

Bank Recapitalisation in Greece through the Hellenic Financial Stability Fund

Dimitris TSIBANOULIS

Lisbon, 29 May 2012

- Recapitalization is provided by Greek Bank Restructuring Legislation as a preventive / corrective measure.
- The BoG may request from a credit institution a capital increase as a recovery measure so as to be better off to deal with any financial troubles it may run into in the near future.
- The BoG is entitled to set a specified time limit for the credit institution in question to proceed with it.
- The BoG in assessing such recovery plan may ask for amendments or it may even draft itself a recovery plan for any bank it shall find under financial strain.

Capital support by the HFSF

- The affected credit institution shall submit its request for capital support directly to the Hellenic Financial Stability Fund (HFSF). Such request can be submitted following an instruction from the BoG.
- Submission of a request to the HFSF requires a prior assessment of the viability of the credit institution in question by the BoG.
- Viability criteria

The HFSF shall ensure that credit institutions receiving capital support take steps to achieve restructuring, merger or acquisition or transfer of their business to another financial institution within 24 months from recapitalisation.

Restructuration plans:

- 1) increasing the credit institution's share capital (including through capital support from the HFSF)
- 2) sale of parts of the credit institution
- 3) restoring the credit institution's profitability through cost-cutting, reducing risks or securing support from other companies within its group
- 4) merger or acquisition
- 5) transfer of the credit institution's activities to another financial institution.

Participation of the HFSF in the increase of the capital of the credit institution through

- the issuance of common shares or
- contingent convertible bonds or other convertible financial instruments.

The issue price of shares shall reflect the fair value of the credit institution, disregarding any actual or potential support by the Greek Government, the HFSF or the Bank of Greece outside the Eurosystem's operations. If the credit institution is unable to raise funds from the private sector, the HFSF may decide to provide capital support at prices considerably lower than the average prices prevailing at the market after the announcement of the capital increase by the credit institution, subject to conditions that minimise the risks of negative developments and, therefore, of any burden to the Greek Government.

Dimitris Tsibanoulis

The HFSF shall issue certificates representing rights to acquire shares for the common shares it undertakes, when it provides capital injections to credit institutions.

Private sector investors who participate in the capital increase may acquire these certificates in proportion to their participation in the increase.

Open issues:

- Time of issuance of the securities
- modalities of issuance
- time and modalities of exercising the rights attached thereto
- method for calculating the shares' value
- number of shares for which each security gives a right to acquisition
- modalities under which the titles may be transferred.

- If the participation of the private sector investors in the capital increase is at least equal to [10%] on the amount of the share capital increase, the HFSF shall exercise its voting rights in the Shareholders Meeting only for decisions regarding
 - charter modifications, including capital increase or reduction or providing proxy powers to the executive board to that effect,
 - merger, division, conversion, revival, extension of duration or dissolution of the company,
 - material asset transfers, or
 - any other matters that requires an increased majority as explicitly provided in Law on Sociétés Anonymes.

Disposal of shares and bonds

- The HFSF shall decide on the way and the procedure for disposing its shares and CoCos at a time it deems appropriate and in any case within five years from its participation in the increase of the credit institution's capital, in cases of PS participation, and within two years from its participation in the increase of the credit institution's capital, extendable for two more years by decision of the Finance Minister, in cases of non PS participation.
- The disposal may take place gradually or one-off, at the HFSF discretion, so long as all shares or CoCos are disposed of within the above time limits.
- The disposal of shares or CoCos may not be done towards any entity directly or indirectly belonging to or controlled by the State.
- The sale shall be carried out with a view to maximising benefit for the HFSF and protecting the Greek government's interests, also taking into account the need to strengthen financial stability and ensure a level-playing field in the financial sector.