IP/11/389

Brussels, 31 March 2011

State aid: Commission approves Austrian State support for the restructuring of Kommunalkredit

The European Commission has approved under EU state aid rules several measures in favour of Kommunalkredit Austria AG, consisting inter alia in state guarantees of more than €10 billion, a capital injection of €250 million in the form of ordinary shares and a split of the bank through the separation of strategic activities and non-strategic activities, with a €1 billion non-refundable loan to Kommunalkredit Finanz, the entity winding down the non-strategic assets. According to the restructuring plan, the bank that continues the strategic business will concentrate on public and project finance lending and withdraw from other activities. The Commission concluded that the restructuring plan is appropriate to restore the bank's viability, while adequately addressing competition distortions brought about by the state support.

Commission Vice-President Joaquin Almunia, in charge of competition policy, said: *"I am satisfied that Kommunalkredit's profound restructuring plan will ensure the bank's future viability without continued state support. At the same time, sufficient safeguards are put in place to ensure burden-sharing and to limit the distortions of competition created by the state support."*

Before the crisis, Kommunalkredit was the 7th largest Austrian bank with a balance sheet of €37 billion. Its business consisted in granting public and project finance loans, and investing and managing a sizeable portfolio of bonds and credit default swaps (CDS). The securities and CDS portfolios were particularly hit by the financial crisis, leading to considerable impairments and losses.

Consequently, in November 2008 the Republic of Austria acquired Kommunalkredit, by purchasing the 50.78% stake of *Österreichische Volksbanken Aktiengesellschaft* and the 49% stake of *Dexia Crédit Local* for €1 each, the Association of Austrian Municipalities (*Österreichischer Gemeindebund*) retaining its 0.22% share.

In November 2009, the operations of Kommunalkredit were split into *Kommunalkredit Finanz*, comprising "non-strategic" activities (bonds, a CDS portfolio and other non-strategic assets) and *Kommunalkredit* comprising "strategic" activities mostly including loans granted to local authorities.

The split involved an impaired asset relief measure with an aid amount of €441 million. In addition, the bank benefitted from a capital injection into Kommunalkredit of €250 million, a capital injection into Kommunalkredit Finanz of €1 billion by ways of a non-refundable loan and State guarantees up to a maximum of €10.6 billion.

Kommunalkredit will focus its new business on traditional public finance and project finance activities and commits to restrict the annual growth of its total assets to maximum 2% and to reduce its balance sheet by approximately 60% compared to the old Kommunalkredit's balance sheet of end 2008. Furthermore, Kommunalkredit will no longer engage in securities and derivatives business, with the exception of risk and liquidity management measures and client-induced business. Moreover, Kommunalkredit will limit its new production of loans.

The Commission's in-depth investigation found, in particular, that the restructuring plan appears suitable to ensure the long-term viability of Kommunalkredit through the re-focusing on the core strategic activities of the bank. The Commission further found that in particular the nationalisation and a coupon and acquisition ban contribute to an appropriate contribution to the cost of restructuring by the bank's shareholders. The considerable downsizing of the bank by 60%, the annual growth cap and the behavioural commitments provided by the Austrian authorities sufficiently limit the distortions of competition brought about by the aid.

The Commission is therefore satisfied that the restructuring plan is in line with its Communication on restructuring in the financial sector during the crisis (see IP/09/1180) and as such is compatible with Article 107.3.b of the Treaty on the Functioning of the European Union (TFEU).

The non-confidential version of the decision will be made available under the case number SA.32745 (2011/NN) in the State Aid Register on the DG Competition website once any confidentiality issues have been resolved. New publications of state aid decisions on the internet and in the Official Journal are listed in the State Aid Weekly e-News.