

COMMISSION DECISION (EU) 2015/455**of 23 July 2014****on the State aid SA.34826 (2012/C), SA.36005 (2013/NN) implemented by Greece for Piraeus Bank Group relating to the recapitalisation and restructuring of Piraeus Bank SA***(notified under document C(2014) 5217)***(Only the English text is authentic)****(Text with EEA relevance)**

THE EUROPEAN COMMISSION,

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

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

Having called on Member States and other interested parties to submit their comments pursuant to those provisions ⁽¹⁾,

Whereas:

1. PROCEDURE**1.1. PROCEDURE RELATED TO PIRAEUS BANK**

- (1) By decision of 19 November 2008 the Commission approved a scheme entitled 'Support Measures for the Credit Institutions in Greece' (the 'Greek Banks Support Scheme') designed to ensure the stability of the Greek financial system. The Greek Banks Support Scheme allows for aid to be granted under its three constituent measures, a recapitalisation measure, a guarantee measure and a government bond loan measure ⁽²⁾. In May 2009, Piraeus Bank ('the Bank' ⁽³⁾) was recapitalised by Greece under the recapitalisation measure.
- (2) Recital 14 of the Decision of 19 November 2008 recorded that a restructuring plan would be notified to the Commission in respect of the beneficiaries of the recapitalisation measure.
- (3) On 23 July 2010, the Greek authorities submitted a restructuring plan to the Commission. The Commission registered that plan and its subsequent updates as well as additional information submitted by the Greek authorities as Case SA.30342 (PN 26/2010) and then Case SA.32787 (2011/PN).

⁽¹⁾ See Commission Decision of 27 July 2012 in State aid SA. 34826 (2012/C, ex 2012/NN), 'Recapitalisation of Piraeus Bank by the Hellenic Financial Stability Fund' (OJ C 359, 21.11.2012, p. 43).

⁽²⁾ Commission Decision of 19 November 2008 in State aid N 560/2008 'Support Measures for the Credit Institutions in Greece' (OJ C 125, 5.6.2009, p. 6). It was registered under the number SA.26678 (N 560/2008). That scheme was subsequently prolonged and amended as described in footnote 4.

⁽³⁾ 'The Bank' refers to the Piraeus Bank Group.

- (4) The Bank has repeatedly benefited from State guarantees and government bond loans under the Greek Banks Support Scheme ⁽⁴⁾. It also benefited from State-guaranteed emergency liquidity assistance ('State-guaranteed ELA').
- (5) On 20 April 2012, the Hellenic Financial Stability Fund ('HFSF') provided the Bank with a letter committing to participate in a planned share capital increase of the Bank. On 28 May 2012, the HFSF granted a bridge recapitalisation of EUR 4 700 million to the Bank ('the first bridge recapitalisation').
- (6) On 10 May 2012, the Greek authorities formally notified to the Commission the commitment letter that had been provided by the HFSF to the Bank. The Commission registered it as a non-notified aid (Case SA.34826 (2012/NN)) as the measure had already been implemented.
- (7) By decision of 27 July 2012, the Commission opened a formal investigation procedure on the first bridge recapitalisation ('the Piraeus Opening Decision') ⁽⁵⁾.
- (8) In December 2012, the HFSF granted a second bridge recapitalisation of EUR 1 553 million to the Bank ('the second bridge recapitalisation'). On 21 December 2012, the HFSF also provided the Bank with a commitment letter for its participation in a share capital increase of the Bank and in convertible capital instruments to be issued, for a total amount of up to EUR 1 082 million ⁽⁶⁾. The Greek authorities notified those measures to the Commission on 20 December 2012 ⁽⁷⁾.
- (9) In September 2012, the Bank announced its intention to acquire Geniki from Société Générale S.A. ('Société Générale'). During September and October, the Commission had numerous teleconferences and electronic mail exchanges with representatives of the Greek authorities and the Bank with respect to the acquisition of Geniki.
- (10) On 19 October 2012, the Bank signed a share purchase agreement with Société Générale regarding the acquisition of Société Générale's total stake (99.08 %) in Geniki.
- (11) On 12 December 2012, the Commission services sent a letter to Greece including their preliminary assessment of the acquisition of Geniki.
- (12) On 26 February 2013, the Bank informed the Commission of its intentions to acquire Millennium Bank Greece S.A. ('MBG'). The Commission had several teleconferences and electronic mail exchanges with the Greek authorities and the Bank with respect to the acquisition of MBG.
- (13) On 25 March 2013, the Commission services sent a letter to Greece including their preliminary assessment of the acquisition of MBG.

⁽⁴⁾ On 2 September 2009, Greece notified a number of amendments to the support measures and a prolongation until 31 December 2009 that were approved on 18 September 2009 (See Commission Decision of 18 September 2009 in State Aid N 504/2009 'Prolongation and amendment of the Support Measures for the Credit Institutions in Greece' (OJ C 264, 6.11.2009, p. 5)). On 25 January 2010, the Commission approved a second prolongation of the support measures until 30 June 2010 (See Commission Decision of 25 January 2010 in State Aid N 690/2009 'Prolongation of the Support Measures for the Credit Institutions in Greece' (OJ C 57, 9.3.2010, p. 6)). On 30 June 2010, the Commission approved a number of amendments to the support measures and an extension until 31 December 2010 (See Commission Decision of 30 June 2010 in State Aid N 260/2010 'Extension of the Support Measures for the Credit Institutions in Greece' (OJ C 238, 3.9.2010, p. 3)). On 21 December 2010 the Commission approved a prolongation of the support measures until 30 June 2011 (See Commission Decision of 21 December 2010 in State aid SA 31998 (2010/N) 'Fourth extension of the Support measures for the credit Institutions in Greece' (OJ C 53, 19.2.2011, p. 2)). On 4 April 2011 the Commission approved an amendment (See Commission Decision of 4 April 2011 in State Aid SA.32767 (2011/N) 'Amendment to the Support Measures for the Credit Institutions in Greece' (OJ C 164, 2.6.2011, p. 8)). On 27 June 2011 the Commission approved a prolongation of the support measures until 31 December 2011 (See Commission Decision of 27 June 2011 in State aid SA.33153 (2011/N) 'Fifth prolongation of the Support measures for the credit Institutions in Greece' (OJ C 274, 17.9.2011, p. 6)). On 6 February 2012, the Commission approved a prolongation of the support measures until 30 June 2012 (See Commission Decision of 6 February 2012 in State aid SA.34149 (2011/N) 'Sixth prolongation of the Support Measures for the Credit Institutions in Greece' (OJ C 101, 4.4.2012, p. 2)). On 6 July 2012, the Commission approved a prolongation of the support measures until 31 December 2012 (See Commission Decision of 6 July 2012 in State Aid case SA.35002 (2012/N) - Greece 'Prolongation of the Support Scheme for Credit Institutions in Greece' (OJ C 77, 15.3.2013, p. 14)). On 22 January 2013, the Commission approved a prolongation of the Guarantee Scheme and the Bond Loan Scheme until 30 June 2013 (See Commission Decision of 22 January 2013 in State Aid case SA.35999 (2012/N) - Greece 'Prolongation of the Guarantee Scheme and the Bond Loan Scheme for Credit Institutions in Greece' (OJ C 162, 7.6.2013, p. 6)). On 25 July 2013, the Commission approved a prolongation of the Guarantee Scheme and the Bond Loan Scheme until 31 December 2013 (See Commission Decision of 25 July 2013 in State Aid case SA.36956 (2013/N) - Greece 'Prolongation of the Guarantee Scheme and the Bond Loan Scheme for Credit Institutions in Greece', not yet published. On 14 January 2014, the Commission approved a prolongation of the Guarantee Scheme and the Bond Loan Scheme until 30 June 2014 (See Commission Decision of 14 January 2014 in State Aid case SA. 37958 (2013/N) - Greece 'Prolongation of the Guarantee Scheme and the Bond Loan Scheme for Credit Institutions in Greece', not yet published.

⁽⁵⁾ See footnote 1.

⁽⁶⁾ HFSF press release, 24 December 2012, available online at: http://www.hfsf.gr/files/press_release_20121224_en.pdf.

⁽⁷⁾ Those measures were registered by the Commission as Case SA.36005 (2013/NN).

- (14) On 22 April 2013, the Bank announced that it had entered into an agreement with Millennium Banco Comercial Portugues ('BCP') regarding the acquisition of the entire share capital of MBG and the participation of BCP in the forthcoming capital increase of Piraeus.
- (15) On 3 June 2013, the HFSF partially converted the first and second bridge recapitalisations into equity for a total of EUR 5 891 million. The HFSF also injected an additional amount of EUR 1 094 million into the Bank, as committed at the time of the acquisitions by the Bank of the good part of Agricultural Bank of Greece ('ATE') and of the Greek branches of three Cypriot Banks (see section 1.2). In addition private investors injected EUR 1 444 million. The total recapitalisation amounted to EUR 8 429 million and is referred to as 'the Spring 2013 recapitalisation'.
- (16) On 19 December 2013, the Greek authorities submitted information to the Commission regarding the terms of the Spring 2013 recapitalisation.
- (17) The Greek authorities submitted a final restructuring plan for the Bank ('the restructuring plan') to the Commission on 25 June 2014. On the same date they provided information on the State-guaranteed ELA. They indicated that they intend to continue providing the Bank with such liquidity support, as well as State guarantees on debt instruments and government bond loans under the Greek Banks Support Scheme.
- (18) During the administrative process, the Commission has had numerous meetings, teleconferences and electronic mail exchanges with representatives of the Greek authorities and the Bank.
- (19) Greece accepts that exceptionally the present decision is adopted in the English language only.

1.2. PROCEDURE RELATED TO THE ACQUIRED BUSINESSES

1.2.1. Procedure related to ATE

- (20) In April 2011 Greece injected EUR 1 445 million into ATE (an amount which included the EUR 675 million originally granted under the Greek Recapitalisation scheme). Furthermore ATE received liquidity support amounting to EUR 6 103 million. By decision of 23 May 2011, the Commission approved those measures based on the basis of a restructuring plan for ATE ('the ATE Restructuring Decision')⁽⁸⁾.
- (21) On 29 December 2011, Greece participated in a capital rights issue of ATE for an amount of EUR 290 million.
- (22) On 22 March 2012, Greece submitted a report by the Bank of Greece that proposed a resolution of ATE through a Purchase & Assumption procedure⁽⁹⁾ of selected assets and liabilities of ATE ('ATE Transferred Activities'), while the remaining assets and liabilities would be resolved via a bad bank.
- (23) In July 2012, the Bank announced the acquisition by absorption of the good part of ATE which had been placed under liquidation.
- (24) At that time, the HFSF committed to cover the capital needs of the Bank stemming from the acquired assets. On 27 January 2013, the Bank of Greece concluded that the capital needed for regulatory purposes as a result of the acquisition of the ATE Transferred Activities amounted to EUR 570 million, which would be covered by the HFSF.
- (25) By decision of 3 May 2013⁽¹⁰⁾ ('the ATE Liquidation Decision'), the Commission concluded that the support measures granted at the time of transfer of the ATE Transferred Activities do not constitute State aid to the Bank but to the ATE Transferred Activities. Moreover, the Commission concluded that that aid would be compatible with the internal market if the restructuring plan of the Bank, which now includes the ATE Transferred Activities, enables its long-term viability to be restored.
- (26) In June 2013, the HFSF injected EUR 570 million in the Bank in the framework of the Spring 2013 recapitalisation⁽¹¹⁾.

⁽⁸⁾ Commission Decision of 23 May 2011 in State Aid SA.31154 'Restructuring of Agricultural Bank of Greece', (OJ C 317, 29.10.2011, p. 4).

⁽⁹⁾ A Purchase & Assumption is a resolution procedure which consists of identifying, in a legal entity under liquidation, the assets and liabilities of high quality and auctioning them in order to transfer them to a viable company.

⁽¹⁰⁾ Commission Decision of 3 May 2013 in State Aid SA.35460 'Liquidation aid for ATE Bank resolution', (OJ C 261, 10.9.2013, p. 1).

⁽¹¹⁾ See section 2.3.3.3.

1.2.2. Procedure related to the Greek operations of the Bank of Cyprus, Cyprus Popular Bank and Hellenic Bank ('the three Cypriot Banks')

- (27) Following the extraordinary Eurogroup meeting ⁽¹²⁾ on 15 March 2013, the Cypriot authorities and the European Union, the International Monetary Fund ('IMF') and the European Central Bank ('ECB') reached a political agreement on the policy underlying a future macroeconomic adjustment programme. In particular, it was agreed, among other things, that the operations of the three Cypriot Banks in Greece would be transferred to a Greek bank.
- (28) The Bank and other Greek banks expressed interest in acquiring the operations of the three Cypriot Banks in Greece.
- (29) On 22 March 2013, the HFSF consented to the Bank making an offer for the acquisition of the Greek branches, deposits and loans of the three Cypriot Banks. The Bank's offer was conditional on the HFSF providing equity to the Bank in an amount equal to the price paid for the equity of the acquired business.
- (30) The Greek authorities and the HFSF kept the Commission services closely informed about the evolution of the process and the terms of the acquisition as well.
- (31) On 26 March 2013, the Bank signed a sale and transfer agreement with each of the three Cypriot Banks concerning their Greek activities (deposits, loans and branch network).
- (32) As agreed in March 2013, the HFSF injected EUR 524 million of capital in the Bank ⁽¹³⁾ to meet the capital needs that arose from the acquisition of those assets.

2. DESCRIPTION

2.1. THE BANK AND ITS DIFFICULTIES

2.1.1. General context of the Greek banking sector

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

Table 1

Real GDP Growth in Greece, 2008-2013

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

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

- (34) In addition, in February 2012, Greece implemented a private sector bond exchange known as Private Sector Involvement ('the PSI programme'). Greek banks were involved in the PSI programme, in the course of which the Greek government offered existing private bondholders new securities (including new Greek Government Bonds ('GGBs'), GDP-linked securities and PSI payment notes issued by the European Financial Stability Fund ('EFSF')) in exchange for existing GGBs, with a nominal discount of 53,5 % and longer maturities ⁽¹⁵⁾. The Greek authorities announced the results of that exchange of bonds on 9 March 2012 ⁽¹⁶⁾. The exchange resulted in significant losses for the bondholders (estimated by the Bank of Greece at 78 % of the face amount of old GGBs on average for the Greek banks) and capital needs which were retroactively booked in the Greek banks' 2011 financial statements. Total losses due to the PSI for the main Greek banks are summarised in Table 2.

⁽¹²⁾ Eurogroup meeting is the meeting of the finance ministers of the Eurozone, that is to say the Member States that have adopted the Euro as their official currency.

⁽¹³⁾ See section 2.3.3.3.

⁽¹⁴⁾ European Commission – Directorate-General Economic and Financial Affairs. *The Second Economic Adjustment Programme for Greece – March 2012*, p. 17, available online at http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/pdf/ocp94_en.pdf.

⁽¹⁵⁾ See section II 'The restructuring of the Greek Sovereign Debt' of the *Report on the Recapitalisation and Restructuring of the Greek Banking Sector*, Bank of Greece, December 2012, available online at: http://www.bankofgreece.gr/BogEkdoseis/Report_on_the_recapitalisation_and_restructuring.pdf.

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

Table 2

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

Banks	Face amount of GGBs	Face amount of state related loans	Total face amount	PSI loss of GGBs	PSI loss of state-related loans	Total gross PSI loss	Total gross PSI loss/ Core Tier 1 (%)	Total gross PSI loss/ Total assets (%)
NBG	13 748	1 001	14 749	10 985	751	11 735	161,0	11,0
Eurobank	7 001	335	7 336	5 517	264	5 781	164,5	7,5
Alpha	3 898	2 145	6 043	3 087	1 699	4 786	105,7	8,1
Piraeus	7 063	280	7 343	5 686	225	5 911	226,0	12,0
ATEbank	5 164	608	5 772	3 873	456	4 329	1 144	17,1
Geniki	384	7	391	287	5	292	78,1	8,9
MBG	185	0	185	137	0	137	29	2,2

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

- (35) Since the Greek banks faced substantial capital shortfalls as a result of the PSI programme and the continuing recession, the Memorandum of Economic and Financial Policies (MEFP) of the Second Adjustment Programme for Greece between the Greek government, the European Union, the IMF and the ECB dated 11 March 2012 made funds available for the recapitalisation of those banks. The Greek authorities estimated the total bank recapitalisation needs and resolution costs to be financed under that programme at EUR 50 billion⁽¹⁷⁾. That amount was calculated on the basis of a stress test performed by the Bank of Greece for the period starting December 2011 and ending December 2014 ('the stress test of 2012'), which relied on the loan losses forecast performed by Blackrock⁽¹⁸⁾. The funds for the recapitalisation of the Greek banks are available through the HFSF. Table 3 summarises the calculation of capital needs for the main Greek banks as they result from the stress test of 2012.

Table 3

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

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

⁽¹⁷⁾ See footnote 14, p. 106.

⁽¹⁸⁾ See footnote 15.

Banks	Reference Core Tier 1 (Dec 2011)	Total gross PSI loss (Dec 2011)	Provisions related to PSI (June 2011)	Gross Cumulative Loss Projections for credit risk	Loan loss reserves (Dec 2011)	Internal capital generation	Target Core Tier 1 (Dec 2014)	Capital needs
Piraeus	2 615	- 5 911	1 005	- 6 281	2 565	1 080	2 408	7 335
ATEbank	378	- 4 329	836	- 3 383	2 344	468	1 234	4 920
Geniki	374	- 292	70	- 1 552	1 309	- 40	150	281
MBG	473	- 137	0	- 638	213	- 79	230	399

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

- (36) In line with the MEFP of March 2012, 'banks submitting viable capital raising plans will be given the opportunity to apply for and receive public support in a manner that preserves private sector incentives to inject capital and thus minimises the burden for taxpayers' ⁽¹⁹⁾. The Bank of Greece found that only the four largest banks (Eurobank, National Bank of Greece, the Bank and Alpha Bank) submitted viable capital raising plans ⁽²⁰⁾. They received a first recapitalisation from the HFSF in May 2012.
- (37) Domestic deposits in the banks in Greece decreased by 37 % in total between the end of 2009 and June 2012 due to the recession and political uncertainty. Those banks had to pay higher interest rates to try to retain deposits. The costs of deposits increased, reducing the net interest margin of the banks. As Greek banks were shut down from wholesale funding markets, they became entirely dependent on Eurosystem financing ⁽²¹⁾, a growing portion of which was in the form of State-guaranteed ELA granted by the Bank of Greece.
- (38) On 3 December 2012, Greece launched a buy-back programme on the new GGBs received by the investors in the framework of the PSI programme, at prices ranging from 30,2 % to 40,1 % of their nominal value ⁽²²⁾. The Greek banks participated in that buy-back programme which crystallised further losses on their balance sheets, since most of the accounting loss (that is, the difference between market value and nominal value) booked on those new GGBs at the time of the PSI programme became definitive and irreversible ⁽²³⁾.
- (39) In December 2012, the four largest Greek banks received a second bridge recapitalisation from the HFSF.
- (40) In spring 2013 the bridge recapitalisation of the four banks was converted into permanent recapitalisation in ordinary shares, with the HFSF holding more than 80 % of the shareholding of each of the four banks. For the banks which managed to attract a pre-determined amount of private capital (the Bank, Alpha Bank and National Bank of Greece), the HFSF received non-voting shares and private investors were granted warrants on the shares of the HFSF.
- (41) In July 2013, the Bank of Greece commissioned an advisor to carry out a diagnostic study on the loan portfolios of all Greek banks. That advisor carried out credit loss projections ('CLPs') on all domestic loan books of the Greek banks as well as on loans carrying Greek risk in foreign branches and subsidiaries over a three-and-a-half-year and a loan-lifetime horizon. The analysis provided CLPs under two macroeconomic scenarios, a baseline scenario and an adverse scenario. The CLPs for foreign loan portfolios were estimated by the Bank of Greece using some input from the advisor.

⁽¹⁹⁾ See footnote 14, p. 104.

⁽²⁰⁾ See footnote 15.

⁽²¹⁾ The European Central Bank and the national central banks together constitute the Eurosystem, the system of central banks of the euro area.

⁽²²⁾ Press release of Ministry of Finance of 3 December 2012, available online at: <http://www.pdma.gr/attachments/article/248/Press%20Release%20-%20December%2003.pdf>.

That buy-back of its own debt at a price deeply below face value generated a significant debt reduction for Greece.

⁽²³⁾ In the absence of such a buy-back, the market value of those new GGBs could have increased depending on the evolution of market parameters such as interest rates and the probability of default of Greece.

- (42) Based on the advisor's assessment of the CLPs, in autumn 2013 the Bank of Greece launched a new stress test exercise ('the stress test of 2013') to assess the robustness of the Greek banks' capital position under both a baseline and an adverse scenario. The Bank of Greece conducted the capital needs assessment with the technical support of a second advisor.
- (43) The key components of the capital needs assessment under the stress test of 2013 were (i) the CLPs ⁽²⁴⁾ on banks' loan portfolios on a consolidated basis for Greek risk and foreign risk, net of existing loan reserves, and (ii) the estimated operating profitability of banks for the period from June 2013 to December 2016, based on a conservative adjustment of the restructuring plans which had been submitted to the Bank of Greece during the fourth quarter of 2013. Table 4 summarises the calculation of capital needs for the main Greek banks on a consolidated basis under the baseline scenario for that stress test of 2013.

Table 4

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

Banks	Reference Core Tier 1 (June 2013) (1)	Loan Loss reserves (June 2013) (2)	CLPs for Greek risk (3)	CLPs for foreign risk (1) (4)	Internal Capital Generation (5)	Stress test Core Tier 1 ratio (December 2016) (6)	Capital needs (7)=(6)-(1)-(2)-(3)-(4)-(5)
NBG ⁽²⁾	4 821	8 134	- 8 745	- 3 100	1 451	4 743	2 183
Eurobank ⁽³⁾	2 228	7 000	- 9 519	- 1 628	2 106	3 133	2 945
Alpha	7 380	10 416	- 14 720	- 2 936	4 047	4 450	262
Piraeus	8 294	12 362	- 16 132	- 2 342	2 658	5 265	425

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

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

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

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

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

2.1.2. The beneficiary

- (46) The Bank provides universal banking services mainly in Greece and in Central, Eastern and South-Eastern Europe (Romania, Bulgaria, Serbia, Albania, Ukraine and Cyprus) as well as in Egypt. It offers a full range of banking and financial products and services to households and businesses. It is active in retail, corporate and private banking, asset management, treasury and investment banking. The Bank is incorporated in Greece and its shares are listed on the Athens Stock Exchange. On 30 December 2012, the Bank employed a total of 18 597 people ⁽²⁵⁾.

⁽²⁴⁾ Included the expected loss from the new loan production in Greece over the period from June 2013 to December 2016.

⁽²⁵⁾ Annual report 2012, <http://www.piraeusbankgroup.com/en/investors/financials/annual-reports>.

- (47) The Bank participated in the PSI programme, exchanging GGBs and State-related loans with a face value of EUR 7,7 billion. Its total PSI-related charge amounted to around EUR 5 911 million before tax and was entirely booked in its 2011 accounts ⁽²⁶⁾. During the buy-back programme of December 2012, the Bank sold the new GGBs it had received in the framework of the PSI at a deep discount to nominal value. That sale crystallised its losses on the new GGBs.
- (48) The key figures of the Bank in December 2010, December 2011, December 2012 and December 2013 (consolidated data) are presented in Table 5.

Table 5

Piraeus Bank key figures, 2010, 2011, 2012 and 2013

Profit and loss (EUR million)	2010	2011	2012 (*)	2013 (**)
Net Interest Income	1 207	1 194	1 047	1 664
Total Operating Income	1 510	1 245	1 921	2 205
Total Operating Expenses	(884)	(840)	(931)	(1 680)
Pre Provision Income	625	405	989	525
Impairment Losses to cover credit risk	(611)	(1 973)	(2 519)	(2 536)
Impairment losses on GGBs and loans eligible to PSI		(5 911)		
Negative goodwill			351	3 810
Net Profit/Loss	(21)	(6 618)	(507)	2 546
Selective Volume figure (EUR million)	31 December 2010	31 December 2011	31 December 2012 (*)	31 December 2013 (**)
Total net Loans and Advances to Customers (Net)	40 150	35 634	44 613	62 366
Deposits	29 475	21 796	36 971	54 279
Total Assets	57 561	49 352	70 408	92 010
Total equity ⁽¹⁾	3 273	(1 940)	(2 316)	8 543

⁽¹⁾ For 2012, that amount does not include the two bridge recapitalisations received by the Bank. The amount for 2013 includes the full Spring 2013 recapitalisation

^(*) Including ATE and Geniki

^(**) Including ATE Geniki, Greek branches of the three Cypriot Banks, MBG

Source: Annual reports 2011, 2012, financial statements 2013

⁽²⁶⁾ See Table 2.

- (49) Table 5 illustrates that, apart from the huge losses it booked in 2011 due to the PSI programme (EUR 5 911 million ⁽²⁷⁾), the Bank suffered from declining income (due, among other reasons, to the higher costs of deposits) and from high and rising impairment losses on its loan portfolios in Greece and abroad until mid-2012. The liquidity position of the Bank was badly hit by deposit outflows. That situation somewhat improved after the Bank started to make acquisitions in July 2012.
- (50) Under the stress test of 2013, the Bank of Greece estimated the capital needs of the Bank at EUR 465 million for the baseline scenario.
- (51) In March 2014, the Bank proceeded with a capital increase of EUR 1 752 million to cover the capital needs mentioned in recital 50 and to repay the EUR 940 million in preference shares held by Greece ⁽²⁸⁾. In contrast to Eurobank's capital increase of April 2014, the HFSF did not give the Bank a commitment to inject capital in the framework of the capital increase in the event of insufficient private demand. The Bank's capital increase was achieved through a non-pre-emptive equity offering (that is to say a capital increase with cancellation of shareholders' pre-emption rights) to international investors and through a public offering in Greece. The subscription price was set at EUR 1,70 per share.
- (52) Following the capital increase, the Bank announced on 22 May 2014 that it had redeemed the preference shares to Greece, for a total amount of EUR 750 million ⁽²⁹⁾.

2.2. THE BANK'S ACQUISITIONS OF GREEK BANKING ACTIVITIES

2.2.1. Acquisition of ATE

- (53) ATE was founded in 1929 as a non-profit organisation by Greece. Until the early 1990s, ATE was a specialised financial institution which supported the development of the agricultural sector on behalf of the Greek State. In December 2000, the company was listed on the Athens Stock Exchange. On 14 November 2011, Greece was ATE's main shareholder with a stake of 89,9 %.
- (54) ATE operated in all banking activities, both retail and corporate, provided financial services such as insurance activities and leasing activities and acquired major participations in companies operating in non-financial sectors, including sugar production industry and dairy production industry.
- (55) In July 2012, ATE offered its services through its network of 468 branches and employed 5 024 people. In July 2012, its total deposits amounted to EUR 14,9 billion for total assets of EUR 21,8 billion ⁽³⁰⁾.
- (56) Since 2006, ATE has also offered its services outside Greece with a 74 % stake in ATE Bank Romania and a stake of 20,3 % of the common share capital and 25 % of the preference shares in AIKBanka Serbia.
- (57) The difficulties of ATE arose before the Greek sovereign crisis mainly as a result of poor asset quality and of traditionally low pre-impairment profitability. Furthermore, the Greece sovereign crisis affected all Greek banks, including ATE, in two ways: (i) the loss of access of Greece to international debt markets severely affected the liquidity position of Greek banks and (ii) asset quality deteriorated and increased impairments.
- (58) In April 2011 Greece injected EUR 1 445 million into ATE (including EUR 675 million originally granted under the Greek recapitalisation measure). Furthermore ATE received liquidity support amounting to EUR 6 103 million. The Commission approved those measures in the ATE Restructuring Decision.
- (59) Nevertheless, in the second half of 2011, the capital situation of ATE deteriorated mainly due to its participation in the PSI programme. As illustrated in Table 2, its total PSI-related charge amounted to around EUR 4 329 million before tax and was entirely booked in its 2011 accounts. As illustrated in Table 3, the capital needs of ATE Transferred Activities were estimated at EUR 4 920 million.
- (60) On 22 March 2012, Greece submitted a report by the Bank of Greece proposing the resolution of ATE via a Purchase & Assumption procedure in respect of the ATE Transferred Activities, while the remaining assets and liabilities would be resolved via a bad bank. The Bank and another large Greek submitted non-binding offers to the HFSF. On 26 July 2012, the Board of Directors of the HFSF approved the Bank's bid.

⁽²⁷⁾ See Table 2.

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

⁽²⁹⁾ <http://www.piraeusbankgroup.com/en/press-office/press-release/2014/05/apopliromi-pronomiouxon-metoxon-ellinikou-dimosiou>.

⁽³⁰⁾ Restructuring plan submitted on 25 June 2014, p. 40.

- (61) On 27 July 2012, the Bank of Greece proceeded with the transfer of the ATE Transferred Activities to the Bank ⁽³¹⁾.
- (62) As the ATE Transferred Activities contained fewer assets at fair value than liabilities, the HFSF, in line with the decision of the Bank of Greece of 28 January 2013, had to make up for the difference between transferred assets and transferred liabilities, that is to say, the funding gap. The Bank of Greece concluded, based on audited figures, that the funding gap would be EUR 7 471 million and the HFSF granted the Bank European Financial Stability Facility bonds ('EFSF bonds') worth EUR 7 471 million.
- (63) Furthermore, the HFSF committed to provide capital to the Bank, in order for the ATE Transferred Activities to be capitalised up to 9 %. That amount was initially estimated at EUR 500 million, but the final amount was determined at EUR 570 million. The HFSF injected the final amount into the Bank against ordinary shares in the framework of the Spring 2013 recapitalisation.
- (64) The Bank acquired the ATE Transferred Activities for a purchase price of EUR 95 million.

2.2.2. Acquisition of Geniki

- (65) Geniki was established in 1937. Geniki provided financial services in the sectors of retail banking, corporate banking and capital market services. In 2004 Société Générale acquired the majority of Geniki's shares. Geniki operated 104 branches and employed 1 391 employees as at 31 December 2012 ⁽³²⁾. Total assets amounted to EUR 2,6 billion, total net loans to EUR 1,9 billion and deposits to around EUR 2 billion ⁽³³⁾.
- (66) The Greek sovereign crisis had a very negative impact on the banking sector performance. Furthermore, the participation of the Greek banks in the PSI programme led to a rapid deterioration of their capital situation. As illustrated in Table 2, Geniki's total PSI-related charge amounted to around EUR 292 million before tax and was entirely booked in its 2011 accounts. As illustrated in Table 3, the amount of the capital needs of Geniki were estimated at EUR 281 million and were calculated on the basis of a stress test performed by the Bank of Greece.
- (67) In June 2012, Société Générale approached all four of the large Greek banks, in an attempt to sell Geniki. The Bank was the only one interested in acquiring Geniki.
- (68) The negotiations between Société Générale and the Bank for the sale of Geniki led to an official agreement on 19 October 2012 that: (i) Société Générale would sell and the Bank would purchase the 99,08 % stake that Société Générale holds in Geniki, and that (ii) Société Générale would assign and transfer and the Bank would acquire 100 % of Geniki's share capital advances that Société Générale has concluded and will conclude in the future. Société Générale ultimately agreed to make an advance payment of approximately EUR 290 million to Geniki and to subscribe a bond issued by the Bank for an amount of approximately EUR 170 million. The Bank then acquired Geniki for EUR 1 million.
- (69) On 14 December 2012, the Bank announced that the acquisition of Société Générale's stake in Geniki was completed.

2.2.3. Acquisition of the Greek operations of the three Cypriot Banks

- (70) The Bank of Cyprus, the Cyprus Popular Bank and the Hellenic Bank were founded in 1899, 1901 and 1976 respectively.
- (71) Following the extraordinary Eurogroup meeting on 15 March 2013, an agreement was reached on the main parameters of a bailout plan for Cyprus by the European Union, the IMF and the ECB. The Hellenic Systemic Stability Board ('HSSB') unanimously proposed the transfer of the Greek assets and liabilities of the branches of the three Cypriot Banks in Greece to an existing Greek bank. In particular, the HSSB stated that 'the [...] (*) agreement fully secures the depositors of the Greek branches [of the three Cypriot Banks], safeguards the Greek public interest and the financial stability and does not burden the Greek public debt'.
- (72) The Bank of Greece was assigned to explore potential interest from Greek banks and, in this context, called for an expression of interest. Furthermore, the HFSF agreed to cover the capital needs (of the acquirer) that would result from the acquisition of the Greek branches of the three Cypriot Banks.

⁽³¹⁾ See recital 27 of the ATE Liquidation Decision.

⁽³²⁾ Hellenic Bank Association, data available online at: <http://62.1.43.74/4Statistika/UplPDFs/network2012engl.pdf>.

⁽³³⁾ http://www.geniki.gr/Portals/0/PDFs/140321_annual_results_en_2.pdf.

(*) Business secret

- (73) Table 6 summarises the assets and liabilities of the three Cypriot Banks which were ultimately transferred to the Bank ('Cypriot Transferred Activities').

Table 6

Transferred Activities of the three Cypriot Banks

	Transferred Activities
Assets	All Greek loans, including leasing and factoring
	Shipping loans and other loans originated from and managed in Greece and booked in the Cypriot loan book
	Fixed assets (excluding deferred tax assets)
Liabilities	All the deposits of the three Cypriot Banks collected in Greece

Source: Term Sheet, *Carve out and sale of the Greek assets of Cypriot banks*, 10 April 2013

- (74) The assets transferred to the Bank amounted to approximately EUR 18,9 billion and the liabilities amounted to approximately EUR 15 billion. However, the parties to the transaction agreed to take into account the amount of losses that was forecast in the PIMCO report for the banks in Cyprus, under an adverse scenario⁽³⁴⁾. According to the PIMCO report, the value of the assets that would be transferred to the Bank amounted to approximately EUR 16,5 billion. The liabilities transferred amounted to approximately EUR 14,5 billion.
- (75) On 21 and 22 March 2013, only three banks, including the Bank, submitted non-binding offers.
- (76) On 22 March 2013, the HFSF granted its consent to the acquisition of the three Cypriot Banks' operations in Greece by the Bank. The total consideration paid by the Bank for the acquisition of the Cypriot Transferred Activities was EUR 524 million. In particular, it was agreed that the Bank would pay EUR 237 million for the acquisition of the transferred activities of the Bank of Cyprus, EUR 258 million for the acquisition of the transferred activities of the Cyprus Popular Bank and EUR 29 million for the acquisition of the transferred activities of the Hellenic Bank.
- (77) In June 2013, in the framework of the Spring 2013 recapitalisation⁽³⁵⁾ the HFSF injected EUR 524 million of capital into the Bank to cover the purchase price paid by the Bank.

2.2.4. Acquisition of MBG

- (78) MBG was established in 2000. MBG operated 119 branches and employed 1 174 employees as at 31 December 2012⁽³⁶⁾.
- (79) On 22 April 2013, the Bank signed a definitive agreement with BCP regarding the acquisition of the entire share capital of MBG and the participation of BCP in a forthcoming capital increase of the Bank.
- (80) According to that agreement, BCP would contribute EUR 400 million to the regulatory recapitalisation of MBG (of which EUR 139 million had already been contributed by BCP in December 2012) through the conversion of subordinated and senior credits from BCP to MBG into equity. Furthermore, all the funding provided by BCP to MBG in the past would be reimbursed by the latter in two tranches: EUR 650 million would be paid on the date of closing of the transaction and the amount of approximately EUR 250 million would be paid within six months from closing. Last, BCP would contribute EUR 400 million to the recapitalisation of the Bank through a private placement with the exclusion of pre-emptive rights. The Bank would then acquire the fully recapitalised MBG for EUR 1 million.
- (81) On 19 June 2013, the Bank announced the completion of the acquisition of MBG.

⁽³⁴⁾ The report was prepared by PIMCO, dated 1 February 2013 and entitled 'Independent Due Diligence of the Banking System in Cyprus'. Capital estimates were generated under both a base and an adverse macroeconomic scenario. The applicable reference date for the exercise was 30 June 2012 and the forecast period extended from 30 June 2012 through 30 June 2015.

⁽³⁵⁾ See recital 101.

⁽³⁶⁾ *Ibid.*

2.2.5. Overview of the combined effect of the acquisitions

- (82) Table 7 provides an overview of the effect of the successive acquisitions on the size and shape of the Bank in Greece (none of the acquired entities included foreign assets, except ATE Transferred Activities that contain small Romanian assets). As a result of those acquisitions, the Bank now holds the largest market share on the Greek deposit and loan market.

Table 7

Effect of the successive acquisitions on Piraeus' size in Greece

31.12.2012 Greece only	Piraeus stand alone	ATE	Geniki	Cypriot Banks	MBG	NEW GROUP
Gross loans	27 727	12 200	3 308	24 194	4 710	72 138
part of new group	38 %	17 %	5 %	34 %	7 %	100 %
Net loans	24 811	11 527	1 909	19 481	4 236	61 964
part of new group	40 %	19 %	3 %	31 %	7 %	100 %
Deposits	15 412	14 986	2 014	14 427	2 912	49 752
part of new group	31 %	30 %	4 %	29 %	6 %	100 %
Employees	5 926	5 019	1 420	5 268	1 186	18 819
part of new group	31 %	27 %	8 %	28 %	6 %	100 %
Branches	325	460	104	307	120	1 316
part of new group	25 %	35 %	8 %	23 %	9 %	100 %

Source: data submitted on 10 June 2014 by Piraeus Bank

2.3. AID MEASURES

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

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

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

- (84) The Bank has benefited and continues to benefit from aid under the guarantee measure and the government bond loan measure. That aid will be described in this Decision as 'measure L1'. In 2010, the Bank issued bonds guaranteed by the State amounting to a total of EUR 9,9 billion. Greece also lent the Bank EUR 1 289 million of government bonds. At the end of March 2014, the outstanding amount of government bonds was EUR 1 024 million ⁽³⁷⁾.
- (85) In the restructuring plan for the Bank submitted by the Greek authorities to the Commission on 25 June 2014 the Greek authorities requested authorisation to continue granting guarantees and lending government bonds to the Bank under the Greek Banks Support Scheme during the restructuring period, should the need for such liquidity support arise, although that is not expected to happen.

⁽³⁷⁾ Restructuring plan submitted on 25 June 2014, p. 51.

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

- (86) In May 2009 and December 2011, the Bank received from Greece under the recapitalisation measure of the Greek Bank Support Scheme capital injections of EUR 370 million and EUR 380 million respectively, totalling EUR 750 million (measure A), equivalent to around 2,1 % of the risk weighted assets ('RWA')⁽³⁸⁾ of the Bank at that time.
- (87) The recapitalisation took the form of preference shares subscribed by Greece which had a coupon of 10 % and a maturity of five years.
- (88) The Bank redeemed the preference shares on 22 May 2014, as described in recital 52.

2.3.2. State-guaranteed ELA (measure L2)

- (89) ELA is an exceptional measure enabling a solvent financial institution, facing temporary liquidity problems, to receive Eurosystem funding without such an operation being part of the single monetary policy. The interest rate paid by a financial institution for ELA is [...] basis points ('bps') higher than the interest it pays for regular Central Bank refinancing.
- (90) The Bank of Greece is responsible for the ELA programme, which means that any cost of, and the risks arising from, the provision of ELA are incurred by the Bank of Greece⁽³⁹⁾. Greece granted the Bank of Greece a State guarantee which applies to the total amount of ELA granted by the Bank of Greece. The adoption of Article 50(7) of law 3943/2011, which amended Article 65(1) of law 2362/1995, allowed the Minister of Finance to grant guarantees on behalf of the State to the Bank of Greece in order to safeguard the Bank of Greece's claims against the credit institutions. The banks benefiting from ELA have to pay a guarantee fee to the State amounting to [...] bps.
- (91) At 31 December 2011, the Bank had benefited from EUR 11,64 billion of State-guaranteed ELA, while at 31 December 2012 the Bank had benefited from EUR 31,4 billion of State-guaranteed ELA⁽⁴⁰⁾. After a sharp decrease in 2013, the Bank benefited at the end of that year from only EUR 750 million of State-guaranteed ELA.

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

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

Table 8

Aid measures granted to the Bank through the HFSF

	1st bridge recapitalisation — May 2012 (EUR million)	2nd bridge recapitalisation — Dec 2012 (EUR million)	Commitment letter — Dec 2012 (EUR million)	Participation in the May 2013 recapitalisation (EUR million) (1)
Measure	B1	B2	B3	B4
Amount (EUR million)	4 700	1 553	1 082	5 891

(1) Excluding the part of the recapitalisation subscribed by the HFSF to meet the capital requirements that arose from the purchase of ATE Bank and Greek branches of the three Cypriot Banks. For further details, see recital 101.

2.3.3.1. The first bridge recapitalisation (measure B1)

- (93) Recitals 14 to 33 of the Piraeus Opening Decision give a detailed description of the first bridge recapitalisation of May 2012 (measure B1). The background and main features of that measure are set out in this section.

⁽³⁸⁾ The term 'risk weighted assets' refers a regulatory aggregate which measures the risk exposure of a financial institution and is used by supervisors to monitor the capital adequacy of financial institutions.

⁽³⁹⁾ According to the letter of the Bank of Greece of 7 November 2011, 'Guarantees apply on the total amount of Emergency Liquidity Assistance (ELA)'.

⁽⁴⁰⁾ Restructuring plan submitted on 25 June 2014, p. 133.

- (94) On 20 April 2012, the HFSF provided a letter to the Bank committing to participate in a planned share capital increase of the Bank for an amount of up to EUR 5 billion.
- (95) Under measure B1, the HFSF transferred EUR 4,7 billion of EFSF bonds to the Bank in May 2012, in line with the provisions for bridge recapitalisations laid down in the law 3864/2010 establishing the HFSF ('HFSF law'). The Commission established in recital 53 of the Piraeus Opening Decision that 'The bridge recapitalisation finalised on 28 May 2012 is the implementation of the obligation undertaken in the commitment letter and thus a continuation of the same aid'. Both the amounts provided in the commitment letter and in the first bridge recapitalisation were calculated by the Bank of Greece to ensure the Bank reached a total capital ratio of 8 % as of 31 December 2011, the date of retroactive booking of the bridge recapitalisation in the Bank's records. As can be seen from Table 3, measure B1 only covered a part of the total capital needs identified by the stress test of 2012. The Bank was supposed to raise capital through a future capital increase and the bridge recapitalisation was intended only to preserve the Bank's eligibility for ECB financing until that capital increase had taken place.
- (96) For the period between the date of the first bridge recapitalisation and the date of the conversion of the first bridge recapitalisation into ordinary shares and other convertible financial instruments, the pre-subscription agreement between the Bank and the HFSF stipulated that the Bank had to pay the HFSF a 1 % annual fee on the nominal value of the EFSF notes and that any coupon payments and accrued interest to the EFSF notes for that period would count as an additional capital contribution by the HFSF to the Bank ⁽⁴¹⁾.

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

- (97) The Bank booked further losses in the autumn of 2012. Its capital therefore fell again below the minimum capital requirements for it to remain eligible for ECB refinancing.
- (98) A second bridge recapitalisation became necessary as a result. On 20 December 2012, the HFSF implemented a second bridge recapitalisation of EUR 1 553 million (measure B2), which was again paid by transferring EFSF bonds to the Bank.

2.3.3.3. *The commitment letter of 20 December 2012 (measure B3)*

- (99) In addition to the second bridge recapitalisation, on 20 December 2012 the HFSF provided the Bank with a commitment letter for its participation in the share capital increase of the Bank and in the convertible instruments to be issued, for a total amount up to EUR 1 082 million (measure B3).
- (100) The total of the two bridge recapitalisations (measures B1 and B2) and of the additional amount committed in December 2012 (measure B3) meant that the HFSF had committed to cover the total capital needs identified under the stress test of 2012 (EUR 7 335 million ⁽⁴²⁾).

2.3.3.4. *HFSF's participation in the Spring 2013 recapitalisation (measure B4) and partial repayment of measures B1 and B2*

- (101) On 23 April 2013 the general meeting of shareholders of the Bank approved a share capital increase of EUR 8 429 million ⁽⁴³⁾. That amount was calculated as the sum of:
- (i) EUR 7 335 million to cover the capital needs identified by the stress test of 2012; out of that amount, the HFSF subscribed EUR 5 891 million (measure B4) and private investors subscribed EUR 1 444 million;
 - (ii) EUR 570 million injected by the HFSF to meet the regulatory capital requirements that arose from the acquired business of ATE Bank, as committed in July 2012; that measure was assessed by the Commission in the ATE Liquidation Decision, which found that it did not constitute aid to the Bank;
 - (iii) EUR 524 million injected by the HFSF to meet the capital needs that arose from the payment of the purchase price for the Greek operations of the three Cypriot Banks; that part of the capital increase constitutes measure C ⁽⁴⁴⁾.

⁽⁴¹⁾ The pre-subscription agreement provided that: 'The Effective Risk payable to the Bank shall include the EFSF bonds and any coupon payments and accrued interest to the EFSF bonds for the period from the issuance of the bonds until the conversion of the Advance into share capital and other convertible financial instruments as prescribed herein'.

⁽⁴²⁾ See Table 3.

⁽⁴³⁾ http://www.piraeusbankgroup.com/~media/Com/Piraeus-Bank-Documents/Press-Releases/2013/Apofaseis_BGM_23042013_en.pdf

⁽⁴⁴⁾ See recital 112.

- (102) The price of the new shares was set at EUR 1,70 per share, which corresponds to 50 % of the volume-weighted average stock price over the 50 trading days preceding its determination.
- (103) On 3 June 2013 the Board of Directors of the Bank announced the issuance of 3 888 268 914 new shares with a nominal value of EUR 0,30 at a price of EUR 1,70 per share ⁽⁴⁵⁾. The Bank announced on 28 June 2013 ⁽⁴⁶⁾ that the Board of Directors certified full payment of the total capital increase in share for a total amount of EUR 8 429 million, including premium amounts.
- (104) The total private participation in the Bank's share capital increase amounted to EUR 1 444 million ⁽⁴⁷⁾. That amount includes the participation of BCP as described in recital 80.
- (105) Therefore the participation of the HFSF in the share capital increase of the Bank amounted to EUR million 6 985.
- (106) Immediately after the Spring 2013 recapitalisation, the HFSF became the major shareholder of the Bank with a stake of 81 % ⁽⁴⁸⁾. The HFSF issued warrants and granted private investors one warrant for each share subscribed, for no consideration ⁽⁴⁹⁾. Each warrant incorporates the right to buy 4,48 shares of the HFSF, at specified intervals and strike prices. The first exercise date was 2 January 2014, and then the warrants are exercisable every six months until 2 January 2018. The exercise price is equal to the subscription price of EUR 1,70 increased by an annual interest rate (4 % for year one, 5 % for year two, 6 % for year three, 7 % for year four and then 8 % annualised for the last six months) ⁽⁵⁰⁾.
- (107) The HFSF law as amended in 2014 provides that only the strike prices of the warrants may be adjusted in the event of a rights issue. In addition, any such adjustment will take place *ex post* and only up to the amount of the realised proceeds from the sale of pre-emption rights of the HFSF. No adjustment is provided for in the event of a non-pre-emptive share capital increase.

2.3.4. Aid measures to the acquired businesses (measure C)

2.3.4.1. Aid measures to ATE

- (108) As mentioned in recital 58, at the time of the ATE Restructuring Decision ATE had already benefited from aid measures.
- (109) In December 2011, the Greek State injected EUR 290 million into ATE.
- (110) The resolution of 27 July 2012, as described in recitals 62 and 63, also involved additional support from the State. The HFSF granted the Bank EFSF bonds worth EUR 7 471 million to cover the funding gap. The HFSF also gave a commitment to recapitalise the Bank for an amount of EUR 570 million.
- (111) Overall, the aid related to the Purchase & Assumption procedure amounts to EUR 8 041 million.

2.3.4.2. Aid measures to the Greek operations of the three Cypriot Banks (measure C)

- (112) As already mentioned in recitals 77 and 101, at the time of the acquisition of the Greek operations of the three Cypriot Banks the HFSF gave a commitment to provide EUR 524 million of capital to the Bank (measure C). That commitment was implemented in June 2013 ⁽⁵¹⁾.

2.4. THE RESTRUCTURING PLAN

2.4.1. Domestic operations

- (113) Through the restructuring plan, the Bank will focus on its core banking activities in Greece.
- (114) The key focus is to bring its Greek banking operations back to profitability and viability. To that end, the restructuring plan includes a number of measures aimed at improving the Bank's operational efficiency and net interest margin, as well as measures enhancing its capital position and balance sheet structure.
- (115) As regards operational efficiency, the Bank has already started a vast programme of rationalisation.

⁽⁴⁵⁾ <http://www.piraeusbankgroup.com/~media/Com/Piraeus-Bank-Documents/Press-Releases/2013/Anakoinwsi-apokomis-DS-gia-AMK.pdf>

⁽⁴⁶⁾ <http://www.piraeusbankgroup.com/en/press-office/announcement/2013/06/anakoinosi-kalipsis>

⁽⁴⁷⁾ http://www.hfsf.gr/files/HFSF_activities_Jan_2013_Jun_2013_en.pdf

⁽⁴⁸⁾ http://www.hfsf.gr/files/HFSF_activities_Jan_2013_Jun_2013_en.pdf

⁽⁴⁹⁾ <http://www.piraeusbankgroup.com/~media/Com/Downloads/Investors/PIRAEUS-BANKS-ANNOUNCEMENTS-ON-THE-CHARACTERISTICS-OF-HFSF-WARRANTS.pdf>

⁽⁵⁰⁾ For instance, the exercise price on 2 January 2014 was EUR 1,7340, on 2 July 2014 it was EUR 1,7680, on 2 January 2015, it will be EUR 1,8105, on 2 July 2015, it will be EUR 1,8530 and so forth.

⁽⁵¹⁾ See section 2.3.3.4.

- (116) From 31 December 2011 to 31 December 2013, the Bank reduced its physical presence in Greece by a total of 322 branches taking into account the restructuring of the acquired entities after the acquisition date. The Bank has maintained a sustained rhythm in 2014, with [...] closures already completed in the first semester.

Table 9

Restructuring of the Greek branch network 2010-H1 2014

Period	2011	2012	2013	H1 2014
Total number of branches at the opening of the period or at the date of the acquisition	360	918	1 316	1 037
Of which Piraeus	[...]	[...]	[...]	[...]
ATE	[...]	[...]		
Geniki	[...]	[...]		
Cypriot branches	[...]	[...]		
MBG	[...]	[...]		
Total end of period	346	889	1 037	899
Total branch closures during the period	14	29	279	138

Source: restructuring plan submitted on 25 June 2014, pp. 40 and 125, 2011 and 2012 Annual reports

- (117) The Bank also reduced the total headcount of its banking and non-banking activities in Greece during the period 2011-2013 by 2 519 employees. In particular 2 114 departures were attributable to the voluntary exit scheme implemented by the Bank.

Table 10

Greek headcount reduction 2010-2013

Period	2011	2012	2013
Total headcount at the opening of the period or at the date of the acquisition	6 370	12 616	18 628
Of which Piraeus	[...]	[...]	[...]
ATE	[...]	[...]	
Geniki	[...]	[...]	
Cypriot branches	[...]	[...]	
MBG	[...]	[...]	
Total end of period	6 172	12 365	16 558
Headcount reduction	198	251	2 070

Source: restructuring plan submitted on 25 June 2014, pp. 40 and 125, 2011 and 2012 Annual reports

- (118) From December 2013 until the end of 2017, the Bank plans to further decrease, in Greece, its headcount (from 16 558 to [...] employees) and the size of its network (from 1 037 to [...] branches).⁽⁵²⁾[...]

⁽⁵²⁾ Restructuring plan submitted on 25 June 2014, p. 117.

- (119) The increased efficiency in terms of branches and personnel will help to bring down the total cost of the Bank's Greek activities by [...] % from EUR 1 394 million on a pro forma basis in 2013 to EUR [...] million⁽⁵³⁾ in 2017⁽⁵⁴⁾. As a result, the expected cost-to-income ratio of its Greek activities should fall below [...] % at the end of the restructuring period.
- (120) The restructuring plan also describes how the Bank will reduce its funding costs, which is key to the restoration of viability. The Bank expects to be able to pay lower interest rates on its deposits on the back of the more stable environment and in particular the anticipated stabilisation and recovery of the Greek economy, which is expected to grow again from 2014 onwards. Spreads paid on deposits are expected to decrease in Greece⁽⁵⁵⁾. That decrease in spreads would be mainly achieved by paying much lower rates on time deposits. Similarly, the Bank's reliance on ELA and wider Eurosystem funding will decrease from more than 45 % of its total assets in 2012 to less than [...] % in 2017⁽⁵⁶⁾.
- (121) The restructuring plan anticipates that the Bank will also strengthen its balance sheet. Its net loan-to-deposit ratio in Greece will decrease to [...] % in 2017 (down from 114 % in 2013⁽⁵⁷⁾), while its capital adequacy will further improve.
- (122) Another priority of the Bank is the management of non-performing loans ('NPL'). The Bank will enhance its credit processes regarding both the origination of loans (better collateral coverage and reduced limits) and the management of NPL. The rate of NPL will reach close to [...] % in [...] and then start to decrease, with an expected rate of around [...] % at the end of the restructuring period⁽⁵⁸⁾. The cost of risk (loan loss impairments) will decrease from close to EUR 2 billion in 2013 to less than EUR [...] million in 2018⁽⁵⁹⁾.
- (123) 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 [...] billion in 2018 for the domestic activities.

2.4.2. International banking activities

- (124) To improve the profitability of its foreign activities, the Bank has already begun to implement a significant cost reduction programme in the international network. Between the end of 2011 and March 2014 the number of employees declined by 10 % from 6 634 to 5 948 and the number of branches by 18 % from 499 to 410⁽⁶⁰⁾. The structure of its international portfolio has also been simplified to reduce the cost base⁽⁶¹⁾.
- (125) The restructuring plan highlights the need to reduce the reliance of the foreign subsidiaries on their Greek mother company as regards their funding needs and to continue safeguarding the capital position of the Bank.
- (126) The Bank sold its American subsidiary, which accounted for around EUR 0,7 billion of assets (13 branches and 158 employees), in September 2012.
- (127) The Bank will reduce its foreign assets exposure to EUR [...] billion at the end of June 2018. That figure represents a reduction of [...] %⁽⁶²⁾ compared to the end of 2012⁽⁶³⁾.
- (128) The reduction of the foreign assets will be slightly smaller — to EUR [...] billion — in the event [...] ⁽⁶⁴⁾. In that case the total reduction of foreign assets will amount to [...] % compared to the end of 2012.
- (129) However, instead of complying with the above-mentioned cap of total assets at the end of June 2018, the Bank may decide to divest [...] ⁽⁶⁵⁾. In that case, the activities retained will not represent more than [...] % of the total foreign activities of the Bank at the end of 2012.
- (130) The Bank will reduce its total funding to the foreign subsidiaries.

⁽⁵³⁾ Including contributions to the Deposit and Investment Guarantee Fund ('TEKE').

⁽⁵⁴⁾ Restructuring plan submitted on 25 June 2014, p. 128.

⁽⁵⁵⁾ Restructuring plan submitted on 25 June 2014, p. 117.

⁽⁵⁶⁾ Restructuring plan tables submitted on 25 June 2014, p. 133.

⁽⁵⁷⁾ Restructuring plan submitted on 25 June 2014, p. 117.

⁽⁵⁸⁾ Restructuring plan submitted on 25 June 2014, p. 136.

⁽⁵⁹⁾ Restructuring plan submitted on 25 June 2014, p. 128.

⁽⁶⁰⁾ Annual report 2012 for 2012 figures, <http://www.piraeusbankgroup.com/en/investors/financials/annual-reports>. Restructuring plan submitted on 25 June 2014, p. 96 for 2014 figures.

⁽⁶¹⁾ Restructuring plan submitted on 25 June 2014, p. 97.

⁽⁶²⁾ Restructuring plan submitted on 25 June 2014, p. 149.

⁽⁶³⁾ See Commitments in the Annex, chapter I.

⁽⁶⁴⁾ See Commitments in the Annex, chapter I.

⁽⁶⁵⁾ See Commitments in the Annex, chapter I.

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

- (131) The Bank raised significant amounts of capital on the market and thereby reduced the State aid which was needed by the Bank.
- (132) First, the Bank raised some private capital in 2011 with a rights issue of EUR 807 million⁽⁶⁶⁾. As mentioned in recital 104, the Bank also managed to raise capital from private investors through the Spring 2013 recapitalisation. The pre-existing shareholders were also heavily diluted by the Spring 2013 recapitalisation, since the HFSF held 81 % of the Bank's shares following the Spring 2013 recapitalisation and new investors 17 %, leaving the pre-existing shareholders with only a 2 % shareholding. No dividend has been paid in cash since 2008.
- (133) The Bank raised EUR 1 750 million of capital from the market in April 2014 to cover its additional capital needs and to repay the preference shares held by Greece. The new shares were issued at EUR 1,70, namely the price paid by the HFSF in the framework of the Spring 2013 recapitalisation.
- (134) Moreover, the bank generated capital by buying back its own hybrid and subordinated debt instruments at a discount to nominal value. In March 2012 the Bank offered to buy back some hybrid and lower tier 2 instruments. The price, determined on the basis of the market value and including a premium of no more than ten percentage points, was fixed at 37 % of the nominal value for the hybrid instrument and 50 % of the nominal value for the lower tier 2 instrument. The respective participation rates were 52,8 % and 18,2 %. In May 2013 the Bank launched an additional liability management exercise to buy-back up to EUR 321 million of outstanding securities. The participation rate was 20 %. Those successive buy-backs resulted in a total capital gain of approximately EUR 120 million⁽⁶⁷⁾.

2.5. COMMITMENTS OF THE GREEK AUTHORITIES

- (135) On 25 June 2014 Greece gave a commitment that the Bank and its affiliates will implement the restructuring plan submitted on the same day and gave further commitments regarding the implementation of the restructuring plan ('the Commitments'). The Commitments, which are in the Annex, are summarised in this section.
- (136) First Greece has given a commitment that the Bank will restructure its commercial operations in Greece, setting a maximum number of branches and employees at 31 December 2017 in Greece as well as a maximum amount of total costs for the Greek activities over the year 2017⁽⁶⁸⁾.
- (137) Greece has also given a commitment that the Bank will reduce the cost of deposits collected in Greece. It will comply with a maximum ratio of net loans-to-deposits on 31 December 2017⁽⁶⁹⁾. [...]
- (138) Regarding the Bank's foreign subsidiaries, Greece has given a commitment that the Bank will deleverage its foreign assets by 30 June 2018⁽⁷⁰⁾. Furthermore liquidity or capital support to those subsidiaries is strictly limited in terms of nominal amount and restricted to specific circumstances.
- (139) Greece has given a commitment that the Bank will divest a number of securities. In addition, the Bank will not purchase non-investment grade securities, with limited exceptions⁽⁷¹⁾.
- (140) Greece gave a number of commitments related to the corporate governance of the Bank. It committed to limit the remuneration of the Bank's employees and managers⁽⁷²⁾.
- (141) Greece has also given a commitment that the Bank will apply a prudent credit policy, in order to ensure decisions on granting and restructuring loans aim at maximising the viability and profitability of the Bank. The Bank will comply with high standards regarding the monitoring of credit risk as well as the restructuring of loans⁽⁷³⁾.
- (142) A number of commitments deal with the operations of the Bank with connected borrowers. Those commitments aim at ensuring that the Bank does not deviate from prudent banking practices when for instance granting or restructuring loans to its employees, managers and shareholders, as well as to public entities, political parties and media companies⁽⁷⁴⁾.

⁽⁶⁶⁾ Restructuring plan submitted on 25 June 2014, p. 44.

⁽⁶⁷⁾ Restructuring plan submitted on 25 June 2014, p. 147.

⁽⁶⁸⁾ See Commitments in the Annex, chapter II.

⁽⁶⁹⁾ See Commitment in the Annex, chapter II.

⁽⁷⁰⁾ See Annex, chapter II.

⁽⁷¹⁾ See Annex, chapter II.

⁽⁷²⁾ See Annex, chapter III, section A.

⁽⁷³⁾ See Annex, chapter III, section A.

⁽⁷⁴⁾ See Annex, chapter III, section A.

- (143) Finally, Greece has given a commitment that the Bank will comply with some behavioural limitations, such as a coupon and dividend ban, an acquisition ban and a ban on advertising State support ⁽⁷⁵⁾.
- (144) Those commitments will be monitored until 31 December 2018 by a monitoring trustee.
- (145) Separately, in its submission of 25 June 2014 Greece indicated that it would seek the approval of the Commission prior to any buy-back of the warrants by the Bank or by any State entity including the HFSF ⁽⁷⁶⁾.

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

- (146) On 27 July 2012, the Commission opened the formal investigation procedure in order to verify whether the conditions of the 2008 Banking Communication ⁽⁷⁷⁾ were met regarding the appropriateness, necessity and proportionality of the first bridge recapitalisation provided by the HFSF in favour of the Bank (measure B1).
- (147) Regarding the appropriateness of the measure, the Commission, given the fact that the aid came after prior recapitalisation and liquidity aid and given the protracted rescue period, expressed doubts as to whether all actions possible had been taken by the Bank to avoid it again needing aid in the future ⁽⁷⁸⁾. In addition, the Commission was not clear who would control the Bank in the future once the first bridge recapitalisation was replaced by a permanent recapitalisation ⁽⁷⁹⁾ as the Bank might come either under the control of the State or under the control of the minority private owners who could enjoy control and high leverage. In either case the Commission indicated that the quality of the Bank's management and notably its lending process should be preserved in order for it to find the first bridge recapitalisation appropriate.
- (148) Regarding the necessity of the first bridge recapitalisation, in recital 70 of the Piraeus Opening Decision the Commission questioned whether all the measures possible had been taken to avoid the Bank needing aid again in the future. Moreover, since the duration of the bridge recapitalisation period was uncertain the Commission could not conclude whether it was sufficient and complied with the remuneration and burden-sharing principles under State aid rules. Furthermore, as the terms of the conversion of the first bridge recapitalisation into a permanent recapitalisation were not known at the time the Piraeus Opening Decision was adopted, the Commission could not assess them.
- (149) Regarding the proportionality of the measure, the Commission expressed doubts whether the safeguards (State support advertisement ban, coupon and dividend ban, call option ban and buy-back ban as described in recital 76 of the Piraeus Opening Decision) were sufficient in relation to the first bridge recapitalisation. Furthermore, in recital 77 of the Piraeus Opening Decision the Commission stated that the lack of rules preventing the HFSF from coordinating the four largest core banks (namely, the Bank, Eurobank, NBG and Alpha Bank), and the absence of adequate safeguards to prevent them from sharing commercially sensitive information could lead to distortions of competition. The Commission, therefore, proposed the appointment of a monitoring trustee, physically present in the Bank.

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

4.1. COMMENTS FROM THE BANK

- (150) On 30 August 2012, the Commission received comments from the Bank on the Piraeus Opening Decision.
- (151) Regarding the appropriateness of the measures, the Bank noted that the debt crisis in Greece and the euro area has been an unprecedented situation. The capital injection in May 2009, equivalent to 1,0 % of its RWA, was a direct response to the exceptional turbulence in global financial markets. At the end of 2011, Greece's additional capital injection of EUR 380 million was equivalent to 1,1 % of the Bank's RWA at that time and was designed to address the capital shortfall that was expected to derive from the deepening recession. The EUR 4,7 billion recapitalisation of the Bank by the HFSF was the first part of the recapitalisation that would address the capital shortfall that resulted from the PSI and from the assessment of the loan portfolios carried out by Blackrock ⁽⁸⁰⁾ as well as from the deepening recession.

⁽⁷⁵⁾ See Annex, chapter III, section C.

⁽⁷⁶⁾ 'Finally, as regards the warrants issued by the HFSF, it should be clarified that Hellenic Republic will seek the approval of the European Commission, prior to any buy-back to the warrants by Alpha Bank or by any State entity (including HFSF), so that the European Commission can verify that the envisaged buy-back of the warrants is not contrary to the State remuneration requirements under State aid rules.'

⁽⁷⁷⁾ Communication from the Commission — The application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis (OJ C 270, 25.10.2008, p. 8).

⁽⁷⁸⁾ Recital 64 of the Piraeus Opening Decision.

⁽⁷⁹⁾ Recital 68 of the Piraeus Opening Decision.

⁽⁸⁰⁾ See recital 35.

- (152) It also took the view that the appointment by Greece and the HFSF of one and two members respectively in the Bank's Board of Directors as their representatives and of one member of the HFSF as a member of the Bank's Board Risk Committee, along with others, ensured that it could not take excessive risks.
- (153) Regarding the necessity of the measures, the Bank commented that the form of the recapitalisation as bridge financing was decided by the Greek authorities and by the European Union, the IMF and the ECB and that the amount of bridge recapitalisation of EUR 4,7 billion almost offset the PSI effect. As regards the conversion of the bridge recapitalisation into permanent capital, after the protracted period without a government in Greece in the second quarter of 2012, once a final structure was approved, the dilution of existing shareholders would inevitably be triggered and an adequate remuneration agreed (depending on the terms and instruments used).
- (154) Regarding the proportionality of the measures, the Bank noted that since 2009 it had adjusted its lending practices by applying stricter credit criteria, accelerated repayment terms and reduced credit limits. As of the first quarter of 2009, all requests for disbursements over a specific amount had been reviewed and approved by the deputy Managing Director and the General Manager/Group Credit. It would not alter its current business practices as laid out in the business plan submitted to the Bank of Greece and not undermine current lending standards. Those standards were amongst the strictest in the industry as also indicated by the very good results the Bank had achieved in the Blackrock Solutions diagnostic exercise. Those intentions would be secured by the representation of Greece and HFSF in the Bank's Board of Directors.
- (155) Regarding the Commission's proposal for the appointment of a monitoring trustee, the Bank's view was that there was already close monitoring by several third parties, such as the Bank of Greece, external auditors, Greece's representative and HFSF representatives.

4.2. COMMENTS FROM ANOTHER GREEK BANK

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

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

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

5.1. COMMENTS FROM THE BANK OF GREECE

- (159) Regarding the appropriateness of the first bridge recapitalisation, the Bank of Greece noted that the amount of EUR 18 billion of capital with which the HFSF recapitalised the four largest Greek banks in May 2012 was less than the final amount which was needed for those banks to gradually reach and maintain a Core Tier 1 capital ratio set at 10 % by June 2012 and a Core Tier 1 capital ratio set at 7 % under a three-year adverse stress scenario. It also noted that the first bridge recapitalisation was temporary, given that the recapitalisation process would be concluded with share capital increases by those four banks.
- (160) The Bank of Greece also observed that the recapitalisation of the largest Greek banks was part of the longer-term restructuring of the Greek banking sector. It noted that where a bank remains in private hands, the management will most probably remain the same, while if a bank becomes State-owned (that is to say, owned by the HFSF), the HFSF could appoint new management which, in any case, will be assessed by the Bank of Greece. The Bank of Greece noted that it assesses the corporate governance framework, the adequacy of management and the risk profile of every bank on an ongoing basis in order to ensure that excessive risks are not taken. It also pointed out that the HFSF had already appointed representatives in the Boards of Directors of the recapitalised banks.

- (161) Regarding the necessity of the first bridge recapitalisation, the Bank of Greece observed that the Bank's recapitalisation was limited so as to ensure that the then applicable minimum capital requirements (8 %) were met. It also stated that the protracted period of time prior to the recapitalisations was due to the sharp deterioration of the operating environment in Greece and the impact of the PSI programme, to the complexity of the whole project and to the need to maximise private investors' participation in the share capital increases.
- (162) Regarding the proportionality of the first bridge recapitalisation, the Bank of Greece pointed out that the full implementation of the restructuring plan to be submitted to the Commission would be safeguarded by the fact that the suspension of the voting rights of the HFSF would be lifted if, inter alia, the restructuring plan were substantively violated. The Bank of Greece also observed that the Bank's difficulties were not due either to an underestimation of risks by the Bank's management or to commercially aggressive actions.

5.2. COMMENTS FROM THE HFSF

- (163) Regarding the appropriateness of the first bridge recapitalisation, to address the issue of potential State interference in the event that the State provides high amounts of State aid through the HFSF and the HFSF has full voting rights, the HFSF stated that the HFSF-funded banks are not considered to be public entities or under State control and that they will not be controlled by the State after they have been permanently recapitalised by the HFSF. The HFSF pointed out that it is a fully independent private-law legal entity with autonomy of decision. It is not subject to government control, pursuant to Article 16(C)(2) of the HFSF law, according to which the credit institutions to which the HFSF has provided capital support are not part of the broader public sector. It also pointed to the governing structure of the HFSF.
- (164) As regards the intervention of the HFSF in the Bank's management, the HFSF noted that it would respect the Bank's autonomy and not interfere with its day-to-day management given that its role is limited to that laid down in the HFSF Law. It stated that there would not be any State interference or coordination and that the decisions of the Bank regarding the lending process (inter alia on collateral, pricing and solvency of borrowers) would be taken on the basis of commercial criteria.
- (165) The HFSF pointed out that the HFSF Law and the pre-subscription agreement contained appropriate safeguards in order to prevent existing private shareholders from excessive risk-taking. It pointed to elements such as (i) the appointment of HFSF representatives as independent non-executive members of the Board of Directors of the Bank and their presence at committees, (ii) the HFSF carrying out due diligence in the Bank and (iii) the fact that after the final recapitalisation its voting rights would be restricted only for as long as the Bank complied with the terms of the restructuring plan.
- (166) The HFSF stated that there are appropriate measures in place in order to ensure that banks in which the HFSF participates do not share commercially sensitive information between them. They include the appointment of different HFSF representatives to those banks, the mandates addressed to those representatives which specifically safeguard against the flow of information from one representative to another and clear internal instructions to those representatives not to transmit commercially sensitive information of the banks. Moreover, the HFSF stated that it does not exercise its rights in relation to the banks in a manner which may prevent, restrict, distort or significantly lessen or impede effective competition. Lastly, the HFSF pointed out that the members of its Board of Directors and its employees are subject to strict confidentiality rules and fiduciary duties and are bound by provisions concerning professional secrecy with regards to its affairs.

6. ASSESSMENT OF AID RELATED TO THE ACQUISITION OF ATE AND THE GREEK OPERATIONS OF THE THREE CYPRIOT BANKS

6.1. ASSESSMENT OF AID RELATED TO ATE

- (167) In the ATE Restructuring Decision, the Commission concluded that the measures described in recitals 58 and 108 of this Decision constitute State aid and that they are in line with the internal market.
- (168) In the ATE Liquidation Decision, the Commission concluded that the measures described in recitals 109 and 110 of this Decision constitute State aid to the ATE Transferred Activities. Moreover, the Commission concluded that the aid to ATE is compatible with the internal market only if the integration of the ATE Transferred Activities is implemented according to plan and if the restructuring plan of the Bank – which includes the ATE Transferred Activities – enables its long-term viability to be restored. That restoration of long-term viability will be established in section 7.6.2.
- (169) Therefore, the Commission does not have to reassess the aforementioned measures and confirms that they are compatible with the internal market.

6.2. ASSESSMENT OF AID RELATED TO THE GREEK OPERATIONS OF THE THREE CYPRIOT BANKS (MEASURE C)

6.2.1. Existence and the amount of aid

- (170) The Commission has to establish the existence of State aid within the meaning of Article 107(1) of the Treaty in relation to measure C. According to that provision, State aid is any aid granted by Member State resources in any form whatsoever which distorts, or threatens to distort, competition by favouring certain undertakings or the production of certain goods, in so far as it affects trade between Member States.
- (171) The recapitalisation by the HFSF of the Bank for EUR 524 million, was committed in March 2013 during the bidding process for the acquisition of the Cypriot Transferred Activities. The measure was therefore granted in March 2013. The actual recapitalisation took place in the framework of the Spring 2013 recapitalisation⁽⁸¹⁾.
- (172) The recapitalisation of the Bank was made by the HFSF, which is an entity set up and financed by Greece to support banks, and so the disbursement was made by using State resources.
- (173) As to the beneficiary of the State aid, the recapitalisation, as explained in recital 72, aimed to cover the capital needs that would result from the acquisition of the Cypriot Transferred Activities. Moreover, the recapitalisation would be available to any Greek bank that would acquire the Cypriot Transferred Activities. The bid of the Bank, as submitted to the HFSF for approval, took into account a recapitalisation by the HFSF. At that time capital was scarce for the Greek banks and none of them would have acquired the Cypriot Transferred Activities without the promise of a recapitalisation. Therefore, even though the formal recipient of the capital provided by the HFSF is the Bank, the Commission considers that the beneficiary of the State aid is the Cypriot Transferred Activities, since the measure enables them to be sold to a Greek bank. Without the recapitalisation of the Bank, they would not have been acquired by a Greek bank. They would have been left in groups undergoing extreme difficulties (both Cyprus Popular Bank and Bank of Cyprus were under resolution in view of their large capital needs) and would therefore probably have failed or, at least, would have suffered from a large outflow of deposits. In relation to the existence of an advantage, the Commission also observes that the recapitalisation of the Bank by the HFSF does not comply with the market economy investor principle: at that time of high uncertainty, a private investor operating under normal market conditions would not have given a commitment to inject a large amount of capital into the Bank in the future without knowing the terms of the future injection (that is to say the issue price) in advance.
- (174) Moreover, the measure is *prima facie* selective since it applies exclusively to the Cypriot Transferred Activities (each of which constitutes an undertaking) and not to any other undertaking.
- (175) Last, the Cypriot Transferred Activities, that is to say, the Greek branches of the three Cypriot Banks, compete with other banks, including subsidiaries of foreign banks, which are active in Greece or potentially interested in entering the Greek market. Hence, the rescue of those activities distorts competition and has an effect on trade between Member States.
- (176) The Commission therefore concludes that the recapitalisation of the Bank by the HFSF amounting to EUR 524 million constitutes State aid within the meaning of Article 107(1) of the Treaty.

Beneficiary of the State aid

- (177) As already explained in recital 173, the Commission regards the Cypriot Transferred Activities as being the beneficiary of the disbursement of the EFSF bonds by the HFSF.
- (178) Furthermore, as explained in recitals 71 and 173, the Cypriot Transferred Activities, that is to say the Greek branches of the three Cypriot Banks, had to be acquired by another bank for reasons of financial stability and mainly because the three Cypriot Banks were in a very difficult situation. Therefore, the sale of the Cypriot Transferred Activities and whether that sale entails State aid to the buyer, that is to say the Bank, should be examined under the 'Viability through sale of a bank' section of the Restructuring Communication⁽⁸²⁾.

⁽⁸¹⁾ See recital 101.

⁽⁸²⁾ Commission communication on the return to viability and the assessment of restructuring measures in the financial sector in the current crisis under the State aid rules (OJ C 195, 19.8.2009, p. 9).

- (179) For the purpose of that sale, the Bank of Greece decided to contact only the largest domestic banks operating in Greece, of which only the Bank and two other banks submitted non-binding offers. The Bank is the only bidder that submitted a valid binding offer. The limited set of buyers contacted cannot exclude that the tender was open given that it was reasonable not to expect a formal bid from other investors. Indeed, at that time, due to the financial instability of the Greek banking system, which registered large loan losses due to the deep and protracted recession, foreign banks present in Greece had divested, or were about to divest themselves of their Greek activities (e.g. Geniki, MBG, Emporiki Bank). In other words, they were exiting the Greek market and were not seeking new investments opportunities in Greece. Moreover it is reasonable to assume that only an investor able to quickly stabilise and make viable the acquired activities — i.e. a large banking group — would have been interested in those activities. Finally, due to the very short timeframe available to close the sale — which was dictated by the financial crisis within which the selling banks were operation — the participation of foreign banks or other types of investors in the sales procedure was very unlikely, since those investors would normally have wanted to carry out a due diligence of the assets offered for sale before submitting a formal bid.
- (180) The Commission, therefore, concludes that the sale price of the Cypriot Transferred Activities was the market price and that aid to the buyer, that is to say the Bank, can be excluded.

6.2.2. Legal basis for the compatibility assessment

- (181) Article 107(3)(b) of the Treaty empowers the Commission to find that aid is compatible with the internal market if it is intended 'to remedy a serious disturbance in the economy of a Member State'.
- (182) The Commission has acknowledged that the global financial crisis can create a serious disturbance in the economy of a Member State and that measures supporting banks may remedy that disturbance. This has been confirmed in the 2008 Banking Communication, the Recapitalisation Communication, and the Restructuring Communication. The Commission still considers that the requirements for State aid to be approved pursuant to Article 107(3)(b) of the Treaty are fulfilled in view of the reappearance of stress in financial markets. The Commission confirmed that view by adopting the 2011 Prolongation Communication ⁽⁸³⁾ and the 2013 Banking Communication ⁽⁸⁴⁾.
- (183) In respect of the Greek economy, in its decisions approving and prolonging the Greek Banks Support Scheme as well as in its approvals of State aid measures granted by Greece to individual banks ⁽⁸⁵⁾, the Commission has acknowledged that there is a threat of serious disturbance in the Greek economy and that State support of banks is suitable to remedy that disturbance. Therefore, the legal basis for the assessment of the aid measures should be Article 107(3)(b) of the Treaty.
- (184) During the financial crisis, the Commission has developed compatibility criteria for different types of aid measures. Principles for assessing aid measures were first laid down in the 2008 Banking Communication.
- (185) In line with point 15 of the 2008 Banking Communication, in order for an aid to be compatible under Article 107(3)(b) of the Treaty it must comply with the general criteria for compatibility:
- (a) Appropriateness: The aid has to be well-targeted in order to be able to effectively achieve the objective of remedying a serious disturbance in the economy. It would not be the case if the measure were not appropriate to remedy the disturbance.
 - (b) Necessity: The aid measure must, in its amount and form, be necessary to achieve the objective. Therefore it must be of the minimum amount necessary to achieve the objective, and take the form most appropriate to remedy the disturbance.
 - (c) Proportionality: The positive effects of the measure must be properly balanced against the distortions of competition, in order for the distortions to be limited to the minimum necessary to achieve the measure's objectives.

⁽⁸³⁾ Communication from the Commission on the application, from 1 January 2012, of State aid rules to support measures in favour of financial institutions in the context of the financial crisis (OJ C 356, 6.12.2011, p. 7).

⁽⁸⁴⁾ Communication from the Commission on the application, from 1 August 2013, of State aid rules to support measures in favour of banks in the context of the financial crisis, (OJ C 216, 30.7.2013, p. 1).

⁽⁸⁵⁾ See footnote 6.

- (186) During the financial crisis, the Commission has developed compatibility criteria for different types of aid measures. Principles for assessing aid measures were first laid down in the 2008 Banking Communication.
- (187) The Recapitalisation Communication sets out further guidance on the level of remuneration required for State capital injections.
- (188) Finally, the Commission has explained in the Restructuring Communication how it will assess restructuring plans. In its assessment of the restructuring plan of the Bank under the Restructuring Communication, the Commission will take into account all the measures listed in Table 11.

6.2.3. Compliance of the aid measure C with the 2008 Banking Communication and the Recapitalisation Communication

6.2.3.1. Appropriateness

- (189) With respect to the appropriateness of the measure, that is to say, the commitment given by the HFSF to recapitalise the Bank amounting to EUR 524 million, the Commission considers that the measure is appropriate because it allowed the Greek operations of the three Cypriot Banks to be sold to the Bank.
- (190) In the absence of the measure, none of the Greek banks, including the Bank, would have been willing to acquire the Cypriot Transferred Activities at a time no bank outside of Greece was willing to enter that market. If the Cypriot Transferred Activities had not been acquired, those activities and in particular the deposits of the Greek branches would have been in danger. The measure therefore ensured that financial stability in Greece is maintained. On that basis, the Commission finds that the measure is appropriate as rescue aid.

6.2.3.2. Necessity

- (191) In line with the 2008 Banking Communication, the aid measure must, in its amount and form, be necessary to achieve the objective of the measure. It implies that a capital injection, for example, must be of the minimum amount necessary to achieve that objective.
- (192) At a time when it was very difficult for Greek banks to find capital, the measure covered the capital needs that would result from the payment of the purchase price for the acquisition of the Cypriot Transferred Activities so that the acquisition could occur.
- (193) Moreover, the Commission notes positively that the aid took the form of a capital injection in the framework of the Spring 2013 recapitalisation as the HFSF did not give a grant to the Bank but received ordinary shares for the same value.
- (194) The measure is therefore necessary to achieve the objective of limiting the disturbance in the Greek banking system and the economy as a whole.

6.2.3.3. Proportionality

- (195) The aided activities were sold after the Greek authorities launched a call for tender. In addition, the acquired activities were quickly integrated within the Bank. The aid did not allow the aided activities to remain as separate competitors on the market.
- (196) Furthermore the amount of the aid was relatively small as it corresponds to around 3 % of the total net loans of the Cypriot Transferred Activities (or around 3 % of their RWA) ⁽⁸⁶⁾.
- (197) Therefore, the Commission considers that the measure was designed in such a way as to minimise undue distortions of competition.

6.2.3.4. Conclusion on the compliance with the 2008 Banking Communication and the Recapitalisation Communication

- (198) On the basis of the analysis in recitals 189 to 197, it is concluded that the recapitalisation of the Bank by the HFSF amounting to EUR 524 million was appropriate, necessary to achieve the objective of limiting the disturbance in the Greek banking system and the economy as a whole and was designed in such a way as to minimise undue distortions of competition, and is in line with the 2008 Banking Communication and the Recapitalisation Communication.

⁽⁸⁶⁾ Restructuring plan submitted on 25 June 2014, p. 40.

6.2.4. Compliance of the aid measure with the Restructuring Communication

- (199) As explained in recital 178, the sale of the Cypriot Transferred Activities falls under the section of the Restructuring Communication on 'Viability through sale of a bank'. In line with point 17 of the Restructuring Communication, in the case of the sale of an ailing bank to another financial institution, the requirements of viability, own contribution and limitations of distortions of competition need to be respected.

6.2.4.1. Long-term viability of the Cypriot Transferred Activities through sale

- (200) Point 17 of the Restructuring Communication clarifies that the sale of an ailing bank to another financial institution can contribute to the restoration of long-term viability, if the purchaser is viable and capable of absorbing the transfer of the ailing bank, and may help to restore market confidence.
- (201) The Bank successfully integrated the Cypriot Transferred Activities. As stated in section 7.6, on the basis of its restructuring plan the Bank can be considered as a viable entity. Therefore, the fact that the Cypriot Transferred Activities have been transferred to the Bank allows their long-term viability to be restored.

6.2.4.2. Own contribution and burden-sharing

- (202) Concerning the contribution of the shareholders of the three Cypriot Banks to the restructuring costs, the Commission observes that the three Cypriot Banks did not sell the Cypriot Transferred Activities at their book value but at the value adjusted in line with the PIMCO report. In addition, even after that adjustment was made, the three Cypriot Banks transferred more assets than liabilities to the Bank. Therefore, sufficient burden-sharing of shareholders was achieved since the loss in the value of the Cypriot Transferred Activities was borne by their sellers.

6.2.4.3. Measures to limit distortions of competition

- (203) Regarding measures to limit distortions of competition, point 30 of the Restructuring Communication provides that 'the Commission takes as a starting point for its assessment of the need for such measures, the size, scale and scope of the activities that the bank in question would have upon implementation of a credible restructuring plan ... The nature and form of such measures will depend on two criteria: first, the amount of the aid and the conditions and circumstances under which it was granted and, second, the characteristics of the market or markets on which the beneficiary bank will operate.'
- (204) As described in recital 196, the amount of aid corresponds to around 3 % of the RWA of the Cypriot Transferred Activities. Therefore the Commission considers it to be relatively small given that that amount enabled the sale of the Cypriot Transferred Activities and, as explained in recital 190, ensured the maintenance of the financial stability in Greece.
- (205) Following the sale of the Cypriot Transferred Activities, the Greek branches ceased to exist as stand-alone competitors as they were fully integrated into the Bank.
- (206) The Commission concludes that given the relatively small aid amount to the Cypriot Transferred Activities and the fact that they will not continue to exist as stand-alone competitors, there are no undue distortions of competition.

6.2.4.4. Conclusion on compliance with the Restructuring Communication

- (207) On the basis of the analysis in recitals 199 to 206, it is concluded that the sale of the Cypriot Transferred Activities and their integration into the Bank ensure their long-term viability, that aid is limited to the minimum necessary and that there is no undue distortion of competition, in line with the Restructuring Communication.
- (208) The recapitalisation of the Bank amounting to EUR 524 million by the HFSF should therefore be declared compatible with the internal market.

7. ASSESSMENT OF AID GRANTED TO THE BANK

7.1. EXISTENCE AND AMOUNT OF AID

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

7.1.1. Existence of aid in the measures granted under the Greek Bank Support Scheme

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

- (210) The Commission has already established in the decisions approving and prolonging the Greek Banks Support Scheme⁽⁸⁷⁾ that liquidity support granted under the scheme constitutes aid. In 2011, the Bank issued bonds guaranteed by the State amounting to a total of EUR 9,9 billion. Greece also lent the Bank EUR 1 289 million of government bonds. At the end of March 2014, the outstanding amount of bonds guaranteed by the State and of government bonds was EUR 9,9 billion and EUR 1 024 million respectively⁽⁸⁸⁾. Future liquidity support granted under the Greek Banks Support Scheme would also constitute aid.

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

- (211) The Commission has already established in the Decision of 19 November 2008 on the Greek Banks Support Scheme that recapitalisations to be granted under its recapitalisation measure constitutes aid. The Bank has received EUR 750 million by means of preference shares, which represents 2,1 % of the Bank's RWA⁽⁸⁹⁾.

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

- (212) The Commission clarified in point 51 of the 2008 Banking Communication that the provision of central banks' funds to financial institutions does not constitute aid if four cumulative conditions are met regarding the solvency of the financial institution, the collateralisation of the facility, the interest rate charged to the financial institution, and the absence of counter-guarantee from the State. Since the State-guaranteed ELA granted to the Bank does not comply with those four cumulative conditions, in particular because it is State-guaranteed and it is granted in conjunction with other support measures, it cannot be concluded that the State-guaranteed ELA does not constitute State aid.
- (213) The State-guaranteed ELA meets the requirements laid down in Article 107(1) of the Treaty. First, because that measure includes a State guarantee in favour of the Bank of Greece, any loss will be borne by the State. The measure therefore involves State resources. ELA enables banks to get funding at a time when they have no access to the wholesale funding market and to the regular Eurosystem refinancing operations. The State-guaranteed ELA therefore grants an advantage to the Bank. Because the State-guaranteed ELA is limited to the banking sector the measure is selective. Because the State-guaranteed ELA allows the Bank to continue operating on the market and avoids it defaulting and having to exit the market, it distorts competition. Since the Bank is active in other Member States and since financial institutions from other Member States operate or would potentially be interested in operating in Greece, the advantage granted to the Bank affects trade between Member States.
- (214) On the basis of the above, the Commission considers that the State-guaranteed ELA (measure L2) constitutes State aid. The amount of State-guaranteed ELA has varied over time. On 31 December 2012, it amounted to around EUR 31,4 billion. After a sharp decrease in 2013, it amounted to only EUR 750 million at the end of that year.

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

7.1.3.1. First bridge recapitalisation (measure B1)

- (215) In section 5.1 of the Piraeus Opening Decision, the Commission has already concluded that the first bridge recapitalisation constitutes State aid. The capital received amounted to EUR 4,7 billion.

7.1.3.2. Second bridge recapitalisation (measure B2)

- (216) Measure B2 was implemented with HFSF resources, which, as explained in recital 65 of the Piraeus Opening Decision, involve State resources.

⁽⁸⁷⁾ See footnote 4.

⁽⁸⁸⁾ Restructuring plan submitted on 25 June 2014, p. 51

⁽⁸⁹⁾ See Piraeus Opening decision, recital 41.

- (217) As regards the existence of an advantage, measure B2 increased the Bank's capital ratio to a level that allowed it to continue to function on the market and to access Eurosystem funding. Furthermore, the remuneration of measure B2 consisted of the accrued interests on EFSF notes and an additional 1 % fee. Because that remuneration is manifestly lower than the remuneration of similar capital instruments in the market, the Bank would have certainly been unable to raise that capital on such terms in the market. Therefore, measure B2 granted an advantage to the Bank from State resources. As the measure was made available only to the Bank, it is selective in nature.
- (218) The position of the Bank was strengthened as a result of measure B2 since the Bank was provided with the financial resources necessary to continue to comply with the capital requirements, thus leading to distortions of competition. Since the Bank is active in banking markets in other Member States and since financial institutions from other Member States operate in Greece or would potentially be interested in operating in Greece measure B2 affects trade between Member States.
- (219) The Commission considers that measure B2 constitutes State aid. It was notified as aid by the national authorities. The capital received amounted to EUR 1 553 million.

7.1.3.3. *Commitment letter (measure B3)*

- (220) By measure B3, the HFSF committed to provide the additional capital necessary to complete the recapitalisation of the Bank up to the amount requested by the Bank of Greece in the framework of the stress test of 2012. The HFSF receives its resources from the State. The letter therefore commits State resources. The circumstances in which the HFSF can grant support to financial institutions are precisely defined and limited by law. Accordingly the use of those State resources is imputable to the State. The HFSF gave a commitment to provide up to EUR 1 082 million of additional capital.
- (221) The commitment letter granted an advantage to the Bank because it reassured depositors that the Bank would be able to raise the entire amount of capital it had to raise, that is to say, the HFSF would provide the capital should the Bank fail to raise it on the market. That commitment also facilitated the raising of private capital from the market, since investors were reassured that, if the Bank could not find part of the capital from the market, the HFSF would provide it. No private investor would have accepted to commit before the terms of the recapitalisation were known, and at that time the Bank had no access to capital markets. That advantage is selective since it was not granted to all the banks operating in Greece.
- (222) Since the Bank is active in other Member States and since financial institutions from other Member States operate or would potentially be interested in operating in Greece, measure B3 is also likely to affect trade between Member States and to distort competition.
- (223) Measure B3 therefore constitutes aid and was notified as State aid by the Greek authorities.

7.1.3.4. *HFSF's participation in the Spring 2013 recapitalisation to cover the capital needs of the stress test of 2013 (measure B4)*

- (224) HFSF's participation in the Spring 2013 recapitalisation aiming to cover the capital needs identified in the stress test of 2012 (measure B4) is the partial conversion of the first and second bridge recapitalisations (measures B1 and B2) into a permanent recapitalisation of EUR 5 891 million in ordinary shares. Since measure B4 is the partial conversion of aid already granted, it still involves State resources but it does not increase the nominal amount of aid. However for a given nominal amount of aid, it increases the advantage to the Bank (and therefore the distortions of competition) since it is a permanent recapitalisation and not a temporary recapitalisation as in the case of measures B1 and B2.
- (225) The Commission notes that such support was not granted to all banks operating in Greece. As regards distortions of competition and effect on trade, the Commission notes for instance that the aid enabled the Bank to pursue its operations in other Member States. A liquidation of the Bank would have led to the termination of its activities abroad, through the liquidation of those activities or their sale. In addition, certain banks from other Member States were operating in Greece. Therefore, the measure distorts competition and affects trade between Member States. The Commission therefore considers that measure B4 constitutes State aid.

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

- (226) Measures B1, B2, B3 and B4 constitute State aid within the meaning of Article 107(1) of the Treaty. The amount of State aid included in measures B1, B2, and B3 is EUR 7 335 million. As indicated in section 7.1.3.3, since the Bank attracted private capital amounting to EUR 1 444 million in the Spring 2013 recapitalisation, only part of the first and second bridge recapitalisation (measures B1 and B2) was converted into a permanent recapitalisation (measure B4). The additional capital of EUR 1 082 million (measure B3) committed by the HFSF was not

necessary and therefore not paid out. The amount of State support paid out was therefore only the sum of the first and the second bridge recapitalisations, that is to say EUR 6 253 million and part of that aid was repaid within six months during the Spring 2013 recapitalisation (measure B4) as the private participation exceeded the amount of the commitment.

- (227) Point 31 of the Restructuring Communication indicates that, besides the absolute amount of aid, the Commission has to take into account the aid 'in relation to the bank's risk-weighted assets'. Measures B1, B2, and B3 were granted over the course of a one-year period, from April 2012 until May 2013. During that period, the RWA of the Bank increased greatly following successive acquisitions. The question therefore arises as to which level of RWA should be used, and more particularly whether the State aid should be assessed by reference to the RWA that existed at the beginning of the period or at the end of the period. Measures B1, B2, and B3 aim at covering a capital need identified by the Bank of Greece in March 2012 (the stress test of 2012). In other words, the capital needs that those State support measures aim to address already existed in March 2012. The Commission therefore considers that the aid amount included in measures B1, B2, and B3 should be compared to the RWA of the Bank at 31 March 2012. It is also recalled that, after March 2012 and until the Spring 2013 recapitalisation, the Bank of Greece did not take into account acquisitions made by Greek banks to adjust their capital needs upwards or downwards. That element further demonstrates that measures B1, B2, and B3 were aid measures related to the perimeter of the Bank as it existed at 31 March 2012.
- (228) The aid granted to the Bank amounted to the sum of the first and the second bridge recapitalisations (measures B1 and B2) and the commitment given by the HFSF (measure B3), that is to say EUR 7 335 million or 21,5 % of the Bank's RWA at 31 March 2012.
- (229) The aid paid out to the Bank amounted to the sum of the first and the second bridge recapitalisations (measures B1 and B2), that is to say EUR 6 253 million or 18,4 % of the Bank's RWA at 31 March 2012.
- (230) Since the Bank managed to attract private capital, the amount definitively injected by the HFSF into the Bank in the form of ordinary shares amounted to EUR 5 891 million, which represents 17,3 % of the Bank's RWA at 31 March 2012.

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

- (231) Measures A, B1, B2, B3, B4, L1 and L2 constitute State aid within the meaning of Article 107(1) of the Treaty. Those measures are summarised in Table 11.

Table 11

Overview of the total aid received by the Bank

Ref.	Measure	Type of measure	Amount of aid	Aid/RWA
A	Preference Shares	Capital support	EUR 750 million	2,1 %
B1	First bridge recapitalisation	Capital support	EUR 4 700 million	13,8 %
B2	Second bridge recapitalisation		EUR 1 553 million	4,5 %
B3	Commitment letter		EUR 1 082 million	3,2 %
Total capital aid granted to the Bank A + B1 + B2 + B3			EUR 8 085 million	23,7 %

Ref.	Measure	Type of measure	Amount of aid	Aid/RWA
Total aid paid out to the bank A + B1 + B2			EUR 7 003 million	21,6 %
B4	Recapitalisation	Capital support	EUR 5 891 million	17,3 %
Total capital aid paid out to the Bank minus aid repaid within 6 months			EUR 6 641 million	19,4 %
Ref.	Measure	Type of measure	Nominal amount of aid	
L1	Liquidity support	Guarantee Bond loan	Guarantees: EUR 9,9 billion Bond loans: EUR 1,3 billion	
L2	State-guaranteed ELA	Funding and Guarantee	EUR 31,4 billion	
Total liquidity aid granted to the Bank			EUR 42,6 billion	

7.2. LEGAL BASIS FOR THE COMPATIBILITY ASSESSMENT

- (232) As concluded in recital 183, the legal basis for the assessment of the aid measures should be Article 107(3)(b) of the Treaty ⁽⁹⁰⁾.
- (233) During the financial crisis, the Commission has developed compatibility criteria for different types of aid measures. Principles for assessing aid measures were first laid down in the 2008 Banking Communication.
- (234) Guidance for recapitalisation measures can be found in the Recapitalisation Communication and the 2011 Prolongation Communication.
- (235) The Restructuring Communication defines the approach adopted by the Commission as regards the assessment of restructuring plans, in particular the need to return to viability, to ensure a proper contribution from the beneficiary and to limit distortions of competition.
- (236) That framework was complemented by the 2013 Banking Communication, which applies to aid measures notified or granted without prior approval by the Commission after 31 July 2013.

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

- (237) The liquidity support already received by the Bank has been definitively approved through the successive decisions authorising the measures under the Greek Banks Support Scheme and its amendments and prolongations ⁽⁹¹⁾. Any future liquidity support for the Bank will have to be granted under a scheme duly approved by the Commission. The terms of such aid will have to be authorised by the Commission before it is granted and therefore do not have to be further assessed in this decision.

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

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

⁽⁹⁰⁾ It is also noted that Greece granted the aid to the Bank under the Greek Banks Support Scheme which has been authorised by the Commission on the basis of Article 107(3)(b) of the Treaty as well as through the HFSF whose creation has also been approved by Commission decision.

⁽⁹¹⁾ See footnote 6.

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

- (239) The compatibility of the State-guaranteed ELA (measure L2) should be first assessed on the basis of the 2008 Banking Communication and the 2011 Prolongation Communication. Any State-guaranteed ELA granted without prior approval by the Commission after 31 July 2013 falls under the 2013 Banking Communication.

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

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

7.3. COMPLIANCE OF MEASURE L2 WITH THE 2008 BANKING COMMUNICATION, THE RECAPITALISATION COMMUNICATION AND THE 2011 PROLONGATION COMMUNICATION

- (241) In order for an aid to be compatible under Article 107(3)(b) of the Treaty it must comply with the general criteria for compatibility: appropriateness, necessity and proportionality.
- (242) Because Greek banks were shut out from wholesale markets and became entirely dependent on central bank financing, as indicated in recital 37, and since the Bank could not borrow a sufficient amount of funds through the standard refinancing operations, the Bank relied on State-guaranteed ELA to obtain sufficient liquidity thereby preventing it from defaulting. The Commission considers measure L2 to be an appropriate mechanism to remedy the serious disturbance which would have been caused by the default of the Bank.
- (243) Since the State-guaranteed ELA entails a relatively high cost of funding for the Bank, the Bank has a sufficient incentive to avoid relying on that source of funding for developing its activities. The Bank had to pay an interest rate of [...] bps higher than standard refinancing operations with the Eurosystem. In addition, the Bank had to pay a guarantee fee of [...] bps to the State. As a result, the total cost of State-guaranteed ELA for the Bank is much higher than the normal costs of ECB refinancing. In particular, the difference between the former and the latter is higher than the level of the guarantee fee requested by the 2011 Prolongation Communication. As a result, the total remuneration charged by the State can be considered as sufficient. As regards the amount of the State-guaranteed ELA, it is regularly reviewed by the Bank of Greece and the ECB based on the actual needs of the Bank. They closely monitor its use and ensure it is limited to the minimum necessary. Therefore measure L2 does not provide the Bank with excess liquidity which could be used to finance activities distorting competition. It is limited to the minimum amount necessary.
- (244) Such close scrutiny of the use of the State-guaranteed ELA and regular verification that its use is limited to the minimum also ensures that that liquidity is proportionate and does not lead to undue distortion of competition. The Commission also notes that Greece has given a commitment that the Bank will implement a restructuring plan reducing its reliance on central bank funding and that the Bank will comply with behavioural limitations, as analysed in section 7.6. Those factors ensure that the reliance on liquidity support will end as soon as possible and that such aid is proportionate.
- (245) Measure L2 therefore complies with the 2008 Banking Communication and the 2011 Prolongation Communication. As the 2013 Banking Communication has not introduced further requirements as regards guarantees, measure L2 also complies with the 2013 Banking Communication.

7.4. COMPLIANCE OF MEASURES B1, B2, B3 AND B4 WITH THE 2008 BANKING COMMUNICATION, THE RECAPITALISATION COMMUNICATION, THE 2011 PROLONGATION COMMUNICATION AND THE 2013 BANKING COMMUNICATION

- (246) As indicated in recital 241, and in line with point 15 of the 2008 Banking Communication, in order for an aid to be compatible under Article 107(3)(b) of the Treaty it must comply with the general criteria for compatibility⁽⁹²⁾: appropriateness, necessity and proportionality.

⁽⁹²⁾ See recital 41 of Commission Decision in Case NN 51/2008 Guarantee scheme for banks in Denmark (OJ C 273, 28.10.2008, p. 2).

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

7.4.1. Appropriateness of the measures

- (248) The Commission considers the HFSF recapitalisations (measures B1, B2, B3, and B4) to be appropriate because they enable the Bank to comply with capital requirements. Without the HFSF recapitalisations, the Bank would have been unable to pursue its activities and would have lost access to ECB refinancing operations.
- (249) In that respect, the Commission noted in the Piraeus Opening Decision that the Bank is one of the largest banking institutions in Greece, both in terms of lending and collection of deposits. As such, the Bank is a systemically important bank for Greece. Consequently, a default by the Bank would have created a serious disturbance in the Greek economy. Under the then prevailing circumstances, financial institutions in Greece had difficulties in accessing funding. That lack of funding limited their ability to provide loans to the Greek economy. In that context, the disturbance to the economy would have been aggravated by the default of the Bank. Moreover, measures B1, B2, B3 and B4 came about to a significant extent because of the PSI programme, a highly extraordinary and unpredictable event and not as a result of mismanagement or excessive risk-taking from the Bank. The measures are therefore mainly intended to deal with the results of the PSI programme and contribute to maintaining financial stability in Greece.
- (250) In the Piraeus Opening Decision, the Commission expressed doubts as to whether all the measures possible had been taken immediately to avoid the Bank needing aid again in the future. As indicated in recitals 140 and 141 of this Decision, Greece has given a commitment to implement a number of actions related to the corporate governance and commercial operations of the Bank. As described in recitals 115, 116 and 117, the Bank has also significantly restructured its activities, with many cost reductions already implemented. Therefore the Commission's doubts have been allayed.
- (251) In the Piraeus Opening Decision, the Commission also expressed doubts as to whether sufficient safeguards existed in case the Bank came under State control, or in case private shareholders retained control while the majority of the ownership would be held by the State. The commitments described in recitals 140 and 141 of this Decision ensure that the credit operations of the Bank will be run on a commercial basis and daily business will be protected from State interference. The relationship framework agreed between the HFSF and the Bank also ensures that interests of the State as main shareholder are protected against excessive risk-taking by the management of the Bank.
- (252) Measures B1, B2, B3 and B4 therefore ensure that financial stability in Greece is maintained. Significant actions have been taken to minimise future losses and to ensure that the activities of the Bank are not jeopardised by inappropriate governance. On that basis, the Commission finds that measures B1, B2, B3 and B4 are appropriate.

7.4.2. Necessity — limitation of the aid to the minimum

- (253) In line with the 2008 Banking Communication, the aid measure must, in its amount and form, be necessary to achieve its objective. It means that the capital injection must be of the minimum amount necessary to achieve the objective.
- (254) The amount of capital support was calculated by the Bank of Greece in the framework of the stress test of 2012 so as to ensure that the Bank's Core Tier 1 capital ratio remained above a certain level over the period 2012-2014, as reflected in Table 3. Measures B1, B2, B3 and B4 therefore do not provide the Bank with any excess capital. As explained in recital 250, actions have been taken to reduce the risk that the Bank will need additional aid in the future.
- (255) As regards the remuneration of the first and second bridge recapitalisations (measures B1 and B2), the Commission recalls that they were granted in May 2012 and December 2012 respectively, and paid in kind in the form of EFSF notes. The HFSF has received as remuneration, from the date of disbursement of the EFSF notes to the date of the Spring 2013 recapitalisation, the accrued interest on the EFSF notes plus a 1 % fee⁽⁹³⁾. As underlined in the Piraeus Opening Decision, that remuneration is lower than the 7 % to 9 % range defined in the Recapitalisation Communication. However, the period of low remuneration was limited to one year for measure B1 and five months for measure B2 (that is to say, until the conversion of the bridge recapitalisation into a standard recapitalisation in ordinary shares, namely measure B4). While the first and second bridge recapitalisations did not trigger the

⁽⁹³⁾ See recital 96: the accrued interests count as additional contribution by the HFSF and therefore reduced the payment which HFSF had to make to the Bank to pay the Spring 2013 recapitalisation.

dilution of existing shareholders, the Spring 2013 recapitalisation, which was the partial conversion of the first and second bridge recapitalisations, heavily diluted the pre-existing shareholders, as their stake in the Bank's equity fell to 2,3 %. The abnormal situation which prevailed from the date of the first bridge recapitalisation was then terminated. The doubts raised in the Piraeus Opening Decision have therefore been allayed.

- (256) Second, given the atypical source of the Bank's difficulties, where losses came mainly from a debt waiver in favour of the State (the PSI programme and the debt buy-back, which provide a significant advantage to the State, that is to say, a debt reduction) and from the consequences of a protracted recession in its domestic economy, the Commission can accept such a temporary deviation from the standard remuneration requirements set in the Recapitalisation Communication⁽⁹⁴⁾.
- (257) As regards measure B3, it was a commitment to provide capital in the framework of a future capital increase. That commitment made in December 2012 could have been implemented in an actual injection of capital in May-June 2013, a mere five months later, when the Bank proceeded with its capital increase. Since the Bank attracted private investors, the HFSF was not required to inject the capital committed. In view of the short period during which that commitment to provide capital was in place and for the reasons set out in recital 256, it is acceptable that no remuneration was paid for that commitment.
- (258) As regards measure B4, in line with point 8 of the 2011 Prolongation Communication, capital injections should be subscribed at a sufficient discount to the share price, adjusted for the dilution effect, to give a reasonable assurance of an adequate remuneration for the State. While measure B4 did not provide for a significant discount to the share price as adjusted for the dilution effect, it was, in fact, impossible to achieve a significant discount to the theoretical ex-right price⁽⁹⁵⁾. Prior to the Spring 2013 recapitalisation, the Bank's market capitalisation was only a few hundred millions euros. In such circumstances, the question arises whether the existing shareholders should have been fully wiped out. The Commission notes that the issue price was set at a 50 % discount to the average market price over the fifty days preceding the determination of the issue price. The Commission also notes that the dilution of the existing shareholders has been huge, since after the Spring 2013 recapitalisation they held only 2,3 % of the shareholding of the Bank. Therefore, applying a further discount on the market price would have had a small impact on the remuneration of the HFSF. In view of the specific situation of the Greek banks explained in recital 256, and given the fact that the need for aid stems to a large extent from a waiver of debt in favour of the State, the Commission considers that the issue price of the shares subscribed by the State was sufficiently low.
- (259) The HFSF also issued warrants and granted one warrant for each new share subscribed by a private investor participating in the Spring 2013 recapitalisation. The HFSF granted those warrants for no consideration. As explained in recital 106, each warrant incorporates the right to purchase 4,48 shares of the HFSF at specified intervals and strike prices. The exercise price is equal to the subscription price of the HFSF increased by an annual and cumulative margin (4 % for year one, 5 % for year two, 6 % for year three, 7 % for year four and 8 % per cent annualised for the last six months). The remuneration received by the HFSF on the shares it owns is de facto capped at those levels. That remuneration is lower than the 7 % to 9 % range defined in the Recapitalisation Communication. However, because those warrants were a key factor in the success of the rights issue and private placement launched by the Bank in the framework of the Spring 2013 recapitalisation, the Commission considers that those warrants enabled the Bank to reduce the amount of aid by EUR 1 444 million. Indeed due to the low capital ratio of the Bank prior to the recapitalisation and the high uncertainty prevailing at the time, the simulations which were then available showed that without the warrants, private investors would not have achieved a sufficient return and would not have participated. For the reasons explained in recitals 249 and 256, because the HFSF would receive a minimal positive remuneration if the warrants were exercised and because it was an objective of the MEFP to attract some private investors to keep some banks under private management, and avoid situations where the whole banking sector would be controlled by the HFSF, the Commission can accept such a deviation from the standard remuneration requirements set out in the Recapitalisation Communication. That acceptance is also based on the fact that the HFSF law, as amended in March 2014, does not provide for any adjustment of the warrants in the event of a non-pre-emptive share capital increase, and that in the event of a rights issue only the warrant strike price may be adjusted and the adjustment may take place only *ex post* and only up to the amount of the proceeds realised from the sale of pre-emption rights of the HFSF. Moreover, the commitment given by Greece that it would seek the approval of the Commission prior to any buy-back of the warrants issued by the HFSF will allow the Commission to ensure that any potential future buy-back does not further reduce the remuneration of HFSF and increase the remuneration of the warrant holders.

⁽⁹⁴⁾ See also section 7.5.1.

⁽⁹⁵⁾ The theoretical ex-right price (TERP) is a generally accepted market methodology for quantifying the dilution effect of share capital increase.

- (260) As regards the fact that the HFSF shares are non-voting, the Commission recalls that the need for aid does not come mainly from excessive risk taking. In addition, it was an objective of the MEFP to keep some banks under private management. Moreover, the relationship framework and automatic reintroduction of voting rights in the event of non-implementation of the restructuring plan provide safeguards against future excessive risk taking by private managers. Finally, the PSI and the December 2012 buy-back are a kind of remuneration to the State, as the latter's debt towards the Bank was reduced by several billion euros. For all those reasons, the Commission can accept that the HFSF receives non-voting shares. The Commission therefore concludes that measure B4 was necessary.
- (261) In conclusion, measures B1, B2, B3 and B4 are necessary as rescue aid in both their amount and form.

7.4.3. Proportionality — measures limiting negative spill-over effects

- (262) The Bank has received a very large amount of State aid. That situation may therefore lead to serious distortions of competition. However, Greece has given a commitment to implement a number of measures aiming at reducing negative spill-over effects. In particular, the commitments provide that the Bank's operations will continue to be run on a commercial basis, as explained in recitals 136 and 137. Greece has also committed to an acquisition ban and to a number of divestments, as described in recitals 138, 139 and 143. Limits to distortions of competition will be further assessed in section 7.6.
- (263) A monitoring trustee has been appointed in the Bank to monitor the correct implementation of commitments on corporate governance and commercial operations. That will avoid any detrimental change in the Bank's commercial practice and thereby reduce the potential negative spill-over effects.
- (264) Finally a new comprehensive restructuring plan was submitted on 25 June 2014 to the Commission. That restructuring plan will be assessed in section 7.6.
- (265) To conclude, the doubts raised in the Piraeus Opening Decision have been allayed. Measures B1, B2, B3 and B4 are proportionate in the light of point 15 of the 2008 Banking Communication.

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

- (266) It is thus concluded that the HFSF recapitalisations (measures B1, B2, B3 and B4) are appropriate, necessary and proportionate, in the light of point 15 of the 2008 Banking Communication, of the Recapitalisation Communication and of the 2011 Prolongation Communication. Measures B1, B2, B3 and B4 therefore comply with the 2008 Banking Communication, the Recapitalisation Communication and the 2011 Prolongation Communication.

7.5. COMPLIANCE OF THE ACQUISITIONS OF ATE TRANSFERRED ACTIVITIES, OF GENIKI, OF THE CYPRIOT TRANSFERRED ACTIVITIES AND OF MBG WITH THE RESTRUCTURING COMMUNICATION

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

7.5.1. Compliance of the acquisition of the ATE Transferred Activities with the Restructuring Communication

7.5.1.1. Effect of the acquisition of the ATE Transferred Activities on the long-term viability of the Bank

- (268) The acquisition of the ATE Transferred Activities brought to the Bank a large pool of deposits with a much smaller amount of net loans ⁽⁹⁶⁾. It therefore contributed to significantly reducing the very high loan-to-deposit ratio of the Bank.

⁽⁹⁶⁾ See recital 55.

(269) Furthermore, the acquisition has led to considerable synergies such as cost synergies through branch, staff reduction and IT integration, funding synergies and revenue synergies.

(270) The acquisition is therefore very positive for the restoration of the long-term viability of the Bank.

7.5.1.2. Effect of the acquisition of the ATE Transferred Activities on the amount of aid needed by the Bank

(271) In line with point 23 of the Restructuring Communication, restructuring aid should not be used for the acquisition of other companies but merely to cover restructuring costs which are necessary to restore the viability of the Bank.

(272) The consideration paid by the Bank for the acquisition of the ATE Transferred Activities was determined at 0,6 % of the value of the transferred deposits and amounted to approximately EUR 95 million. It was equivalent to 0,02 % of the total assets of the Bank at the time of the acquisition. That amount can therefore be considered as small, but not negligible.

(273) The acquisition of ATE Transferred Activities dramatically improved the very stressed liquidity position of the Bank and put it in a much more viable situation. The Commission recalls that [...]. Therefore the acquisition and its low purchase price can be considered as essential for the restoration of the long-term viability of the Bank and falls under the exemption in point 23 of the Restructuring Communication.

7.5.1.3. Distortive effect of the acquisition of the ATE Transferred Activities on competition

(274) In line with points 39 and 40 of the Restructuring Communication, State aid should not be used to the detriment of non-aided companies and in particular for acquiring competing businesses. Point 41 of the Restructuring Communication also states that acquisitions may be authorised if they are part of a consolidation process necessary to restore financial stability or to ensure effective competition. In such circumstances the acquisition process should be fair and the acquisition should ensure the conditions of effective competition in the relevant market.

(275) ATE was not deemed viable on a stand-alone basis by the Bank of Greece when it reviewed the viability of all the Greek banks early in 2012. Furthermore, the Bank of Greece analysed different alternatives for ATE (for example, liquidation) and concluded that selling the ATE Transferred Activities was the most attractive option, since it would reduce the execution risk and would minimise the costs for Greece. The acquisition can thus be considered to be part of a consolidation process which is necessary to restore financial stability of the kind described in point 41 of the Restructuring Communication.

(276) Furthermore, no non-aided bidder submitted a bid for the ATE Transferred Activities.

(277) Last, since the acquisition of the ATE Transferred Activities was authorised by the Hellenic Competition Authority⁽⁹⁷⁾, it can be assumed that the outcome of the sale process does not endanger effective competition in Greece.

(278) The acquisition of the ATE Acquired Activities is therefore in line with section 4 of the Restructuring Communication.

7.5.1.4. Conclusion on the acquisition of the ATE Transferred Activities

(279) It is concluded that, in the light of the unique situation of Greek banks and the specificities of the acquisition of the ATE Transferred Activities, that acquisition is in line with the requirements laid down in the Restructuring Communication.

7.5.2. Compliance of the acquisition of Geniki with the Restructuring Communication

7.5.2.1. Effect of the acquisition of Geniki on the long-term viability of the Bank

(280) In terms of operating profitability, the acquisition of Geniki will enhance the Bank's return to long-term viability. According to the analysis submitted by the Bank at the time of that acquisition, merging two banks in the same geographical market will create synergies such as cost savings through personnel reduction and branch closures. The Bank will acquire the customers and depositors of Geniki, thereby significantly reducing distribution costs.

(281) In terms of liquidity position, as illustrated in recital 65, Geniki held more deposits than net loans. Therefore, the acquisition increased the Bank's liquidity and helped the Bank decrease its loan-to-deposit ratio. In addition, Geniki was adequately capitalised before being acquired by the Bank. Thus, the acquisition is not likely to create any future capital needs for the Bank.

⁽⁹⁷⁾ http://www.epant.gr/apofasi_details.php?Lang=gr&id=345&mid=689.

(282) The acquisition is therefore positive for the restoration of the long-term viability of the Bank.

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

(283) In line with point 23 of the Restructuring Communication, restructuring aid should not be used for the acquisition of other companies but merely to cover restructuring costs which are necessary to restore the viability of the Bank. In this case, although the acquisition has positive implications for the Bank's viability, it is not essential for its viability within the meaning of point 23 of the Restructuring Communication.

(284) However, the Bank only paid EUR 1 million to purchase Geniki, which is considered to be a very small amount. Furthermore, Geniki was adequately capitalised and, as a condition to the transaction, Société Générale injected a significant amount of capital into the Bank ⁽⁹⁸⁾.

(285) The Commission concludes that, in the light of the specificities of the transaction (acquisition at a very low price of a fully capitalised bank and injection of capital by the seller into the Bank), the acquisition does not generate any further capital need for the Bank and therefore the acquisition of Geniki exceptionally does not contravene the principle that aid should be limited to the minimum necessary.

7.5.2.3. Distortive effect of the acquisition of Geniki on competition

(286) As stated in recital 274, in line with points 39 and 40 of the Restructuring Communication, State aid should not be used to the detriment of non-aided companies and in particular for acquiring competing businesses, except under specific circumstances.

(287) Geniki was not deemed viable on a stand-alone basis by the Bank of Greece, when it reviewed the viability of all the Greek banks early in 2012. Geniki was generating large losses for Société Générale which therefore wanted to sell it and, if no sale was possible, could have considered how to let it fail. The acquisition can therefore be considered to be part of a consolidation process which is necessary to restore financial stability of the kind described in point 41 of the Restructuring Communication.

(288) Furthermore, no non-aided bidder submitted any valid bid to acquire Geniki. There was therefore no crowding-out of any non-aided bidder by the Bank.

(289) In addition, since the acquisition was authorised by the Hellenic Competition Authority ⁽⁹⁹⁾, it can be assumed that the outcome of the sale process does not endanger effective competition in Greece.

(290) Finally the purchase price was very low. It can therefore not be considered that the Bank used State aid to finance the acquisition. In view of those elements, it can be concluded that the acquisition of Geniki falls under the exemption in point 41 of the Restructuring Communication.

7.5.2.4. Conclusion on the acquisition of Geniki

(291) It is concluded that, in the light of the unique situation of Greek banks and the specificities of the acquisition of Geniki, that acquisition is in line with the requirements laid down in the Restructuring Communication.

7.5.3. Compliance of the acquisition of the Cypriot Transferred Activities with the Restructuring Communication

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

(292) The acquisition of the Cypriot Transferred Activities enhances the long-term viability of the Bank.

(293) According to the analysis submitted by the Bank at the time of the acquisition, the transaction will lead to considerable synergies such as cost synergies through administration and staff cost savings and significant improvement of the cost of deposits. Since the acquisition the Bank has fully integrated the Greek operations of the three Cypriot Banks, rebranded all the branches of the three Cypriot Banks and is well advanced in the rationalisation of the network.

(294) The loan portfolios of the Greek operations of the three Cypriot Banks were well provisioned. Indeed, the Bank acquired those loans at a price well below their nominal amounts: the purchase price was decreased to reflect the future losses estimated by PIMCO in the framework of a stress test. The risk of loan losses exceeding those already reflected in the low purchase price is therefore limited.

⁽⁹⁸⁾ See recital 68

⁽⁹⁹⁾ http://www.epant.gr/news_details.php?Lang=en&id=89&nid=497.

(295) The Bank also acquired a large pool of deposits, nearly as large as the net loans acquired. It therefore strengthened its liquidity position.

(296) The acquisition is therefore positive for the restoration of the long-term viability of the Bank.

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

(297) In line with point 23 of the Restructuring Communication, restructuring aid should not be used for the acquisition of other companies but merely to cover restructuring costs which are necessary to restore the viability of the Bank.

(298) As analysed in section 7.3, the aid aimed to cover the capital needs of the acquirer of the Cypriot Transferred Activities, since their acquisition would ensure the maintenance of financial stability in Greece. The consideration ultimately paid by the Bank for the acquisition of the Cypriot Transferred Activities was far lower than the book value of the acquired portfolio. It was even lower than the value of the loans after it was adjusted downward to reflect the future loan losses estimated by PIMCO under the stress test. The acquisition price could therefore be considered to be negative. That conclusion is supported by the fact that the Bank booked a large negative goodwill when acquiring the Cypriot Transferred Activities, which increased its capital.

(299) However, should it nevertheless be considered that the Bank paid a positive price, the Commission observes that, as a pre-condition of the acquisition, the HFSF had given a commitment to the buyer that it would inject the amount of the purchase price in capital. The HFSF respected that commitment in the framework of the Spring 2013 recapitalisation. That capital injection is aid to the Cypriot Transferred Activities and not to the Bank as explained in section 6.2.1. Therefore, the acquisition did not create a need for additional State aid to the Bank.

(300) It is concluded that, due to the atypical terms (low purchase price and commitment given by the HFSF to inject the purchase price in the framework of a capital increase), the acquisition of the Cypriot Transferred Activities exceptionally does not contravene the principle that aid should be limited to the minimum necessary.

7.5.3.3. Distortive effect of the acquisition of the Cypriot Transferred Activities on competition

(301) As stated in recital 274, in line with points 39 and 40 of the Restructuring Communication, State aid should not be used to the detriment of non-aided companies and in particular for acquiring competing businesses, except under specific circumstances.

(302) The sale of the Greek operations of the Cypriot Banks aimed to safeguard the stability of the Greek banking system and to ensure that the Cypriot Banks could sell those businesses before they were likely to lose any value. The transaction can thus be considered to be part of a consolidation process which is necessary to restore financial stability of the kind described in point 41 of the Restructuring Communication.

(303) Furthermore, no non-aided bidder submitted any valid bid to acquire the three Cypriot Banks. The sale process was open, transparent and non-discriminatory.

(304) Last, since that acquisition was authorised by the Hellenic Competition Authority⁽¹⁰⁰⁾, it can be assumed that the outcome of the sale process does not endanger effective competition in Greece.

(305) In view of those elements, it can be concluded that the acquisition of the Cypriot Transferred Activities falls under the exemption in point 41 of the Restructuring Communication.

7.5.3.4. Conclusion on the acquisition of the Cypriot Transferred Activities

(306) It is concluded that, in the light of the unique situation of Greek banks and the specificities of the acquisition of the Cypriot Transferred Activities, that acquisition is in line with the requirements laid down in the Restructuring Communication.

7.5.4. Compliance of the acquisition of MBG with the Restructuring Communication

7.5.4.1. Effect of the acquisition of MBG on the long-term viability of the Bank

(307) The acquisition of the fully recapitalised MBG enhances the long-term viability of the Bank.

⁽¹⁰⁰⁾ http://www.epant.gr/apofasi_details.php?Lang=gr&id=352&nid=713.

- (308) According to the analysis submitted by the Bank at the time of the acquisition, the transaction will lead to considerable synergies such as cost synergies through branch and staff reduction, lower deposit costs and revenue synergies. In the meantime, the Bank has fully integrated MBG.
- (309) In addition, since MBG was adequately capitalised before being acquired by the Bank and since the bank paid a purchase price of EUR 1 million, the acquisition is not likely to create any future capital needs for the Bank. In addition, the seller gave a commitment, as part of the transaction, to inject EUR 400 million of capital into the Bank. That commitment was implemented in the framework of the Spring 2013 recapitalisation, during which BCP injected EUR 400 million into the Bank.
- (310) It is concluded that the acquisition is positive for the restoration of the long-term viability of the Bank and that the purchase price of MBG was so low that it did not prevent the aid from being limited to the minimum necessary.

7.5.4.2. Effect of the acquisition of MBG on the amount of aid needed by the Bank

- (311) In line with point 23 of the Restructuring Communication, restructuring aid should not be used for the acquisition of other companies but merely to cover restructuring costs which are necessary to restore the viability of the Bank. In this case, although the acquisition has positive implications for the Bank's viability, it is not essential for its viability within the meaning of point 23 of the Restructuring Communication.
- (312) However, the Bank only paid EUR 1 million to purchase MBG, which is considered to be a very small amount. Furthermore, MBG was adequately capitalised by BCP and, as a condition of the transaction, BCP injected EUR 400 million of capital into the Bank⁽¹⁰¹⁾.
- (313) It is concluded that, in the light of the specificities of the transaction (acquisition at a very low price of a fully capitalised bank and injection of capital by the seller into the Bank), the acquisition of MBG does not generate any further capital needs for the Bank and therefore, the acquisition of MBG exceptionally does not contravene the requirement to minimise the aid.

7.5.4.3. Distortive effect of the acquisition of MBG on competition

- (314) As stated in recital 274, in line with points 39 and 40 of the Restructuring Communication, State aid should not be used to the detriment of non-aided companies and in particular for acquiring competing businesses, except under specific circumstances.
- (315) MBG was not deemed viable on a stand-alone basis by the Bank of Greece, when it reviewed the viability of all the Greek banks early in 2012. MBG was generating large losses for BCP which therefore wanted to sell it and, if no sale was possible, could have considered to let it fail. The sale of MBG was also part of BCP's restructuring plan⁽¹⁰²⁾. The acquisition can therefore be considered to be part of a consolidation process which is necessary to restore financial stability of the kind described in point 41 of the Restructuring Communication.
- (316) Furthermore, no non-aided bidder submitted any valid bid to acquire MBG.
- (317) Against that background, it can be concluded that the acquisition of MBG falls under the exemption in point 41 of the Restructuring Communication.

7.5.4.4. Conclusion on the acquisition of MBG

- (318) It is concluded that, in the light of the unique situation of Greek banks and the specificities of the acquisition of MBG, that acquisition is in line with the requirements laid down in the Restructuring Communication.

7.6. COMPLIANCE OF MEASURES A, B1, B2, B3, AND B4 WITH THE RESTRUCTURING COMMUNICATION

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

- (319) As indicated in sections 2.1.1 and 2.1.2, the difficulties faced by the Bank come mainly from the Greek sovereign crisis and the deep recession in Greece and southern Europe. As regards the former factor, the Greek government lost access to financial markets and finally had to negotiate an agreement with its domestic and international creditors, the PSI programme, which resulted in a haircut of the claims held against the State by 53,3 %. In addition, 31,5 % of the claims was exchanged for new GGBs with lower interest rates and longer maturities. Those new GGBs were bought back by the State from the Greek banks in December 2012 at a price between

⁽¹⁰¹⁾ See recital 80.

⁽¹⁰²⁾ Commission Decision of 30 August 2013 in SA.34724, 'Restructuring of Banco Comercial Português (BCP) Group', not yet published.

30,2 % and 40,1 % of their nominal value, thereby crystallising a further loss for the Greek banks. Beside the impact of the PSI programme and the debt buy-back on its capital position, the Bank also observed huge deposit outflows between 2010 and mid-2012, due to the risk that Greece might exit the euro area as a consequence of an unsustainable public debt and the economic recession.

- (320) The aid granted to the Bank, that is to say the sum of measures B1, B2, B3 and B4, or EUR 7 335 million, is above the amount of the loss booked following the PSI programme (EUR 5 911 million).
- (321) A large part of the capital needs stem from standard exposure of a financial institution to the sovereign risk of its domestic country. That fact was also pointed out in recitals 63 and 74 of the Piraeus Opening Decision. As a consequence there is less need for the Bank to address moral hazard issues in its restructuring plan than for other aided financial institutions which accumulated excessive risks. As the aid measures are less distortive, the measures taken to limit distortions of competition should therefore be proportionately softened. Since the PSI programme and the debt buy-back constitute a debt waiver in favour of the State, the remuneration of the State when recapitalising banks can be lower. The Commission, however, observes that the Bank's exposure to the Greek sovereign risk was larger than the exposure of the other large Greek banks ⁽¹⁰³⁾. As a result, not all the losses on GGBs can be attributed to the standard exposure of a financial institution to the sovereign risk of its domestic country.
- (322) The second source of losses for the Bank is the losses on its loans to Greek households and corporations. The Commission considers that those losses are mainly due to the exceptionally deep and protracted recession GDP contraction of approximately 25 % over five years, and are not due to risky lending practices by the Bank. As a result, the aid granted to cover those losses does not create moral hazard, which is the case when the aid shelters a bank from the consequences of past risky behaviours. The aid is therefore less distortive ⁽¹⁰⁴⁾.
- (323) However, part of the capital needs and loan losses of the Bank comes from some international subsidiaries. The stress tests performed in 2012 to determine the capital needs of the Bank indicated that credit loss projections on foreign loans amounted to EUR 1 314 million in the base scenario and EUR 1 624 million in the adverse scenario. Several of those foreign businesses were loss-making in recent years. The losses from international activities amounted to EUR 244 million before taxes in 2012 ⁽¹⁰⁵⁾. The foreign assets also constituted a drain on liquidity.
- (324) Therefore, it can be concluded that a significant part of the losses and the need for aid fall under point 14 of the 2011 Prolongation Communication, which allows the Commission to lighten its requirements. Similarly, part of the need for aid stems from the exceptionally deep recession in Greece and not from risky lending. Such aid does not create moral hazard and is therefore less distortive.
- (325) Finally, part of the need for aid comes from the Bank's own risk taking as regards its large holding of sovereign debt and its foreign subsidiaries.

7.6.2. Viability

- (326) A restructuring plan must ensure that the financial institution is able to restore its long-term viability by the end of the restructuring period (section 2 of the Restructuring Communication). In the case at hand, the restructuring period is defined as the period between the date of adoption of this Decision and 31 December 2018.
- (327) In line with points 9, 10 and 11 of the Restructuring Communication, Greece submitted a comprehensive and detailed restructuring plan which provides complete information on the Bank's business model. The plan also identifies the causes of the difficulties faced by the Bank, as well as the measures taken to tackle all viability issues which it faced. In particular, the restructuring plan describes the strategy chosen to preserve the Bank's operational efficiency and to tackle the high level of NPL, its vulnerable liquidity and capital positions, and its foreign businesses, which, during recent years, have relied on their parent company for their funding and capital.

⁽¹⁰³⁾ See Table 2.

⁽¹⁰⁴⁾ See point 28 of the Restructuring Communication and see recital 320 of the Commission Decision of 5 April 2011 on the measures No C 11/09 (ex NN 53b/2008, NN 2/10 and N 19/10) implemented by the Dutch State for ABN AMRO Group NV (created following the merger between Fortis Bank Nederland and ABN AMRO N) (OJ L 333, 15.12.2011, p. 1).

⁽¹⁰⁵⁾ <http://www.piraeusbankgroup.com/en/investors/financials/presentation-audio-archive>

7.6.2.1. Greek banking activities

- (328) As regards liquidity⁽¹⁰⁶⁾ and the Bank's reliance on Eurosystem funding, the restructuring plan foresees a limited growth of the balance sheet in Greece while the deposit base should grow again. The reliance on State-guaranteed ELA, which has already fallen, will continue to decrease which will also help the Bank to reduce its cost of funding.
- (329) The loan-to-deposit ratio commitment mentioned in recital 137 ensures that the Bank's balance sheet structure will be sustainable at the end of the restructuring period. The sale of securities and of other non-core activities will also strengthen the liquidity position of the Bank. Due to the still stressed liquidity position of the Bank, the Commission can accept the request of the Greek authorities to be authorised to provide liquidity to the Bank under the guarantee and government bond loan measures of the Greek Banks Support Scheme and under the State-guaranteed ELA.
- (330) To decrease its funding costs, Greece has also given a commitment that the Bank will continue reducing the interest rates it pays on deposits in Greece, as described in recital 137. The achievement of such a decrease in the cost of deposits will be a key contribution to improving the pre-provisioning profitability of the Bank.
- (331) Since the start of the crisis the Bank has made large acquisitions which dramatically increased its size and deposits base. The Bank successfully integrated the acquired business in record time. The Bank is currently attempting to realise all the synergies possible following those acquisitions. It has started rationalising its commercial network in Greece, through a reduction in the number of branches and employees⁽¹⁰⁷⁾. By 2017, the total costs of the Bank in Greece will have decreased by a further [...] % compared to 2013. To achieve that target Greece has committed that the Bank will reduce its branches and employees in Greece to [...] and [...] respectively at 31 December 2017, with maximum total costs in Greece of EUR [...] billion. The expected cost-to-income ratio will be less than [...] % at the end of the restructuring period. The Commission considers that the restructuring plan preserves the efficiency of the Bank in the new market environment.
- (332) One other key area is the handling of NPL, since they amounted to 36 % of the Bank's portfolio at 31 December 2013⁽¹⁰⁸⁾. The Bank plans to enhance its credit policy (limits, collateral coverage) and to focus on the core activity in order to minimise its losses. Greece has also given a commitment that the Bank will comply with high standards as regards its credit policy in order to manage risks and to maximise the value for the Bank at each stage of the credit process including restructuring of loans, as described in recital 141.

7.6.2.2. Corporate governance

- (333) Another point of attention is the governance of the Bank given that the HFSF owns the majority of the Bank's shares following the Spring 2013 recapitalisation, but with restricted voting power. Additionally, some of the private investors which control the Bank also own warrants and thus would gain the full benefit if the share price were to soar during the restructuring period. Because that situation could create moral hazard, a specific relationship framework was agreed between the Bank and the HFSF in 2013. That agreement protects the day-to-day business of the Bank from any interference from its main shareholders, while ensuring that the HFSF can monitor the implementation of the restructuring plan and prevent excessive risk-taking by the Bank's management through appropriate consultation procedures. The Bank has also given a commitment to monitor closely its exposure to connected borrowers. The Commission notes positively the fact that the HFSF automatically regains voting rights if the Bank does not implement its restructuring plan.

7.6.2.3. International activities

- (334) Some of the Bank's international activities have drained the Bank's capital and liquidity in the past, as explained in recital 323.
- (335) The restructuring plan anticipates that the Bank will continue to re-focus on its domestic market. The Bank has already sold its subsidiary in the United States of America. It has also started to rationalise the other subsidiaries, to strengthen the loan underwriting process and to reduce the subsidiaries' funding gap. It is planning further rationalisation of its network in the retained subsidiaries, as described in recital 130.
- (336) The total amount of foreign assets will therefore shrink in the future. At the end of the restructuring period they will account for a [...] part of the Bank's total balance sheet.

⁽¹⁰⁶⁾ The Commission also observes that part of the liquidity needs of the Bank stems from the atypical form of the HFSF's participation in the first and second bridge recapitalisations as well as in the Spring 2013 recapitalisation. Indeed, as consideration for its participation, the HFSF transferred to the Bank EFSF notes instead of cash. The Bank holds a large amount of medium- and long-term EFSF notes, which increase its funding needs compared to a situation where the recapitalisation would have been paid in cash. That part of the liquidity needs does not reflect an inappropriate business model or balance sheet structure. It will automatically disappear when the EFSF notes mature.

⁽¹⁰⁷⁾ See recital 116.

⁽¹⁰⁸⁾ Restructuring plan submitted on 25 June 2014, p. 132.

- (337) Therefore the Commission believes that the Bank will have sufficiently restructured and reduced those foreign businesses in size to avoid it being exposed to additional capital needs and liquidity shortages in the future. The commitment described in recital 138 to refrain from injecting large amounts of capital into the Bank's international subsidiaries also contributes to ensuring that foreign subsidiaries will not represent a threat for capital or the liquidity position of the Bank.

7.6.2.4. Conclusion on viability

- (338) The base case scenario as described in section 2.4 shows that at the end of the restructuring period the Bank will be able to realise a return which allows it to cover all its costs and provide an appropriate return on equity taking into account its risk profile. At the same time, the Bank's capital position is projected to remain at a satisfactory level.
- (339) Finally, the Commission takes note of the adverse scenario described in the restructuring plan of the Bank as submitted by the Greek authorities. That adverse scenario is based on a set of assumptions agreed with the HFSF. It takes into account a longer and deeper recession, as well as a more severe deflation of real estate prices. 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.
- (340) The amount of additional capital which was raised in 2014, namely EUR 1 750 million, is sufficient to cope with the baseline scenario of the 2013 stress test in the restructuring period and to repay the preference shares, which the Bank did in May 2014 ⁽¹⁰⁹⁾. [...] The Commission recalls that in the assessment of the capital needs under the baseline scenario, the Bank of Greece already introduced several adjustments which resulted in an increase of the estimated capital needs compared to the capital needs estimated by the Bank in its own baseline scenario. The Commission therefore considers that the baseline capital needs estimated by the Bank of Greece assume a certain degree of stress. To conclude that the Bank is viable, the Commission does not require that the Bank has enough capital upfront to cover the stressed scenario capital needs estimated by the Bank of Greece, as that estimated level represents a high level of stress and as the capital raising of March 2014 shows that the Bank has regained access to capital markets.
- (341) In addition, it is positive that the Bank will not make additional investments in non-investment grade paper, which will help to preserve its capital and liquidity position.
- (342) It is therefore concluded that the combination of the already implemented restructuring and the additional proposed restructuring are sufficient to restore the Bank's long-term viability.

7.6.3. Own contribution and burden-sharing

- (343) As stated in section 3 of the Restructuring Communication, banks and their stakeholders need to contribute to the restructuring as much as possible in order to ensure that aid is limited to the minimum necessary. Thus banks should use their own resources to finance the restructuring, for instance by selling assets, while the stakeholders should absorb the losses of the bank where possible.

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

- (344) The Bank has already divested small foreign businesses (in the United States of America) and deleveraged part of its portfolio in order to enhance both its capital adequacy and its liquidity position. The restructuring plan foresees the deleveraging of its foreign activities, as described in recitals 125 to 129. Considering the deleveraging and the divestments already implemented and following the implementation of the commitments related to the deleveraging and divestments of foreign businesses, the Bank will have significantly reduced its geographical presence in [...]. The downsizing of the Bank's international assets will also significantly reduce the contingent risk that aid will be needed in the future. It therefore helps to reduce the amount of aid to the minimum.
- (345) In order to limit its capital needs, the Bank will not use capital to support or expand its foreign subsidiaries, as described in recital 138. In addition, the commitments made by Greece ensure that the Bank will not make costly acquisitions.
- (346) The Bank has also engaged in a far-reaching cost reduction programme, as indicated in section 2.4.2. Its costs will further decrease until 2017. Its workforce is being reduced and salaries adjusted downwards. Greece has also committed to limit the remuneration of the Bank's managers, [...].

⁽¹⁰⁹⁾ See recital 52.

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

- (347) The historical shareholders of the Bank were diluted by the rights issue completed in 2009⁽¹¹⁰⁾ and then again by the HFSF recapitalisation (measure B4) and private capital raising of 2013 and March 2014. For instance, the stake held by the shareholders of the Bank, which at the time included the investors that injected money in 2009, was reduced from 100 % prior to the Spring 2013 recapitalisation to only 2,3 % after that recapitalisation. In addition, the Bank has not paid any dividend in cash since 2008. In addition to that burden-sharing by historical shareholders, the Bank has raised a significant amount of private capital since the crisis started in 2008, that is to say EUR 807 million in 2009, EUR 1 444 million in 2013 and EUR 1 750 million in 2014.

7.6.3.3. Burden-sharing by subordinated debt holders

- (348) The Bank's hybrid and subordinated debt holders have contributed to the restructuring costs of the Bank. The Bank has performed several liability management exercises in order to generate capital, as described in recital 134.
- (349) The still outstanding instruments are subject to the coupon ban mentioned in recital 143. Therefore, the Commission considers that an adequate burden-sharing from the Bank's hybrid and subordinated debt holders is ensured and the requirements of the Restructuring Communication in that respect are met.

7.6.3.4. Conclusion on own contribution and burden-sharing

- (350) In comparison with the total State recapitalisation received, the own contribution and burden-sharing, especially in the form of sale of assets and downsizing of the loan book, is much lower than what the Commission would usually consider sufficient. The downsizing only concerns the foreign activities, which account for a limited part of the Bank⁽¹¹¹⁾ and the restructuring does not envisage any reduction of the size of the loan and deposit books in Greece, which, to the contrary, have increased dramatically over the last year, following acquisitions. However, the Commission takes into account the elements discussed in section 7.6.1 and in particular the facts that the aid received partly qualifies for the exemption lay down in point 14 of the 2011 Prolongation Communication, under which the Commission can accept a lower own contribution and burden-sharing. The Commission also notes positively that the Bank raised EUR 1 444 million on the market in May 2013 and EUR 1 750 million in March 2014, [...]. Moreover, the capital raised in March 2014 was raised at a price per share equal to the price per share at which the HFSF subscribed in the framework of the Spring 2013 recapitalisation (measure B4). The high issue price therefore limited the dilution of the HFSF. The Bank also repaid the preference shares (measure A). Taking into account all those elements, the restructuring plan can be considered as providing for sufficient own contribution and burden-sharing measures to limit the aid to the minimum necessary.

7.6.4. Measures to limit distortions of competition

- (351) The Restructuring Communication requires a restructuring plan to propose measures limiting distortions of competition and ensuring a competitive banking sector. Moreover, those measures should also address moral hazard issues and ensure that State aid is not used to fund anti-competitive behaviour.
- (352) Point 31 of the Restructuring Communication states that when assessing the amount of aid and the resulting competition distortions, the Commission has to take into account both the absolute and relative amount of the State aid received as well as the degree of burden-sharing and the position of the financial institution on the market after the restructuring. In that respect, the Commission recalls that the Bank has received capital support from the State equivalent to 23,7 % of its RWA⁽¹¹²⁾. In addition, the Bank obtained liquidity guarantees in 2010 amounting to EUR 9,9 billion and government bond loans for an amount of EUR 1,3 billion, representing together almost 25 % of the Bank's balance sheet. In addition, the Bank received State-guaranteed ELA. Measures to limit potential distortions of competition are therefore necessary in view of the large amount of the aid. Additionally, the market share of the Bank in Greece is large. The acquisition of the ATE Transferred Activities, Geniki, MBG and the Cypriot Transferred Activities increased the market shares of the Bank. After those acquisitions, the Bank's market share in deposits in Greece amounted to 29 % at the end of 2013, while its market shares in residential mortgages, consumer loans and corporate loans were 25 %, 22 % and 35 % respectively (compared with 10 %, 8 %, 8 % and 14 % respectively in 2011)⁽¹¹³⁾.

⁽¹¹⁰⁾ See recital 132.

⁽¹¹¹⁾ The size of the proposed own contribution measure has to be compared with the size of the Bank before the acquisitions of the ATE Transferred Activities, Geniki, BCP and the Cypriot Transferred Activities for the reason explained in section 7.1.3.5.

⁽¹¹²⁾ When taking into account only the aid actually paid out, which is the most advantageous and therefore the most distortive of competition, the amount of aid is reduced to 19,4 % of the RWA of the Bank.

⁽¹¹³⁾ Restructuring plan submitted on 25 June 2014, p. 35.

- (353) The Commission recalls that the difficulties of the Bank resulted to a large extent from external shocks such as the Greek sovereign crisis and the protracted recession which has disrupted the Greek economy since 2008, as has already been noted in recital 74 of the Piraeus Opening Decision. The need to address moral hazard issues is therefore reduced. As discussed in section 7.6.1 of this Decision, the distortive effect of the aid measures is lower in the light of those factors as is the need for measures to limit distortions of competition. For those reasons, the Commission can exceptionally accept that, in spite of the high aid amount and the high market shares, the restructuring plan does not envisage any downsizing of the balance sheet and loans in Greece. However it would be problematic if the most aided bank among the four large Greek banks and the one which grew the most through acquisitions over the last years would continue to grow in the restructuring period at a pace quicker than the market, potentially crowding out the less aided banks. Therefore, the Commission welcomes the commitment that the Bank will not grow quicker than the growth of the market.
- (354) However, the Commission notes that the State recapitalisations enabled the Bank to continue its banking activities in foreign markets.
- (355) The Commission notes that, in addition to the deleveraging and restructuring already implemented, the Bank will further restructure and deleverage its foreign assets by 30 June 2018⁽¹¹⁴⁾. In addition the Bank gave a commitment not to use aid to fund the growth of those activities. The aid will therefore not be used to distort competition on those foreign markets.
- (356) Greece has also committed that the Bank will not make costly acquisitions, ensuring that the Bank will not use the State aid received to acquire new business. That ban contributes to ensuring that the aid is strictly used to support the restoration of the viability of the Greek banking activities, and not, for instance, to grow in foreign markets.
- (357) The commitment to decrease the interest paid on Greek deposits from unsustainably high levels also ensures that the aid will not be used to finance unsustainable deposit collection strategies which distort competition on the Greek market. Similarly, the commitment to implement strict guidelines as regards the pricing of new loans, based on a proper credit risk assessment, will prevent the Bank from distorting competition on the Greek market with inappropriate pricing strategies on the loans to customers.
- (358) Taking into account the specific situation described in section 7.6.1 and the measures provided for in the restructuring plan, the Commission considers there are sufficient safeguards to limit distortions of competition.

7.6.5. Monitoring

- (359) In accordance with section 5 of the Restructuring Communication, regular reports are required to allow the Commission to verify that the restructuring plan is being implemented properly. As stated in the commitments given by Greece⁽¹¹⁵⁾, Greece will ensure that until the end of the restructuring period, namely, 31 December 2018, the Monitoring Trustee, which has been appointed by the Bank with the approval of the Commission, will monitor the commitments given by Greece on the restructuring of activities in Greece and abroad and on corporate governance and commercial operations. The Commission therefore finds that proper monitoring of the implementation of the restructuring plan is ensured.

7.6.6. Conclusion on the compliance of measures A, B1, B2, B3 and B4 with the Restructuring Communication

- (360) The Commission finds that the restructuring plan when considered together with the commitments in the Annex to this Decision ensures the restoration of the long-term viability of the Bank, is sufficient with respect to burden-sharing and own contribution, is appropriate to offset the competition distorting effects of the aid measures examined in this Decision and is proportionate. The restructuring plan and commitments submitted to the Commission fulfil the criteria of the Restructuring Communication.

8. CONCLUSION

- (361) The Commission regrets that Greece has unlawfully implemented aid measures B2, B3 and B4 in breach of Article 108(3) of the Treaty, since they were implemented before their formal notification. However, those measures, as well as the other measures analysed in this Decision, can be considered compatible with the internal market,

⁽¹¹⁴⁾ See Annex, chapter II.

⁽¹¹⁵⁾ See recital 129.

HAS ADOPTED THIS DECISION:

Article 1

1. The following measures implemented by Greece constitute State aid within the meaning of Article 107(1) of the Treaty:

- (a) the emergency liquidity assistance provided to Piraeus Bank S.A. by the Bank of Greece and guaranteed by Greece (measure L2);
- (b) the second bridge recapitalisation of EUR 1 553 million granted by the Hellenic Financial Stability Fund (HFSF) to Piraeus Bank S.A. in December 2012 (measure B2);
- (c) the commitment letter of EUR 1 082 million granted by the HFSF to Piraeus Bank S.A. on 20 December 2012 (measure B3);
- (d) the recapitalisation of EUR 5 891 million granted by the HFSF to Piraeus Bank S.A. in Spring 2013 (measure B4); and
- (e) the recapitalisation of EUR 524 million by the HFSF to Piraeus Bank S.A. granted in Spring 2013 (measure C).

2. In the light of the restructuring plan relating to the Piraeus Bank Group, which includes Piraeus Bank S.A. and all its subsidiaries and branches, submitted on 25 June 2014 and of the commitments provided by Greece on that date, the following State aid is compatible with the internal market:

- (a) the capital injection of EUR 750 million granted by Greece to Piraeus Bank S.A. in May 2009 and December 2011 under the Recapitalisation Scheme (measure A);
- (b) the emergency liquidity assistance provided to Piraeus Bank S.A. by the Bank of Greece and guaranteed by Greece since July 2011, for an amount of EUR 30,4 billion at 31 December 2012 (measure L2);
- (c) the first bridge recapitalisation of EUR 4,7 billion granted by the HFSF to Piraeus Bank S.A. in May 2012 (measure B1);
- (d) the second bridge recapitalisation of EUR 1 553 million granted by the HFSF to Piraeus Bank S.A. in December 2012 (measure B2);
- (e) the commitment of EUR 1 082 million granted by the HFSF to Piraeus Bank S.A. on 20 December 2012 (measure B3);
- (f) the recapitalisation of EUR 5 891 million granted by the HFSF to Piraeus Bank S.A. in Spring 2013 (measure B4); and
- (g) the recapitalisation of EUR 524 million granted by the HFSF to Piraeus Bank S.A., in Spring 2013 (measure C).

Article 2

This Decision is addressed to the Hellenic Republic.

Done at Brussels, 23 July 2014.

For the Commission
Joaquín ALMUNIA
Vice-President

ANNEX

PIRAEUS BANK — COMMITMENTS BY THE HELLENIC REPUBLIC

The Hellenic Republic shall ensure that **the Bank** is implementing the restructuring plan submitted on 25 June 2014. The restructuring plan is based on macroeconomic assumptions as provided by the European Commission (the 'Commission') in the Appendix 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 659/1999 ⁽¹⁾.

CHAPTER I. DEFINITIONS

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

- (1) **Bank:** Piraeus Bank S.A. and all its subsidiaries. Therefore, it includes the entire Piraeus Bank Group with all its Greek and non-Greek subsidiaries and branches, both banking and non-banking.
- (2) **Capital accretive bid in the banking sector:** a bid which results in an increase in the regulatory capital ratio of the Bank, taking into account all relevant elements, in particular the profit/loss booked on the transaction and the reduction of RWA resulting from the sale (if necessary corrected for the increase of RWA resulting from remaining financing links).
- (3) **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, run-off or wind down.
- (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 Luxembourg 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.

⁽¹⁾ Council Regulation (EC) No 659/1999 of 22 March 1999 laying down detailed rules for the application of Article 108 of the treaty on the functioning of the European Union (OJ L 83, 27.3.1999, p.1).

- (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. In case of a divestment of Geniki, this figure shall be revised to [...].
- (2) **Number of employees in Greece:** The number of Full Time Equivalents (the 'FTEs') in Greece (Greek banking and non-banking activities) shall amount to [...] at the maximum on 31 December 2017. In case of a divestment of Geniki, this figure shall be revised to [...].
- (3) **Total costs in Greece:** The total costs ⁽¹⁾ in Greece (Greek banking and non-banking activities) shall amount to EUR 1 200 million at the maximum in 2017. In case of a divestment of Geniki, this figure shall be revised to EUR [...] million.
- (4) **Costs of deposits in Greece:** In order to restore its pre-provisioning profitability on the Greek market, the Bank shall decrease the cost of funding through the decrease of cost of deposits collected in Greece (including savings, sight and term deposits, and other similar products offered to customers and which costs are borne by the Bank) [...].
- (5) **Ratio net loans to deposits in Greece:** For the Greek banking activities, the ratio net loans to total deposits shall amount at the maximum to [...] on 31 December 2017. [...]
- (6) **Growth rate of gross loans for the Greek banking activities:** The growth rate of the gross loans shall not be higher than the growth rate of the market as reported by the Bank of Greece, unless the market growth rate is below the Commission's projections (see Appendix) on which the restructuring plan is based. In such case, the loan growth cap can be revised, taking into account macroeconomic conditions and competition in the Greek banking sector. That Commitment shall be monitored on a yearly basis.
- (7) **Support to foreign subsidiaries:** For each foreign subsidiary, from the Effective Date until 30 June 2018, the Bank shall not provide additional equity or subordinated capital for an amount higher than the lesser of (i) [...] % of the RWA of that subsidiary as calculated on 31 December 2012 or (ii) EUR [...] million on aggregate for all foreign subsidiaries (cumulatively between 30 June 2013 and 30 June 2018). 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 [...].
- (8) **Deleverage of non-Greek assets by 30 June 2018:** The Greek authorities commit that the Bank shall fulfil at least one of the following two conditions at 30 June 2018:
- (a) The total size of the portfolio of foreign assets shall be reduced to a maximum amount of EUR [...] billion. If the Bank engages in [...], this cap of EUR [...] billion shall be increased to EUR [...] billion.
- (b) The Bank shall have divested [...]
- (8.1) [...]
- (8.2) [...]
- (9) **Sale of [...]:** [...]
- (10) **Sale of securities:** The portfolio of listed securities, defined as follows, shall be divested by [...] while the portfolio of unlisted securities shall be divested by [...]: these portfolios include all equity investments larger than EUR [...] million, as well as all investments in subordinated bonds and hybrid bonds. This commitment shall not apply to the participations in foreign subsidiaries or to investments in the following entities:
- [...].

⁽¹⁾ Including TEKE contribution.

(11) For any sale performed to comply with the sale or divestment commitments included in this document, 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 ⁽¹⁾;
- (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 30 June 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 [...]. In case of a capital injection from HFSF, the remuneration cap will be re-evaluated in line with the European Banking Communication of 1 August 2013.

CHAPTER III. COMMITMENTS ON CORPORATE GOVERNANCE AND COMMERCIAL OPERATIONS – PROLONGATION AND AMENDMENTS

- (1) The Bank shall continue to implement the Commitments on Corporate Governance and Commercial Operations, as submitted by the Hellenic Republic on 20 November 2012, with the subsequent amendments provided in Chapter III of the Commitments, until 30 June 2018.
- (2) In case an individual Commitment does not apply at the Bank's level, the Bank shall not use the subsidiaries or activities not covered by that individual Commitment to circumvent the Commitment.

Section A. Setting up an efficient and adequate internal organisation

- (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 organisational 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.

⁽¹⁾ This does not apply to the sale of real estate, in which case the Bank can provide financing to the Purchaser, if this new lending is performed in line with prudent lending practice. For the purpose of verifying the compliance with the commitment on deleveraging of non-Greek assets, any new lending falling in the defining of non-Greek assets will be taken into account.

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 centralise 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 authorised 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 standardised credit policy tables. Infringements of that pricing policy shall be reported to the Monitoring Trustee.
- (12) The Risk Management Department shall be responsible for the assessment of credit risk and the valuation of collateral. When assessing the loan quality, the Risk Management Department shall act independently, providing its written opinion so as to ensure that criteria used in the assessment are applied consistently over time and among customers and in respect of the Bank's credit policy.
- (13) Regarding loans to individuals and legal entities, for all the Greek banking activities, on the basis of the best international practices, the Bank shall apply strict individual and aggregated limits governing the maximum loan amount that can be granted to a single credit risk (if at all allowed under Greek and EU law). Those limits shall take into account the maturity of the loan and the quality of any collateral/security provided and shall be set against key benchmarks including against capital.
- (14) Granting loans ⁽¹⁾ to enable borrowers to purchase shares or hybrid instruments of the Bank and other banks ⁽²⁾ shall be prohibited, whoever are those borrowers ⁽³⁾. This provision shall apply and shall be monitored at the Bank's level.
- (15) All loan requests by non-connected borrowers greater than [[...]% of the Bank's RWA] or any loan which keeps the exposure to one group (defined as a group of connected borrowers that represent a single credit risk) higher than [[...]% of the Bank's RWA] shall be reported to the Monitoring Trustee, which may, if the conditions do not appear to be set at arm's-length or if no sufficient information has been provided to the Monitoring Trustee, postpone the granting of the credit line or the loan by [...] working days. In emergency cases, that period may be reduced to [...] working days provided sufficient information has been provided to the Monitoring Trustee. That period will enable the Monitoring Trustee to report the case to the Commission and the HFSF before any definitive decision is taken by the Bank.

⁽¹⁾ For the purpose of that Commitment, the term 'loans' shall be interpreted *largo sensu*, as any kind of financing, e.g. credit facility, guarantee, etc.

⁽²⁾ For clarification, 'other banks' refer to any bank — financial institution in the world.

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

- (16) The Credit Policy shall give clear instructions on the restructuring of loans. It clearly defines which loans are eligible, under which circumstances, and indicates the terms and conditions that can be proposed to eligible customers. For all the Greek banking activities, the Bank shall ensure that all restructurings aim at enhancing the future recoveries by the Bank, thus safeguarding the interest of the Bank. In no case the restructuring policy will jeopardise 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 maximising recovery and preventing any discrimination or preferential treatment in the management of litigations. The Bank shall ensure that all necessary actions are taken to maximise 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 organisation, any public company or government agency shall be considered as a connected borrower. Political parties shall also be treated as connected borrowers in the Credit Policy. Particular focus shall be on decisions regarding any restructuring and write downs of loans to current or former employees, directors, shareholders, managers and their relatives as well as policies followed in the appropriateness, valuation, registration of liens and foreclosure of loan collateral. The definition of connected borrowers has been further specified in a separate document.
- (21) The Risk Management Department shall be responsible for the mapping of all connected groups of borrowers that represent a single credit risk with a view to properly monitoring credit risk concentration.
- (22) Regarding loans to individuals and legal entities, the Bank, on the basis of the best international practices, applies strict individual and aggregated limits governing the maximum loan amount that can be granted to a single credit risk which relates to connected borrowers (if at all allowed under Greek and EU law).
- (23) The Bank shall monitor separately its exposure to connected borrowers including the public sector entities and political parties. The new production of loans ⁽¹⁾ to connected borrowers (annual % of Y-1 stock ⁽²⁾) 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

⁽¹⁾ For clarification, the new production of loans covers also the rolling over of loans and the restructuring of existing loans.

⁽²⁾ 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.

apply to existing general schemes benefiting employees, offering them subsidised loans. The Bank shall report every month about the evolution of that exposure, the amount of the new production and the recent requests greater than [...] % of the Bank's RWA] to be addressed at the Credit committee.

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

Section C: Other restrictions

- (27) **Dividend, Coupon, Repurchase, Call and Buy Back ban:** Unless the Commission otherwise agrees to an exemption, the Hellenic Republic commits that:
- (a) The Bank shall not pay any coupons on hybrid capital instruments (or any other instruments for which the coupon payment is discretionary) or dividends on own funds instruments and subordinated debt instruments other than where there is a legal obligation to do so. The Bank shall not release reserves to put itself in such a position. In case of doubt as to whether, for the purpose of the present Commitment, a legal obligation exists, the Bank shall submit the proposed coupon or dividend payment to the Commission for approval;
- (b) The Bank shall not repurchase any of its own shares or exercise a call option in respect of those own funds instruments and subordinated debt instruments;
- (c) The Bank shall not buy back hybrid capital instruments.
- (28) **Acquisition ban:** The Hellenic Republic commits that the Bank shall not acquire any stake in any undertaking, be it an asset or share transfer. That ban on acquisitions covers both undertaking which have the legal form of a company and any package of assets which forms a business ⁽¹⁾.
- (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 HFSE, acquire businesses and undertakings if it is in exceptional circumstances necessary to restore financial stability or to ensure effective competition.
- (ii) **Exemption not requiring Commission's prior approval:** The Bank may acquire stakes in undertakings provided that:
- (a) The purchase price paid by the Bank for any acquisition is less than [...] % of the balance sheet size ⁽²⁾ of the Bank at the Effective Date of the Commitments ⁽³⁾; and

⁽¹⁾ 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.

⁽²⁾ For clarification, for the purpose of that Commitment, the size of the balance sheet is equal to the Bank's total assets.

⁽³⁾ 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.

- (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, including the conversion of existing debt to equity instruments.
- (29) **Advertising ban:** The Hellenic Republic commits that the Bank shall refrain from advertising referring to State support and from employing any aggressive commercial strategies which would not take place without the support of the Hellenic Republic.

CHAPTER IV. MONITORING TRUSTEE

- (1) The Hellenic Republic commits that the Bank shall amend and extend the mandate of the Monitoring Trustee approved by the Commission and appointed by the Bank on 16 January 2013 until the end of the restructuring period. The Bank shall also broaden the scope of that mandate to incorporate the monitoring of (i) the restructuring plan and (ii) all Commitments set out in this catalogue.
- (2) Four weeks after the Effective Date of the Commitments, the Hellenic Republic shall submit to the Commission the full terms of the amended mandate, which shall include all provisions necessary to enable the Monitoring Trustee to fulfil its duties under those Commitments.
- (3) Additional provisions on the Monitoring Trustee are specified in a separate document.

The Secretary-General
Christina PAPAKONSTANTINOY

Appendix

Macroeconomic projections for Greek domestic operations

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