RIIGIABI – IIRIMAA

Riigiabi C 25/10 (ex N 212/10) – Educational Building Society ümberkorraldamine

Kutse märkuste esitamiseks Euroopa Liidu toimimise lepingu artikli 108 lõike 2 kohaselt

(EMPs kohaldatav tekst)

(2010/C 300/07)

Käesoleva kokkuvõtte järel autentses keeles 11. oktoobri 2010 esitatud kirjas teatas komisjon Iirimaa ametiasutustele oma otsusest algatada ELi toimimise lepingu artikli 108 lõikega 2 ette nähtud menetlus seoses eespool nimetatud meetmega.

Huvitatud isikud võivad esitada oma märkused meetme kohta, mille suhtes komisjon algatab menetluse, ühe kuu jooksul alates käesoleva kokkuvõtte ja sellele lisatud kirja avaldamisest aadressil:

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Märkused edastatakse Iirimaa ametiasutustele. Märkusi esitavad huvitatud isikud võivad kirjalikult taotleda neid käsitlevate andmete konfidentsiaalsust, täpsustades taotluse põhjused.

KOKKUVÕTE

I. **MENETLUS**

(1) Komisjon andis 2. juunil 2010 ajutiselt loa Educational Building Society (edaspidi „EBS") hädaabi korras rekapitaliseerimiseks, tingimusel et Iirimaa ametiasutused esitavad EBSi ümberkorralduskava 30. juuniks 2010 [1]. Iirimaa ametiasutused esitasid EBSi ümberkorralduskava 31. mail 2010.

II. **ASJAOLUD**

(2) EBS on Iirimaa suurim ehituslaenuettevõtja ning suuruselt kaheksas Iirimaal tegutsev finantseerimisasutus. EBS tegutseb ainult Iirimaal ning pakub oma liikmetele traditsioonilisi jaepangandustooteid (hoiustamine, hüpoteeklaenud) kooskõlas oma ehituslaenuettevõtja staatusega. Vastavalt EBSi 2009. aasta aruandele oli ettevõtja bilansimaht 31. detsembri 2009 seisuga 21,5 miljardit EUR. 2008. aastal oli ettevõtja kahjum 38 miljonit EUR, 2009. aastal aga 78,8 miljonit EUR. selle põhjuseks oli peamiselt ärikinnisvara laenuportfelli väärtuse langus 197,4 miljoni EUR ulatuses.

(3) EBSi on toetatud mitme abimeetmega, näiteks rekapitaliseerimine, varade suhtes kohaldatav toetusmeede või võlainstrumentide tagatised. Rekapitaliseerimine, mille tulemusena EBS natsionaliseeriti, toimub 875 miljoni EUR suuruses summas ning see makstakse osamaksetena. Langenud väärtusega varade suhtes kohaldatav meede hõlmab umbes 900 miljoni EUR väärtuses maa- ja kinnisvaraarenduseks võetud laenude ostmist riikliku varahaldusameti poolt. Peale selle on enamik EBSi kohustusi kaetud erinevate Iirimaa tagatisskeemide raames [2].

(4) Ajavahemikku 2010–2014 hõlmava ümberkorralduskava kohaselt lõpetas EBS maa- ja kinnisvaraarenduseks mõeldud laenude ning ärilaenude andmise alates 2009. aasta aprillist ning keskendus jaehüpoteeklaenudele ning jaehoiustele. EBS on haaranud hüpoteeklaenude jaeturul märkimisväärse turuosa ja hoiab seda praegugi (ligikaudu [10–20] (*) % võrreldes [5–10] %-ga enne kriisi), kuigi turumaht (uued kogulaenud) on langenud 23 miljardilt EUR 2008. aastal 8 miljardi EUR 2009. aastal. Laenude väärtuse langemisest tulenev kahju tipneb 2010. aastal ning hakkab seejärel oluliselt langema. Vabade vahendite saamiseks kavatseb EBS

[1] Vt komisjoni otsus juhtumis N 160/10, *Capital support measures in relation to EBS* (ELT C 217, 11.8.2010, lk 2).

[2] Vt komisjoni otsus juhtumis NN 48/08, *Guarantee Scheme for Banks in Ireland* (ELT C 312, 6.12.2008, lk 2), komisjoni otsus juhtumis N 349/09, *Eligible Liabilities Guarantee Scheme* (ELT C 72, 20.3.2010, lk 6). Tagatisskeemi pikendati hiljem muudetud tingimustega 31. mail 2010 komisjoni otsusega juhtumis N 198/10, *Prolongation of the Eligible Liabilities Guarantee Scheme* (ELT C 191, 15.7.2010, lk 1) ja 29. juunil 2010 komisjoni otsusega juhtumis N 254/10, *Second prolongation of the Eligible Liabilities Guarantee Scheme*, (ELT C 238, 3.9.2010, lk 2). Tagatisskeemiga kaetud lühiajaliste kohustuste tagatise kehtivust pikendati 21. septembril 2010 komisjoni otsusega juhtumis N 347/10, *Short term guarantees under the ELG scheme from September to December 2010*, seni avaldamata.

(*) Sisaldab konfidentsiaalset teavet, võimalikud arvud on asendatud nurksulgudes vahemikega.

koguda rohkem hoiuseid (nii eraisikute kui ka ettevõtjate hoiused) ning loobuda hulgitasandi rahastamisest, asendades lühiajalise rahastamise pikaajalise rahastamisega. EBS vähendab veelgi oma kulude-tulude suhet.

(5) EBS jõuab tagasi kasumisse tavaolukorras 2012. aastal ning stressiolukorras 2013. aastal. Esimese taseme põhikapitali määr jääb regulaatori määratud tasemele, mis on üle 8 % nii tava- kui ka stressiolukorras. Liikmete omandiõigus on võõrandatud. Riik üritab panka maha müüa, […]. Arvestades panga väiksust, eraldiseisvate tütarettevõtjate ning eraldatavate tegevuste vähesust, ei ole kavas tegevusharusid või üksusi loovutada. Lisaks sellele ei vähenda panga bilansimaht tema turuosa ümberkorraldusperioodil. Iirimaa ametiasutused kinnitavad, et EBSi jätkuv kohalolek on oluline finantsstabiilsuse säilitamiseks ning hüpoteeklaenude jaeturu parandamiseks, kuna enamik Iirimaal esindatud finantseerimisasutustest kärbivad ja vähendavad dramaatiliselt hüpoteeklaenude väljastamist. Iirimaa ametiasutused märgivad, et kõnealune suundumus lühemas ega pikemas perspektiivis ei muutu.

III. HINNANG

(6) Komisjon märkis EBSi 875 miljoni EUR suuruse rekapitaliseerimise heakskiitmise dokumendis, et esitada tuleks üksikasjalik ümberkorralduskava, milles võetakse arvesse kõiki EBSile antud abimeetmeid. Komisjonile esitati 31. mail 2010 ümberkorralduskava, mille aluseks on oletus, et EBS jääb eraldiseisvaks üksuseks. Sellest tulenevalt märkisid Iirimaa ametiasutused, et nad tegelevad aktiivselt EBSi müümisega kolmandatele isikutele. Igasugune müük mõjutab ümberkorralduskava ning eeldab pärast müüki uue ümberkorraldamiskava esitamist. Komisjon teostab ühisturuga kokkusobivuse hindamise käesoleva rikkumismenetluse algatamise otsusega praeguse ümberkorralduskava alusel, kuid tema lõplik otsus peab põhinema EBSi olukorral kõnealuse otsuse vastuvõtmise ajal.

(7) Seoses ümberkorralduskava võimega tagada EBSi pikaajaline elujõulisus, kahtleb komisjon, kas teatavad kavas esitatud eeldused on mõistlikud, ning seetõttu kutsutakse Iirimaa ametiasutusi üles esitama nende kinnitamiseks täiendavat teavet.

(8) Lisaks sellele kahtleb komisjon, kas kõnealust abi on piiratud miinimumini, kuna EBSi põhikapitali määr ületab jätkuvalt märkimisväärselt finantsreguleerija poolt tavaolukorra puhuks kehtestatud miinimumi.

(9) Võttes arvesse EBSi saadud suurt abi hulka nii absoluutarvudes kui ka riskiga kaalutud varade tähenduses (sealhulgas tagatiste abielement), kahtleb komisjon ka selles, kas abi konkurentsi moonutava mõju tasakaalustamiseks on võetud piisavaid meetmeid. Peale selle on komisjonil kahtlusi seoses sellega, kas Iirimaa hüpoteeklaenuturul kestab pakkumise vähesus tõepoolest veel mitu järgmist aastat, nagu väidavad Iirimaa ametiasutused. Komisjon kutsub kolmandaid isikuid käesoleva väite kohta märkusi esitama.

KIRJA TEKST

„The Commission wishes to inform the Irish authorities that, having examined the information supplied by your authorities on the measure referred to above, it has decided to initiate the procedure laid down in Article 108(2) of the Treaty on the Functioning of the European Union (hereinafter “TFEU”) with regard to the restructuring plan submitted by the Irish authorities on 31 May 2010, since the Commission has doubts as to the compatibility of that restructuring plan and the associated aid measures with the internal market in the light of the Commission’s Communication on the return to viability and the assessment of restructuring measures in the financial sector in the current financial crisis under the State aid rules [3] (hereinafter “the Restructuring Communication”).

1. PROCEDURE

(1) By decision of 2 June 2010 [4], the Commission temporarily authorised a recapitalisation of Educational Building Society (hereinafter “EBS”) as emergency aid subject to the condition that Irish authorities would submit an in-depth restructuring plan for EBS before 30 June 2010.

(2) On 31 May 2010, the Irish authorities submitted a restructuring plan for EBS.

(3) The Commission requested further information regarding the restructuring plan on 21 June and 9 July 2010. The Irish authorities responded on 9, 13 and 14 July, 26 August and 2 September 2010.

(4) The Commission services met with the Irish authorities and EBS on 31 August 2010.

2. DESCRIPTION OF THE MEASURE

2.1. The beneficiary

(5) EBS is Ireland’s largest building society and the eighth largest financial institution operating in Ireland. Building societies are mutual organisations which have no shareholders but instead are owned by their members, who are also their clients. Their objective is to collect deposits and provide loans. Profits are used to adapt interest rates to the advantage of the members, or are accumulated as reserves.

(6) EBS offers traditional retail banking products to its members (savings and mortgages) in line with its goal as a building society. It also has a treasury department […] (*). From 2005, it expanded its activities in commercial property lending, building up a loan book directly and indirectly related to that activity which amounted to EUR 2,3 billion as at December 2009.

(3) OJ C 195, 19.8.2009, p. 9.

(4) See Commission Decision in Case N 160/10, *Capital support measures in relation to EBS* (OJ C 217, 11.8.2010, p. 2).

(*) Confidential information.

(7) EBS is only active in Ireland, where it operates a branch network of 14 branch offices, 42 tied branch agents, 43 branch agents (who also offer the products of EBS' competitors) and a broker network through its subsidiary Haven Mortgage Limited (Haven).

(8) According to its 2009 Annual Report, EBS' total balance sheet amounts to EUR 21,5 billion on 31 December 2009. After a loss of EUR 38 million in 2008, it recorded a loss of EUR 78,8 million in 2009, which was mainly due to EUR 197,4 million of impairments, in particular its commercial property loan book.

(9) EBS' entire loan book as on 31 December 2009 amounted to EUR 16,4 billion, of which the commercial loan book makes up EUR 2,3 billion. […] deposits amounted to around EUR 11 billion. EBS' loan book consists of: residential lending (78 %), buy-to-let (11 %), commercial lending (6 %), land and development (3 %) and associated loans (2 %). EBS' commercial loan book can be further broken down into retail (49 %), hospitality and leisure (10 %), other services (40 %) and other (1 %).

2.2. **The events triggering the measures**

(10) The decision by the Irish Government to intervene in favour of EBS was taken in the context of the global financial crisis, which, combined with the specific situation of the Irish economy, led to the deterioration of EBS' financial position, in particular as a consequence of the sharp reduction in property values in Ireland following years of rapid growth.

(11) The decrease in property values in Ireland caused a deterioration of the institution's financial position which has become more apparent after an in-depth assessment of its loan book. In the light of the size and activities of EBS, that deterioration is regarded by the Irish authorities as creating a significant risk of systemic disturbance to the financial system in Ireland.

(12) EBS has a relatively limited exposure to commercial real estate loans in absolute terms compared to other financial institutions, due to the fact that it developed its activity in that segment from 2005. However, it extended loans at the top of the property bubble and has had to take large impairments on this loan book as a result. Impairments will continue to put pressure on EBS' profitability in 2010 and 2011 as, on top of the losses resulting from the transfer of commercial property loans to NAMA, impairments on non-commercial property loans will also increase due to the deterioration of the quality of the mortgage loan book. Expected losses before tax for 2010 and 2011 are estimated at EUR […] million and EUR […] million respectively.

(13) In addition, EBS' regulatory capital requirements have been raised by the Financial Regulator as a result of a Prudential Capital Assessment Review (PCAR) that was carried out for the period 2009-2012. During this process, the capital requirements for all Irish financial institutions were assessed in a base and a stress case. The requirement for passing the base case test was to be capitalised to a level of 8 % Core Tier 1, after taking into account forecasted loan losses through to 2012. As a further prudential requirement, the capital used to meet the base case target must be principally in the form of equity, with 7 % equity as the target level. The test for the stress case was designed to ensure that credit institutions have a sufficient capital buffer of at least 4 % Core Tier 1 capital to withstand losses under an adverse scenario.

2.3. **The aid measures received by EBS**

(14) EBS has benefited from several aid measures, more specifically a recapitalisation, an asset relief measure and guarantees on its debt instruments.

Recapitalisation

(15) On 2 June 2010, the Commission approved the recapitalisation of EBS for a total amount of up to EUR 875 million, split between two measures, a EUR 100 million capital injection through the issuance of Special Investment Shares (hereinafter "SIS") and a further capital injection of up to EUR 775 million through a direct grant in the form of a promissory note. Both instruments qualify as Core Tier 1 capital.

(16) The rights attached to the SIS include the right of the Irish authorities to appoint and remove the majority of the directors, including the Chairman and CEO. In addition, the SIS will give the Irish authorities privileged voting powers, resulting in the control of EBS. The ordinary share members of EBS have been wiped-out as far as their economic ownership rights are concerned. If EBS were to be converted from a building society into a limited liability company, the SIS would be converted into ordinary shares with the same rights attached as the SIS. The members who would otherwise have received an amount of shares to reflect their economic ownership in the building society, will instead, under the terms of the SIS, not receive any shares upon conversion. As a result, EBS was therefore effectively nationalised by the Irish authorities.

(17) The SIS can be remunerated through the pay-out of a dividend if EBS has sufficient adjusted distributable reserves and does not breach its regulatory capital requirements. The SIS can be redeemed by EBS only if it can replace the SIS by other Core Tier 1 capital, it is not in breach of its capital requirements, the Irish authorities have given their consent and all State capital provided to EBS has been repaid. The Irish authorities have provided the commitment that they will seek the prior agreement of the Commission if such a redemption is contemplated.

(18) As for the promissory note with a value up to EUR 775 million, the principal amount of the promissory note was committed to EBS on the date of issuance and will cover EBS' capital requirements until 31 December 2010. Although the full principal amount will be committed to EBS immediately, the amount will be paid-out to EBS in annual payments of a maximum of 10 % of the principal over a 10-year period. On the asset side of the balance sheet, the principal amount will decrease over

time, each time the State pays out part of the principal to EBS. In order to ensure that the value of the promissory note in the accounts of EBS (where it will be reported at present value) is not lower than its current nominal value (which would result in a reduction of Core Tier 1 capital), the Irish authorities will pay every year a coupon on the average (unpaid) principal amount during the preceding year. The Irish authorities intend to accumulate the coupon and pay it after the payment of the principal amount. In consequence, the duration of the payments made to EBS is increased by four years to fourteen years in total.

(19) The promissory note is not remunerated separately by EBS, the Irish authorities will not obtain any further rights in EBS and repayment of the note is not possible under the term sheet.

(20) The emergency recapitalisation of EBS as approved by the Commission in its decision of 2 June 2010 triggered the need for an in-depth restructuring plan.

Impaired asset relief

(21) EBS will participate in the NAMA scheme established by the National Asset Management Act 2009 in order to cleanse and repair its balance sheet. The NAMA scheme was approved by the Commission on 26 February 2010 [5]. EBS has a commercial loan portfolio of approximately EUR 2,3 billion (gross of impairments). It is anticipated that approximately EUR 900 million (gross of impairments) of EBS' commercial loan portfolio, representing a large proportion of its problem assets (mainly property development loans), will be transferred to NAMA. In April 2010, EBS transferred the first tranche of loans to NAMA for an amount of EUR 143 million against a haircut of 36 %. The haircut applied to the second tranche of loans transferred to NAMA on 23 August 2010 was 46,4 % for a nominal value of EUR 35,9 million. The two first tranches account for 22 % of the total EBS NAMA transfer and have an average haircut of 38,1 %. EBS' participation in NAMA will facilitate the accelerated removal of high risk property-related assets.

Guarantees

(22) EBS is one of the financial institutions covered by the Irish Guarantee Scheme for financial institutions (hereinafter "the CIFS scheme"), which was adopted under the Credit Institutions (Financial Support) Act 2008 and approved by the Commission on 13 October 2008 [6]. The total State-guaranteed funding (including deposits) for EBS as at the end of June 2010 under the CIFS Scheme was approximately EUR […] billion. EBS also joined the Eligible Liabilities Guarantee Scheme (hereinafter "ELG scheme") [7] on 3 February 2010. According to the information provided by the Irish authorities, the issuance of debt (including deposits) under that second scheme by EBS until the end of June 2010 has been approximately EUR […] billion. EBS will furthermore benefit from the continuation of the guarantee on short-term liabilities (with a maturity lower than three months) that was approved by the Commission on 21 September 2010 [8] and which replaces the ELG scheme as regards those liabilities. The amount of liabilities covered by that latter guarantee should amount to approximately EUR […] billion [9].

2.4. **The restructuring plan submitted on 31 May 2010**

(23) The EBS restructuring plan as submitted by the Irish authorities contains a base and a stress scenario for the period March 2010-2014 with the aim of demonstrating EBS' ability to achieve long-term viability. The assumptions for both the base case and the stress case in Ireland have been provided by the Financial Regulator (for the period 2009-2012).

(24) According to the EBS restructuring plan, EBS will focus on its core business of retail lending and savings, while winding-down its non-core activities, essentially its commercial loan business. To that end, the following measures will apply to EBS:

(i) exit its property development finance and wind-down of commercial business;

(ii) increase its income through higher margins and lower costs;

(iii) increase its core capital;

(iv) improve its funding position;

(v) introduce changes to its risk management and corporate governance;

(vi) be sold to a third party.

2.4.1. *Main assumptions*

(25) According to the restructuring plan, in order to determine the base and the stress cases EBS used the assumptions concerning future impairments from the PCAR exercise carried out by the Financial Regulator. Those assumptions were combined with other financial assumptions including lending, costs, the transfer of loans to NAMA, funding, capital and the cost of the government guarantee schemes.

(5) See Commission decision in Case N 725/09, *Irish asset relief — NAMA* (OJ C 94, 14.4.2010, p. 10).
(6) See Commission Decision in Case NN 48/08, *Guarantee Scheme for Banks in Ireland* (OJ C 312, 6.12.2008, p. 2).
(7) See Commission Decision in Case N 349/09, *Credit Institutions Eligible Liability Guarantee Scheme* (OJ C 72, 20.3.2010, p. 6).
(8) See Commission Decision in Case N 347/10, *Short-term guarantees under the ELG scheme from September to December 2010*, not yet published.
(9) No specific amount was communicated by the Irish authorities as to the expected use by EBS specifically. […].

2.4.1.1. Base case

(26) Macroeconomic assumptions — The restructuring plan includes assumptions regarding the development of GDP over the restructuring period. GDP growth is projected to decline by 0,5 % in 2010 before rising to 2,5 % in 2011 and staying relatively stable around that level until 2014 (see Table 1).

Table 1

GDP forecasts

	2010	2011	2012	2013	2014
Real GDP growth (%)	– 0,5	2,5	2,3	2,6	2,6

Source: EBS restructuring plan.

(27) Retail mortgage lending and margins — In the base case the plan assumes that gross residential lending of EBS, based on assumptions regarding the development of GDP, unemployment and house prices, will increase from EUR [1-2] billion in 2010 to EUR [2-3] billion in 2014. The total residential mortgage book will grow from EUR [15-17] billion in 2010 to EUR [16-18] billion in 2014.

(28) According to the restructuring plan, EBS will increase its standard variable rate (hereinafter "SVR") in steps in order to bring its margins in line with the market and the European average. To that end, EBS will increase its SVR by 120 bps in 2010 […]. Over the restructuring period, the SVR will rise from 2,33 % in 2010 to […] % in 2014, while the margins for new residential mortgage business with a fixed rate will increase from […] % in 2010 to […] % in 2012 and remain stable afterwards.

(29) EBS will furthermore carry out a cost reduction programme which has already resulted in a reduction of its operating costs by EUR 15,7 million (14,5 %) in 2009 and which is expected to bring the total cost reduction to EUR […]. Over the period of the plan, EBS foresees a gradual increase of operating costs from EUR […] million in 2010 to EUR […] million in 2014.

(30) As a result of these measures, net interest income will increase from EUR […] million in 2010 to EUR […] million in 2014 (an increase of EUR […] million), while EBS' income before the deduction of operating expenses will increase from EUR […] million in 2010 (includes losses associated with transfer of assets to NAMA) to EUR […] million in 2014 (an increase of EUR […] million). On the other hand costs remain relatively flat and only increase by EUR […] million, thus resulting in an increase of EBS' income before impairments.

(31) Run-off commercial loan book — EBS plans to exit from development finance by transferring around EUR 837 million of land and development loans and associated commercial term loans to NAMA. Those loans represent roughly 50 % of EBS' total commercial loan book of around EUR 1,7 billion.

(32) The commercial business containing those commercial term loans not transferred to NAMA will be wound-down. To that end, EBS has reorganised its commercial business in order to facilitate the run-off of the remaining commercial loan book. It is estimated in the plan that the loan book will reduce from around EUR 968 million to EUR […] million over the restructuring period. EBS furthermore ceased commercial lending from April 2008 onwards.

(33) Impairments — As regards the assumptions concerning future impairments, the plan assumes that the impairment charge for residential mortgage lending (which includes home loans, buy-to-let and commercial buy-to-let) will peak in 2010 with EUR […] million, will remain almost the same in 2011 before decreasing to EUR […] million in 2014. For commercial lending, the impairment charge will peak in 2010 with EUR […] million, before decreasing to […] in 2013 as the loan book is run off. The total impairment charge for 2010 is calculated at EUR […] million, which will decrease to EUR […] million in 2011 before declining to EUR […] million in 2014 ([10]). In percentage terms, EBS expects a […] bps provision charge on home loans for the period 2009-2014, a […] bps charge on buy-to-let and a […] bps provision on commercial buy-to-let.

(34) Transfer of loans to NAMA — EBS assumes in the plan that around EUR 837 million of land and development loans and associated loans will be transferred to NAMA at an average haircut of [30-50]. In exchange for the loans transferred to NAMA, EBS will receive 95 % senior State guaranteed bonds and 5 % subordinated bonds. The plan assumes that the senior guaranteed bonds will incur a […] loss. The subordinated bonds will be recorded at […] of their nominal value.

(35) Funding — Over the period of the restructuring plan, EBS intends to decrease its reliance on wholesale funding by terming out its wholesale funding (i.e. replacing short-term wholesale funding with longer-term wholesale funding) and decreasing the share of short-term funding in the mix (see Table 2). EBS furthermore aims to increase the share of customer funding in the funding mix.

([10]) In 2014, impairment provisions will be EUR […] million for residential mortgages, and EUR […] million for Commercial buy to let.

Table 2

EBS funding mix 2010-2014 (% of total balance sheet)

EBS funding mix 2010-2014 (%)					
	2010	2011	2012	2013	2014
Retail	[…]	[…]	[…]	[…]	[…]
Corporate and non-bank financial institution	[…]	[…]	[…]	[…]	[…]
Total customer funding	*[40-50] %*	[…]	[…]	[…]	*[60-70] %*
Long-term wholesale funding	[…]	[…]	[…]	[…]	[…]
Short-term wholesale funding	[…]	[…]	[…]	[…]	[…]
Total wholesale funding	*[50-60] %*	[…]	[…]	[…]	*[30-40] %*
Total	100 %	100 %	100 %	100 %	100 %

(36) As regards the costs of funding, the plan assumes that the average margins EBS has to pay over total fixed deposits will decrease from […] % in 2010 to […] % in 2014 as financial markets improve. A largely similar development is expected for corporate funding spreads (decreasing from […] % in 2010 to […] % in 2014) and non-bank financial institution spreads (decreasing from […] % in 2010 to […] % in 2014 after peaking at […] % in 2011).

(37) In the restructuring plan, EBS has set percentage targets and lower limits for the share of each category of funding in the funding mix. EBS' medium- to long-term Customer funding target (retail and corporate customer accounts) is […] % with a minimum of […] %. Long-term wholesale funding has a target of […] % with a minimum of […] %. EBS' target for short-term liabilities is 10 % with a maximum of […]. Estimates provided in the restructuring plan as laid down in Table 2 shows that EBS meets these targets over the period of the plan.

(38) As a result of the new funding policy, there is an increased emphasis on retail funding which, combined with the assumptions on new lending, will lead to a reduction of EBS' loan-to-deposit ratio from 175 % to around 137 % in 2014. As for short-term funding, EBS will decrease its reliance on ECB funding from EUR 2,5 billion at the end of 2009 to around EUR […] million in 2014. EBS furthermore plans to issue approximately EUR […] billion worth of longer-term covered bonds in […], […] and […] respectively.

(39) As for terming out EBS' wholesale funding, it plans to issue Medium-term Notes (MTN) of […]-year maturity in 20[…] ([…] bps above benchmark [11]) and […]-year maturity in 20[…] ([…] bps above benchmark). EBS also plans to issue covered bonds of […]-year maturity in 20[...] ([…] bps above benchmark), of […]-year maturity in 20[…] ([…] bps above benchmark), and of […]-year maturity in 20[…] ([…] bps above benchmark).

(40) Capital — As regards EBS' capital structure, EBS has received a capital injection from the Irish authorities, which increased its Core capital ratio to [8-12] % at December 2010. EBS will maintain a Core capital ratio above 8 % in a base case over the period of the plan (see Table 3). The restructuring plan also assumes that a buy-back of EUR […] million of hybrid securities will be carried out in 2010 at a discount to par, yielding a net profit of EUR […] million. Furthermore, there will be no coupon payments after June 2010 on the remaining hybrid capital instruments. Consequently, EBS' Core capital ratio is forecast to improve by approximately […] % in 2010.

(41) Guarantee schemes — EBS' restructuring plan furthermore takes into account the cost associated with its participation in the ELG scheme. The plan assumes a 50 bps fee per year for debt with a maturity of less than one year and a […] bps fee for debt with a maturity over one year.

(42) Changes to risk management and corporate governance — As part of its restructuring, EBS made changes to its risk management, for instance by separating the roles of the Financial Director and the Chief Risk Officer and appointing a new Chief Risk Officer. EBS furthermore has enhanced the review and monitoring of its liquidity, funding and solvency position. As regards EBS' credit exposures, EBS decided to cease new commercial property lending in April 2008 and to establish a dedicated team for managing and winding-down the commercial loan book. EBS furthermore enhanced its compliance and risk functions, mainly by attributing new resources.

(43) Concerning corporate governance, EBS seeks to remain compliant with the regulatory requirements of the Financial Regulator and will adopt the amendments that the Financial Regulator plans to propose in the near future, which include limits on the number of directorships for directors of credit institutions. Furthermore, the Finance Director and Chairman of the Board were replaced in 2009. EBS furthermore has implemented

(11) 6-month Euribor.

the recommendations by the Covered Institution Remuneration Oversight Committee regarding the remuneration of Board members and senior executives. Those implementing measures include no bonuses to be paid over 2008 and 2009, a reduction of the Chief Executive's base pay and revised organisational performance objectives giving risk control a higher weighting when determining pay rises.

(44) Sale of EBS — The restructuring plan furthermore foresees the sale of EBS to a private party. According to the plan, the sale could contribute to EBS' viability as the potential buyer could meet any further capital requirement of EBS in the future. The sale would furthermore reduce the level of aid required from the Irish authorities in order for EBS to meet its regulatory capital requirement. A potential buyer would also seek to grow the business in order to obtain a return on its investment, for instance by bringing further expertise and experience to the business. A strong parent could make EBS more attractive in the corporate deposit market. If a financial institution were to acquire EBS, EBS might gain better access to funding on the market.

(45) According to the plan, the internal measures EBS has taken, which have been described in more detail in points 26-43, ensure that it will be a more valuable business and therefore more attractive to potential buyers. Furthermore, certain external factors increase EBS' attractiveness like the transfer of assets to NAMA and the independent assessment of EBS' capital requirement by the Financial Regulator.

(46) EBS started a competitive sales process in the form of a tender procedure on 14 June 2010. EBS identified [15-30] potentially interested parties ([5-15] financial institutions and [5-15] private equity firms) which were contacted and supplied with an information memorandum. Four parties (one financial institution and three private equity firms) indicated their interest and signed confidentiality agreements upon which they were granted access to a data room. EBS subsequently received four indicative bids on 2 July 2010. The parties were subsequently invited to the next step in the process which involves a more detailed financial due diligence and meetings with the EBS management and the Irish authorities. On 20 August 2010, EBS received four revised proposals from the prospective bidders, […]. As a result the remaining bidders are […]. The next phase in the process as indicated by the Irish authorities will be to start negotiations with.

Financial projections in the base case

(47) Based on the assumptions for the base case set out in points 26-41, the EBS restructuring plan projects that EBS' net interest income will steadily increase from EUR […] million in 2010 to EUR […] million in 2014 (see Table 3). EBS' cost-income ratio will decrease sharply from […] % in 2010 to […] %, which is caused mainly by an increase in income over the restructuring period. EBS will increase its net interest margin between 2010 and 2014 from […] % to […] %. Furthermore, EBS' loan-to-deposit ratio improves from [150-200] % in 2010 to [100-150] % in 2014.

Table 3

Restructuring plan base case profit and loss account items and ratios

EBS restructuring P&L items and ratios — base case					
	2010	2011	2012	2013	2014
P&L items (EUR million)					
Net interest income	[…]	[…]	[…]	[…]	[…]
Impairments	[…]	[…]	[…]	[…]	[…]
Profit (loss) before tax	[…]	[…]	[…]	[…]	[…]
P&L ratios (%)					
Cost/income ratio	[…]	[…]	[…]	[…]	[…]
Net interest margin	[…]	[…]	[…]	[…]	[…]
Loan to deposit ratio	[150-200] %	[…]	[…]	[…]	[100-150] %

(48) During the restructuring period, EBS' balance sheet will slowly grow from around EUR [20-23] billion in 2010 to around EUR [21-24] billion in 2014 (see Table 4). EBS' risk-weighted assets (hereinafter "RWA") will also increase from around EUR […] billion to around EUR […] billion. As for EBS' capital ratios, its Core capital ratio will remain above the 8 % requirement as set by the Financial Regulator and […], increase to […] % in 2014. EBS' Tier 1 ratio and Total capital ratio both show a similar evolution and will be […] % and […] % in 2014.

Table 4

Restructuring plan base case balance sheet ratios

EBS plan balance sheet ratios — base case					
	2010	2011	2012	2013	2014
Balance sheet (EUR billion)					
Total assets	[20-23]	[…]	[…]	[…]	[21-24]
RWA	[…]	[…]	[…]	[…]	[…]
Balance sheet ratios (%)					
Core capital ratio	[…]	[…]	[…]	[…]	[…]
Tier 1 ratio	[…]	[…]	[…]	[…]	[…]
Total capital ratio	[…]	[…]	[…]	[…]	[…]

2.4.1.2. Stress case

(49) For the stress case, the same assumptions were used as in the base case, except for the impairment provisions. The latter have been changed by using the PCAR stress case adjusted to reflect EBS' best estimate of a realistic underlying macroeconomic stress scenario.

(50) The restructuring plan therefore assumes in the stress case that the impairment charge for residential mortgage lending (that category includes home loans, buy-to-let and commercial buy-to-let) will peak in 2010 with EUR […] million and remain almost the same in 2011 before decreasing to EUR […] million in 2014. For commercial lending, the impairment charge will peak in 2010 with EUR […] million, before decreasing to […] in 2013 as the loan book is run off. The total impairment charge for 2010 is calculated at EUR […] million, which will decrease to EUR […] million in 2011 before going down to EUR […] million in 2014.

Financial projections in the stress case

(51) On the basis of the stress scenario, EBS is projected to record losses of […] before recording profits of […] (see Table 5). In percentage terms, EBS expects a […] bps provision charge on home loans for the period 2009-2014, a […] bps charge on buy-to-let and a […] bps provision on commercial buy-to-let.

Table 5

Restructuring plan stress case profit and loss items and ratios

EBS restructuring P&L items and ratios — stress case					
	2010	2011	2012	2013	2014
P&L items (EUR million)					
Net interest income	[…]	[…]	[…]	[…]	[…]
Impairments	[…]	[…]	[…]	[…]	[…]
Profit (loss) before tax	[…]	[…]	[…]	[…]	[…]
P&L ratios (%)					
Cost/income ratio	[…]	[…]	[…]	[…]	[…]
Net interest margin	[…]	[…]	[…]	[…]	[…]
Loan to deposit ratio	[150-200] %	[…]	[…]	[…]	[100-150] %

(52) The projections concerning the development of EBS' balance sheet in the stress case show that both total assets and RWA are the same in the base and the stress cases. The capital ratios are however affected by the further losses foreseen as a result of higher impairments, but remain above the regulatory requirement of 4 % (see Table 6).

Table 6

Restructuring plan stress case balance sheet ratios

EBS plan balance sheet ratios — stress case					
	2010	2011	2012	2013	2014
Balance sheet (EUR billion)					
Total assets	[20-23]	[…]	[…]	[…]	[21-24]
RWA	[…]	[…]	[…]	[…]	[…]
Balance sheet ratios (%)					
Core capital ratio	[…]	[…]	[…]	[…]	[…]
Tier 1 ratio	[…]	[…]	[…]	[…]	[…]
Total capital ratio	[…]	[…]	[…]	[…]	[…]

2.4.2. *Alternative restructuring options*

(53) The restructuring plan of EBS also contains an analysis of two other restructuring scenarios, namely the immediate liquidation of EBS and an orderly wind-down of EBS.

Immediate liquidation

(54) As regards the immediate liquidation, EBS has used the following assumptions: 1. a sale price at a […] % discount on the nominal value of the remaining retail mortgage book; 2. a discount of [30-50] % on all the assets transferring to NAMA; 3. cash balances with central banks, derivatives and available-for-sale assets are realisable in full at their December 2009 mark-to-market valuation; 4. subordinated liabilities and hybrid capital securities are written off and 5. the remaining deposits and senior debt instruments are repayable in full.

(55) EBS has estimated that an immediate liquidation would cost the Irish authorities an additional EUR […] billion in the form of a capital injection on top of the EUR […] million already committed. An immediate liquidation would furthermore trigger a call on the guarantees under both the CIFS and ELG schemes. Currently EBS has EUR […] billion of liabilities covered under both schemes, of which EUR […] billion under the CIFS scheme and EUR […] billion under the ELG scheme as at the end of June 2010. The Irish Government would have to provide these amounts until the end of the liquidation. An immediate liquidation would furthermore result in selling assets at once, which would be likely to indirectly negatively affect the prices of similar assets held by other banks.

Orderly wind-down over a 10-year period

(56) The orderly wind-down scenario assumes that no new business is written and that the redemption rate on existing loans is […] % and that continued State capital is needed to fund annual operating losses. Assets are estimated to be realisable at their 2019 book value. Wholesale funding is assumed to be redeemed in accordance with contracted maturities and retail funding is assumed to reduce over a two-year period, with the exception of fixed term deposits. The resulting funding gap is met by direct State funding or the issuance by EBS of State-guaranteed bonds. The orderly wind-down scenario furthermore assumes that hybrid securities are written-off on final liquidation.

(57) The cost of an orderly wind-down in terms of recapitalisation is estimated at between EUR […] billion. On top of this recapitalisation, the Irish Government would have to fund a funding gap peaking at EUR […] billion in 2011. In addition to the funding gap, operational losses would be incurred during the orderly wind-down which would also have to be funded by the Irish authorities. An orderly wind-down would also trigger a call on the EUR […] billion of liabilities covered by a guarantee under either the CIFS and ELG schemes. Just as is the case with the immediate liquidation scenario, an orderly wind-down would result in the exit of one of the few financial institutions currently active in retail mortgage lending in Ireland.

3. POSITION OF THE IRISH AUTHORITIES

(58) The Irish authorities consider that EBS should be preserved on the Irish market. They point out that, rather than distorting competition in the Irish market, EBS will provide necessary competition, for the following reasons:

(i) the mortgage and savings markets have gone through considerable change in the last two years;

(ii) the size of the mortgage lending market post-crisis has reduced by 80 % over 3 years from EUR 40 billion in 2006 to EUR 8 billion in 2009;

(iii) foreign-owned banks have largely reduced their activities in the mortgage business in the Irish market, with a market share reduced from 30 % in 2008 to 5 % in 2009;

(iv) the vacuum created due to the exit by foreign institutions had to be filled by domestic players. AIB and BOI collectively increased their share of new lending from 35 % in 2006 to 68 % in 2009 despite reducing their lending activities, while PTSB remained stable with a 10 % market share.

(59) The Irish authorities thus consider that it is necessary that EBS stay on the Irish mortgage market to compete with the two market leaders, Bank of Ireland and Allied Irish Banks, as most foreign competitors have retrenched or exited the market. The Irish authorities point out that institutions that ceased lending in 2009 are unlikely to return to the market for some time given the need to restore their balance sheets, especially taking into account the following developments:

(i) […];

(ii) Bank of Scotland Ireland (a subsidiary of Lloyds Banking Group) has announced a full exit from the market having already announced earlier this year that the retail brand Halifax would close. It put its branch network on the market for sale signalling that this move is a permanent, not temporary exit from the market. There have been no buyers to date;

(iii) […] KBC […] based on figures released by the Irish Banking Federation, it provided 3 % of all loans issued in the Irish market in the first half of 2010. […]

(a) […];

(b) its activity is limited to one channel — mortgage intermediaries (brokers). Brokers accounted for approximately 36 % of lending in Q1 2010. It does not have a retail branch presence in the market, which limits its market reach. The retail market (in which EBS, BOI and AIB operate) accounts for 64 % of all the lending in the market;

(c) […].

(60) Furthermore, […] are PTSB and Irish Nationwide. […]. According to PTSB's H1 2010 results it only advanced EUR 136 million in the first six months of 2010, which is 5 % of all loans issued in the Irish market in that period. Irish Nationwide has 1,5 % market share of retail mortgages […].

4. ASSESSMENT

4.1. Existence of State aid

(61) According to Article 107(1) TFEU, State aid is any aid granted by a Member State or through State resources in any form whatsoever which distorts, or threatens to distort, competition by favouring certain undertakings, in so far as it affects trade between Member States.

(62) The Commission notes that the restructuring plan does not require any additional State support to be provided to EBS. As for the recapitalisation that triggered the need for an in-depth restructuring and which the Commission considers the main measure under assessment, the Commission observes that it has already concluded that the measures constitutes State aid in favour of EBS. In its decision of 2 June 2010, the Commission approved this measure for six months or, if Ireland submitted a restructuring plan before 30 June 2010, until the Commission adopted a final decision on the restructuring plan.

(63) The Commission furthermore observes that the other aid measures received, but which have not directly triggered the need for an in-depth restructuring of EBS, have already been assessed in prior Commission decisions, namely in its decisions pertaining to EBS' participation in the CIFS [12] and ELG [13] guarantee schemes and NAMA [14]. The Commission has already concluded that those measures constitute State aid in favour of EBS. The Commission notes that Ireland has acknowledged that those measures constitute State aid.

(64) The Commission also observes that EBS may use the amended ELG scheme which has recently been approved by the Commission [15]. In that decision the Commission also concluded that the amended ELG scheme constituted aid to the participating institutions.

4.2. **Compatibility of the aid**

(65) As regards compatibility of the measure with the internal market, it must first be assessed whether the aid remedies a serious disturbance in the economy of the Ireland. Subsequently, it needs to be assessed whether the measure at stake is compatible with the internal market.

(66) Article 107(3)(b) TFEU empowers the Commission to declare aid compatible with the internal market if it is intended "to remedy a serious disturbance in the economy of a Member State". The Commission observes that market conditions have been difficult worldwide since the last quarter of 2008. Ireland in particular has been severely hit by the financial and economic crisis. The economic downturn combined with the fall in property prices and the exposure of the Irish banks to land and property development loans have lead to significant impairments for Irish banks. Irish

[12] See Commission Decision in Case NN 48/08, *Guarantee Scheme for Banks in Ireland* (OJ C 312, 6.12.2008, p. 2).

[13] See Commission Decision in Case N 349/09, *Eligible Liabilities Guarantee Scheme* (OJ C 72, 20.3.2010, p. 6). The ELG scheme was subsequently prolonged with changed conditions on 31.5.2010 by Commission Decision in Case N 198/10, *Prolongation of the Eligible Liabilities Guarantee Scheme* (OJ C 191, 15.7.2010, p. 1) and on 29.6.2010 by Commission Decision in Case N 254/10, *Second prolongation of the Eligible Liabilities Guarantee Scheme* (OJ C 238, 3.9.2010, p. 2). The guarantee on short-term liabilities was extended on 21.9.2010 by Commission Decision in Case N 347/10, *Short-term guarantees under the ELG scheme from September to December 2010*, not yet published.

[14] Commission Decision in Case N 725/09, *Irish asset relief — NAMA* (OJ C 94, 14.4.2010, p. 10).

[15] See footnote 7.

banks have furthermore been faced with difficulties in obtaining funding and capital from the markets due to the uncertainty associated with the property market in Ireland. In that context the Commission notes it has recently become increasingly difficult for Irish banks to attract funding due to the sovereign debt crisis and the downgrading of the Irish Sovereign.

(67) 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 be apt to remedy this disturbance. That analysis has been confirmed in the Commission's Communication on the application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis (hereinafter "Banking Communication") ([16]), its Commission Communication on the recapitalisation of financial institutions in the current financial crisis: limitation of the aid to the minimum necessary and safeguards against undue distortions of competition (hereinafter "Recapitalisation Communication") ([17]), its Communication from the Commission on the Treatment of Impaired Assets in the Community Banking Sector (hereinafter "IAC") ([18]) and its Restructuring Communication. In respect of the Irish economy that evaluation was confirmed in the Commission's various approvals of the measures undertaken by the Irish authorities to combat the financial crisis ([19]) in particular in the decision temporarily authorising the recapitalisation of EBS ([20]).

(68) Given the specific circumstances in Ireland combined with the current situation on the financial markets, the Commission considers that the measures may be examined under Article 107(3)(b) TFEU. As the present decision aims at assessing the restructuring plan for EBS submitted by the Irish authorities and the associated aid, the Commission finds it should be assessed on the basis of the Restructuring Communication.

4.2.1. *Compatibility of the aid measures under the Restructuring Communication*

(69) The Commission observes that in its decision on the emergency recapitalisation it directed the Irish authorities to submit an in-depth restructuring plan that would take into account all the aid received by EBS (i.e. the recapitalisation, the guarantees and the impaired assets measure) and that would fulfil the requirements for the Restructuring Communalisation. The Commission notes that the Irish authorities have submitted a plan which analyses different scenarios: an immediate liquidation of EBS, a wind-down over ten years and the continuation of EBS on the market with a subsequent sale. The scenario chosen by the Irish authorities involves the continuation of EBS on the market followed by a sale. The Commission invites third parties to provide comments on that choice.

(70) The restructuring plan submitted by the Irish authorities, although it explores alternative options, is based on the assumption of EBS remaining as a stand-alone entity. Subsequently the Irish authorities have since indicated that they are actively in the process of selling EBS to a third party, something which might affect the restructuring plan. The Commission will conduct the compatibility assessment in this opening decision on the basis of the current restructuring plan. However, any final decision will have to be based on the situation of EBS at the time of adoption of that final decision. In particular, if the Irish authorities conclude the sale of EBS they will have to submit an updated restructuring plan that takes into account the details of the sale of EBS, with particular regard to the viability of the post-transaction EBS, any further aid contained in the sale and any further distortion of competition caused by the sale.

(i) ***Restoration of long-term viability***

(71) In accordance with the Commission Decision of 2 June 2010 in Case N 160/10 regarding the recapitalisation of EBS ([21]), the Irish authorities submitted a restructuring plan on 31 May 2010.

(72) Overall, under the assumptions of the restructuring plan, EBS generates profits from 2012 onwards, generates sustainable return on equity in 2014 ([…] %) ([22]), and respects the financial capital ratios imposed by the Irish financial regulator (Total Core Tier 1—8 %). Under the stress case scenario, return to profitability is only postponed by one year (2013). The Commission observes that, amongst the assumptions made in the plan to build forecasts of the income statement and the balance sheet of EBS, several assumptions need to be clarified and supported by more evidence before the Commission can take a decision.

(73) EBS ceased all new commercial lending in April 2008, source of its financial problems, and will focus on its core business: (i) mortgages; and (ii) customer deposits.

(74) Macroeconomic forecasts. The macroeconomic forecasts of EBS regarding GDP in the base case as set out in Table 1 are conservative by international standards. For instance, with regard to GDP, EBS uses the Economic and Social Research Institute (ESRI) forecasts for the years 2010-2011 (published on 13 April 2010), and IMF forecasts for the period 2012-2014 (published in June 2009). The ESRI forecasts are comparable to the forecasts published by the Commission in its European Economic Forecasts Spring 2010 report, while the IMF forecasts are more conservative than forecasts from other sources (such as other Irish banks, brokers and the Irish Government).

([16]) Communication on the application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis (OJ C 270, 25.10.2008, p. 8).

([17]) Commission Communication on the recapitalisation of financial institutions in the current financial crisis: limitation of the aid to the minimum necessary and safeguards against undue distortions of competition (OJ C 10, 15.1.2009, p. 2).

([18]) Communication from the Commission on the Treatment of Impaired Assets in the Community Banking Sector (OJ C 72, 26.3.2009, p. 1).

([19]) See amongst others the Commission Decisions as set out in footnotes 2-5 above.

([20]) See footnote 2.

([21]) See footnote 2.

([22]) Return on Equity based on: (a) profits 2014: EUR […] million; (b) equity/Total Reserve 2014: EUR […] billion.

(75) The Commission considers that the forecasts as regards GDP used by EBS seem reasonable. However, the Commission notes that the financial forecasting in the restructuring plan is based primarily on the impairments provided by the Financial Regulator in the context of the PCAR. Those assumptions are used to calculate what kind of developments in GDP, house prices, unemployment would have to occur to cause the impairment. It is therefore unclear to what extent assumptions regarding GDP, unemployment, house prices and inflation in fact are used to support the plan. Furthermore, the Commission notes that the plan does not provide information on the macroeconomic assumptions under the stress case.

(76) Market shares — mortgages. EBS has provided the following information with regard to new gross lending and lending stock (see Table 7).

Table 7

Irish mortgage market — developments new lending

	2005	2006	2007	2008	2009	2010 (f)	2011 (f)	2012 (f)	2013 (f)	2014 (f)
New lending										
Gross new lending (EUR billion)	34,1	38,9	33,8	23,0	8,1	[…]	[…]	[…]	[…]	[…]
EBS' gross new lending (EUR billion)	3,4	4,0	3,1	2,6	1,4	[1-2]	[…]	[…]	[…]	[2-3]
EBS' share of new gross lending	10,0 %	10,0 %	9,2 %	11,5 %	17,1 %	[15-20] %	[…]	[…]	[…]	[15-20] %
Stock lending										
EBS' share of balances	11,3 %	10,8 %	10,2 %	10,3 %	10,6 %	[…]	[…]	[…]	[…]	[…]

Source: EBS

(77) The market share of EBS in new lending increased from 11,5 % in 2008 to 17,1 % in 2009. The Commission observes that between 2008 and 2009 the nominal amount of mortgages granted in Ireland decreased from EUR 23 billion to EUR 8,1 billion, and the total new lending granted by EBS decreased from EUR 2,6 billion to EUR 1,4 billion. The increase in market share of EBS reflects therefore the reduction in activity of the other Irish banks and not an increase in lending by EBS. For instance the aggregate market share of foreign-owned banks in the mortgage market decreased from 30 % in 2008 to 5 % in 2009 ([23]).

(78) EBS assumes that its new lending will steadily increase from EUR [1-2] billion in 2009 to EUR [2-3] billion in 2014. The Commission has doubts about that hypothesis. Firstly, the economic outlook in Ireland remains poor and it is possible that the demand for mortgages will not increase as EBS projects. Second, if the mortgage market does recover, foreign banks may re-enter the market and reduce EBS' market share and margins. If EBS could not maintain those lending targets on new mortgage lending in the medium-term, that failure would lower its future profitability (although it would still remain profitable, albeit with a lower return on equity). The Commission therefore invites third parties to provide their comments on the future evolution of the Irish mortgage market.

(79) Market share — customer deposits. EBS has provided the following information concerning net inflows and savings balance in the retail and corporate deposit market (see Table 8 below). EBS maintains that it will continue to attract net inflows of retails saving, which contributes to improving its funding position and loan-to-deposit ratio.

Table 8

Irish deposit market

	2008	2009	2010 (f)	2011 (f)	2012 (f)	2013 (f)	2014 (f)
Net inflows — retail deposits							
EBS' share of market net inflows	21,6 %	22,3 %	[…]	[…]	[…]	[…]	[…]

([23]) Bank of Scotland (Ireland), a subsidiary of Lloyds, has announced that it will withdraw from Ireland, as has Fortis, while KBC and ACC (Rabobank) have closed several branches […].

	2008	2009	2010 (f)	2011 (f)	2012 (f)	2013 (f)	2014 (f)
EBS' net inflows (EUR billion)	0,7	0,6	[…]	[…]	[…]	[…]	[…]
Balance — retail deposits							
EBS' share of market savings balances	8,4 %	8,9 %	[…]	[…]	[…]	[…]	[…]
EBS' savings balance (EUR billion)	5,5	6,2	[…]	[…]	[…]	[…]	[…]
Balance — corporate deposits							
EBS' savings balance (EUR billion)	4,6	3,6	[…]	[…]	[…]	[…]	[…]

Source: EBS

(80) The Commission observes that EBS' share of annual net inflows of retail deposits is significantly larger than its historical market share. That current large share reflects the strong increase in EBS' activity in that area because of the financial crisis. EBS maintains that its positive reputation amongst retail customers means that it has attracted and will continue to attract a disproportionate amount of retail savings without offering the most competitive rates. In the plan it is estimated that the saving rate will remain high in Ireland in the next years [24] and that EBS will be in the position to maintain its share of the market.

(81) Nevertheless, although EBS has considered that its market share of net retail deposit inflows will decrease over the restructuring period, from 22,3 % in 2009 to […] % in 2014, the restructuring plan foresees that the market share of EBS for net retail savings inflow will be largely superior to its historical level. The Commission notes that since the outbreak of the financial crisis, the demand for retail deposits by banks is high as they focus on improving their loan-to-deposit ratio, making it a very competitive market. That competition could reduce EBS' net savings inflows and influence both its lending capacity and its loan-to-deposit ratio. The Commission therefore cannot assess whether the net savings inflows forecast by EBS are realistic given the current market circumstances and would welcome further information on the topic from the Irish authorities and invites third parties to comment on the issue.

(82) EBS also collects corporate deposits. […]. From 2012 onwards however, EBS expects that the economic situation will improve and that corporate companies will increase their deposits. EBS' corporate savings balance in 2014 will not exceed its corporate saving balance in 2008, when the outflows of corporate savings had already started, which may be a reasonable assumption. However, the Commission is not in a position to fully assess the assumptions of EBS as more information would be needed with regard to the corporate deposit market (market size for net inflows and balance — EBS' market share for net inflows and balance). The Commission therefore invites the Irish authorities to provide the information.

(83) Impairments — mortgage. The level of impairments in retail mortgages, which by far the largest asset class held by EBS, is a vital determinant of its profitability. EBS foresees that the level of impairments compared to the value of its mortgage book will peak in the period 2009-2011 and decrease thereafter. However, provisions in the later period 2012-2014 ([…] % in 2014) will still be significantly higher than the provisions EBS made pre-crisis (see Table 9 below), when it provisioned as low as […] %. EBS has thus taken into consideration the new situation in the mortgage market for its risk assessment, as the level of provisions on the mortgage book will be substantially higher in 2012-2014 than pre-crisis. Such an assumption is in line with assumptions from other Irish banks, although dependent on the return to a normal economic situation in the country.

Table 9

Annual level of impairment on EBS mortgage book

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Impairment provision/value of mortgage book (%)	[…]	[…]	[…]	[…]	[…]	[…]	[…]	[…]	[…]	[…]

Source: EBS

[24] According to the Economic and Social Research Institute (ESRI — http://www.esri.ie), the personal savings ratio has reached an annual average of 10,6 % in 2009, vs. 2,3 % in 2007, and is expected to remain at 11,25 % in 2011.

(84) On the other hand, the Commission observes that Ireland has gone through the most dramatic real estate crisis in the European Union, with an associated deep recession. The EBS restructuring plan foresees cumulative impairments of […] bps on home loans and […] bps on buy-to-let loans for the period 2009-2014 in the base case and of […] bps on home loans and […] bps on buy-to-let loans for the period 2009-2014 in the stress case. However, given that EBS reported an impairment charge of EUR 223,5 million for the first half of 2010, whereas according to the restructuring plan the total impairment charge for 2010 is estimated at EUR […] million, it is possible that the plan underestimates the level of impairment for 2010 and possibly for the following years. The Commission therefore invites the Irish authorities and third parties to provide their comments on whether the increased impairment provisions made by EBS are sufficient, both for the period 2010-2011 and 2012-2014.

(85) Impairments — commercial loan book in run-off. According to the EBS restructuring plan, from 2011 onwards the commercial portfolio in run-off will not bear any impairment. The total level of impairment taken by EBS from 2011 onwards only reflects the impairment provision on the mortgage book.

(86) At the end of 2009 EBS has a total commercial loan book of a nominal value of EUR 1,7 billion, of which EUR 837 million are planned to be transferred to NAMA in 2010. EBS' restructuring plan foresees that the commercial book will still have a nominal value of EUR 546 million in 2014.

(87) In the absence of a thorough analysis with regard to how the commercial loan book will be run off and why the commercial loan book in run-off should not suffer impairments, the Commission currently doubts that target is achievable. The Commission invites the Irish authorities to provide the necessary information. However, on the basis of a comparison with other Irish banks the Commission's initial estimation would currently be that, if the small commercial loan book were to bear impairments beyond 2010, the level of those impairments would be unlikely to generate losses of a magnitude that could substantially delay return to profitability. The Commission invites third parties to comment on the issue.

(88) Risk management. The Commission observes that EBS has started to enhance its risk management structure and policies, learning from the crisis. For instance, a Chief Risk Officer (CRO) was appointed in January 2009, while that function was under the responsibility of the Finance Director previously. The CRO presents to each board meeting an update on the work of the risk committees on liquidity, funding, credit and operational risks, compliance, and stress testing.

(89) EBS recently modified its conditions to grant mortgages, in order to reduce associated risks. For instance the Loan-to-Value (LTV) was reduced to 90 % on houses and 80-85 % on apartments. More generally, prior to the crisis the activities of EBS in the areas of mortgages and customer deposits did not have particularly high risk profiles. The problems of EBS seem to derive from its commercial activities to a very large extent. Considering that EBS plans to fully withdraw from commercial lending, the Commission has no indication that the risk management system of EBS would be inappropriate at this stage. The Commission invites third parties to comment on this issue if they consider that the risk management system of EBS seems inappropriate.

(90) Cost/income ratio. The EBS restructuring plan foresees that its cost/income ratio will be as low as […] % in 2014 (see Table 10 below). Such a ratio is particularly low when compared to other Irish banks. Even when adding the fees paid to brokers and intermediaries, the cost/income ratio EBS is low, at […] % in 2014 (see Table 10 below).

Table 10

EBS cost/income ratio (%)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Base (EBS restructuring plan)	[…]	[…]	[…]	[…]	[…]	[…]	[…]	[…]	[…]	[…]
Base + fees paid to brokers	[…]	[…]	[…]	[…]	[…]	[…]	[…]	[…]	[…]	[…]
Base + franchised branches are integrated in EBS						[…]	[…]	[…]	[…]	[…]

Source: EBS

(91) However, EBS simulated a scenario based on the hypothesis that it would have an additional 82 branches (which are franchised at present). That alternative scenario resulted in a cost/income ratio of […] % in 2014, more in line with the cost/income ratio of EBS pre-crisis, and higher by a few percentage points than the level commonly regarded as reasonable in comparison to other Irish banks. Under that alternative scenario, EBS would still return to profitability in 2012. Profits would however be reduced by approximately EUR […] million per year, and the reserves of EBS would thus be reduced by a same amount per year.

(92) Although the restructuring plan provides some details on how EBS intends to decrease its costs and to raise its interest income, the Commission has doubts with regard to EBS' capacity to reach the low cost/income ratio as foreseen in the plan, in comparison to other Irish banks, but also in comparison to the cost/income ratio of EBS pre-crisis. The Commission therefore invites the Irish authorities to provide their view on this issue.

(93) Margins. EBS' margins on lending will reach a low point in […] at […] % (see Table 11 below). The restructuring plan then foresees that margin will increase to […] % by 2014.

Table 11

EBS' net interest margin on loans (%)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net interest margin	1,61	1,33	1,08	0,80	0,84	0,88	0,77	0,72	[…]	[…]	[…]	[…]	[…]

Source: EBS

(94) The Commission considers that assumption reasonable and consistent with independent studies which indicate that European banks will increase their margins to guarantee their solvency after the financial crisis. The margin level is comparable to that targeted by other Irish banks, and it remains below the margin level of EBS in 2002 and 2003, when EBS was only active in the mortgage market. The Commission invites third parties to comment on this issue if they consider that the assumptions on EBS' margins are not reasonable.

(95) Asset/liabilities' maturities. The restructuring plan of EBS foresees a reduction of the Loan-To-Deposit (LTD) ratio from around [150-200] % in 2010 to around [100-150] % in 2014 (see Table 2 above). That reduction principally stems from an increase in the volume of deposit of EBS. However, as indicated in paragraphs 79-82, the Commission does not have sufficient elements to assess whether the forecasts of EBS regarding the collect of retail and corporate deposits are reasonable.

(96) The Commission also notes that the target LTD ratio of EBS will still leave it dependent on wholesale funding, which was part of the problems faced by Irish banks at the height of the crisis. On the other hand, given the simple low-risk commercial strategy that EBS intends to follow, a LTD ratio of [100-150] % would not be necessarily incompatible with a proper management of EBS, in particular if the bank could raise stable funding via the issuance of long-term debt instruments.

(97) The restructuring plan of EBS foresees that the funding gap, which can be approximated by the difference between loan book (assets with long-term maturity) and long-term liabilities, decreases substantially over the restructuring period, from EUR […] billion in 2010 to EUR […] billion in 2014.

(98) Overall, the Commission at this stage has doubts on the funding […] of EBS, in particular because it lacks evidence supporting the assumptions that EBS will sustain a market share in the collection of retail and corporate deposits which is substantially above its share of balances.

(99) Funding costs — deposits. Regarding the costs associated with the collection of deposits, the restructuring plan of EBS foresees that it will still have to pay a high interest rate on notice and fixed retail deposits, as well as on corporate deposits (see Table 12 below). For EBS, in a context where Irish banks compete aggressively to attract deposits, deposits will be expensive to attract.

Table 12

Customer deposit margins (%)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Retail deposits													
Notice	[…]	[…]	[…]	[…]	[…]	[…]	[…]	[…]	[(0,40-0,60)]	[…]	[…]	[…]	[(0,60-0,80)]
Demand	[…]	[…]	[…]	[…]	[…]	[…]	[…]	[…]	[0,60-0,80]	[…]	[…]	[…]	[2,00-2,40]
Fixed	[…]	[…]	[…]	[…]	[…]	[…]	[…]	[…]	[(1,30-1,70)]	[…]	[…]	[…]	[(0,60-0,80)]

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Corporate deposits													
Corporate margins									[(1,90-2,20)]	[…]	[…]	[…]	[(1,10-1,30)]

Source: EBS

(100) Concerning both retail and corporate deposit margins (cost), the Commission considers at present that the assumptions taken in EBS' restructuring plan seem reasonable. The cost of gathering deposits decreases over the restructuring period (but remains high), which should be in line with a progressive recovery of the Irish economic situation. The Commission invites third parties to comment on the issue if they consider that the assumptions on EBS customer deposit margins are not reasonable.

(101) Funding costs — wholesale funding. EBS plans to issue MTN and covered bonds with maturities ranging from two to five years. The hypothesis that the […] covered bonds will be issued at […] bps above the benchmark of six months Euribor appears optimistic. The Commission invites the Irish authorities and third parties to comment on the issue.

(102) Liquidity. Regarding the liquidity position of EBS, it provided a liquidity stress test. However, EBS still awaits feedback from the Financial Regulator. In this context, the Commission has doubts on the liquidity position of EBS. In the present context of high pressure from the market on the Irish sovereign and more generally on debt of Irish banks, this point is of particular importance for the short-term viability of EBS. The Commission therefore invites the Irish authorities to provide that information.

(103) Haircut on NAMA loans. EBS' forecasts are based on the assumption that the transfer of loans to NAMA will take place at a haircut of [30-50] %. The haircut applied to the first tranche of loans transferred to NAMA was 36 %, for a nominal value of EUR 143 million, while the haircut applied to the second tranche of loans transferred to NAMA was 46,4 % for a nominal value of EUR 35,9 million. Overall, EBS plans to transfer loans for a nominal value of EUR 837 million to NAMA. The two first tranches account for 22 % of the total EBS NAMA transfer, and have an average haircut of 38,1 %, which is in line with the EBS forecast.

Conclusion

(104) In order to allow the Commission to take a final view on the viability of EBS the following aspects of the restructuring plan need to be further justified: (i) the evolution of mortgage lending in Ireland in the medium-term, more specifically the attitude of foreign-owned banks on the retail mortgage- and deposit market; (ii) the level of impairment of mortgage loans; (iii) the liquidity position of EBS; (iv) developments on the corporate deposit market; (v) impairments on commercial loan book in run-off; (vi) the cost-income ratio and (vii) cost of wholesale funding in the medium-term.

(ii) ***Own contribution/burden-sharing***

(105) The Restructuring Communication indicates that an appropriate contribution by the beneficiary is necessary in order to limit the aid to minimum and to address distortions of competition and moral hazard. To that end, firstly, the restructuring costs should be limited while, secondly, the aid amount should be limited and a significant own contribution is necessary.

Limitation of restructuring costs

(106) As regards the limitation of the restructuring costs, the Restructuring Communication indicates in point 23 that the restructuring aid should be limited to cover the costs which are necessary for the restoration of viability.

(107) In this regard, the Commission sees positively that EBS will not engage in new activities, that it will continue to offer mortgages and will disengage from the commercial lending market (book in run-off). Therefore the aid granted by the Irish government will not serve to expand in new sectors of activities, or to continue activities in the commercial lending area which is the source of EBS' problems.

(108) According to the plan, the amount of aid granted to EBS should ensure that it is in compliance with its regulatory capital requirements, and effectively achieves the objective of preventing the failure of EBS.

(109) The Irish Financial Regulator and the Irish Central Bank conducted an exercise to determine the forward-looking prudential capital requirement of EBS, the Prudential Capital Assessment Review (PCAR). The PCAR assesses the capital requirements arising over a three-year (2010-2012) time horizon. The results of the PCAR were publicly announced by the Irish Minister for Finance on 30 March 2010 and conclude that EBS needs:

(i) an additional EUR 875 million of Core Tier 1 capital to meet the base case target of 8 % Core Tier 1; and

(ii) contingent capital of EUR 120 million of Core Tier 1 to meet the stress case target of 4 % Core Tier 1.

(110) The EUR 875 million recapitalisation corresponds to the capital requirements of EBS to respect a Core Tier 1 ratio of 8 % at 31 December 2010, as imposed by the Irish Financial Regulator in the base case scenario. However, according to the restructuring plan of EBS, its Core Tier 1 ratio in the base case scenario systematically exceeds the 8 % target over the restructuring period (see Table 4 above).

(111) The promissory note foresees that the principal amount will be fixed at the Final Reset Date [25] so as to ensure that EBS is in compliance with its regulatory capital requirements. That clause in particular allows the Irish Government to reduce the principal amount of the promissory note in consequence of a change in the haircut applied to loans transferred to NAMA [26], or as a result of any other event reducing the capital needs of EBS. However, the restructuring plan does not indicate that the Irish Government will activate that option to reduce the aid to the minimum necessary.

(112) After a first assessment of the restructuring plan, the Commission has insufficient information to confirm that the recapitalisation aid is limited to the minimum necessary.

(113) The Commission understands that on top of the capital requirement following from the PCAR, the Financial Regulator has concluded that contingent capital of EUR 120 million may be required in the future. Although the capital is not required by end-year, further clarification is needed. The restructuring plan of EBS indicates that in the stress case its Core Tier 1 ratio does not go below […] over the restructuring period, thus indicating that contingent capital would not be required in any case.

Limitation of aid — Own contribution

(114) The Restructuring Communication indicates in point 23 that the restructuring aid should be limited to cover the costs which are necessary for the restoration of viability.

(115) Remuneration. As was noted by the Commission in the rescue decision approving the emergency recapitalisation of EBS, the State will receive no fixed remuneration on the SIS or the promissory note. With regards to the SIS, the State will only be remunerated if EBS is in a position to pay out a dividend. That scenario however is unlikely in the short- to medium-term given the overall situation of EBS and the financial forecast submitted by the Irish authorities. The State could also potentially be remunerated by sale of its interest in EBS. However, Ireland accepts that it is unlikely to recoup all of its EUR 875 million investment in EBS through the currently proposed sale. […]. As stated in the decision of 2 June 2010, that situation would have required more in-depth restructuring, as laid down in the Recapitalisation Communication.

(116) Transfer of ownership and control. Prior to the government recapitalisation, EBS was owned by its members. In particular "share members" (persons who have a deposit account in EBS) had the right to vote at general meetings on all resolutions and a right to gains on any surplus of assets realised in case of demutualisation (transformation of EBS into an ordinary bank), winding-down or dissolution.

(117) As a result of the recapitalisation of EBS, the government has taken full control on EBS via the issuance of Special Investment Shares, following which (i) the State has majority voting rights on resolutions; and (ii) the members have lost rights to gains on surpluses of assets to the benefit of the government. The Commission notes positively that as a result of recapitalisation of EBS by the Irish authorities, all its members have lost their rights and have lost control over gains on surpluses of assets following, for instance a sale of EBS. The members thus bear the consequences of EBS' huge losses.

(118) Ban on coupons on hybrid capital instruments (point 26 of the Restructuring Communication). EBS will suspend all dividend/coupon payments on its capital securities until 2014. Its debt-holders will therefore contribute to the costs of restructuring. EBS estimates that it will save EUR […] million on dividends/coupons over the period 2010-2014. The Commission notes positively that decision of EBS, in line with the Commission's policy that payment of coupons on hybrid capital should be suspended for banks in receipt of State aid. It is however currently unclear whether all hybrid instruments of EBS are covered. The Commission therefore invites the Irish authorities to provide further information.

(119) Liability Management Exercise. EBS conducted a Liability Management Exercise with regard to hybrid instruments (Permanent Interest Bearing Shares) in June 2010. The exercise applied to securities for a nominal value of EUR 250 million, and the securities were exchanged at discounts of 56 % and 59 %, generating a net gain of approximately EUR 90 million for EBS. The Commission notes positively that EBS has obtained a significant own-contribution from hybrid debt holders.

(120) Divestment of stand-alone subsidiaries. EBS' core business focuses on providing mortgage and retail savings to its members. Its commercial lending business was operated together with its core business. EBS operates its business as a homogeneous entity, and does not operate autonomous subsidiaries.

(121) Haven Mortgage Limited (Haven) is the only trading subsidiary of EBS. It trades as a mortgage lender and serves the Irish intermediary/broker market. However, although it is a legal separate entity (regulated by the Financial Regulator as a retail credit firm), Haven is largely connected to EBS for its daily business. While Haven ensures sales, relationships with brokers, marketing, strategy and development, EBS ensures on behalf of Haven IT infrastructure, arrears management, loan servicing and finance. In addition, Haven is funded by EBS and does not hold customer accounts.

(122) Therefore, at this stage, the Commission observes that EBS' organisation does not seem to allow for a divestment of a stand-alone subsidiary, the proceeds of which could be used to finance the restructuring and thus be regarded as an own contribution. In particular, a sale of Haven would unlikely attract interest of investors as such a sale would imply that an investor will buy a loan portfolio that is not funded, and the investor will need

[25] Date when the National Asset Management Agency serves a completion notice, or any prior date as the Minister may specify.

[26] The additional aid required is calculated on the basis of an estimated aggregated discount on loans transferred to NAMA of [30-50] %.

to pass an agreement with EBS for the provision of the services currently operated by EBS on behalf of Haven. Although such a service agreement could be passed on a temporary basis, the transaction would not materially differ from an acquisition of a loan portfolio, which the Commission considers unlikely in Ireland in the current market conditions and in the near future (see below).

(123) Divestment of loan portfolio. EBS will stop its activities in the commercial lending area. Although EBS could envisage selling its commercial book, in the current market conditions the Irish authorities consider that the market price that EBS could extract from a transaction would likely result in a loss, and would consequently increase the amount of aid that EBS could require. EBS will thus wind-down that business in the medium-term, and has already established a Special Asset Management team to manage the recovery of commercial debt from the run-off commercial portfolio. Considering the difficult market situation in Ireland and the massive amounts of commercial loans transferred to NAMA, the Commission is also of the view that selling EBS' commercial loans would likely result in a loss, and would endanger its return to viability.

(124) Concerning mortgages and customer deposits, EBS has not proposed any divestment. The Commission considers however that such portfolio divestment would not be appropriate. Any closure/transfer of customer deposits could only take place via a complex and therefore costly carve-out, and would entail equivalent funding needs for EBS, which could negatively affect the viability of EBS by degrading its funding profile. Sales of a part of the mortgage portfolio of EBS would likely result in a loss in current market conditions or in the near future, triggering additional recapitalisation needs, especially if the mortgage portfolio is not funded.

(125) Therefore the Commission is of the view that divestment of parts of the EBS portfolio would damage the capital position of EBS and would therefore not help to finance the restructuring.

(126) On the basis of the foregoing elements and based on the available information, the Commission tentatively concludes that EBS has contributed to maximum extent possible to the costs of its rescue. However, it invites third parties to comment on the foregoing elements and this preliminary conclusion, which is therefore not definitive.

Conclusion

(127) In conclusion, the Commission has insufficient information to conclude whether the aid will be limited to the minimum necessary, in view of the discrepancy between the objective of the recapitalisation (that EBS should be able to respect its capital ratio requirements (Core Tier 1 ratio of 8 %)) and the forecasts of the restructuring plan which foresee that EBS will largely exceed its capital ratio requirement (Core Tier 1 ratio exceeds […] over the period).

(128) On the other hand, at this stage, the Commission is of the view that the own contribution of EBS to the costs of the recapitalisation seems adequate. In particular, the Commission notes positively that, as a condition for the recapitalisation of EBS, the Irish authorities have taken full control and economic ownership of it.

(iii) ***Measures limiting the distortion of competition***

(129) As regards the measures limiting the distortion of competition, the Restructuring Communication indicates that the following elements should be taken into account when determining appropriate measures: the amount of aid, the degree of burden-sharing and the effects the position the financial institution will have on the market after the restructuring. On the basis of that analysis, suitable compensatory measures should be put into place.

(130) As regards the amount of aid, besides the recapitalisation measure, EBS is covered by two guarantee schemes, the CIFS Scheme covering EUR […] billion of liabilities as of 30 June 2010 and the ELG Scheme covering EUR […] billion of liabilities as at 30 June 2010. In addition, EBS participates in NAMA. The transfer of loans to NAMA is estimated at EUR 837 million with a haircut on assets transferred to date of […] %. Based on a preliminary analysis (see Table 13 below), the total amount of aid is therefore likely to be very substantial. Furthermore, as already noted by the Commission in its decision temporarily approving the recapitalisation as emergency aid, it is expected that Ireland will not recover its investment in EBS. If the aid EBS received will not be fully repaid, never mind remunerated, EBS would as a result normally be subject to in-depth restructuring.

Table 13

Preliminary overview of aid measures EBS

State aid	Nature of the aid	Date	EUR
CIFS	Guarantee	[29 Sept 2008-28 Sept 2010]	[…] billion (debt guaranteed as at 30 June 2010)
ELG	Guarantee	[Feb 2010-31 Dec 2010] — covers debt up to 5-year maturity issued during the period	[…] billion (debt guaranteed as at 30 June 2010)

State aid	Nature of the aid	Date	EUR
Guarantee on short-term liabilities	Guarantee	[21 Sept-31 Dec 2010] — covers certain debt instruments with maturity < 3 months	[…] billion (estimation by the Commission) [1]
NAMA	Asset relief	[2010-2011]	837 million (assets transferred) [2]
Capital injection	Recapitalisation	2 June 2010	875 million

[1] See footnote 7.
[2] According to the second footnote to paragraph 20(a) of the Impaired Asset Communication, "The aid amount corresponds to the difference between the transfer value of the assets (…) and the market price". Since these figures are not known yet, the aid amount can not be calculated yet.

(131) As regards the market, EBS was the seventh largest financial institution in Ireland by balance sheet size at end-2008. It was active in the areas of land and development lending, commercial property lending but mainly in residential mortgage lending. EBS was always a relatively minor player in land and development and commercial lending, with never more that 5 % of market share. It was more important in the retail mortgage market, where it accounted for 10,3 % of outstanding mortgages in 2008. In addition, EBS held 8,4 % of Irish retail savings.

(132) In its restructuring plan, EBS outlines the developments in its markets since the onset of the crisis. It definitively ceased land and development and commercial lending (which respectively accounted for 2,3 % and 5,6 % of its end-2008 balance sheet) in 2008. It will close around 20 % of its branch network.

(133) As outlined in Table 7, gross new retail mortgage lending has fallen from a peak of EUR 4 billion in 2006 to EUR 1,4 billion in 2009 and will not re-attain its 2006 level before the end of the restructuring plan. Notwithstanding that fall in lending, EBS has increased its market share of new mortgage lending to 17,1 % and it is foreseen that it will retain that market share throughout the restructuring period. In addition, EBS foresees that it will have a net inflow of retail deposits in the region of EUR 0,5 billion per annum for the duration of the restructuring plan, thus maintaining its increase market share of new retail deposits. There is therefore no downsizing of EBS' market presence, nor is there a reduction in EBS' balance sheet over the restructuring period according to the plan.

(134) The restructuring plan of EBS does not propose any structural divestments. EBS has no foreign activities. It does not seem to have any subsidiaries that can easily be divested as stand-alone businesses. Furthermore, a carve-out of a new business from EBS' existing branch network could be problematic as it is difficult to see how two viable entities could be created from less than 100 branches focused on a monoline retail mortgage lending business.

(135) In summary, the proposed restructuring of EBS foresees a reduction of its balance sheet that is far less substantial than the Commission would normally seek from a bank having received such an amount of aid and that has received a recapitalisation not remunerated in accordance with the requirements of the Recapitalisation Communication. EBS will discontinue commercial property lending (investment and development) which is the activity that caused most of the losses and which has to be ended in order to restore viability. […]. There are no divestments or other measures that will allow new entrants access the Irish markets through taking over some of EBS' former businesses. After an initial assessment, the proposed level of balance sheet reduction seems therefore insufficient.

(136) On the other hand, the Commission notes the arguments of EBS and the Irish authorities justifying the limited restructuring proposed. The Irish authorities claim that there is currently a shortage of credit available to the Irish economy which could further worsen if aided financial institutions such as EBS are not sufficiently strengthened to put them in a position to resume lending normally. While they accept that overall lending amounts will fall significantly compared to the boom years, they consider that any further withdrawal of credit could lead to a classic vicious cycle in the real economy where consumers are unable to get necessary credit and are forced to postpone their investments or indeed refrain from buying property, thus leading to a further worsening of the economic situation. Most foreign-owned banks, which used to supply up to 30 % of lending in the mortgage area, have effectively stopped lending in recent years, and it is a reasonable assumption that they will first focus on their home market and will only resume lending in Ireland once the economy improves.

(137) With regard to EBS, which in future will be a monoline retail mortgage lender, the Irish authorities have submitted that the retail mortgage landscape has changed dramatically since the downturn. Since the beginning of the crisis, there has been a collapse in new lending; gross mortgage lending has fallen from around EUR 40 billion in 2006 to EUR 8,1 billion in 2009. The Irish authorities contend that gross lending will be EUR 13,9 billion in 2014 (equivalent to 2002 levels).

(138) As a corollary of these developments, the players that remain on the market have seen their market shares soar, despite falling lending volumes. For example, EBS has almost doubled its market share in three years, from 10 % to 17,1 %, despite an almost two-thirds fall in its lending volumes. Such increase in market shares was also experienced by AIB and BOI. It seems therefore that EBS' increases in market share have not been due to expansionary activity but more due to the significant reduction in overall lending capacity on the Irish market and withdrawal by certain players.

(139) Ireland considers that foreign banks will not resume supplying significant amounts of mortgages until margins improve and the economic situation stabilises or improves. The only foreign-owned bank actively lending in the mortgage market is KBC, albeit to a limited extent. That view is further supported by the current limited interest of foreign banks in the Irish market, illustrated by the withdrawal of BOSI and the general reduction of activity of foreign banks in the Irish mortgage market (reducing their market share from 30 % in 2008 to 5 % in 2009).

(140) Until the economic situation improves to the extent that foreign institutions resume lending, the Irish authorities submit that "in the medium-term, the gap created by the foreign banks needs to be filled by the domestic financial institutions to ensure the flow of much needed credit into the Irish economy". Consequently, they suggest that maintaining EBS' activity in the market is important in the medium-term and that the possibility of foreign re-entry into the open Irish mortgage market will limit any ability of EBS to distort competition.

(141) EBS and Ireland also claim that the continued presence of EBS on the market will improve competition. Given the effective withdrawal of foreign lenders, the existence of EBS helps maintain competition. Without EBS, AIB and BOI would have had an 82 % market share of the Irish retail mortgage market in 2009 [27], which would represent an effective duopoly on the Irish retail mortgage market. Therefore they consider that maintaining the activity of EBS will be beneficial to competition.

Conclusion

(142) The Commission doubts that sufficient measures are taken to offset the distortive effects of the aid, considering the high amount of aid EBS received both in absolute terms (including the aid element in guarantees) and in terms of risk-weighted assets. The Commission furthermore doubts whether the lack of supply on the mortgage lending market will really last several years and whether it adequately justifies the limited restructuring undertaken by EBS. The Commission thus invites third parties to comment on these issues.

5. CONCLUSION

(143) On the basis of the forgoing, the Commission has doubts on the viability of EBS, and also currently doubts whether the aid is limited to the minimum and whether the measures limiting the distortion of competition are sufficient. The Commission therefore doubts at this stage that the restructuring plan fulfils all the conditions laid down in the Restructuring Communication.

DECISION

— In line with the foregoing considerations, the Commission has decided to initiate the procedure laid down in Article 108(2) TFEU with regard to the restructuring plan submitted by the Irish authorities on 31 May 2010 and the associated aid measures, to verify whether the conditions of the Restructuring Communication regarding viability, burden-sharing and measures limiting the distortion of competition are met.

— The Commission requires the Irish authorities to provide, in addition to all documents already received, information and data needed for the assessment of the compatibility of the aid.

— In particular, the Commission would wish to receive comments on the points on which it raised doubts from the Irish authorities and third parties. The Irish authorities are requested to forward a copy of this letter to the potential recipient of the aid immediately.

— The Commission informs the Irish authorities that it will inform interested parties by publishing this letter and a meaningful summary of it in the *Official Journal of the European Union*. It will also inform interested parties in the EFTA countries which are signatories to the EEA Agreement, by publishing a notice in the EEA Supplement to the *Official Journal of the European Union*, and will inform the EFTA Surveillance Authority by sending a copy of this letter. All such interested parties will be invited to submit their comments within one month of the date of such publication."

[27] Assuming that the lending made by EBS in 2009 would not have been replaced by another lender.