EUROPEAN COMMISSION

Cabinet of Commissioner Margrethe Vestager
Head of Cabinet

Brussels, 12th December 2014
ARES(2014) D/4614901

Excellency,

Please find attached for transmission a letter that Commissioner Vestager addressed to Mrs Maria Luis Albuquerque, Minister of State and Finance.

The original will follow by original mail.

Thank you in advance.

Yours sincerely,

Ditte Juul-Jørgensen

H.E. Mr Domingos Fezas Vital
Ambassador
The Permanent Representation of Portugal
Av. de Cortenbergh 12
1040 Brussels

Commission européenne/Europese Commissie, 1049 Bruxelles/Brussel, BELGIQUE/BELGIË - Tel. +32 22991111
Office: BERL 10/113 - Tel. direct line +32 229-62496

http://ec.europa.eu/dgs/secretariat_general/

MARGRETHE VESTAGER
MEMBER OF THE EUROPEAN COMMISSION

Brussels 12 DEC 2014
Ares(2014) D/4614901

Dear Maria Luis,

It was a pleasure meeting you in Lisbon on 21 November 2014. I would like to thank you for our constructive discussion on State aid cases in Portugal.

Regarding Banif in particular, I appreciate our common understanding that a satisfactory solution has not yet been reached and that further progress is necessary until such a solution is found.

Since the Commission temporarily approved the rescue recapitalisation for Banif on 21 January 2013, the bank has made several proposals for a restructuring plan, most recently in October 2014.

While I welcome the effort and the progress that Banif and the Portuguese authorities have made so far, the latest restructuring plan nevertheless, continues to fall short of the requirements for compatibility. A long period of time has elapsed since the temporary approval of the aid measure and the submitted restructuring plan raises doubts in terms of viability assessment. The Commission would therefore normally have to open a formal investigation on Banif. However, in light of the elements set out in the following, the opening of a formal investigation procedure can be avoided at the present moment, if you give firm reassurances that the Commission will receive a credible plan at the latest by end of March 2015 and on the basis of the attached contours.

I am aware that additional time was repeatedly allowed for the bank to address the issues. This was motivated by considerations of financial stability, and recently by considerations of not jeopardizing the exit of the country from the Economic Adjustment Programme. However, and particularly following the Banco Espirito Santo case, where a resolution was proposed by Portugal and approved by the Commission in August this year, it now seems delicate to argue such different timing treatment of the two institutions, especially given the much smaller size of Banif compared to BES. Therefore, the need to prompt action is even more present.

Mrs Maria Luis Albuquerque
Minister of State and Finance
Av. Infante D. Henrique, 1
PO- 1149-009 Lisbon
Portugal

At the same time, I can take into consideration what you identified as shortcomings at the level of the management board of Banif; you signalled your intention to address this very shortly. I expect this process to help in the submission of a more realistic, conservative and robust restructuring plan, within the next four months, i.e. by end of March 2015 at the very latest.

To this end, I attach to this letter the contours for such a plan, which my services have already shared with your services. A restructuring plan around these contours would ensure the long term viability of (parts of) the bank and its ability to properly implement the restructuring measures, as well as to fully repay the received State aid or at least properly remunerate it.

On the basis of providing a restructuring plan based on the contours paper, and provided that the submission of all underlying data, models, assumptions and methodology is considered sound and credible by my services, I am confident that the Commission could take rapidly thereafter a final decision, which would provide the necessary certainty to the bank.

As always, my services and I stand ready to continue the good collaboration with the Portuguese authorities.

I trust you would find this way forward acceptable.

Yours sincerely,

Margrethe Vestager

BANIF – Contours for a robust restructuring plan

(Main elements)

- **A good bank out scenario:**
    - The restructuring plan should delineate a clearly defined 'good bank', in terms of its clientele type, geographical residence of its clientele and its product offering. Non-core assets should be put in a legacy unit, aiming at either selling those legacy assets or winding them down (no new business).
    - The Good Bank and the Bad Bank (or Restructuring Unit) should have an entirely separate management team and a separate Treasury department to manage separately the funding needs of each entity. The Good Bank and the Bad Bank should be two separate legal entities (thus facilitating a carve-out) at the latest at the moment of sale of the Good bank. This split between Good Bank and Bad Bank is required to facilitate the sale (and repayment of the State) and to increase the potential sales price of the Good Bank. Based on the information in the current Restructuring Plan (version of 8 October 2014), the splitting of the bank in two separate legal entities will increase the viability of the Good Bank.
    - There should be a firm commitment to sell the Good bank before 31 December 2017, either to a 3rd party strategic investor (not in any way connected to the original qualified[1] shareholders in the last 2 years before the January 2013 recapitalisation) or by conducting an IPO or by ensuring that the state receives a compounded annualized return on equity exceeding 10%.
    - However, if the Portuguese authorities or Banif's management is able to sell the bank as a whole before 31 December 2017, this would respect the commitment as well.
      The Portuguese authorities commit that the bank will not perform any new business after the 31 December 2017 unless this commitment has been complied with.

- **Good bank's client focus only on :**
    - SMEs and mid-sized companies according to the following definition: companies with a minimum turnover of 2 Million EUR; considering entities on a consolidated basis (this is based on the information in the latest version of the Restructuring Plan).

      These SMEs and mid-sized companies should have a focus on innovation and productive sectors (e.g., exports) with a simple product offering as proposed in the latest version of the Restructuring Plan.

[1] Qualified shareholders: shareholders with more than 2% shareholdings

Both sectors and product offering will be clearly spelled out in the plan, including which legal entity will conduct the business.
If Micro-Companies (sub 2 Million EUR TO) are to be included in the bank's core segments, a clear delimitation of this type of companies (incorporation forms and sectors) has to be described and substantiated by a sound profitability analysis[2]. Otherwise Micro-Companies have to be excluded from the Good bank's operations. In any case, barely or non-profitable business with single employee companies ('ENIs') is to be excluded.

- As already presented in the latest version of the Restructuring Plan (8 October 2014) the Good Bank can only target Private and Affluent clients (thus no retail outside of the Islands of the Azores and Madeira) with a simple product offering. Both client definition and product offering will be clearly spelled out.

- Everything else (Banif MAIS, other subsidiaries, other countries) are sold (either as entity or asset sale to a non-connected 3rd party) or run down, with a very clear timeline for sales or run down.

- **Geography** (both in terms of client residence and branch presence):
  - Outside Mainland Portugal, exclusively on the islands of Azores and Madeira.
  - In Mainland Portugal, focus only on Lisbon and a selected number of districts (the minimal number to maintain a viable deposit base) with the highest demonstrated (and substantiated) sustained past and current profitability, but under no circumstance bigger than the proposed 2015 network[3].
  - **Strictly no other geographical** presence for the good bank
    - **Strict regional focus based on** clients which have their primary residence in the areas defined above.
    - **No other international presence** - phasing out through sale or closure of all other entities and terminating business with clients that do not fulfil the residency criterion.

- **Pricing of all new business – risk adjusted, maturity matched ROE above 10%.**

  Demonstrate, from business conducted during 2014 (line by line) that
  (a) all new business complies with this principle
  (b) new business volume and existing lending stock amortization can be reconciled to the balance sheet and interest income planning

- **Good bank properly capitalised, demonstrating a robust and substantiated profit generation capabilities throughout the period**

---

[2] Based on RoE, taking into account maturity matched funding cost.

[3] Restructuring plan 8 October 2014, page 150.

- Demonstrate sustainable profitability on each client segment (private, affluent, SME, Medium Sized Company); For Micro-companies, provide a sufficiently granular client segmentation. The segment figures should reconcile to the entire good-bank's balance sheet and P&L projections.

- **Very clear delimitation between the Good Bank and Bad Bank, no moving of assets between them.**
  - No new business in the Bad Bank / restructuring unit. No "carve outs" from non-core legal entities into the Good Bank. Entire business lines either in the Good or Bad Bank , but not partial allocation between the two (as in all other restructured PT banks)

- **The Bad Bank will be run down with very clear deadlines for the sales, amortization or liquidation of the assets in it.** The Banking license has to be withdrawn as soon as possible and no later than at the time of the sale of the good bank.

- **All relevant systems (IT, Risk, Reporting, MIS** etc) for the bank as whole to be implemented and operational (demonstrated) by 31 March 2015 at the latest.

- Update and use of **proper, up-to-date cost of capital and cost of funding, adequate risk measurement and client scoring, capital allocation.** Demonstrated implementation and use of those systems and processes by 31 March 2015

- Strictly **no lending** to shareholders or connected parties, strictly **no guarantees** to shareholders or connected parties; termination of all uncommitted exposures to shareholders or connected parties.

- **Stress test:**

  Perform a stress test, by making use of the published EBA stress test assumptions, specifically for the sovereign holdings, economic growth, unemployment, house prices etc., based on a static balance sheet at the moment of 30 June 2014. To pass the Stress test, the bank has to demonstrably have the same percentage of capital (under stress) as the banks under the EBA / EBC test, i.e., 5,5% CT1. The results and methodology from the Stress test have to be acknowledged by the BdP and an independent party.

- All usual commitments for burden sharing to be included (acquisition ban, dividend and coupon ban, ban on buy-backs, remuneration of bodies etc).

  ***

The above list defines only the broad contours, and cannot be seen as an exhaustive or complete list of commitments.