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To The European Commission

Directorate-General for Competition

Deputy Director-General STATE AID

Mr. Gert-Jan Koopman

**Sale of "The Ethniki" Hellenic General Insurance Company**

Dear Mr Gert-Jan Koopman,

According to the regulations set by the Directorate-General for Competition, companies that receive state funding, have to submit business restructuring plans. The latter implies that the downsizing of corporate activities will not generally affect the market conditions for competitive organisations, drawing the analogies among public business, state-aided companies and private firms in the most appropriate way.

In the years 2012-2013, the recapitalisation of the National Bank of Greece was performed in accordance with the submission of a restructuring plan to the Directorate-General for Competition, which included the commitment to sell part of "The Ethniki" Hellenic General Insurance Company (60%). However, the commitment

was not fulfilled, due to the complete handover of Finansbank (100%), against the initial plans of selling only a lower percentage (40%).

During the recapitalisation process in November 2015, Greek banks were required to submit revised Restructuring Plans to the Directorate-General for Competition. This term stemmed from the fact that banking organisations would need state aid to meet the required capital increase. The obligation was officially signed by the Greek Minister of Finance.

The National Bank of Greece had to cover a total capital gap of € 4.62 billion by attracting private investors. In any other case, the National Bank of Greece had to make use of state aid through the Financial Stability Fund.

The latest restructuring plan assumed that the National Bank of Greece would be committed to proceed to the complete sale of "The Ethniki" Hellenic General Insurance Company, if the total amount of state aid received by the National Bank of Greece exceeded € 2 billion. Considering the above, any deal with the potential buyer should be achieved no later than December 31<sup>st</sup>, 2016 whereas the sale should be completed before June 30<sup>th</sup>, 2017.

Since the National Bank of Greece failed to gather sufficient funding to PRM (Capital Increase) in November 2015, state aid funding was not reduced under € 2 billion. In order for the recapitalisation to be fulfilled, the National Bank of Greece received state aid estimated at € 2.6 billion (Contingent convertibles - CoCos convertible to preferred shares). Therefore, the initial commitment to creditors for the comprehensive sale of "The Ethniki" Hellenic General Insurance Company was still valid.

On November 15<sup>th</sup>, the National Bank of Greece proceeded with the repayment of CoCos, which was estimated at € 2,029.2 million. More specifically, the National Bank of Greece paid back the state funds aimed at improving capital adequacy. Nevertheless, the commitment to the sale of the "The Ethniki" Hellenic General Insurance Company has not been declared null and void.

In accordance with the terms and conditions of the restructuring plan, "bids for a shareholding of at least 80% should not be excluded, so that, if explicitly required by

the best bidder, the Bank may retain a minority stake of up to 25% in its insurance company".

## **Arguments against the sale of "The Ethniki" General Insurance Company**

### **Quantitative characteristics**

- The contribution of "The Ethniki" General Insurance Company in the overall performance of the National Bank of Greece Group as a critical asset (largest subsidiary) is very important, with significant profitability over time. For example, earnings before taxes in 2012 were 92.4 mil., in 2013 111 mil., in 2014 105 mil. and 78 million. euro in 2015. The first nine months of 2016 had a profit before tax of EUR 35,3 mil. and the estimation for 31/12/2016 is to reach 52 mil. euro.
- The Company has surplus capital according to Solvency II (using transitional measures). After approval use of transitional measures, "The Ethniki" General Insurance Company has a solvency capital surplus of 78 mil. Euro and Solvency II ratio 124%, on 09/30/2016. The estimated Solvency II ratio for 31/12/2016 is about 165% (its Solvency Capital Requirements (SCR) are about 332.542 mil. and its eligible own funds to cover the Solvency Capital Requirements are 550.865 mil.).
- There is a very positive outlook for the company's future profitability (multiple positive benefits for the National Bank of Greece Group) after the improvement of the investment environment, budgeted at 45-60 million Euro annually, confirming the predictions of the Revised Restructuring Plan. *"Total domestic operations are expected to return to operating profitability in 2017, which is expected to increase significantly by 2018"*(Revised Bank Restructuring Plan, p. 4).
- The company's market value is increasing (market consistent embedded value) despite the volatile external environment, as confirmed by the update from 31.12.2015 study. According to data of 30.06.2016, the value of "The Ethniki" General Insurance Company

increased significantly and it now ranges from 800 mil. Euros (without estimated future cash flows) to 1 billion euros (when taking into account estimated future cash flows).

- “The Ethniki” General Insurance Company total investments on 31.12.2016 amounted to € 2.83 billion, of which EUR 1.60 billion is invested in Greek assets (at market value). It is not certain whether “The Ethniki” General Insurance Company investments in Greek securities will remain in Greece, if the company is bought by a multinational corporation!
- On 31.12.2016 cash and cash equivalents amounted to € 50.369.000, revealing the high liquidity of the “The Ethniki” General Insurance Company.
- The financial ratios of “The Ethniki” General Insurance Company are impressive, even during the crisis. The ROE (Return on Equity-RoE), which shows how efficiently a company uses its capital to generate additional income (profit) amounted to 22.2% in 2013, 18.5% in 2014 and 11,4% in 2015, while the corresponding figure for the European insurance amounts to 9.8% in the 2<sup>nd</sup> quarter of 2015 (EIOPA - the European Insurance Sector). Similarly, the net profit margin, i.e. what is the net profit for every 1 euro entering the enterprise funds through sales, amounted to 19.4% in 2013, 15,5% in 2014 and 14.1% in 2015.
- The penetration of private insurance in the Greek market is too low compared with the corresponding European penetration, as life insurance premiums amounted to 1% of GDP in Greece, while the corresponding rate in Europe stands at 4.1% and general insurance premiums at 1.2% compared with 2,7% (SwissRe Sigma report no 4/2015). The expected increase in these indicators gives positive outlook for the future.

### **Qualitative characteristics**

- There are a lot of benefits for all stakeholders resulting from the continuing and uninterrupted operation of “The Ethniki” General Insurance Company as a strong pillar of the national economy, through ensuring its operation as “the first insurance”, with a leading position in the industry.

- As market leader (18% of the Greek insurance market), "The Ethniki" General Insurance Company has the potential to significantly influence the policy pursued by the Greek insurance market and, to a very large extent to set the rules. (e.g. pricing the auto insurance sector, where there is a price war ongoing for many years).
- "The Ethniki" General Insurance Company Greek character should be promoted as a viable and profitable company, which competes with multinational giants with success from the beginning of its operation (1891) until today.
- "The Ethniki" General Insurance Company has high brand value (brand equity), which stems from increased brand awareness, customer loyalty and which is significantly strengthened by its Greek character.
- "The Ethniki" General Insurance Company should be recognized as the main national player, who will play a leading role in any merger (consolidation) of Greek insurance companies.
- "The Ethniki" General Insurance Company is a reliable partner to strengthen the second pillar (occupational pension provision) and the third pillar of private pension provision of the "Three Pillar System".
- "The Ethniki" General Insurance Company is a critical factor for the smooth and efficient operation of NBC's Bankassurance operation, with catalytic contribution to the distribution of Bancassurance policies, as a key provider to date (premiums 120 million EUR 2015).
- "The Ethniki" General Insurance Company has an extensive sales network with 2,200 exclusive cooperation partners, 12 branches (premium 300 million. Euro 2015) and 1500 independent partners throughout Greece (premium 119 million. EUR 2015).
- It should be noted that those Greek Insurance Companies that were sold in the past years to multinational groups have downsized their operations, which resulted in extensive job losses.

