(d)(iii) BRRD.
- (127) The Commission notes that aid measure A constitutes State aid and therefore qualify as extraordinary public financial support within the meaning of the BRRD.
- (128) The Commission considers that the conditions provided in Article 32(4)(d)(iii) BRRD are met. The assessment of the measures' compatibility with the internal market under Article 107(3)(b) of the Treaty has already shown that the measures are granted to remedy a serious disturbance in the Greek economy and to preserve financial stability in the Greek banking sector.
- (129) The Commission notes that the aid measure does not confer an undue advantage to the Bank, i.e. an advantage incompatible with the internal market under State aid rules. That outcome is ensured because the measure complies with the compatibility conditions for restructuring aid, as explained in section 3.3 of this Decision. Moreover, where a Member State underwrites a share issue which is ultimately subscribed by private investors, in conditions where that underwriting commitment constitutes State aid and therefore extraordinary public financial support, the institution benefitting from that underwriting would not be considered to be failing or likely to fail where it does not obtain an undue advantage⁶³.
- (130) The aid is confined to a solvent institution as the Bank complied with the capital requirements when the aid measure was granted. The Bank successfully covered

⁶³ See, for an example of such a scenario, Commission Decision of 29.04.2014 on the State aid implemented by Greece for the Eurobank Group (SA.34825 (2012/C), OJ 2014 L 357, 12.12.2014, p. 112, recital 400 et seq.

the capital shortfall by private means and no funds have been injected by the HFSF.

- (131) By the present State aid Decision the Commission finds that the 2015 restructuring plan is apt to restore the long-term viability of the Bank on a stand-alone basis, and that the aid measure is compatible.
- (132) The aid measure is of a precautionary and temporary nature as it expired automatically as the Bank successfully covered the capital shortfall and did not lead to any pay-out of capital by the HFSF.
- (133) The Commission has already concluded in the present Decision that the aid is proportionate to remedy the consequences of the serious disturbance in the Greek economy.
- (134) The aid was not used to offset losses that the Bank has incurred or is likely to incur in the near future as it did not lead to any pay-out of capital.
- (135) The aid in the form of the underwriting commitment was necessary to allow the Bank to go to the market so as to address a capital shortfall established in the 2015 CA conducted by the ECB.
- (136) Finally, based on the available information, the Commission considers that the circumstances referred to in point (a), (b) or (c) of Article 32(4)(d) BRRD are not met. The supervisory authority, the ECB, approved the capital raising of the Bank. As described in recital (130), the Bank successfully covered the capital shortfall by private means and the aid measure did not lead to any pay-out by the HFSF. The ECB noted in the report of the 2015 CA that covering the shortfalls by raising capital would then result in the creation of prudential buffers in the four Greek banks, keeping thus an adequate level of solvency⁶⁴. Therefore, based on the available information, the Commission does not have objective elements to indicate that any of the circumstances referred to in point (a), (b) or (c) of Article 32(4)(d) BRRD are met. As regards the circumstances referred to in Article 59(3) BRRD, the Commission has already noted in recital (97) that, on the basis of point 45 of the 2013 Banking Communication, disproportionate results would follow if mandatory conversion of subordinated debt and hybrid capital had to occur already at the moment of granting aid measure A. The commitment by Greece to bail-in subordinated creditors before any capital support is actually paid out to the Bank is therefore sufficient. Therefore, the circumstances referred to in Article 59(3) BRRD are not met.
- (137) The Commission concludes that the conditions under which the aid measure is granted are in line with the exemption provided for in Article 32(4)(d)(iii) BRRD. Therefore, the aid measures do not trigger the "*failing or likely to fail*" criterion under the BRRD in relation to the Bank and can be implemented outside resolution.

⁶⁴ ECB – Banking Supervision, "Aggregate report on the Greek Comprehensive Assessment 2015", 31 October 2015, p. 1, <https://www.bankingsupervision.europa.eu/ecb/pub/pdf/aggregatereportonthecomprehensiveassessmentsum201510.en.pdf>.

5. CONCLUSION

- (138) The Commission concludes that the underwriting provided by the HFSF constitutes State aid within the meaning of Article 107(1) TFEU.
- (139) The Commission finds that the measure fulfils the requirements of Article 107(3)(b) TFEU and is compatible with the internal market for reasons of financial stability.
- (140) The Commission notes that Greece accepts that the adoption of the Decision be in the English language.

If this letter contains confidential information which should not be disclosed to third parties, 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 the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site: <http://ec.europa.eu/competition/elojade/isef/index.cfm>.

Your request should be sent electronically to the following address:

European Commission,
Directorate-General Competition
State Aid Greffe
B-1049 Brussels
Stateaidgreffe@ec.europa.eu

Yours faithfully
For the Commission

Margrethe VESTAGER
Member of the Commission





**HELLENIC REPUBLIC
MINISTRY OF FINANCE
GENERAL SECRETARIAT OF ECONOMIC POLICY**

Athens, 23 November 2015

Eurobank – Commitments by the Hellenic Republic

The Hellenic Republic shall ensure that **the Bank** is implementing the restructuring plan submitted on 23 November 2015. The restructuring plan is based on macro-economic assumptions as provided by the European Commission (the "Commission") and the Hellenic Financial Stability Fund (HFSF) in Appendix I as well as regulatory assumptions.

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

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

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

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

Chapter I. Definitions

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

- (1) **Bank:** Eurobank Ergasias S.A. and all its subsidiaries. Therefore, it includes the entire Eurobank Group with all its Greek and non-Greek subsidiaries and branches, both banking and non-banking.
- (2) **Capital accretive bid in the banking sector:** a bid which results in an increase in the regulatory capital ratio of the Bank, taking into account all relevant elements, in particular the profit/loss booked on the transaction and the reduction of RWA resulting from the sale (if necessary corrected for the increase of RWA resulting from remaining financing links).
- (3) **Capital accretive bid in the insurance sector:** a bid which results in an increase in the regulatory capital ratio of the Bank. Any bid above the book value of the insurance activity in the account of the Bank is automatically assumed to be capital accretive.

- (4) **Closing:** the date of transfer of the legal title of the Divestment Business to the Purchaser.
- (5) **Divestment Business:** all the businesses and assets that the Bank commits to sell.
- (6) **Effective Date:** the date of adoption of the Decision.
- (7) **End of restructuring period:** 31 December 2018.
- (8) **Foreign assets or non-Greek assets:** assets related to the activities of customers outside Greece, independently of the country where the assets are booked. For instance, assets booked in Luxemburg but related to the activities of customers in Greece are not included in the scope of this definition. Conversely, assets booked in Luxembourg or Greece but related to the activities of customers in other SEE countries are considered as foreign assets and are included in the scope of this definition.
- (9) **Foreign businesses:** foreign banking and non-banking subsidiaries and branches of the Bank.
- (10) **Foreign subsidiaries:** all banking and non-banking subsidiaries of the Bank outside Greece.
- (11) **Greek banking activities:** the Bank's Greek banking activities independently from where the assets are booked.
- (12) **Greek non-banking activities:** the Bank's Greek non-banking activities independently from where the assets are booked.
- (13) **Greek subsidiaries:** all Greek banking and non-banking subsidiaries of the Bank.
- (14) **Monitoring Trustee:** one or more natural or legal person(s), independent from the Bank, approved by the Commission and appointed by the Bank; the Monitoring Trustee has the duty to monitor the Bank's compliance with the Commitments.
- (15) **Purchaser:** one or more natural or legal person(s) to acquire, in whole or in part, the Divestment Business.
- (16) **Sale:** the sale of 100% of the shareholding held by the Bank, unless the individual Commitment states otherwise.

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

Chapter II. Restructuring Commitments

- (1) **Number of branches in Greece:** The number of branches in Greece shall amount to [...] at the maximum on 31 December 2017.
- (2) **Number of employees in Greece:** The number of Full Time Equivalent (the "FTEs") in Greece (Greek banking and non-banking activities) shall amount to [...] at the maximum on 31 December 2017.

The FTEs belonging to non-financial companies acquired by the Bank in the framework of restructuring of its exposure towards firms in difficulty (e.g. debt to equity swaps) and clearly earmarked for future sale shall not be taken into

account for the monitoring of compliance with the cap on the number of employees in Greece.

- (3) **Total costs in Greece:** The total costs¹ in Greece (Greek banking and non-banking activities) shall amount to EUR [...] million at the maximum on 31 December 2017.

The Bank's costs stemming from the consolidation of non-financial companies acquired by the Bank in the framework of restructuring of its exposure towards firms in difficulty (e.g. debt to equity swaps) and clearly earmarked for future sale shall not be taken into account for the monitoring of the compliance with the cap on total costs in Greece. Also, the Bank's costs stemming from potential new Voluntary Exit Schemes (VES) and incurred, if any, in 2017 in order to comply with the target of number of employees as described in Chapter II.(2), shall not be taken into account for the monitoring of the compliance with the cap on total costs in Greece.

- (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) along the Bank's own projections in the restructuring plan, which represents the Bank's best estimate on the basis of the macroeconomic assumptions provided at the time of the submission of the restructuring plan (see Appendix I).

- (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 [...] % on 31 December 2018. This ratio shall take account of assets booked outside Greece, but benefiting the Bank's customers in Greece (i.e. all the non-foreign assets).

- (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.

[...]

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

(7.1) [...]

(7.2) [...]

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

¹ The total costs in Greece shall exclude any contribution of the Bank to a deposit guarantee fund or resolution fund.

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

- (9) **Sale of Real Estate subsidiary:** The Bank shall reduce its participation to 20% in Eurobank Properties REIC by 31 December 2016. [...]
- (10) **Sale of equity investments, subordinated bonds and hybrid bonds:** The book value of the Bank's (excluding the regulated insurance subsidiaries) portfolio of securities defined as follows, shall be lower than EUR [...] million by [...].
- (11) For any sale, the Hellenic Republic commits that:
- a. The Purchaser shall be independent of and unconnected to the Bank;
 - b. For the purpose of acquiring the Divestment Business, the Purchaser shall not be financed directly or indirectly by the Bank;
 - c. The Bank shall, for a period of 5 years after the closing of the sale, not acquire direct or indirect influence over the whole or part of the Divestment Business without a pre-approval from the Commission.
- (12) **Investment policy:** Until 31 December 2017, the Bank shall not purchase non-investment grade securities. [...]
- This Commitment shall not apply to the following securities (the Exempted Securities):
- [...]
- (13) **Salary cap:** Until [...], the Bank will not pay to any employee or manager a total annual remuneration (wage, pension contribution, bonus) higher than [...]. In case of a capital injection from HFSF, the remuneration cap will be re-evaluated according to the European Banking Communication of 1st August 2013, point 38.

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

- (1) The Bank shall continue to implement the Commitments on Corporate Governance and Commercial Operations, as submitted by the Hellenic Republic on 20 November 2012, with the subsequent amendments provided in Chapter III of the Commitments, until 30 June 2018. Regarding Eurobank Properties REIC, the Commitments provided in Chapter III, Section A (4) (i.e. compliance with the HFSF Relationship Framework), Section C (paragraph (27)) (Dividend, Coupon, Repurchase, Call and Buy Back ban), Section C (paragraph (28)) (Acquisition ban), as well as Chapter IV (Monitoring Trustee), shall cease to apply to the subsidiary from the moment the shareholding of the Bank in Eurobank Properties REIC is reduced below 35%.
- (2) In case an individual Commitment does not apply at the Bank's level, the Bank shall not use the subsidiaries or activities not covered by that individual Commitment to circumvent the Commitment.

Section A. Setting up an efficient and adequate internal organization

- (3) The Bank, excluding its foreign subsidiaries, shall abide at all times with the totality of the provisions of law 3016/2002 on Corporate Governance and law 2190/1920 on the Sociétés Anonymes and especially the provisions in connection to the functions of corporate bodies such as the shareholders' meeting and Board of Directors in order to secure a clear distribution of responsibilities and transparency. The powers of the shareholders' meeting shall be restricted to the tasks of a general meeting in line with company law, in particular as regards rights related to information. More extensive powers, which would allow improper influence on management, shall be rescinded. Responsibility for day-to-day operational management shall clearly rest with the executive Directors of the Bank.
- (4) The Bank, excluding its foreign subsidiaries, shall comply at all times with the Hellenic Financial Stability Fund (the "HFSF") Relationship Framework.
- (5) The Bank shall abide by the provisions of Governor's Act 2577/9.3.2006, as in force, in order to maintain, on an individual and a group basis, an effective organisational structure and an adequate Internal Control System including the three key pillars, namely the Internal Audit, Risk Management and Compliance functions and best international corporate governance practices.
- (6) The Bank shall have an efficient organizational structure, so as to ensure that the Internal Audit and the Risk Management departments are fully independent from commercial networks and report directly to the Board of Directors. An Audit Committee and a Risk Committee - created within the Board of Directors - shall assess all issues raised by those respective departments. An adequate Internal Audit Charter and Risk Management Charter shall specify the roles, responsibilities and resources of those departments. Those charters shall comply with international standards and secure a full independence to the departments. A Credit Policy shall provide guidance and instructions regarding the granting of loans, including the pricing of loans and the restructuring of loans.
- (7) The Bank shall make public to the competent authorities the list of shareholders holding at least 1% of ordinary shares.

Section B. Commercial practices and risk monitoring

General principles

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

Specific provisions

- (10) The specific provisions listed in paragraphs (8) to (18) of Chapter III of the Commitments shall apply to the Greek banking activities, unless explicitly stated otherwise
- (11) The Credit Policy shall require that the pricing of loans and mortgages to comply with strict guidelines. Those guidelines shall include the obligation to respect strictly the credit policy's standard tables of interest rate bands (ranges) depending on the maturity of the loan, the credit risk assessment of the customer, the expected recoverability of pledged collateral (including the time frame to a potential liquidation), the overall relationship with the Bank (e.g. level and stability of deposits, fee structure and other cross-sales activities) and the funding cost of the Bank. Specific loan asset classes are generated (e.g. commercial loan, mortgage, secured/unsecured, etc.) and their pricing framework is tabulated to an appropriate Credit Policy table that shall be updated on a regular basis by the Credit Committee. Any exception must be duly authorized by the Credit Committee, or at lower level of authority when allowed by the Credit Policy. Tailor-made transactions such as syndicated loans or project finance shall respect the same principles, with due account being taken of the fact that they may not fit in standardized credit policy tables. Infringements of that pricing policy shall be reported to the Monitoring Trustee.
- (12) The Risk Management Department shall be responsible for the assessment of credit risk and the valuation of collateral. When assessing the loan quality, the Risk Management Department shall act independently, providing its written opinion so as to ensure that criteria used in the assessment are applied consistently over time and among customers and in respect of the Bank's credit policy.
- (13) Regarding loans to individuals and legal entities, for all the Greek banking activities, on the basis of the best international practices, the Bank shall apply strict individual and aggregated limits governing the maximum loan amount that can be granted to a single credit risk (if at all allowed under Greek and EU law). Those limits shall take into account the maturity of the loan and the quality of any collateral/security provided and shall be set against key benchmarks including against capital.
- (14) Granting loans² to enable borrowers to purchase shares or hybrid instruments of the Bank and other banks³ shall be prohibited, whoever are those borrowers⁴. This provision shall apply and shall be monitored at the Bank's level.
- (15) All loan requests by non-connected borrowers greater than [[...]% of the Bank's RWA] or any loan which keeps the exposure to one group (defined as a group of connected borrowers that represent a single credit risk) higher than [[...]% of the Bank's RWA] shall be reported to the Monitoring Trustee, which may, if the conditions do not appear to be set at arm's-length or if no sufficient information has been provided to the Monitoring Trustee, postpone the granting of the credit line or the loan by [...] working days. In emergency cases, that period may be reduced to [...] working days provided sufficient information has been provided

² 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.

³ For clarification, "other banks" refer to any bank – financial institution in the world.

⁴ For clarification, all borrowers, including the Bank's private banking clients are covered by that Commitment.

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.

Resolution of NPLs

- (16) The Bank shall take all measures to tackle the NPLs, in line with the NPL strategy included in the restructuring plan and consistent with any relevant regulatory requirements. The Monitoring Trustee shall report on the implementation of this Commitment and on the Bank's progress on the NPLs resolution in a specific chapter of the Monitoring Trustee report. 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 loans⁵ to connected borrowers (annual % of Y-1 stock⁶) 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

⁵ For clarification, the new production of loans covers also the rolling over of loans and the restructuring of existing loans.

⁶ 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.

line or the loan by [...] working days. In emergency cases, that period may be reduced to [...] working days provided sufficient information has been provided to the Monitoring Trustee. That period will enable the Monitoring Trustee to report the case to the Commission and the HFSF before any definitive decision is taken by the Bank.

- (26) The restructuring of loans involving connected borrowers shall comply with the same requirements as for non-connected borrowers. Furthermore, established frameworks and policies to deal with troubled assets shall be assessed and improved, if necessary. However, it is expected that restructured loans of connected borrowers shall be reported separately, at least per loan asset class and connected borrower type.

Section C: Other restrictions

- (27) **Dividend, Coupon, Repurchase, Call and Buy Back ban:** Unless the Commission otherwise agrees to an exemption, the Hellenic Republic commits that:
- a. The Bank shall not pay any coupons on hybrid capital instruments (or any other instruments for which the coupon payment is discretionary) or dividends on own funds instruments and subordinated debt instruments other than where there is a legal obligation to do so. The Bank shall not release reserves to put itself in such a position. In case of doubt as to whether, for the purpose of the present Commitment, a legal obligation exists, the Bank shall submit the proposed coupon or dividend payment to the Commission for approval;
 - b. The Bank shall not repurchase any of its own shares or exercise a call option in respect of those own funds instruments and subordinated debt instruments;
 - c. The Bank shall not buy back hybrid capital instruments.
 - d. This commitment applies until the earlier of (i) 31 December 2017, or (ii) full repayment of any State-owned preference shares instruments. a) , b) and c) do not apply to those State-owned 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 business⁷.
- i. **Exemption requiring Commission's prior approval:** Notwithstanding that prohibition, the Bank may, after obtaining the Commission's approval, and, where appropriate, on a proposal of the HFSF, acquire businesses and undertakings if it is in exceptional circumstances necessary to restore financial stability or to ensure effective competition.
 - ii. **Exemption not requiring Commission's prior approval:** The Bank may acquire stakes in undertakings provided that:

⁷ 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.

- a. The purchase price paid by the Bank for any acquisition is less than [[...]%] of the balance sheet size⁸ of the Bank at the Effective Date of the Commitments⁹; and
 - b. The cumulative purchase prices paid by the Bank for all such acquisitions starting with the Effective Date of the Commitments until the end of the restructuring period, is less than [[...]%] of the balance sheet size of the Bank at the Effective Date of the Commitments.
- iii. **Activities not falling under the acquisition ban:** The acquisition ban shall not cover acquisitions that take place in the ordinary course of the banking business in the management of existing claims towards ailing firms.
- (29) **Advertising ban:** The Hellenic Republic commits that the Bank shall refrain from advertising referring to state support and from employing any aggressive commercial strategies which would not take place without the support of the Hellenic Republic.

Chapter IV. Monitoring Trustee

- (1) The Hellenic Republic commits that the Bank shall amend and extend the mandate of the Monitoring Trustee approved by the Commission and appointed by the Bank on 22 February 2013 until the end of the restructuring period. The Bank shall also broaden the scope of that mandate to incorporate the monitoring of (i) the restructuring plan and (ii) all Commitments set out in this catalogue. The mandate of the Monitoring Trustee shall be amended in order to ensure that the Monitoring Trustee participates as an observer in the meetings of the Board of Directors (BoD), including the Risk Management Committee and the Strategic Planning Committee, and the Group Executive Committee. This amendment shall have immediate effect as from the Effective Date of the Commitments.
- (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

Elena Papadopoulou

⁸ For clarification, for the purpose of that Commitment, the size of the balance sheet is equal to the Bank's total assets.

⁹ For clarification, in case the Commission's approval to lift the acquisition ban is obtained according to point i., paragraph (28), Chapter III of the Commitments, the balance sheet of the Bank at the Effective Date of the Commitments shall be calculated to include also the assets of the acquired entities or the acquired assets at the date of acquisition.

Appendix I: Macro-economic projections for Greek domestic operations

(baseline scenario)

	2014	2015	2016	2017	2018
Nominal GDP	179.1	173.4	172.2	178.1	185.4
Growth rate	-1.8%	-3.2%	-0.7%	3.4%	4.1%
Real GDP	186.5	182.3	179.9	184.8	190.5
Growth rate	0.8%	-2.3%	-1.3%	2.7%	3.1%
Unemployment rate	26.5	26.9	27.1	25.7	24.2
HICP	119.9	119.4	121.2	122.2	123.5
HICP inflation	-1.4%	-0.4%	1.5%	0.9%	1.0%
<u>Market indicators</u>					
FX rate (YTD average)					
EUR/CHF	-	1.08	1.11	1.13	1.17
EUR/USD	-	1.08	1.05	1.10	1.16
EUR/TKL	-	3.30	3.30	3.30	3.30
Eurosystem funding costs					
ELA	-	1.55%	1.65%	1.75%	1.85%
ECB	-	0.05%	0.15%	0.25%	0.35%
Euribor					
1M	-	(0.07%)	(0.15%)	(0.08%)	0.05%
3M	-	(0.01%)	(0.05%)	0.05%	0.26%
1Y	-	0.19%	0.23%	0.38%	0.64%