EUROPEAN COMMISSION

Brussels, 28.12.2011
C(2011) 10127 final

Subject: State aid SA.34122 (2011/N) – Greece
Second recapitalisation of Piraeus Bank under the Greek recapitalisation scheme

Sir,

1 PROCEDURE

(1) On 20 December 2011, the Greek authorities notified a recapitalisation of EUR 380 million ("the measure") in favour of Piraeus Bank ("Piraeus" or the "bank"). That notification was made in line with the commitments undertaken in the context of the scheme "Support Measures for the Credit Institutions in Greece"[1] and its prolongations and amendments[2], in particular with the obligation to notify any second capital injection

1. On 19 November 2008, the Commission approved the Support Measures for the Credit Institutions (Guarantee, Recapitalisation, Bond Loan Schemes) designed to ensure the stability of the Greek financial system. See Commission decision of 19 November 2008 in State Aid N 560/2008 "Support Measures for the Credit Institutions in Greece", OJ C 125, 05.06.2009, p. 6.
2. On 2 September 2009, Greece notified a number of amendments to the support measures and a prolongation until 31 December 2009 that were approved on 18 September 2009 (See Commission decision of 18 September 2009 in State Aid N 504/2009 "Prolongation and amendment of the Support Measures for the Credit Institutions in Greece ", OJ C 264, 06.11.2009, p. 5). On 25 January 2010, the Commission approved a second prolongation of the support measures until 30 June 2010 (See Commission decision of 25 January 2010 in State Aid N 690/2009 "Prolongation of the Support Measures for the Credit Institutions in Greece", OJ C 57, 09.03.2010, p. 6). On 30 June 2010, the Commission approved a number of amendments to the support measures and an extension until 31 December 2010 (See Commission decision of 30 June 2010 in State Aid N 260/2010 "Extension of the Support Measures for the Credit Institutions in Greece", OJ C 238, 03.09.2010, p. 3.). On 21 December 2010 the Commission approved a prolongation of the support measures until 30 June 2010 (See Commission decision of 21 December 2010 in State aid SA 31998 (2010/N) "Fourth extension of the Support measures for the credit Institutions in Greece, OJ C 53, 19.02.2011, p.2). On 4 April 2011 the Commission approved an amendment (See Commission decision of 4 April 2011 in State Aid SA.32767 (2011/N) "Amendment to the Support

Mr Stavros Dimas
Minister for Foreign Affairs
Vasilissis Sofias 5
Greece-10671 Athens

and to present an update of the existing restructuring plan within six months for banks that need a second recapitalisation measure.

(2) On 21 December 2011 Greece informed the Commission that, for reasons of urgency, it exceptionally accepts the decision be adopted in the English language.

(3) Further correspondence between the Commission services and the Greek authorities took place.

2 DESCRIPTION

2.1 The beneficiary

(4) Piraeus Bank was founded in 1916 and it is the fourth-largest bank in Greece. The bank provides a complete range of banking services and it is specialized in SMEs, retail banking, e-banking and capital markets. In June 2000, the bank absorbed Xiosbank and Macedonia-Thrace Bank, while in December 2003 it also absorbed ETBA bank, thus creating one of the largest private banks in Greece.

(5) At the end of September 2011, the bank possessed a network of 810 branches (354 in Greece and 456 internationally) and employed 11,528 people (6,355 and 5,173 respectively). Piraeus Bank Group's total equity amounted to EUR 2.9 billion, customer deposits to EUR 24.5 billion, net loans to EUR 35.5 billion and total assets to EUR 55.6 billon. The bank's stocks have been listed in the Athens Stock Exchange (ATHEX) since 1918.

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

Key financial for Piraeus Group	**9M 11**	
Total assets	55,552	€ million
RWA	35,600	€ million
Customer loans (net	35,545	€ million
Customer deposits	24,522	€ million
Total equity	2,922	€ million
Pre-provision Income	608	€ million
Net Loans/Deposits	145%	
CAR	8.8%	
Tier 1	7.8%	
Tier 1 (EBA definition)	7.4%	

Measures for the Credit Institutions in Greece", OJ C 164, 02.06.2011, p. 8). On 27 June 2011 the Commission approved a prolongation of the support measures until 31 December 2011 (See Commission decision of 27 June 2011 in State aid SA 33153 (2011/N) "Fifth prolongation of the Support measures for the credit Institutions in Greece, OJ C 274, 17.09.2011, p.6).

2.2. The recapitalisation received by Piraeus in 2009

(7) Under the recapitalisation scheme, Piraeus received in 2009 a EUR 370 million recapitalisation (equivalent to 1.20% of its risk weighted assets ("RWA") at the time) from the Greek State. The recapitalisation took the form of hybrid instruments (preference shares) subscribed by the State which have a fixed remuneration of 10% if the bank, on a stand-alone basis, has sufficient distributable reserves.

(8) The Greek authorities indicate that, according to the Greek law, in case of losses, payment of such coupons is subject to the existence of distributable funds as defined in article 44a of Codified Law 2190/1920 and more specifically of profits of the last or previous fiscal years and/or reserves, provided that the Annual Shareholders' Meeting resolved upon distribution of such funds and no regulatory measures of article 62 Law 3601/2007 are in force. In the event of inadequacy of such distributable funds, the aforesaid interest is payable preferentially (prior to common shares) up to exhaustion of those funds.

(9) As regards the payment of the coupon on the preference shares since their issuance, Piraeus paid the coupons on the preference shares for the financial year 2009. For the financial year 2010, there was a loss and the non-distributable funds of Piraeus were EUR 2,971 million while the total capital was EUR 2,957 million; so there were no distributable funds. Consequently, no coupon was paid for the financial year 2010.

(10) As regards the payment of the coupon in the future, Piraeus is considering issuing more junior shares to absorb the PSI 2- and BlackRock-related losses which will be incurred soon (see the section "the events triggering the measure" here below). The bank is considering to then propose to its shareholders to absorb the cumulative losses from PSI-2 and BlackRock through the "share premium reserve", in order to satisfy the legal requirements described in recital 8. Should the shareholders of the bank approve such a proposal, the distributable reserves will increase, leading to positive distributable reserves and coupon payments on its preference shares.

2.3. The notified capital injection of EUR 380 million

2.3.1 The events triggering the measure

(11) In the context of the update to the Memoranda of Economic and Financial Policies (MEFP) and Memoranda of Understanding on Specific Economic Policy Conditionality (MoU) of 31 October 2011, Greece, in agreement with the European Commission, the European Central Bank and the International Monetary Fund, refined its strategy to help banks strengthen their capital position, through: (i) an increase in the core tier 1 minimum regulatory capital requirement (set by the Bank of Greece at 10% from the beginning of 2012 instead of the current 8% requirement for total capital); (ii) the adequate recognition of the outcome of the revised programme Greek Government's Bonds roll-over – PSI 2 - i.e. 50% write down on Greek government bonds (GGBs)[3] in the profit and loss accounts; and (iii) a diagnosis of banks' domestic loan portfolios,

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

under baseline and adverse macroeconomic scenarios performed by BlackRock (an international advisory firm) that will require losses from loans not adequately provisioned to be recognized in banks' profit and loss accounts.

(12) The outcome of the revised PSI on the financial figures of the bank is expected to appear in the annual financial statements of 2011 and to have a severe impact on its capital.

(13) The notified recapitalisation would address part of that capital shortfall.

2.3.2 Details of the notified capital injection

(14) The recapitalisation of EUR 380 million will have the form of preference shares under the Greek recapitalisation scheme. Under that scheme, the State subscribes to the preference shares not by paying cash to the bank, but by giving it a (new) government bond, which under current propositions, is excluded from the PSI exchange. In the framework of the 2009 recapitalisation, banks received a bond having the same nominal value as the nominal value of the preference shares subscribed. In the current transaction, it is envisaged that the bank will receive a government bond having a nominal value of which the fair value will be EUR 380 million. Piraeus is obliged to value the received government bond at fair value[4] and to use that fair value in order to book it in its accounts. Piraeus will receive a 2.5 year[5] Greek government bond with a coupon of 6 month Euribor plus 130 basis points. Greek authorities expect that the fair value will now be estimated at 85% of the nominal. The best estimate is therefore that the nominal value of bonds to be received by Piraeus will be close to EUR 447 million, which is the amount leading to a fair value of EUR 380 million when one applies a valuation of 85%.

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

(16) The notified recapitalisation of EUR 380 million is equivalent to 1.07% of the RWA. When adding the EUR 370 million received in 2009, the total recapitalisation received is equivalent to 2.1% of RWA (2.27% if the 2009 recapitalisation is compared to the then lower RWA)

3 POSITION OF THE GREEK AUTHORITIES

(17) In the notification of the scheme and of its successive prolongations, the Greek authorities have accepted that the measures covered by it, such as the measure considered in the present Decision, constitute State aid. They are of the view that the measure is compatible with the internal market on the basis of Article 107(3)(b) of the

4. estimated by the Special Committee according to the Law 3723/2008.
5. Maturity date is 21 May 2014, ISIN GR0514017145.

Treaty on the Functioning of the European Union ("TFEU") as it is necessary to remedy a serious disturbance in the Greek economy.

(18) The Greek authorities intend to grant the second recapitalisation of Piraeus under the already approved scheme.

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

(i) To refrain from distributing any dividend[6] and from making any payments on hybrid instruments[7], unless those payments stem from a legal obligation, and not to exercise a call option on the same instruments without prior approval of the Commission;

(ii) To seek prior approval of the Commission before amending any commitments or constraints mentioned in this decision[8];

(iii) To present a restructuring plan (or update the existing restructuring plan) within six months, for banks that need a second recapitalisation measure[9] That plan will be in line with the principles laid down in Commission's Communication on the return to viability and the assessment of the restructuring measures in the financial sector ("the Restructuring Communication")[10] and the Commission Communication on "The application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis" ("the Banking Communication")[11].

4 ASSESSMENT

4.1 Existence and quantity of State Aid

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

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

6. See Commission decision of 19 November 2008 in State Aid N 560/2008 "Support Measures for the Credit Institutions in Greece", point 19, OJ C 125, 05.06.2009, p. 6.
7. See Commission decision of 25 January 2010 in State Aid N 690/2009 "Prolongation of the Support Measures for the Credit Institutions in Greece", point 18, OJ C 57, 09.03.2010, p. 6.
8. [8] See Commission decision of 25 January 2010 in State Aid N 690/2009 "Prolongation of the Support Measures for the Credit Institutions in Greece", point 30, OJ C 57, 09.03.2010, p. 6.
9. See Commission decision of 30 June 2010 in State Aid N 260/2010 "Extension of the Support Measures for the Credit Institutions in Greece", point 16, OJ C 238, 03.09.2010; Commission decision of 21 December 2010 in State aid SA 31998 (2010/N) "Fourth extension of the Support measures for the credit Institutions in Greece, point 14, OJ C 53, 19.02.2011, p.2.
10. OJ C195, 19.8.2009, p. 9.
11. OJ C 270, 25.10.2008, p. 8.

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

(23) As regards the quantity of State aid, the Commission observes that Piraeus will receive a 2.5 year Greek government bond with a nominal value of around EUR 447 million and a coupon of 6 month Euribor plus 130 basis points. The Commission observes that the coupon rate is significantly below the yield of comparable instruments derived from market valuation[12]. The Commission therefore agrees that the aid amount to be received by Piraeus does not exceed EUR 380 million, which will be the fair value of the bond granted.

4.2 Compatibility of the aid

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

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

4.2.1 Legal basis for the compatibility assessment

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

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

(28) For those reasons the Commission accepts that the capital injection of EUR 380 million by the State in favour of Piraeus can be analysed as a measure taken to avoid a serious disturbance in the economy of Greece.

12. The Commission observes that the instrument is rated CCC. NBG will not be authorised to recognise it in its books at its nominal value but will have to book it in its account at EUR 380 million. The nominal value will be precisely determined such that its fair value is EUR 380 million.
13. See Commission decision of 27 June 2011 in State Aid SA. 33153 "Fifth prolongation of the Support Measures for the credit institutions in Greece" OJ C 274, 17.09.2011, p. 5.

4.2.2 Compatibility assessment

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

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

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

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

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

4.2.3 Compatibility with the Banking and Recapitalisation Communications

a. Appropriateness of the Measures

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

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

---

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

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

16 Communication from the Commission - The recapitalisation of financial institutions in the current financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition, OJ C 10, 15.1.2009, p. 2.

17 Recapitalisation Communication, point (6).

b. Necessity – limitation of the aid to the minimum

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

(34) As regards the amount of the State recapitalisation, the Commission observes that the total State recapitalisation of EUR 750 million amounts to 2.2% of RWA. It is clearly not above the minimum capital necessary to absorb the losses which will result from PSI-2 exchange and to comply with the additional capital requirements stemming from the BlackRock exercise.

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

(36) In conclusion, the rescue measure is necessary to achieve the objectives of limiting the disturbance in the Greek banking system and economy as a whole.

c. Proportionality – measures limiting negative spill-over effects

(37) The Commission notes that Piraeus received a relatively low amount of recapitalisation in 2009, since it was around 1% of RWA. The recapitalisation received by the bank at that point was also one of the lowest amounts (compared to RWA) among the four biggest Greek domestic banks. The second recapitalisation of Piraeus will bring the total recapitalisation to 2.2% of RWA. That overall rescue aid amount therefore remains a sufficiently low amount not to request additional safeguards going beyond those laid down in the decisions approving the scheme and its prolongations.

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

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

Conclusion

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

CONCLUSION

- The Commission concludes that the State's provision of capital to Piraeus Bank of EUR 380 million constitutes State aid within the meaning of Article 107(1) TFEU.
- The Commission finds that the emergency aid in favour of Piraeus Bank fulfils the requirements of Article 107(3)(b) TFEU and is temporarily compatible with the internal market for reasons of financial stability. The measure in favour of Piraeus Bank is accordingly approved for six months or, if the Greek authorities submit a restructuring plan within six months from the date of the decision, until the Commission has adopted a final decision on the restructuring plan of the Bank.
- The Commission notes that Greece exceptionally accepts that the adoption of the Decision be in the English language.

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/eu_law/state_aids/state_aids_texts_el.htm

Your request should be sent by registered letter or fax to:

European Commission
Directorate-General for Competition
State Aid Greffe
Rue Joseph II 70
B-1049 Brussels
Fax No: (+32)-2-296.12.42

Yours faithfully,
For the Commission

Joaquín ALMUNIA
Vice-President