EUROPEAN COMMISSION

Brussels, 13.09.2012
C(2012) 6368 final

Subject: State aid SA.34827 (2012/NN) – Cyprus
Rescue Recapitalisation of Cyprus Popular Bank

Madam,

1. PROCEDURE

(1) On 15 May 2012, the Cypriot authorities contacted the Commission services to discuss the terms of the envisaged recapitalisation of Cyprus Popular Bank ("Cyprus Popular Bank" or "the Bank"). Several exchanges took places in the following days.

(2) On 25 May 2012, Cyprus formally notified to the Commission a EUR 1.8 billion recapitalisation for Cyprus Popular Bank ("the measure"). Following further requests by the Commission, the Cypriot authorities submitted additional information in several electronic mails.

(3) By submission of 20 August 2012, the Cypriot authorities provided several commitments in respect of the Bank.

(4) By submission of 20 August 2012, Cyprus exceptionally accepts that the decision be adopted in the English language.

(5) On 29 August 2012, the Cypriot authorities clarified some aspects of their commitments.

2. DESCRIPTION OF THE MEASURE

2.1. The beneficiary

(6) Cyprus Popular Bank was founded in 1901. It is the second-largest bank in Cyprus with a share of 18%[1] in terms of deposits and 19% in terms of loans. It offers a full range of personal, corporate and commercial banking services.

[1] Source: Central Bank of Cyprus. As of March 2012.

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(7) Cyprus Popular Bank operates in total 439 branches, out of which 116 branches are in Cyprus and 175 branches in Greece, and employs a staff of 8,464. Apart from Greece, the Group to which the Bank belongs also has operations in the United Kingdom and Guernsey, Ukraine, Russia, Romania, Serbia, Malta and China.

(8) The key figures of Cyprus Popular Bank Bank Group in March 2012, December 2011 and December 2010 (consolidated data) are as follows[2]:

(EUR million)	31 March 2012	31 December 2011	31 December 2010	Δ% Dec 2011/Dec 2010
Net Loans	24,254	24,779	26,417	(6.2%)
Deposits	20,031	20,161	25,508	(21.0%)
Equity	716.6	600.5	3,641	(83.5%)
Assets	31,869	33,762	42,580	(20.7%)
Operating Income	247	1,073.3	1,021.7	1.5%
Operating Expenses	(148)	(649.2)	(645.8)	(0.5%)
Pre-provision Income	98.9	388.1	375.9	3.2%
Net Profit after tax	55.3	(3,650.5)	87.1	

(9) A majority of Cyprus Popular Bank's share capital as of 31 December 2011 was held by public or private companies, insurance companies, partnerships, business names and municipalities (53.9%) and by private individuals (37.3%). The remainder (8.8%) was held by other investors (including pension funds, mutual funds and the employees of the Bank). The stocks of Cyprus Popular Bank are listed in both the Cyprus and the Athens Stock Exchange.

2.2. The events triggering the measure

General context of the Cypriot banking sector

(10) In recent years, Cyprus has witnessed a rapid expansion of its banking sector (at the end of 2011, the total balance sheet of all banks active in Cyprus accounted for

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2 *Source: Marfin Popular Bank Annual Report 2011, p. 33-34, available online at: http://www.marfinbank.com/EN/InvestorRelations/FinancialInformation/AnnualReports/Documents/MPB/MarfinPopularBankAnnualReport2011EN.pdf*
Cyprus Popular Bank Bank –Press Release: Condensed Interim consolidated financial statements for the three months ended 31 March 2012, available online at: http://www.marfinbank.com/EN/InvestorRelations/PressReleasesAndAnnouncements/PressReleasesAndAnnouncements/Documents/2012/CondensedInterimConsolidatedFinancialStatements20120331EN.pdf

817% of Gross Domestic Product (GDP) of which around 250% is accounted for by foreign banks), which has created a serious imbalance in the Cypriot macro economy. The strong increase of bank credit to the private sector fuelled a real-estate bubble and increased the level of private indebtedness (310% GDP in 2011 vs. 213% in 2007). In addition, Cypriot banks have engaged in substantial expansion in Greece, which, as a consequence of deep recession there and the haircut on the Greek sovereign debt, resulted in large losses on both their loan books and their holdings of Greek Government Bonds (GGBs).

(11) Cypriot banks are engaged in a traditional banking business model i.e. they collect deposits from and grant loans to residents and non-residents. They have avoided wholesale funding and risky investments such as structured credits. Deposits by non-residents (which are made notably in dollars and roubles) represent a significant part of total deposits.

(12) In 2011, Cypriot banks were severely hit by the impairments on their GGBs. The three largest Cypriot banks, in terms of assets, Bank of Cyprus, Cyprus Popular Bank and the Hellenic Bank, booked around EUR 1.8 billion, EUR 2.3 billion and EUR 77 million of losses respectively on their GGBs holding, as a result of the private sector bond exchange known as the private sector involvement programme (PSI)[3], which amounts to a combined loss equivalent of more than 20% of Cypriot GDP.

(13) Since 2010 Cyprus has lost access to the international capital markets for funding. That loss of access has aggravated funding issues for Cypriot banks. […][*]. The Cyprus sovereign has been downgraded to non-investment grade.

(14) Cyprus Popular Bank and Bank of Cyprus participated in the EBA[4] 2011 capital exercise. The capital shortfall for the two banks in order to reach the Core Tier 1 capital ratio of 9% by 30 June 2012 as required by the exercise was initially estimated at EUR 3.5 billion. The probability of having to provide for the recapitalisation of both banks, combined with less appetite in the market for its short-term bonds (one-month Treasury bills), led Cyprus to request external financial assistance from the EFSF/ESM[5] on 25 June 2012, with the possible involvement of the IMF[6].

Problems specific to Cyprus Popular Bank

(15) Cyprus, has not submitted at this stage, an analysis of the sources of the problems for the Bank. The following paragraphs are based on the limited publicly available information.

(16) Cyprus Popular Bank was severely exposed to the Greek economy and sovereign (Greek activities accounted for 50% of the assets of the Bank). Therefore for the year ended 31 December 2011 it suffered substantial losses from both the PSI (EUR 2.3 billion), as well as from its increased provisions to cover growing non-

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3 PSI is an exchange of Greek sovereign bond for a package of new long-term Greek sovereign bonds and European Financial Stability Fund (EFSF) bonds. It implies a nominal discount of around 50% on notional Greek debt held by private investors and much higher fair value discount.

* Confidential information

4 European Banking Authority.

5 European Stability Mechanism.

6 International Monetary Fund.

performing loans in its Greek loan portfolio (2011 loan loss provisions amounted to EUR 972 million).

(17) As regards the quality of the Bank's Greek assets, apart from the Greek protracted recession and sovereign debt haircut, still from the limited information available at present, it is indicated that excessive risk was taken within the Greek operations (e.g. lending to buy shares collateralised with the purchased shares). As regards its Cypriot activities, the Bank seems to have expanded rapidly in the real estate sector in 2009-2010 at the top of the real- estate bubble[7]

(18) Cyprus Popular Bank has been faced with increasingly severe liquidity problems, notably as a consequence of the reduction of deposits collected in Greece. It currently has no access to the capital markets or to ECB funding. […].

(19) As a result of the losses posted in 2011, Cyprus Popular Bank's capital position has significantly weakened. […].

(20) The CBC requested Cyprus Popular Bank to cover that capital shortage. As a first step and in order to reach a Core Tier 1 ratio of 9% by end of June 2012 as required by the EBA exercise, Cyprus Popular Bank was instructed to proceed with a capital increase of EUR 1 971 million. […].

(21) The Bank submitted an action plan to the CBC, which entailed the following measures in terms of strengthening its capital:
- raising up to EUR 1.8 billion new equity through a rights issue and/or private placement;
- the exchange of outstanding capital securities of EUR 738 million into EBA-compatible contingent convertible instruments (CoCos) or into equity; and
- the exchange at a discount in cash or into a senior bond of an amount of EUR 414 million of Lower Tier II capital.

2.3. The measure

(22) Given the significant size of the planned capital raising (EUR 1.8 billion) in comparison to the Bank's low market capitalisation (EUR 200 million in the second quarter of 2012) and the Bank's links to the Greek market, Cyprus Popular Bank considered it likely that it would not be able to raise sufficient funds from private investors.

(23) Taking into account the systemic importance of Cyprus Popular Bank, and the potential impact of any failure of the Bank on the Cypriot economy, on 15 May 2012 the Governor of the CBC issued a recommendation to the Cypriot government to enact legislation allowing the State to underwrite Cyprus Popular Bank's capital increase of EUR 1.8 billion, in the form of a rights issue. A Ministerial Decree[8] was subsequently issued by the Minister of Finance, by virtue of which the State undertook to underwrite the full amount of the rights issue of the

7 See recital (10).

8 Ministerial Decree by virtue of article 14 of the Management of Financial Crises Laws of 2011 to (No. 2) 2012.

Bank and set the relevant details. In essence, the State committed to acquire any new shares not purchased by the general public or the existing shareholders.

(24) The exercise price of the rights was set at nominal price of EUR 0.10. The State would also receive an underwriting fee of 2% on the total amount of the issue (EUR 36 million).

(25) In order to encourage private investors to subscribe to the capital increase and thereby save the State from having to inject a corresponding amount, it was provided in the Ministerial Decree that investors underwriting new shares would be granted warrants that gave them a right to repurchase the shares acquired by the State within five years at a predetermined price equal to the subscription price increased by 9% annually.

(26) As there was limited private participation in public offering of the shares which ended on 30 June 2012, ultimately the vast majority of the issued shares (amounting to EUR 1 796 million) were subscribed by the State, in line with its commitment. Following the recapitalisation[9], the State holds a 84% stake in the Bank and has the right to appoint the majority of the members of the Board of Directors.

(27) The State paid EUR 1 796 million to the Bank in the form of a renewable 12-month (with a five-year rollover) zero-coupon sovereign bond issued at 95.1% of par (which gives rise to an implied yield of 5.15%).

(28) The Bank also initiated, at the same time as the rights issue, the exchange of EUR 738 million of outstanding capital securities into equity or to CoCos. However, it only managed to convert an amount of EUR 176.9 million. As such, the Bank has failed to meet the EBA capital requirement of 9% Core Tier 1 by 30 June 2012 and is faced with additional capital needs. The capital shortfall which must be made up to meet EBA's requirement is EUR 630 million.

3. POSITION OF THE CYPRIOT AUTHORITIES

(29) The Cypriot authorities accept that the measure constitutes State aid. They consider it is compatible with the internal market on the basis of Article 107(3)(b) of the Treaty on the Functioning of the European Union ("the TFEU"), as it is necessary in order to remedy a serious disturbance in the Cypriot economy.

(30) According to the letter of the CBC of 16 May 2012, without the recapitalisation, Cyprus Popular Bank might fail, with consequent severe adverse impacts on other banks and the wider financial system in Cyprus. The CBC underlined that it was

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Before recapitalisation				After recapitalisation		
	Number of shares	%			Number of shares	%
Private shareholders	1.610.000.000	100%		Private shareholders	1.610.000.000	7,5%
				former subdebt holders	1.770.000.000	8,3%
				Private investors in capital increase	30.000.000	0,1%
				State of Cyprus	17.960.000.000	84,0%
TOTAL	1.610.000.000	100%			21.370.000.000	100%

essential for Cyprus Popular Bank to receive the recapitalisation, as it is a systemically important financial institution, with a significant number of depositors. […]. […].

(31) The Cypriot authorities have also provided the following commitments with respect to the recapitalisation of Cyprus Popular Bank:

(i) Cyprus Popular Bank will not pay any dividends to shareholders.

(ii) Cyprus Popular Bank will not buy back any hybrid instruments and subordinated debt and will not exercise calls on those instruments. Buybacks can be carried after agreement of the European Commission to the buyback and the buyback's conditions. The Cypriot authorities commit that Cyprus Popular Bank will ask the European Commission for agreement to any buyback and its conditions before the buyback and its conditions are made public.

(iii) Cyprus Popular Bank will not pay any coupon and interest on existing hybrid instruments and subordinated debt, where there is no legal obligation to proceed with such payment.

(iv) Cyprus Popular Bank will not acquire any stake in any undertaking. That commitment covers both undertakings which have the legal form of a company and packages of assets which form a business. Notwithstanding that prohibition, Cyprus Popular Bank may, after obtaining the Commission's approval, acquire businesses if that is in exceptional circumstances necessary to restore financial stability or to ensure effective competition.

- Cyprus Popular Bank may acquire stakes in undertakings provided that the purchase price paid by it for any acquisition is less than 0.01% of the balance sheet size of Cyprus Popular Bank at the date of the Commission decision and that the cumulative purchase prices paid by it for all such acquisitions over the whole restructuring period is less than 0.025% of the balance sheet size of Cyprus Popular Bank at the date of the Commission decision.

- The following activities do not fall under the acquisition ban: acquisitions that take place in the ordinary course of the banking business in the management of existing claims towards ailing firms.

(v) Cyprus Popular Bank will not use the granting of the State recapitalisation or any other kind of State support or the State ownership for advertising purposes.

(vi) The Cypriot authorities commit to submit a restructuring plan in accordance with Commission guidelines[10] for Cyprus Popular Bank no later than six month from the date of the Commission decision.

(vii) The Cypriot authorities commit to submit to the European Commission quarterly reports on the implementation of their commitments.

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10 Communication from the Commission "The return to viability and the assessment of restructuring measures in the financial sector in the current crisis under the State aid rules" (Restructuring Communication), OJ C195, 19.8.2009, p. 9.

4. ASSESSMENT

4.1 Existence of State Aid

(32) The Commission has to assess whether the measure constitutes State aid within the meaning of Article 107(1) TFEU. According to that provision, 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 or the production of certain goods, in so far as it affects trade between Member States.

(33) The Commission considers the measure to be the underwriting of the share capital increase of the Bank, in the form of a rights issue, as the acquisition of the new shares issued by the State at the end of the public offering, is merely the implementation of the fact that the State has underwritten the rights issue[11].

(34) State resources are involved as the measure is financed by the State.

(35) The Commission considers the measure to be selective as it solely benefits Cyprus Popular Bank.

(36) Cyprus Popular Bank would not have found a private investment bank ready to underwrite the share capital increase, as the prospect of investor participation was very low at the time, which meant that the underwriter would be left with a high risk to purchase the shares.

(37) The measure furthermore confers an advantage on Cyprus Popular Bank by allowing the Bank to raise the capital required in order to strengthen its capital and avoid technical insolvency. As a result of the underwriting, the State acquired the vast majority (99,8%) of the new shares issued by the Bank in the amount of EUR 1.8 billion and now owns 84% of the Bank. The fact that the private participation was very low is in line with the expectation at the time of the underwriting and confirms ex post the high risk of the underwriting.

(38) The Commission finds that the measure is also liable to affect trade between Member States and to distort competition. Cyprus Popular Bank competes on, amongst others, the markets for retail savings, mortgage lending and commercial lending in Cyprus. The Bank is also active in other European financial markets, while on the Cypriot market some of its competitors are subsidiaries of foreign banks.

Conclusion

(39) The Commission considers that the measure fulfils all conditions laid down in Article 107(1) TFEU and, therefore, the measure qualifies as State aid to Cyprus Popular Bank.

(40) The Commission observes that Cyprus put the measure in question into effect in breach of Article 108(3) of the Treaty on the Functioning of the European Union.

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[11] Underwriting: commitment to acquire any new shares not purchased by the general public or existing shareholders.

4.2 Compatibility of the Aid

(41) As regards compatibility of the aid provided to Cyprus Popular Bank with the internal market, the Commission first needs to determine on what basis it should be assessed. Subsequently, once the applicable legal basis has been determined, the Commission has to assess whether the measure at issue is compatible with the internal market.

4.2.1 Legal Basis for the compatibility assessment

(42) Article 107(3)(b) TFEU provides for the possibility that aid falling within the scope of Article 107(1) TFEU can be regarded as compatible with the internal market if it intends to "remedy a serious disturbance in the economy of a Member State".

(43) By letter of 16 May 2012, the CBC has confirmed the systemic importance of Cyprus Popular Bank and the consequent severe adverse impact its failure would have on other banks and the wider financial system in Cyprus. The Commission observes that the Bank is the second-largest bank in Cyprus.

(44) For those reasons the Commission accepts that the EUR 1.8 billion recapitalisation in favour of Cyprus Popular Bank is necessary to avoid a serious disturbance in the economy of Cyprus.

4.2.2 Compatibility assessment

(45) Since the aid is an emergency aid necessary to preserve financial stability, its compatibility should be assessed under the Communication from the Commission on *The application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis* (the "Banking Communication")[12]. In line with point 15 of the Banking Communication, in order for an aid or aid scheme to be compatible under Article 107(3)(b) TFEU it must comply with the general criteria for compatibility[13]:

a. *Appropriateness*: The aid has to be well-targeted in order to be able to effectively achieve the objective of remedying a serious disturbance in the economy. It would not be the case if the measure were not appropriate to remedy the disturbance.

b. *Necessity*: The aid measure must, in its amount and form, be necessary to achieve the objective. Thus it must be of the minimum amount necessary to reach the objective, and take the form most appropriate to remedy the disturbance.

c. *Proportionality:* The positive effects of the measure must be properly balanced against the distortions of competition, in order for the distortions to be limited to the minimum necessary to reach the measure's objectives.

[12] OJ C 270, 25.10.2008, p. 8.

[13] See paragraph 41 of Commission decision in Case NN 51/2008 *Guarantee scheme for banks in Denmark*, OJ C 273, 28.10.2008, p. 2.

(46) The Recapitalisation Communication further elaborates on the three principles of the Banking Communication and states that recapitalisations can contribute to the restoration of financial stability. In particular, the Recapitalisation Communication states that recapitalisations may be an appropriate response to the problems of financial institutions facing insolvency.[14] *The Communication from the Commission on the application, from 1 January 2012, of State aid rules to support measures in favour of banks, in the context of the financial crisis*[15] (the "2011 Prolongation Communication") has clarified the terms with which recapitalisation of financial institutions have to comply.

4.2.2.1 Compatibility with the Banking Communication, Recapitalisation Communication, and 2011 Prolongation Communication

a. Appropriateness of the measure

(47) The measure aims to help the Bank restore its capital ratios and avoid technical insolvency. As requested by the CBC, and in order to meet with the EBA capital adequacy requirements by June 30 2012, Cyprus Popular Bank had to cover a capital shortage of approximately EUR 2.5 billion. The capital increase of EUR 1.8 billion in the form of rights issue was part of the Bank's action plan to provide for that shortage. The injection of equity is an efficient and straight-forward measure to shore-up a bank's capital. The Bank had initiated additional measures, to cover the remaining capital amount.[16]

(48) Cyprus Popular Bank is the second-largest banking institution in Cyprus, with significant market shares both in terms of lending and in terms of deposits. As such, Cyprus Popular Bank is a systemically important bank for Cyprus. Consequently, a default of the Bank would create a serious disturbance in the Cypriot economy. Given the current state of distress of the Cypriot banking system and the dramatic impact it has had on the overall economic situation of the country, the disturbance to the economy would be further aggravated by such a default. For those reasons, the Commission finds that the measure was appropriate at the time of the underwriting of the rights issue by the State

b. Necessity –limitation of the aid to the minimum

(49) Based on the Banking Communication, the aid measure must, in its amount and form, be necessary to achieve the objective. That implies that the recapitalisation must be of the minimum amount necessary to reach the objective.

(50) As regards the amount of aid, the Commission notes that it was calculated as the net amount of equity capital needed by the Bank, in order to ensure its compliance with the EBA capital ratio requirements, once the conversion of the outstanding subordinated capital securities into equity or CoCos was to have been completed. It therefore did not provide the Bank with excess capital. Since the conversion of the subordinated capital securities turned out to be smaller than expected, the amount of aid of EUR 1.8 billion in fact was ultimately insufficient to meet the EBA requirements.

[14] Recapitalisation Communication, point (6).
[15] C 356.6.12.2011, p. 7.
[16] See recital (28).

(51) As regards the required remuneration of the aid for recapitalisation in the form of ordinary shares, point 8 of the 2011 Prolongation Communication lays down that the new shares should be subscribed at a discount to the market price prevailing at the time of the announcement. Therefore, one has first to determine the relevant stock market price. The Cypriot authorities contacted the Commission on 15 May 2012 to discuss the terms of the recapitalisation and which price had to be used in a context where there was a high volatility in the stock market price. The price of the Bank's shares changed every day by large percentages, notably due to the political uncertainty in Greece following the election which took place there a few weeks previously. In that context, the Commission accepts to use as a reference point the average stock market price of Cyprus Popular Bank's shares for a period of 30 days prior to 15 May 2012 (EUR 00.188). It represents the right reference point in relation to the moment when the authorities decided to proceed with the recapitalisation. The delay of several days between 15 May 2012 and the announcement was mainly due to the exchanges with the Commission. In context of a rapidly declining stock market price, it seems therefore not appropriate to use the price when the recapitalisation was announced or the 30-days average stock price at that later date.

(52) As regards the discount to that reference price, the Commission observes that the subscription price of EUR 0.10 corresponds to a 47% discount to the reference stock market price of EUR 0.188.

(53) The appropriateness of that discount has to be assessed on the basis of several points of the 2011 Prolongation Communication, which are discussed in the following recitals.

(54) Pursuant to point 12 of the 2011 Prolongation Communication, given that the aid amounted to 7.5% of Risk Weighted Assets (RWA) of the Bank, a large discount was required.

(55) As regards point 11 of the 2011 Prolongation Communication, the Commission observes that investors subscribing to the new shares were offered warrants on the shares subscribed by the State. The strike price of the warrants was the subscription price of EUR 0.10 increased by 9% per year. Since, as indicated above, the private participation was extremely small (EUR 3 million, resulting in 30 million shares in private hands), those private investors received only a small number of warrants (warrants on 300 million shares subscribed by the State, out of the 18 billion shares subscribed by the State. Accordingly, the remuneration of the State is not significantly affected by those warrants. In addition, the strike price has been set at the level of the issue price increased by 9% per year. Consequently, even if the warrants were exercised the State would be left with a remuneration of 9% per year, which is line with the requirements of the Recapitalisation Communication That feature of the recapitalisation therefore does not require a significant increase of the discount.

(56) Point 8 of the 2011 Prolongation Communication requires a sufficient discount "after adjustment for the 'dilution effect'". In the present case, given the fact that the size of the capital increase (EUR 1.8 billion) was very large compared to the depressed market capitalisation of the bank (around EUR 200 million), that requirement automatically should give rise to a large absolute discount. The issue

price of EUR 0.10 corresponds to a discount to the theoretical ex-right price of around 6%.

(57) As indicated above it appears that, while the absolute discount to the reference stock market price is large (47%), when adjusted for dilution it is more limited. The question is therefore whether an even higher absolute discount should have been applied. In the present case, in view of the fact that,(i) as a consequence of that recapitalisation, the shareholders which held 100% of the Bank will be diluted such that their residual holding will be less than 8%[17], (ii) the reference stock market price was already dramatically lower than the historical stock market price[18] , and (iii) the amount of aid is needed as a consequence of the losses incurred on the Greek sovereign debt held as part of the large Greek banking operations of the bank, the Commission does not consider that further burden-sharing is necessary by requiring a higher discount to reference stock market price. The Commission therefore concludes that the subscription price is adequate for this recapitalisation. However that conclusion does not prejudge the assessment of the necessary discount should a further State-supported recapitalisation become necessary.

(58) In respect of footnote 2 to point 8 of the 2011 Prolongation Communication, the Commission observes that the State received an underwriting fee of 2% on the total amount of the issue (i.e. a fee of EUR 36 million), which it finds appropriate.

(59) Regarding the limitation of the aid to the minimum, the Commission observes that the Cypriot authorities have committed that the Bank will not make acquisitions and will not pay remuneration to hybrid bond holders except where such payments are mandatory. Those commitments contribute to ensure that the aid is strictly limited to the financing of the rescue of the Bank.

(60) In conclusion, the measure is necessary in both its amount and form to achieve the objectives of limiting the disturbance in the Cypriot banking system and economy as a whole.

c. Proportionality- measures limiting negative spill-over effects

(61) The Commission notes that the amount of aid received by the Bank is substantial, equivalent to 7.5% of its RWA.

(62) The Cypriot authorities have provided certain behavioural commitments in respect of Cyprus Popular Bank. In particularly, in line with points 38 and 37 of the Banking Communication, Cyprus has committed that Cyprus Popular Bank will not engage in aggressive commercial strategies or expansion of its business activities. With regard to acquisitions, the Cypriot authorities have further undertaken that, unless the Commission otherwise agrees[19], Cyprus Popular Bank will not acquire any stake in any undertaking[20]

[17] See recital (37).

[18] The reference stock market price was 81% lower compared to the stock market price in early 2011, and 98% lower compared to the stock market price in September 2007.

[19] See recital (31).

[20] The Commission finds it acceptable that negligible acquisitions and acquisitions that are done within normal banking business not to fall under that ban.

(63) The Commission considers those elements to be sufficient at present in terms of proportionality.

Obligation to submit a restructuring plan

(64) The *Communication from the Commission on the application, from 1 January 2011, of State aid rules to support measures in favour of banks in the context of the financial crisis*[21] (the "2010 Prolongation Communication") states in point 14 that the distinction between sound and distressed banks no longer seems relevant in order to determine which banks should enter into a discussion about their restructuring with the Commission. Thus, as of 1 January 2011 a restructuring plan will be required from every beneficiary of a new recapitalisation.

(65) The restructuring plan should (i) take into account the large amount of State aid received by the Bank and (ii) fulfil the requirements of the Restructuring Communication[22] as regards return to viability, burden-sharing and own contribution and measures limiting the distortion of competition. In any event, the restructuring plan should be submitted to the Commission within six months of the present decision.

(66) The Cypriot authorities have committed to submit a restructuring plan of Cyprus Popular Bank within six months from the Commission's decision.

d. Conclusion

(67) The Commission thus concludes that the measure is: (i) appropriate; (ii) necessary; and (iii) there are sufficient measures limiting the negative spill-overs for other competitors. The Commission notes the commitment of the Cypriot authorities to submit a restructuring plan in respect of Cyprus Popular Bank. The Commission can therefore approve the measure for a period of six months as rescue aid.

5. Conclusion

The Commission concludes that the measure in favour of Cyprus Popular Bank – i.e. the underwriting by the State of the capital increase of the bank - constitutes State aid pursuant to Article 107(1) TFEU.

The Commission temporarily approves the measure as rescue aid for reasons of financial stability for a period of six months, or if the Cypriot authorities submit a restructuring plan before that date, until the Commission has adopted a final decision on the restructuring plan.

The Commission requests the Cypriot authorities to submit a restructuring plan within six months from the date of this decision.

The Commission notes that for reasons of urgency Cyprus exceptionally accepts the adoption of the decision in English language.

If this letter contains confidential information which should not be disclosed to third parties, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be

21 OJ C329, 7.12.2010, p. 7.
22 OJ C195, 19.8.2009, p. 9.

deemed to agree to the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site:
http://ec.europa.eu/competition/elojade/isef/index.cfm

Your request should be sent by registered letter or fax to:

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Yours faithfully,

For the Commission

Joaquín ALMUNIA
Vice-President