EUROPEAN COMMISSION

Brussels, 24.7.2013
C(2013) 4801 final

In the published version of this decision, some information has been omitted, pursuant to articles 24 and 25 of Council Regulation (EC) No 659/1999 of 22 March 1999 laying down detailed rules for the application of Article 93 of the EC Treaty, concerning non-disclosure of information covered by professional secrecy. The omissions are shown thus […].		PUBLIC VERSION This document is made available for information purposes only.

COMMISSION DECISION

of

State aid

SA.35062 (2013/N-2)

implemented by Portugal

for Caixa Geral de Depósitos

(Only the English version is authentic)

(Text with EEA relevance)

COMMISSION DECISION
of
State aid

SA.35062 (2013/N-2)

implemented by Portugal
for Caixa Geral de Depósitos

(Only the English version is authentic)

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union, and in particular the first subparagraph of Article 108(2) thereof,

Having regard to the Agreement on the European Economic Area, and in particular Article 62(1)(a) thereof,

Having called on Member States and other interested parties to submit their comments pursuant to those provisions[1],

Whereas:

1 PROCEDURE

(1) On 28 June 2012, the Portuguese Republic ("Portugal") notified recapitalisation measures to Caixa Geral de Depósitos, S.A ("CGD" or "the bank").

(2) On 18 July 2012, the Commission adopted a decision in case SA.35062 (2012/NN) ("the Rescue Decision")[2] authorising the recapitalisation of CGD implemented on 29 June 2012 as rescue aid.

(3) By electronic mail of 27 September 2012 Portugal informed the Commission that Caixa Geral Finance Limited ("CGDF"), an affiliate of CGD, would pay out

[1] OJ C 116, 23.4.2013, p.13.
[2] http://ec.europa.eu/competition/state_aid/cases/247111/247111_1420908_83_2.pdf

dividends to the holders of perpetual non-cumulative preference shares the next day.

(4) On 28 September 2012, CGDF executed the payment of dividends.

(5) On 18 December 2012, the Commission adopted a decision in case SA.35062 (2012/NN) ("the Opening Decision")[3] instigating the formal investigation procedure for misuse of rescue aid pursuant to Article 16 of Council Regulation No 659/1999 of 22 March 1999 laying down detailed rules for the application of Article 93 of the EC Treaty[4].

(6) By publishing that decision the Commission invited interested parties to comment on its preliminary conclusion that the dividend payment constituted a breach of the terms of the Rescue Decision, but has not received any related comments.

(7) Portugal exceptionally accepts for reasons of urgency that the present decision be adopted in the English language.

2 DESCRIPTION

2.1 The beneficiary

(8) CGD is a banking group fully owned by Portugal. It holds total net assets (based on accounting perimeter)[5] amounting to EUR 116.9 billion at 31 December 2012 and a total net loan book amounting to EUR 74.7 billion at 31 December 2012. The bank's activities comprise, inter alia, nationwide and international commercial banking (notably, in Spain, Lusophone Africa, Macao and Brazil), investment banking, asset management, specialised credit business, and insurance activities.

(9) In 2012, the CGD group had a leading position in most of the business areas it operated in the domestic Portuguese market (in particular, loans and advances to customers, customer deposits, insurance, leasing, investment banking and asset management).

---

3 OJ C 116, 23.4.2013, p.13.

4 OJ L 83, 27.03.1999, p. 1.

5 In this decision, the financial information related to CGD is generally based on prudential perimeters which CGD uses to present relevant financial information to Banco de Portugal as part of its regulatory obligations, and internally for financial projections which are periodically updated for each business unit. CGD has also used those prudential perimeters for all financial information in its restructuring plan, as well as for that in the Funding and Capital Plans which are regularly submitted to the International Monetary Fund ("IMF"), the European Central Bank ("ECB"), and the European Commission ("the Troika").
However, CGD Group publishes its yearly accounts in the annual reports using accounting perimeters. Accounting perimeters include all subsidiaries independently of their inclusion in the Portuguese Central Bank regulatory scope. In case of CGD, the most relevant difference between the prudential perimeters and the accounting perimeters is related to Caixa Seguros e Saúde ("Caixa Seguros"), the holding company of the insurance and health business units, which in the prudential perimeters is included by the equity method.
In order to better allow for a comparison with publically available data, some of the financial information in this decision is therefore provided based on accounting perimeters, in which case, however, it is always clearly marked as such.

Table 1: CGD's main financial figures (based on accounting perimeter)

	31.12.2012
Total assets (billion EUR)	116.9
Loans to customers (billion EUR)	74.7
Retail deposits (billion EUR)[6]	71.4
Total wholesale funds (billion EUR)[7]	35.2
Employees, total Group	23 028
Number of branches, total Group	1 293
National Market share in deposits	28.1%
National Market share in loans	21.3%

2.2 The events triggering the aid measures

(10) Since the beginning of the sovereign crisis, CGD experienced difficulties in accessing the wholesale markets. The difficulties started in accessing the medium- and long-term capital markets and progressively extended to the short-term money markets.

(11) As a result, CGD had to reduce its reliance on wholesale funding and activated its contingent liquidity plan in the first quarter of 2010, subsequently trying to a) find alternative sources of funding, mainly through collateralized funding; b) increase the pool of eligible collateral that would be acceptable for the ECB; c) sell non-strategic assets; and d) present its own credit credentials to investors and counterparties.

(12) Under the Economic and Financial Assistance Plan agreed upon between Portugal, the Commission, the ECB and the IMF, CGD was asked to submit a Funding and Capital Plan ("FCP") for the period 2011-2015 which was to be subject to quarterly review. The first version of the FCP was submitted on 26 July 2011 and has been subject to revisions.

(13) As regards solvency, the Core Tier 1 ("CT1") ratio of CGD, calculated in line with Basel II rules, was equal to 9.48% as at 31 December 2011. The objective of the FCP was to achieve, inter alia, a 10% CT1 ratio by 31 December 2012 under Basel II rules, in line with the requirements of the Memorandum of Understanding ("the MoU") signed between the Portuguese Government, on the one hand, and the IMF, the Commission and the ECB. Following a recommendation of the European Banking Authority ("EBA"), the FCP was updated regarding the level of capital to be held from 30 June 2012 onwards, in order to fulfil capital needs calculated based on the amount of sovereign and local municipality debt held by the bank

6 Liabilities to clients
7 Total liabilities less liabilities to either clients or the Central bank.

("sovereign buffer") and the capital need resulting from a stress test exercise conducted by EBA ("the EBA requirements").

(14) According to the version of the FCP of May 2012, and following the recommendation of EBA, a need to increase its capital by EUR 1.650 billion was identified.

2.3 The aid measures

(15) The recapitalisation measures carried out by Portugal as CGD's only shareholder consisted in

i) the subscription of newly issued ordinary shares ("the capital increase") in the amount of EUR 750 million and

ii) the subscription of convertible instruments ("CoCos") issued by CGD in an amount of EUR 900 million which are eligible for solvency purposes under the EBA requirements as CT1.

(16) A detailed description of the aid measures is provided in recitals 12 to 25 of the Rescue Decision.

2.4 The formal investigation procedure on the misuse of aid

(17) As set out in recital 31 of the Rescue Decision, Portugal committed to ensure that CGD (as a group) applies behavioural restrictions equivalent to those applying to banks that are recapitalised under the New Recapitalisation Scheme for Credit Institutions in Portugal[8], including, inter alia:

- a dividend ban;
- a ban on coupon and interest payments on hybrid instruments and subordinated debt which are not held by Portugal and where there is no legal obligation to proceed with such payment.

(18) On 28 September 2012, CGDF, an affiliate of CGD, paid, without the Commission's authorisation, dividends on perpetual non-cumulative preference shares in the amount of EUR 405 415. That amount corresponds to 0.025% of the capital that was injected on 29 June 2012.

(19) In the Opening Decision the Commission preliminarily considered the dividend payments made by CGDF on 28 September 2012 to fall under the dividend ban which was applicable to CGD pursuant to the Rescue Decision and that the dividend payments constituted a misuse of the rescue aid granted.

[8] Decision in case SA.34055 (2011/N) of 30.5.2012, OJ C 249, 18.8.2012, p. 5.

3 RESTRUCTURING OF CGD

(20) CGD submitted a restructuring plan that contains four main elements:

- Deleveraging the balance sheet of CGD group by selling the insurance arm and remaining non-strategic holdings as well as by the run-down of non-core assets;
- increasing its operational efficiency;
- the restructuring of CGD's operations in Spain;
- the repayment of EUR 900 million of CoCos during the restructuring period.

Deleveraging

(21) CGD had already made efforts to deleverage its balance sheet before the capital increase in June 2012. From December 2010 until June 2012 the bank reduced its balance sheet by approximately EUR 8.2 billion (accounting perimeter).

(22) The restructuring plan sets out additional deleveraging efforts. It envisages the sale of the insurance arm, Caixa Seguros, and other non-strategic holdings as well as the run-down of non-core assets to enable CGD to better focus on its core retail banking operations, and release funds that subsequently will strengthen the core capital of the bank. CGD aims to further deleverage the group's balance sheet by EUR [10-20] billion of non-core assets, which – compared to the consolidated balance sheet in December 2012 (based on accounting parameters) – translates into a reduction of [10-20]%. The sale of the insurance business is an important element of the deleveraging exercise, contributing approximately EUR […][*] billion to the reduction. The sale of the remaining non-strategic holdings will contribute EUR [0-5] billion, the repayment of ex-Banco Português de Negócios ("BPN") debt EUR [0-5] billion, and the run-off of non-core credit in Spain EUR [0-5] billion. Furthermore, approximately two-thirds of the non-core portfolio (EUR [10-20] billion) will be run-down by the end of 2017, while the remainder of the non-core portfolio will be run-down after 2017.

(23) Caixa Seguros is the market leader in Portugal with total market shares in December 2012 of 31% in life insurance and 26% in non-life insurance respectively, including a multiline insurance entity for the life and non-life business as well as specialty insurance entities in particular for health and car insurances. As at 31 December 2012, Caixa Seguros represented 9.2% of CGD's consolidated net assets and it generated a net income attributable to CGD's shareholders of EUR 89.7 million, based on a volume of direct insurance premiums that in 2012 amounted to EUR 3 195 million.

(24) CGD will restructure Caixa Seguros in order to improve its marketability and facilitate the sales process. CGD may […]. The sale process will allow all possible combinations which could vary from […]. CGD’s restructuring plan assumes that […].

[*] Confidential information.

(25) CGD will also sell all its remaining non-strategic holdings held in quoted Portuguese corporations by the […], deleveraging its balance sheet approximately by an additional EUR [200-250] million. CGD has already sold the majority of its non-strategic holdings, which generated proceeds of approximately EUR 450 million.

(26) CGD furthermore plans to gradually run off a portfolio of assets which stems from debt of the failed Banco Português de Negócios ("BPN")[9] that has a nominal value of EUR [0-5] billion and a net asset value of approximately EUR [0-5] billion. According to the related repayment scheme, the value of the net assets will be reduced by [40-50]% to EUR [0-5] billion until the end of 2017.

(27) Finally, CGD will run off a portfolio of non-core credits which were originated by its retail and wholesale banking operations in Spain. That portfolio amounts to approximately EUR [0-5] billion.

Operational efficiency

(28) The second main element in the restructuring plan is an increase of the bank's operational efficiency. CGD had also already taken measures in 2011 and 2012 to optimise its cost base and has, if compared to pre-crisis financial data, reduced both the labour costs and the selling, general and administrative costs of its domestic operations.

(29) CGD will continue that optimization effort by further reducing operational costs during the restructuring period. A reduction of the bank's headcount and the renegotiation of contracted services are the main levers to achieve additional savings. According to the restructuring plan, CGD will continue to reduce its labour costs over the restructuring period, targeting a reduction of [5-10]% and projecting labour costs of EUR [500-550] million as of December 2013 and of EUR [450-500] million as of December 2017. In terms of headcount, the number of employees in Portugal will be reduced by [5-10]%. Whilst in December 2012 9 401 employees worked for the domestic retail banking activities CGD intends to reduce that number by December 2017 to [8500-9000].

(30) The increase of CGD's operational efficiency will furthermore be achieved by an optimization of the branch network, reducing the domestic branch network by [5-10]% from 840 branches in June 2012 to [750-800] branches by […]. The closure of [70-80] branches in Portugal from June 2012 until […] forms part of a periodic optimization process to revaluate and rationalize CGD's domestic retail footprint and is expected to result in yearly savings of EUR [0-5] million. 58 branches have already been closed or are currently in the process of being closed, the remaining [10-20] branches will be closed before […].

(31) Finally, CGD's operational efficiency will be improved by increasing the income from services and commissions, which in 2012 contributed approximately 25% to the total net operating income, while the relevant share in the Portuguese banking

[9] BPN was nationalised in 2008 and sold in 2011. Some of its assets have been transferred to CGD.

sector was on average 29%. CGD will introduce new fee structures in order to better align its sources income with that of its peers.

Restructuring of Spanish operations

(32) The third main element of the restructuring plan concerns the restructuring of the banking operations in Spain. While in general CGD's international operations currently perform much better than the domestic operations and deliver important contributions to the bank's overall performance, CGD's operations in Spain are loss-making. CGD started its retail operations in Spain in 1991 by acquiring Banco de Extremadura and Chase Manhattan España, and then Banco Simeón in 1995. Those retail banking activities currently operate in Spain as a subsidiary of CGD under the name Banco Caixa Geral ("BCG"). In 2007, CGD also started wholesale banking operations which were carried out in a branch that CGD had set up in Spain and which focussed on real-estate projects, related project finance and syndicated loans. While CGD's retail operations in Spain hardly managed to break even over the last decade, the situation was even worse with regard to the wholesale operations. The wholesale operations, which were started just before the financial crisis, have a very poor track record and over a comparatively short period of time added significant losses amounting to approximately EUR 250 million by December 2012. The wholesale will be completely discontinued, and […].

(33) Nevertheless, CGD regards Spain as a key market in which it aims to stay present, in particular to support the export business of Portuguese small and medium-sized enterprises ("SMEs"). The retail operations in Spain will therefore be continued, albeit on a much smaller scale. In order to bring the operation back to profitability the number of branches will be reduced by [47-52]%, down from 209 branches in June 2012 to [100-110] branches as of […]. The headcount of the operations in Spain will be reduced by [46-49]%, down from 974 employees in June 2012 to [500-523] employees as of […].

(34) In terms of geographical coverage, BCG will focus its retail operations on the regions of Galicia, Castilla y León, Asturias and Extremadura, keep only a reduced presence in the main cross-border trade centres (Madrid and Catalunya) and keep a very limited presence, with [0-5] branches in each region, in those areas that have relevant cross-border relations and serve as a relevant source of funding for the Spanish operations, namely País Vasco, Andalucía, Aragón and Valencia.

Repayment of Cocos

(35) The fourth main element of the restructuring plan, the repayment of the EUR 900 million of CoCos during the restructuring period, aims to reduce CGD's average funding costs. The deleveraging of the balance sheet and the increase of the operational profitability should enable CGD to redeem the CoCos. In particular, the sale of the insurance arm should free regulatory capital and thereby allow for an early repayment.

(36) In order to balance the objectives of lowering the average funding costs on the one hand and keeping a sufficient capital buffer on the other hand, the restructuring plan sets out that in the fiscal year 2014 CGD will use [50-60]% of its excess capital (i.e. the capital above the applicable minimum capital requirement under European and Portuguese law (including pillars 1 and 2) plus a capital buffer of [100-150] basis points) to repay CoCos., In the fiscal years 2015 and, if necessary, in the following years CGD will use [90-100]% of its excess capital for the repayment of CoCos.

(37) Table 2 presents the main financial projections, based on accounting perimeters, contained in the restructuring plan for CGD:

Table 2: CGD's key financial figures 2011 - 2017

P&L	2011		2012		2013		2014		2015		2016		2017		Evolution rate 2012-2017 (%)	
	Core	Total	Core	Total	Core	Total	Core	Total	Core	Total	Core	Total	Core	Total	Core	Total
Profit before tax	-90	-545	-303	-367	[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]%	[...]%
Cost of Income Ratio	57%	54%	52%	52%	[70-80]%	[60-70]%	[60-70]%	[60-70]%	[40-50]%	[40-50]%	[40-50]%	[40-50]%	[40-50]%	[40-50]%	-[20-30]%	-[20-30]%
Employees	17,502	23,205	17,296	23,028	[1000-20000]	[1000-20000]	[1000-20000]	[1000-20000]	[1000-20000]	[1000-20000]	[1000-20000]	[1000-20000]	[1000-20000]	[1000-20000]	[0-5]%	-[20-30]%
Branch	1,334	1,334	1,293	1,293	[1000-1500]	[1000-1500]	[1000-1500]	[1000-1500]	[1000-1500]	[1000-1500]	[1000-1500]	[1000-1500]	[1000-1500]	[1000-1500]	-[0-5]%	-[0-5]%
ROE	-2.5%	-7.4%	-5.5%	-6.3%	[...]%	[...]%	[...]%	[...]%	[...]%	[...]%	[...]%	[...]%	[...]%	[...]%	[...]%	[...]%

Balance sheet	2011			2012			2015			2017			Evolution rate 2012-2017 (%)		
Assets	Total	Core	Non-core	Total	Core	Non-core	Total	Core	Non-core	Total	Core	Non-core	Total	Core	Non-core
Loans to clients (net)	78,248	75,095	3,153	74,713	71,338	3,375	[70000-75000]	[65000-70000]	[1500-2000]	[70000-75000]	[70000-75000]	[1000-1500]	-[0-5]%	-[0-5]%	-[60-70]%
NPLs	4,800	4,727	72	6,551	6,427	124	[10000-15000]	[9500-10000]	[400-450]	[10000-15000]	[10000-15000]	[500-550]	[60-70]%	[60-70]%	[300-350]%
Total assets	120,642	103,262	17,380	116,857	100,333	16,523	[100000-150000]	[95000-100000]	[8500-9000]	[100000-150000]	[100000-150000]	[5000-10000]	-[5-10]%	[0-5]%	-[60-70]%
RWA	69,021	66,207	2,813	68,315	65,963	2,352	[65000-70000]	[60000-65000]	[1000-1500]	[65000-70000]	[65000-70000]	[1000-1500]	[0-5]%	[0-5]%	-[50-60]%

Liabilities	2011			2012			2015			2017			Evolution rate 2012-2017 (%)		
	Total	Core	Non-core	Total	Core	Non-core	Total	Core	Non-core	Total	Core	Non-core	Total	Core	Non-core
Central bank	9,013	9,013	0	10,300	10,300	0	[5000-10000]	[5000-10000]	[0-5]	[2000-2500]	[2000-2500]	[0-5]	-[70-80]%	-[70-80]%	-
Liabilities to clients	70,587	64,030	6,557	71,404	65,545	5,859	[70000-75000]	[65000-70000]	[3500-4000]	[75000-80000]	[70000-75000]	[1500-2000]	[5-10]%	[10-20]%	-[70-80]%
Total Liabilities	120,642	114,085	6,557	116,857	110,997	5,859	[100000-150000]	[100000-150000]	[3500-4000]	[100000-150000]	[100000-150000]	[1500-2000]	-[5-10]%	-[-0-5]%	-[70-80]%
LTD	122%	117%	n.a.	114%	109%	n.a.	[100-150]%	[100-150]%	n.a.	[90-100]%	[90-100]%	n.a.	-[10-20]%	-[10-20]%	-
EBA CT1	n.a.	n.a.	n.a.	9.5%	9.6%	9.5%	[5-10]%	[10-20]%	[5-10]%	[10-20]%	[10-20]%	[5-10]%	[10-20]%	[10-20]%	[0-5]%

4 POSITION OF THE PORTUGUESE AUTHORITIES

4.1 Position of the Portuguese authorities on the restructuring plan

(38) Portugal considers the capital increase to be State aid, in particular in view of the current market circumstances and of the fact that the capital increase was carried out simultaneously with the subscription of the CoCos.

(39) Portugal acknowledges that the subscription of CoCos constitutes State aid, in view of the fact that the terms of their subscription were aligned with those provided for in the New Recapitalisation Scheme which constitutes State aid[10].

(40) Portugal submits that CGD has systemic importance within the Portuguese financial system, that the measures were necessary to bring CGD's capital in line with the capital needs as established in the assessment of the Portuguese Central Bank, Banco de Portugal ("BdP") and the Troika and that the terms and conditions of the aid measures, together with the terms and conditions set out in the commitments for the restructuring of CGD, contain a sufficient range of safeguards against possible abuses and distortions of competition.

4.2 Position of the Portuguese authorities on the procedure on the misuse of aid

(41) Portugal considers the payments made to the holders of the perpetual non-cumulative preference shares not to be dividends but coupon payments which may be paid if there is a legal obligation to do so.

(42) Portugal states that according to the underlying terms of the perpetual non-cumulative preference shares, non-payment of dividends would prevent the bank from repurchasing or redeeming parity obligations or junior obligations until after the fourth consecutive following the dividend payment date on which a dividend is paid in full. Portugal considers that the repurchase of the CoCos, for which it has received an explicit commitment by CGD, constitutes such a repurchase of parity obligations or junior obligations.

(43) Portugal confirms that it gave its agreement to the payment of dividends in light of its assumptions that failure to pay them would have made it impossible for CGD to repurchase the CoCos during the following 12 months, and that if no dividends were paid during the five-year public investment period, CGD would not be able at all to repurchase CoCos without breaching its contractual obligations. From Portugal's point of view, such a delay was incompatible with the overriding obligation to minimize the amount and duration of State aid to CGD. Accordingly, Portugal considers that those circumstances de facto rendered the payment of dividends legally binding.

4.3 Commitments of the Portuguese authorities

(44) Portugal has undertaken a number of commitments related to the implementation of the restructuring plan ("Commitments") which are annexed to this Decision.

---

[10] See recital 25 of the decision on the New Recapitalisation Scheme for Credit Institutions in Portugal SA. 34055 (2011/N) of 30.05.2012.

(45) Furthermore, in order to ensure that the various commitments are duly implemented, the Portuguese authorities commit to appoint a monitoring trustee ("the Monitoring Trustee") to monitor all commitments undertaken by the Portuguese authorities and CGD towards the Commission.

5 ASSESSMENT

5.1 Existence of State Aid

(46) According to Article 107(1) of the Treaty, 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 shall, in so far as it affects trade between Member States, be incompatible with the internal market

(47) The qualification of a measure as State aid requires the following conditions to be met cumulatively: a) the measure must be financed through State resources; b) it must grant a selective advantage liable to favour certain undertakings or the production of certain goods; c) the measure must distort or threaten to distort competition and have the potential to affect trade between Member States.

(48) The Commission has already found, for the reasons set out in recitals (33) to (42) of the Rescue Decision, that the measures constitute State aid within the meaning of Article 107(1) of the Treaty. The recapitalisation measures, consisting of the subscription of new ordinary shares in the amount of EUR 750 million and the subscription of CoCos in the amount of EUR 900 million, were provided by Portugal and thus involve State resources. The measures conferred a selective advantage to CGD, enabling it to increase its capital at more favourable conditions than could have been found on the market. CGD is an internationally active bank, competing with other banks in Portugal and other countries. The advantage to it is therefore capable of affecting intra-Union trade and distorting competition.

5.2 Compatibility of the aid with the internal market

(49) As regards the compatibility of the aid provided to CGD, the Commission must determine, first, whether the aid can be assessed under Article 107(3)(b) of the Treaty, i.e. whether the aid remedies a serious disturbance in the economy of Portugal. Subsequently, the Commission, using that legal basis, must assess whether the proposed measures are in line with the internal market.

5.2.1 Legal basis for the compatibility of the aid

(50) Article 107(3)(b) TFEU empowers the Commission to find that aid is compatible with the internal market if it serves "*to remedy a serious disturbance in the economy of a Member State*".

(51) In respect of the Portuguese economy the presence of a serious disturbance has been confirmed in the Commission's various approvals of the measures undertaken by the Portuguese authorities to combat the financial crisis. In particular, the Commission has acknowledged in its last approval of the prolongation of the Portuguese

Recapitalisation Scheme[11] that there is an on-going threat of serious disturbance in the Portuguese economy and that State support of banks is suitable to remedy that disturbance. The Commission notes that the Portuguese banking system faced severe difficulties at the time the aid measures were granted, as a result of the fact that some of the Portuguese banks were highly leveraged, had high loan-to-deposit ratios, and had to cope with an increasing ratio of non-performing loans. The Commission furthermore notes that Portugal receives financial assistance from euro area Member States, part of which is earmarked for the support of Portuguese banks[12].

(52) Given the systemic importance of CGD – which is a leading bank in Portugal – and the significance of its lending activities for the Portuguese economy, the Commission accepts that its failure to satisfy strengthened capital requirements would have entailed serious consequences for the Portuguese economy.

(53) In view of the current situation of the Portuguese economy and the widespread lack of banks' access to international and wholesale funding markets, the Commission considers that the requirements for State aid to be approved pursuant to Article 107(3)(b) of the Treaty are fulfilled.

5.2.2 Compatibility of the aid with the Restructuring and Prolongation Communication

(54) All the measures identified as State aid have been provided in the context of the restructuring of CGD. The Communication on 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")[13] sets out the rules applicable to the granting of restructuring aid of financial institutions in the current crisis. According to the Restructuring Communication, in order to be compatible with the internal market under Article 107(3)(b) of the Treaty, the restructuring of a financial institution in the context of the current financial crisis has to (i) lead to the restoration of the viability of the bank, (ii), include sufficient own contribution by the beneficiary (burden-sharing) and ensure that the aid is limited to the minimum necessary and (iii) contain sufficient measures limiting the distortion of competition.

(55) Notwithstanding the requirements set out in the Restructuring Communication, point 14 of the Communication 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 ("the 2011 Prolongation Communication")[14] specifies that the Commission will "*undertake a proportionate assessment of the long term viability of banks, taking full account of elements indicating that banks can be viable in the long term without the need for significant restructuring, in particular where the capital shortage is essentially linked to a confidence crisis on sovereign debt, the public capital injection is limited to the amount necessary to offset losses stemming from marking* [European] *sovereign bonds to market in banks which are otherwise viable, and the analysis shows that the banks in question did not take excessive risk in acquiring sovereign debt.*"

---

11 Decision of 17 December 2012, case SA. 35747 (12/N), OJ C 43, 15.2.2013, p. 21.

12 See press release 10191/11 of the Council of the European Union, 17.05.2011, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/122072.pdf

13 OJ C 195, 19.08.2009, p. 9.

14 OJ C 356, 6.12.2011, p. 7.

(56) In that regard the Commission notes that the capital needs of CGD were essentially linked to a crisis of confidence regarding the sovereign debt of Portugal. Although they were not directly caused by the impact of marking sovereign bonds to market, the underlying reason was comparable, as EBA required banks to establish a capital buffer related to the amount of sovereign bonds held on the balance sheet (the so-called "sovereign buffer") and as a consequence increased its minimum capital requirements.

(57) Out of CGD’s total capital buffer requirement of EUR 1 650 million as established by EBA, which led to the need for that amount of State aid, EUR 1 073 million (65%) are due to exposure to Portuguese sovereign debt. The Commission’s analysis has furthermore shown that CGD did not take excessive risk in acquiring sovereign debt. The sovereign debt portfolio was acquired by doing carry trade transactions (financed by ECB one-year funding). Whilst such transactions could under certain circumstances be considered as above-average risk-taking, the acquired bonds represented eligible collateral and the relevant rating notations were well above investment grade (AA- for Portugal).

(58) For those reasons the Commission will undertake a proportionate assessment pursuant to point 14 of the 2011 Prolongation Communication.

Restoration of viability

(59) As the Commission sets forth in its Restructuring Communication the Member State concerned needs to provide a comprehensive restructuring plan which shows how the long-term viability of the beneficiary will be restored without State aid within a reasonable period of time and within a maximum of five years. Long-term viability is achieved when a bank is able to compete in the marketplace for capital on its own merits in compliance with the relevant regulatory requirements. For a bank to do so, it must be able to cover all its costs and provide an appropriate return on equity, taking into account the risk profile of the bank. The return to viability should mainly derive from internal measures and be based on a credible restructuring plan.

(60) Portugal has submitted a restructuring plan for CGD, with a five-year time horizon, going up to 2017 and showing a return to viability at the end of the restructuring period.

(61) Point 10 of the Restructuring Communication requires that the proposed restructuring measures constitute a remedy to the beneficiary's weaknesses. In that regard, the Commission notes that the restructuring plan addresses the core weakness of CGD, namely the overall weak profitability of its domestic banking operations, which represent 80% of its activities. The weak results of CGD’s domestic activities can only partly be offset by the positive performance of CGD's international operations, although on average they have shown in the past and currently still show positive Returns on Capital Employed (ROCE). In 2012, for example, the banking activities in Angola achieved a ROCE of [50-60]%, those in Mozambique a ROCE of [20-30]%, in South Africa [20-30]%, and in Macau [20-30]%. In comparison, the banking activities of CGD in Portugal achieved a ROCE of -[10-20]% in 2012. As the international activities contribute positively to the overall economic situation of the CGD group, but only represent a small part of the activities, the restructuring plan focusses on improving the profitability of the domestic operations.

(62) The Commission positively notes that CGD had taken measures to reduce its labour and administrative costs before it received State aid. The current macroeconomic situation and the prospects of the domestic banking market, however, called for a more resolute approach, such as the optimization effort that is set out in the restructuring plan. The targeted reduction of the bank's headcount, reducing the number of employees in Portugal in the banking area from 9 401 to [8500-9000] over the restructuring period, thereby projecting a reduction of labour costs by [5-10]%, is an adequate means to achieve the required savings, in particular when taking into account that the budget for administrative costs will also be significantly cut down.

(63) The Commission's analysis of CGD's branch network initially showed that room for improvement as regards the handling of branches that were clearly underperforming. However, the periodic revaluation process of branches which CGD has now established is an adequate approach to monitor the performance of the retail network so as to be able to adjust the domestic footprint if required. In the restructuring plan CGD has set out that it will reduce the domestic branch network by [5-10]%, closing [70-80] out of the 840 branches. From the Commission's point of view, the targeted downsizing appropriately adjusts CGD's domestic presence to the market requirements, while on the whole maintaining an adequate service level to clients.

(64) The Commission furthermore notes that the improvement of CGD's operational efficiency will also be achieved by increasing the income from services and commissions, based on the introduction of new fee structures. That fee and commission income increase seems justified, considering both that the share of commissions in CGD's income statement is rather low compared to the average in the Portuguese banking sector on the one hand and that the bank has full control over the applicable fee structures on the other hand.

(65) As regards the deleveraging of the balance sheet, the Commission notes that CGD's restructuring plan is well balanced and carefully avoids producing negative effects on the recovery of the Portuguese economy, even though in total the related measures add up to an amount of EUR [10-20] billion, equivalent to a balance sheet reduction of [10-20]%. If CGD as Portugal's largest bank had simply cut down the size of the credit budget it could have contributed to a credit crunch and hurt the real economy. That outcome was avoided by the fact that the main sources of CGD's deleveraging efforts are not linked to the amount of credit which may be provided to the Portuguese economy. CGD’s lending capacity is unaffected by the sale of the insurance business, the sale of remaining non-strategic holdings, the repayment of ex-BPN debt, and the run-off of non-core credit in Spain. The deleveraging efforts are hence well targeted, as they enable CGD to focus on its core retail banking operations and release funds that can strengthen the core capital of the bank whilst avoiding the potential negative effects of deleveraging for the Portuguese economy.

(66) In the same vein the Commission takes note of the commitment by CGD vis-à-vis the Portuguese Government to allocate EUR 30 million per year to a fund that will in turn invest in equity of SMEs and mid-cap corporates in order to secure financing to the real economy in Portugal. Such investments will not involve the acquisition of equity stakes in competing businesses, and the Commission also considers that they do not constitute market-distorting activities within the meaning of point 23 of the Restructuring Communication. There is nothing in that commitment which can give

rise to an additional advantage to CGD, and therefore the Commission does not need to consider further the status of that commitment in the present decision.

(67) As regards the sale of CGD's insurance activities, it is necessary to restructure Caixa Seguros in order to improve its marketability, as set out in CGD's restructuring plan. CGD has proposed a reasonable approach to achieve a sale of Caixa Seguros within the restructuring period.

(68) The turnaround of CGD's banking operations in Spain constitutes a significant element in CGD's plan to achieve a positive overall profitability within a short timeframe. In particular in view of the fact that the operations in Spain have been unprofitable for some time already and were contributing negatively before the financial crisis started, a decisive approach is needed to tackle that problem.

(69) In the restructuring plan, CGD has set out its preferred option to terminate the wholesale activities in Spain and to restructure and continue the retail activities on a smaller scale as well as alternatives, namely a full shut-down of the operation, divesting them by a sale or an asset swap, putting them into a progressive run-off, or looking for a joint venture partner. However, all of those alternatives had their specific downsides and were expected to result in capital losses of significant magnitude. CGD therefore came to the conclusion that restructuring the Spanish operations is the best option from an economic point of view.

(70) The Commission reckons that the restructuring of the Spanish operations in the current macroeconomic context will be a difficult undertaking but at the same time acknowledges that the alternative approaches could be more costly. The Commission notes positively that the wholesale activities have been stopped and that BCG will in any case run-down a sizeable portfolio of non-core assets of its Spanish operations, significantly reduce its footprint in Spain by nearly [50-60]% and is exploring possibilities to save costs by using services available in the group.

(71) From the Commission's point of view it is, however, necessary to reinforce the objective of achieving a turnaround of the operations in Spain as soon as possible. For that reason the Commission deems it essential that Portugal has given a commitment that BCG will either meet by the […] the key performance indicators defined in section 4.2.7.3.1.5 of the commitments set out in the Annex with regard to the relevant thresholds for labour and administrative costs, cost-to-income ratio, funding, deposits, new credit, net margin, and non-performing loans, or – if it fails to achieve them – to stop new business in Spain and to run down all Spanish activities. In view of that safeguard and the lack of alternatives in the short run, the Commission accepts the plan to achieve a turnaround of the retail banking activities in Spain as an element of CGD's restructuring plan.

(72) The Commission furthermore considers CGD's restructuring plan to be credible even if the current difficult economic situation of Portugal were to last longer assumed in the base case. CGD projects credit at risk to further increase over the restructuring period from an already high level of 12% to [10-20]% at the end of 2017. The bank furthermore projects to increase provisioning of credit at risk to [50-60]%. Such a coverage ratio can be deemed to be in line with that of other Portuguese banks which have not received State capital, for example those of Banco Espirito Santo or Banco

Santander Totta. CGD's coverage ratio has to be assessed in light of the fact that the bank traditionally has a strong foothold as mortgage provider in Portugal and hence has a large share of mortgages in its loan portfolio with an average loan-to-value ratio of around [70-80]%. Taking those factors into account, a coverage of credit at risk of [50-60]% appears to be adequate to cover for CGD's future loan losses over the restructuring period.

(73) The Commission finally notes that all the measures set out in the restructuring plan are geared to restore CGD's viability and to result in a satisfactory level of profitability, as indicated by the Return on Equity ("ROE") of [5-10]% for CGD's banking activities in Portugal that is targeted for 31 December 2017, as well as the ROE of [5-10]% for the consolidated results of all activities of the CGD group as of 31 December 2017.

Aid limited to the minimum, own contribution and burden-sharing

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

(75) CGD's restructuring plan does not contain any elements that suggest that the aid exceeds the means required to restore long-term viability. As described in recital (13), the capital shortfall which needed to be covered was determined on the basis of the MoU as agreed between the Portuguese Government, on the one hand, and the IMF, the ECB and the Commission, on the other hand.

(76) According to point 34 of the Restructuring Communication, adequate remuneration of any State intervention is one of the most appropriate limitations of distortions of competition. The Commission notes in that context that the capital provided in form of CoCos is adequately remunerated, in line with the guidelines of the Commission and the ECB[15]. The remuneration of the CoCos starts at an initial 8.5% for the first year and will with step-ups increase over time, resulting in an average annual remuneration rate of 9.2% over the investment period. The step-up mechanism will encourage CGD to exit from the State intervention.

(77) The Commission notes that according to the restructuring plan and the related commitments CGD will use its excess capital for the full repayment of the CoCos (see Section 5 of the Commitments).

(78) CGD will in 2014 use [50-60]% of its excess capital and [90-100]% of excess capital in 2015 and in the following years to repay the EUR 900 million of CoCos. The repayment mechanism limits the buffer of capital that CGD can hold on its balance sheet and thereby ensures that the aid will over the restructuring period remain limited to the minimum necessary.

(79) It is furthermore important to note that the sale of the insurance arm will free regulatory capital and hence make it more likely that CGD will have excess capital

[15] ECB Governing Council recommendations on the pricing of recapitalisations of 20 November 2008.

that can be used for the repayment of the CoCos, thus also contributing to the restructuring costs by its own means.

(80) However, the Commission notes that CGD did not comply with the dividend ban but paid out dividends in the amount of EUR 405 415, in contravention of the commitment given by Portugal in the context of the Rescue Decision.

(81) The aim of the dividend and coupon bans is to prevent the outflow of funds, thereby ensuring that the aid can be repaid and hence that State aid is limited to the minimum necessary. To that end, shareholders of the bank as well as holders of hybrid capital and subordinated debt should as far as possible be excluded from the potential benefit of the State aid.

(82) As CGD was in a position to pay out dividends, it was demonstrated that the aid amount was not limited to the minimum necessary. The information that CGD provided in the course of the misuse investigation procedure has not changed the Commission's assessment in the Opening Decision that the payments qualified as dividend payments which fell under the dividend ban of the Rescue Decision or shown a legal obligation to make the payment which would have allowed for a payment of dividends under the Rescue Decision.

(83) The Commission concludes that the aid measures in the amount of EUR 1 650 million were limited to the minimum necessary, with the exception of an amount of EUR 405 415 that was used for dividend payments. In that respect the Commission takes in particular note of the commitment by CGD to pay back to Portugal an amount equaling the dividend payment and therefore the amount by which the aid granted exceeded the minimum necessary. Given that commitment, the aid is deemed to have been limited to the minimum necessary.

(84) In addition, the Commission notes that Portugal has committed to a ban on dividend, coupon and interest payments (see Section 6.7 of the Commitments).

(85) Point 24 of the Restructuring Communication furthermore stipulates that an adequate remuneration of State capital is also a means of achieving burden-sharing. As established in recital (76), the Commission considers that the capital provided in form of CoCos is adequately remunerated.

(86) Finally, the Commission notes that CGD has already carried out and will continue to implement cost-cutting measures by in particular reducing its headcount and branch network in Portugal, and thereby contributes to the restructuring costs through internal measures.

(87) For those reasons, the Commission concludes that the restructuring plan ensures that the aid is limited to the minimum necessary and provides for an appropriate own contribution and burden-sharing.

Limiting distortions of competition

(88) Finally, section 4 of the Restructuring Communication requires that the restructuring plan contains measures limiting distortions of competition. Such measures should be tailor-made to address the distortions on the markets where the beneficiary bank

operates post-restructuring. The nature and form of such measures depend on two criteria: first, the amount of the aid and the conditions and circumstances under which it was granted and, second, the characteristics of the markets on which the beneficiary will operate. Furthermore, the Commission must take into account the extent of the benficiary's own contribution and burden-sharing over the restructuring period.

(89) The Commission recalls that CGD has received State aid in the form of capital injections and CoCos in the amount of EUR 1 650 million. The aid amount is equivalent to 2.3% of CGD's Risk Weighted Assets (RWA)[16] which is comparatively low. As the CoCos are adequately remunerated, only moderate measures are necessary to limit potential distortions of competition.

(90) The proportionate downsizing of CGD in terms of balance sheet size, geographical footprint and staff will contribute to limiting competition distortions. Whilst the divestment of Caixa Seguros and the downsizing and restructuring of the Spanish operation will contribute to the bank's restoration of viability, the remaining balance sheet reduction is considered appropriate compared to the distortions of competition stemming from the aid

(91) In addition to those structural measures, Portugal also committed to several behavioural constraints. The Commission takes note of those behavioural commitments set out in Section 6 of the Commitments, such as a ban on advertising State support and a ban on aggressive commercial practices, preventing CGD from using the aid for anti-competitive market conduct. It in particular welcomes an acquisition ban, which ensures that the State aid will not be used to take over competitors, but that it will instead serve its intended purpose, namely to restore CGD's viability.

(92) In sum, the Commission considers that there are sufficient safeguards to limit potential distortions of competition, in particular in light of the application of point 14 of the 2011 Prolongation Communication as a consequence of the events leading to the necessity for State aid, namely the EBA sovereign buffer.

5.3 Monitoring

(93) Pursuant to section 5 of the Restructuring Communication, regular reports are required to allow the Commission to verify that the restructuring plan is being implemented properly.

(94) Moreover, the correct implementation of the Restructuring Plan and the full and correct implementation of all commitments contained in the Commitments will be continuously monitored by an independent, sufficiently qualified Monitoring Trustee.

[16] As of the relevant reference date when the aid measure was granted.

CONCLUSION

In view of the commitments made by Portugal it is concluded that the restructuring aid is limited to the minimum necessary, that competition distortions are sufficiently addressed and that the submitted restructuring plan is apt to restore CGD's long-term viability. The restructuring aid should be found compatible with the internal market pursuant to Article 107(3)(b) of the Treaty,

HAS ADOPTED THIS DECISION:

Article 1

The State aid consisting of the subscription by Portugal of newly issued ordinary shares in the amount of EUR 750 million from CGD and the subscription by Portugal of convertible instruments issued by CGD in an amount of EUR 900 million is compatible with the internal market, in the light of the commitments set out in the Annex.

Article 2

Portugal shall ensure that the restructuring plan submitted on 15 October 2012 and complemented by the submission of 19 July 2013 is implemented in full, including the commitments set out in the Annex and in accordance with the schedule set out in that Annex.

Article 3

Portugal shall inform the Commission within two months of notification of this Decision of the measures taken to comply with it.

Article 4

This Decision is addressed to the the Portuguese Republic.

Done at Brussels,

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 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:

European Commission
Directorate-General for Competition
State Aid Greffe
B-1049 Brussels
Fax No: (+32)-2-296.12.42

Yours faithfully,
For the Commission

Joaquín ALMUNIA
Vice-President

ANNEX

COMMITMENTS CAIXA GERAL DE DEPÓSITOS, S.A.

1. BACKGROUND

This document sets out the terms (the "Commitments") for the restructuring of Caixa Geral de Depósitos S.A. ("CGD" or "the Bank"), which the Portuguese Republic and CGD have committed to implement.

2. DEFINITIONS

In this document, unless the context requires otherwise, the singular shall include the plural (and vice versa) and the capitalized terms used herein have the following meanings:

Term	Meaning
Asset management	means the development of specialized solutions to invest the savings of the retail (management of mutual and pension funds, and development of solutions tailored for individual investment needs) and institutional clients that include pension funds, Insurance Companies, Corporates and Public Institutions (management of investment portfolios based on customer requirements, either tracking a benchmark or following absolute return solutions)
Bancassurance	means a partnership between a bank and a third party insurance company whereby the Bank sells insurance company products through its retail network
BCG Spain	Banco Caixa Geral, S.A. (Spain) also referred to as the Spanish retail operation
Caixa Seguros	means CGD's main subsidiary active in insurance business
C/I ratio	means the ratio of operating expenses (labour and SG&A costs) to operating income (the sum of net interest income, commission income, revenues from capital instruments, revenues from financial operations, and any other income from operations)
Commitments	mean the undertakings related to the restructuring of CGD set out in this document
Corporate banking	means the banking services offered to corporations, either large corporations or SMEs
Coverage ratio of credit at risk	means the coverage ratio of credit at risk with accumulated loan loss provisions
Core Region	means the Domestic Core Region (Portugal) and the International Core Region (as set out in clause 4.2.2.1)

Credit at risk	as defined in instruction no 16/2004 (consolidated version as of the 31st of May 2013 – includes the revision introduced by instruction 23/2011) of the Bank of Portugal, corresponding to the sum of the following elements: a) total value owed on the loans that have payments of principal or interest overdue for a period of at least 90 days. Current account loans that have not been previously contracted shall be considered as credit at risk when the overdraft has existed for 90 days; b) total value of outstanding loans that have been restructured, after having been unsettled by a period not less than 90 days, without adequate collateral reinforcement (covering the full amount of principal and interest outstanding) or full payment by the borrower of all interest and other charges that were due; c) total value of credit with instalments of principal or interest overdue for less than 90 days, but on which there is evidence to justify its classification as credit at risk, including the bankruptcy or liquidation of the debtor. In case of insolvency of the debtor, the recoverable balances may cease to be considered at risk after approval by a court of law in the respective agreement under the Code of Insolvency and Corporate Recovery (*Código de Insolvência e Recuperação de Empresas*), if no doubts persist about the effective collectability of the amounts due.
Decision	means the decision of 24 July 2013 of the European Commission on the restructuring of CGD in the context of which these Commitments are undertaken
Divestiture Trustee	one or more natural or legal person(s), independent from CGD, approved by the Commission and appointed by CGD and who has received from CGD the exclusive mandate to sell Caixa Seguros to a purchaser. The Divestiture Trustee shall protect the legitimate financial interests of CGD, subject to CGD's unconditional obligation to divest […].
Employee	means any person that has a contract of employment with CGD
Factoring	means a financial transaction whereby a business sells its accounts receivable (i.e. invoices) to a third party (called a factor) at a discount. A composite product offering a mix of finance, credit insurance and financial management services (collections).
International Instrumental Activities	has the meaning set out in clause 4.2.2.2
Investment banking	means specialised financial services provided to corporate and institutional customers, including advisory in corporate mergers and acquisitions, project finance, corporate finance (acquisition finance, structured finance, bonds, commercial paper, securitisation, etc.), equity capital markets operations (IPOs, tender offers, equity-linked transactions, etc.) and market risk management (through hedging and structured finance solutions). Additionally, it also includes the provision of financial brokerage services and research reports to institutional and private individual investors, intermediation on fixed income securities and syndication of structured loans.
KPI	Key Performance Indicators
Leasing	means a contract by which an individual or a firm can obtain the use of certain fixed assets for which it must pay a series of contractual, periodic payments having the option to buy the asset at the end of the contract

LDR	means net loans to deposits ratio
Monitoring Trustee or Trustee	has the meaning set out in clause 6.10 and Appendix I herein
New Production	consists of all new contracted business with the exception of all previously contractually committed production or any new production which is strictly necessary to preserve the value of the loan collateral or which is otherwise related to minimising capital losses and/or enhancing the expected recovery value of a loan
Nonperforming loans (NPL) ratio on new credit	means new loans production that have payments of interest and/or principal that are past due by 90 days or more / total new credit portfolio
Proprietary trading	means the regular trading activities of CGD, unrelated to client business, using the Bank's own capital and balance sheet.
Restructuring Period	is the time period specified in clause 3.3
Renting	means an agreement where a payment is made for the temporary use of a good (in particular a vehicle) owned by a non-financial company, usually accompanied by the provision of a number of associated services
Restructuring Plan	means the plan submitted by CGD to the European Commission, via the Republic of Portugal, as last amended and supplemented by written communications on 19 July 2013
Remedial Actions	mean action(s) that will allow CGD to meet the identified target(s). The remedial actions shall be presented by CGD as described in clause 4.2.3.3.The Monitoring Trustee will analyse the remedial actions proposed and will report to the Commission on their adequacy to meet the targets in the Restructuring Plan
RWAs	means risk weighted assets that shall be calculated on a consolidated basis in accordance with relevant Portuguese regulations and as approved by Bank of Portugal at the date of the Decision
SME	means a Small & Medium Enterprise which has a turnover below or equal to EUR 50 million and credit exposure to CGD that does not exceed EUR 1 million
VAR	means Value At Risk, the portfolio risk measure as described in the 1996 amendment by the Basel Committee on Bank Supervision. For the purposes of the calculation, figures refer to a historical simulation methodology using a 10-day holding period, a 99% confidence interval and 501 trading days of data (corresponding to a 2-year horizon)
Venture capital	means the act of providing financial capital to start-up companies, in particular those with high growth potential, in exchange for equity in the business

3. GENERAL

3.1. Portugal is to ensure that the Restructuring Plan for CGD is correctly and fully implemented.

3.2. Portugal is to ensure that the Commitments are fully observed during the implementation of the Restructuring Plan.

3.3. The Restructuring Period will end on 31 December 2017. The Commitments apply during the Restructuring Period, unless otherwise provided.

4. RESTRUCTURING OF CGD: SPLIT INTO CORE ACTIVITIES AND NON-CORE ACTIVITIES

4.1. CGD will split its activities into two parts: the Core Activities and Non-Core Activities. The combined total balance sheet size[17] of the Core Activities and Non-core Activities was EUR 120 642 million in December 2011. In June 2012 the balance sheet total was EUR 117 694 million, by end December 2012 the balance sheet total was EUR 116 857 million.

The split of CGD will be executed as follows:

4.2. The Core Activities

Assets allocated to the Core Activities

The Core Activities include the Domestic Core Activities (retail households, SMEs, corporate banking, Investment banking, Asset management, leasing, factoring, renting, bancassurance and Venture capital), the International Core Activities and the International Instrumental Activities.

4.2.1. The Domestic Core Activities include the net assets set out below (cut-off date 31 December 2012):

4.2.1.1. EUR [850-900] million Cash and balances with the central bank;

4.2.1.2. EUR [1000-1500] million Loans (/Receivables) to credit institutions;

4.2.1.3. EUR [2500-3000] million Financial assets held for trading;

4.2.1.4. EUR [10000-15000] million Available-for-sale financial assets;

4.2.1.5. EUR [0-5] million held-to-maturity financial assets;

4.2.1.6. EUR [60000-65000] million Loans to clients;

thereof:

4.2.1.6.1. Developers and construction EUR [8000-8500] million;

[17] Accounting perimeter

4.2.1.6.2. Residential mortgages EUR [30000-35000] million;

4.2.1.6.3. Large Corporate EUR [10000-15000] million;

4.2.1.6.4. SMEs EUR [3000-3500] million;

4.2.1.6.5. Consumer loans EUR [1500-2000] million ;

4.2.1.6.6. Other EUR [4000-4500] million (includes other financial institutions and central and local government);

4.2.1.7. EUR [400-450] million Property, plant and equipment;

4.2.1.8. EUR [150-200] million Intangible assets;

4.2.1.9. EUR [4000-4500] million Other assets

thereof:

4.2.1.9.1. Investment properties EUR [80-90] million;

4.2.1.9.2. Hedging derivative instruments EUR [30-40] million;

4.2.1.9.3. Non-current assets held for sale EUR [500-550] million;

4.2.1.9.4. Current tax assets EUR [30-40] million;

4.2.1.9.5. Deferred tax assets EUR [1000-1500] million;

4.2.1.9.6. Other assets EUR [2000-2500] million;

4.2.1.10. EUR [30-40] million net assets contribution arising from participations on other domestic business units (equity method) listed in Appendix II.

4.2.2. The International Core Activities and the International Instrumental Activities include the net assets contribution and the international areas set out below (cut-off date 31 December 2012).

4.2.2.1. International Core Activities includes all the international areas ("International Core Region") where CGD owns a significant retail banking presence either through a local branch or an affiliated unit, as set out below:

4.2.2.1.1. Spain – total net assets: EUR [4000-4500] million [18];

4.2.2.1.2. France – total net assets: EUR [4000-4500] million;

4.2.2.1.3. Macao (China) – total net assets: EUR [3000-3500] million;

4.2.2.1.4. Mozambique – total net assets: EUR [1500-2000] million;

4.2.2.1.5. Angola – total net assets: EUR [1000-1500] million;

4.2.2.1.6. South Africa – total net assets: EUR [600-650] million;

4.2.2.1.7. Brazil – total net assets: EUR [500-550] million;

4.2.2.1.8. Cape Verde – total net assets: EUR [750-800] million;

4.2.2.1.9. Timor – total net assets: EUR [50-60] million;

4.2.2.1.10. São Tomé – total net assets: EUR [0-5] million.

4.2.2.2. International Instrumental Activities are specialized operations that provide services to CGD Group (such as funding, access to institutional markets and products structuring). Instrumental Activities are performed by local specialized branches or affiliated units in key markets, as set out below:

4.2.2.2.1. Luxembourg – total net assets: EUR [100-150] million;.

4.2.2.2.2. Cayman Islands – total net assets: EUR [600-650] million;

4.2.2.2.3. United Kingdom (London) – total net assets: EUR [400-450] million;

4.2.2.2.4. United States of America (New York) – total net assets: EUR [250-300] million;

4.2.2.2.5. China (Zhuhai) – total net assets: EUR [5-10] million.

[18] Excluding Spanish branch and non-core assets to be transferred to the Spanish branch

4.2.3. Size

4.2.3.1. By end-December 2014 the balance sheet size of the Core Activities shall not be higher than EUR [100-150] billion[19], the RWAs shall not be higher than EUR [70-80] billion, the C/I shall not be higher than [70-80]%, the LDR shall not be higher than [120-130]%, and the coverage ratio of credit at risk shall not be lower than [50-60]%.

4.2.3.2. By end-December 2016, the balance sheet size of the Core Activities shall not be higher than EUR [100-150] billion[20], the RWAs shall not be higher than EUR [70-80], the C/I shall not be higher than [50-60]%, the LDR shall not be higher than [120-130]%, and coverage ratio of credit at risk shall not be lower than [50-60]%.

4.2.3.3. The total exposure on the consolidated balance sheet to […] issuers shall not exceed EUR [10-20] during the Restructuring Period.

4.2.3.4. Should it become likely that the above balance sheet, RWA, C/I, LDR, and coverage of credit-at-risk targets will not be met, CGD shall on its own initiative, and in any case upon request by the Monitoring Trustee, present Remedial Actions within a month. The Monitoring Trustee will analyse the Remedial Actions proposed and will report to the Commission on their adequacy to meet the targets set out in the Restructuring Plan.

4.2.4. Branches and Employees

The Core Activities will reduce its current structure in Portugal as follows:

4.2.4.1. From 829 (31 December 2012) to [750-800] retail domestic branches[21] before the […].

4.2.4.2. Branches may not be replaced by other entities or structures that essentially provide the same services and involve a meaningful amount of

19 Accounting perimeter
20 Accounting perimeter
21 Excluding self-service branches and including corporate offices

manpower. However, CGD may install automated points of service instead (e.g. ATM or the like).

4.2.4.3. From 11 904 domestic employees (without insurance business unit by 31 December 2012) to [10000-15000] employees by […], to [10000-15000] employees by […], to [10000-15000] employees by end of […], to [10000-15000] employees by […].

4.2.4.4. After the year […] and until the end of the Restructuring Period the number of branches in Portugal shall not increase.

4.2.4.5. Should it become likely that above branch and employee targets are not met, CGD shall on its own initiative, and in any case upon request by the Monitoring Trustee, present Remedial Actions within a month from the request by the Monitoring Trustee. The Monitoring Trustee will analyse the Remedial Actions proposed and will report to the Commission on their adequacy to meet the targets set out in the Restructuring Plan.

4.2.5. Description of Core Activities

4.2.5.1. The Core Activities shall be those of a commercial retail bank, with a particular focus on households, SME and Corporate Banking, which also provides Investment banking, Asset management, Renting, Leasing and Factoring services, Bancassurance and Venture capital, primarily focused on the Domestic Core Region and on the International Core Region, as well as International Instrumental Activities.

4.2.5.2. Consequently, during the Restructuring Period CGD:

4.2.5.2.1. Shall not engage in any new production outside the Core Region and outside the International Instrumental Activities' areas defined in clauses 4.2.2. For the avoidance of doubt, CGD will still be allowed to engage new production with customers domiciled outside the Core Region when booked in the Core Region or in the International Instrumental Activities.

4.2.5.2.2. Shall ensure that the net assets of the International Instrumental Activities do not exceed [0-5]% of the Core Activities balance sheet size.

4.2.5.2.3. Shall not engage any new production in Portugal other than in the activities described in 4.2.

4.2.6. Principles which apply to the International Core Activities and to the International Instrumental Activities

Until the end of the Restructuring Period, CGD will make its best efforts to decrease its exposure on capital and intra group funding to its International Core Activities. CGD shall not increase its exposure on capital and intra group funding to its International Core Activities and International Instrumental Activities except when this increase arises directly from previously existing (before this Decision) contractual obligations assumed with third parties or regulatory related obligations, or is required by a final and mandatory decision taken by a public authority on CGD. Before implementing the capital measure, CGD commits to promptly inform the Monitoring Trustee of any such decision and present a business plan for the entities which require additional capital or funding need to the Monitoring Trustee. The Monitoring Trustee will analyse the business plan and will report to the Commission on the adequacy of the measures taken.

4.2.7. Restructuring plan for BCG Spain

4.2.7.1. CGD shall restructure the business of BCG Spain, in order to ensure its long-term viability, autonomy from CGD in terms of funding and positive contribution to CGD's group profitability.

4.2.7.2. CGD commits to cease all activities in the Spanish operation that are not directly related to the core activities of the operation (retail banking[22], support to SMEs and to cross-border business). In particular CGD commits:

4.2.7.2.1. to stop new production in Project Finance operations;

[22] In traditional areas (Galicia, Extremadura, Castilla y León and Asturias) and in large urban cities and main cross border trade centers (Madrid, Barcelona, País Vasco, Andalucía, Aragón and Valencia).

4.2.7.2.2. to stop new production in Leverage Finance operations;

4.2.7.2.3. to stop new production in Acquisition Finance operations.

4.2.7.3. The restructuring of BCG Spain shall be carried out in two phases.

4.2.7.3.1. <u>Phase 1</u>

Until […], CGD will:

4.2.7.3.1.1. Use CGD's Spanish branch as a vehicle to consolidate the legacy portfolio in Spain, separating core from non-core business activities and shielding the core operation. The non-core wholesale credit and mortgage portfolios of both BCG Spain and CGD's Spanish Branch (*Sucursal em Espanha*) will be consolidated in the Spanish Branch, which will stop any new production and manage the run-off of these portfolios (for a detailed list of EUR [1000-1500] million assets to be transferred out of BCG Spain see Appendix III);

4.2.7.3.1.2. Restructure the retail network of BCG Spain including EUR [5000-5500] million of assets as of 31 December 2012 (for a detailed list of EUR [5000-5500] million of assets see Appendix III), by re-focusing the operation on its core areas, focusing on cross border SME business and reducing the presence of branches with negative profitability, unsustainable LDR, insufficient customers;

4.2.7.3.1.3. The number of branches will be reduced from 173 branches in December 2012 to [100-110] by […] (for a detailed list of branches see Appendix V) and will not be increased during the Restructuring Period;

4.2.7.3.1.4. The number of employees will be reduced from 797 in December 2012 to [500-523] by […] and will not be increased during the Restructuring Period;

4.2.7.3.1.5. Key performance indicators (KPIs) to be met by […]

Starting from October 2014, the Monitoring Trustee will start to assess whether the following KPIs for BCG Spain will be met by […].

4.2.7.3.1.5.1. Over the whole period of […] the total of Labour costs and SG&A costs must be below or equal to EUR [50-60], and BCG Spain must achieve a C/I ratio of below or equal to [50-60]%;

4.2.7.3.1.5.2. BCG Spain must be entirely self-funded and sufficiently capitalised. No additional capital and net funding must have been provided in the period of end of 2012 to […], and there must not be any need for additional capital and net funding until the end of the Restructuring Period.

4.2.7.3.1.5.3. The amount of new credit production (net), i.e. credit generated after end of 2012 and not having matured or been redeemed by […], must be equal or above EUR [900-950]. The part of new credit production related to cross-border is equal or above [20-30]%.

4.2.7.3.1.5.4. The new credit production, as defined and referred to in the point 4.2.7.3.1.5.3, generates a weighted average net margin (spread) above reference rate (6 months Euribor) of at least [0-5]%.

4.2.7.3.1.5.5. The NPL ratio of the new credit production, as defined in the point 4.2.7.3.1.5.3, is equal to or below [0-5]%.

4.2.7.3.1.5.6. The total amount of deposits is equal or above EUR [0-5] billion[23]. The weighted average cost of the deposits is not higher than […][24]; the LDR is equal to or below [100-150]%.

[23] With a 10% tolerance margin.
[24] With a 10% tolerance margin.

4.2.7.3.2. Phase 2

4.2.7.3.2.1. Starting from […], CGD will continue the implementation of the restructuring plan of BCG Spain until the end of the Restructuring Period if the KPIs are met by […].

4.2.7.3.2.2. If the KPIs referred to above are not met by […], or as soon as the Monitoring Trustee has finalised its assessment that there is sufficient evidence that those KPIs will not be met, BCG Spain will immediately stop engaging in any new production and begin to wind down its operation in Spain whereby CGD could maintain a small presence in order to facilitate the run-off of the Spanish operation.

4.3. The Non-Core Activities

All activities and assets that are not explicitly mentioned in section 4.2 are considered to be Non-Core. In order to restore viability and to focus on its core business, CGD shall dispose of its insurance and health business lines, sell all non-strategic holdings and shall put all Non-Core Activities into run-down mode as described below.

4.3.1. The sale of Caixa Seguros

4.3.1.1. CGD's main subsidiary active in the insurance business, Caixa Seguros, shall be sold until […]. The sale of the insurance business unit shall […]:

4.3.1.1.1. […]

4.3.1.1.2. To carry out this divestiture of the insurance business unit's assets (estimated EUR […] billion), Portugal commits that CGD shall find a Purchaser and enter into a final binding sale and purchase agreement at the latest by […]. If CGD has not entered into such an agreement by […], CGD shall on […] appoint a Divestiture Trustee and grant an exclusive mandate to sell the insurance business unit's assets (estimated EUR […] billion) […] until the […] at the latest.

4.3.1.1.3. […].

4.3.2. Assets allocated to the Non-Core Activities to be run-down

4.3.2.1. The Non-Core Activities include the assets set out below (cut-off date 31 December 2012):

4.3.2.1.1. Run-off of the Ex-BPN assets that included as of 31 December 2012: Total EUR [4000-4500] million (Credit EUR [1000-1500] million and Debt held (available for sale) EUR [2500-3000] million)

4.3.2.1.2. Sale of the non-strategic holdings: EUR [200-250] million to be sold until the […] (projected value of sale)

4.3.2.1.3. Run-off of the Spanish non-core credit portfolio worth as of 31 December 2012: EUR [1500-2000] million (detailed list in Appendix IV)

4.3.2.1.4. Disposal of the Insurance business unit as defined in point 4.3.1 above.

4.3.2.2. By end-December 2014, the Non-Core Assets shall not be higher than EUR [10-20] billion.

4.3.2.3. By end-December 2016, the Non-Core Assets shall not be higher than EUR [5-10] billion.

4.3.2.4. Principles which apply to the Non-Core Activities

4.3.2.4.1. Limitation on New Production

4.3.2.4.1.1. Termination of any New Production with the exception of:

4.3.2.4.1.2. Contractually committed but not yet paid-out amounts shall be limited to the strict minimum.

4.3.2.4.1.3. No additional financing to existing customers which is not contractually committed except when it is strictly necessary to preserve the value of the loan collateral, or otherwise related to minimizing capital losses and/or enhancing the expected recovery value of a loan.

4.3.2.4.1.4. Management of existing assets: The existing assets shall be managed in a way that maximizes Net Present Value of the assets. Specifically, if a client cannot respect the terms of his loan, the loan will only be restructured (deferral or partial waiver of repayments, conversion of (part of) the claim in capital, etc.) if such a restructuring would lead to enhancing the present value of the loan. This principle also applies to mortgage loans.

4.3.2.4.2. Active winding down of the Non-Core Assets

4.3.2.4.2.1. The Non-Core Assets shall be managed with the objective of being divested, liquidated or wound down, in an orderly manner but minimizing the cost. Any remaining assets at the end of the Restructuring Period should be wound down in an orderly manner once the assets mature. No new Non-Core Activity shall be undertaken, unless explicitly mentioned in the Commitments. To that end, the following actions may be undertaken:

4.3.2.4.2.2. As a general rule, Non-Core Assets shall be sold as quickly as possible. CGD commits to sell such assets whenever the sale does not lead to having to book a loss, except if the sale price is unreasonable in view of a non-controversial valuation.

4.3.2.4.3. Sale of non-strategic shareholdings:

4.3.2.4.3.1. CGD commits to divest the following non-strategic equity holdings by […]:

Company	**Stake (%)**[25]	**Sale Value (€m)**[9]	**Date of Sale**
[…]	[…]%	[200-250]	[…]

[25] Valued at 31 December 2012

Company	Stake (%)[25]	Sale Value (€m)[9]	Date of Sale
[…]	[…]%	[10-20]	[…]

4.3.2.4.3.2. The total value of the non-strategic shareholdings amounted to EUR 841 million at the start of the deleveraging effort. As of 31 December 2012, non-strategic holdings amount to EUR [200-250] million.

4.3.2.4.3.3. CGD will completely divest the equity holdings listed above by the […]. If CGD has not completely divested the holdings described by […], CGD shall on […] appoint a Divestiture Trustee and grant an exclusive mandate to sell the remaining non-strategic holdings […] until the […] at the latest.

4.3.2.4.3.4. Until each of the above-referred non-strategic shareholdings is sold, CGD shall not increase its financial exposure (e.g. loans and guarantees) to such company in any case, except when it is (a) in the normal course of business under prevailing market conditions; or (b) strictly necessary to preserve the value of the relevant equity interest; or (c) otherwise related to minimizing capital losses and/or enhancing the expected recovery value of such exposures or interest. CGD will make its best efforts to decrease its financial exposure to such companies.

5. REPAYMENT MECHANISM OF THE AID

5.1. CGD undertakes to repay the EUR 900 million CoCos in the following tranches:

5.1.1. For the fiscal year 2014: [50-60]% of the excess capital above the applicable minimum capital requirement under European and Portuguese law (including pillar 1 and 2) plus a capital buffer of [100-150] bps.

5.1.2. For the fiscal years 2015 and following: [90-100]% of the excess capital above the applicable minimum capital requirement under European and Portuguese law (including pillar 1 and 2) plus a capital buffer of [100-150] bps.

5.2. Without prejudice to the competences of Bank of Portugal as banking supervisor of CGD, the CoCo repayment shall be, totally or partially, suspended if, on the basis of a reasoned request by CGD endorsed by the Monitoring Trustee, it is considered that it would endanger the solvency position of the Bank in the following years.

5.3. CGD undertakes to pay EUR 405,415 (equivalent amount to the coupon payment of 28 September 2012) to the Portuguese Republic by end of 2013.

6. BEHAVIOURAL MEASURES AND CORPORATE GOVERNANCE

6.1. Ban on acquisitions: CGD commits to refrain from making acquisitions. This applies to both the purchase of companies with their own legal structure, and shares in companies or asset bundles that represent a commercial transaction or a branch of activity. This does not apply to acquisitions that must be made in order to maintain financial and/or association related stability, or in the interests of effective competition, provided they have been approved beforehand by the Monitoring Trustee. This does not apply either to (1) acquisitions that belong, in terms of the management of existing obligations of customers in financial difficulty, to a bank's normal on-going business or (2) to Venture capital activity or (3) to acquisitions that fall under the exceptions foreseen in clause 4.2.6 and that comply with the procedure foreseen therein or (4) to acquisitions within the group or (5) to acquisitions of shares in Portuguese companies that are not credit institutions in which CGD already holds at least 50% provided they have been approved beforehand by the Monitoring Trustee. The obligation is to apply until the Restructuring Period ends. CGD may acquire stakes in undertakings provided that the purchase price paid by CGD for any acquisition is less than [0-5]% of the balance sheet size of CGD on the last day of the month previous to the Decision and that the cumulative net purchase prices paid by CGD for all such acquisitions over the whole Restructuring Period is less than [0-5]% of the balance sheet size of CGD at that same date.

6.2. Ban on commercial aggressive practices: The beneficiary bank shall avoid engaging in aggressive commercial practices throughout the duration of the Restructuring Period.

6.3. Proprietary trading: Portugal will ensure that CGD will not engage in any proprietary trading beyond the minimum necessary for the normal functioning of the treasury. During the Restructuring Period, the total VAR limit of the financial assets held for trading will not exceed EUR [30-40].

6.4. Advertising: CGD must not use the granting of the aid measures or any advantages arising therefrom for advertising purposes.

6.5. Assurances regarding corporate governance

6.5.1. All members of the management bodies of CGD shall have the competences established in Articles 30 and 31 of the General Framework for Credit Institutions and Financial Companies, approved by Decree-Law 298/92, of 31 December, as amended, as well as in the EBA Guidelines on the assessment of the suitability of members of the management body and key function holders, of 22 November 2012 (EBA/GL/2012/06). There should be no more than 20 board members. CGD's shareholder will aim to reduce that number to 16 at the end of the present board's term of office.

6.5.2. Besides the committees established in CGD's Articles of Incorporation (being the Executive Committee and Audit Committee) and the Strategy, Governance and Assessment Committee established by the Board of Directors and composed of non-executive directors, CGD is to appoint only the internal bodies which are necessary to assist in the management of the company, which shall be composed of members of the Executive Committee and, when appropriate, of CGD employees holding senior management positions in the relevant areas.

6.5.3. All of CGD's decisions shall be taken on purely commercial grounds and all of Portugal's interactions with CGD shall be on arm's length terms.

6.5.4. Portugal commits not to exert any influence on the day-to-day operational management of CGD nor on CGD's internal rules regarding credit risk policies, pricing and lending. However, Portugal may issue guidelines regarding CGD's strategic focus and other issues on the basis of the general terms of corporate law and the law of public enterprises (Decree-Law 558/99, of 17 December, as amended). Portugal will not compromise the full independence of the Bank management with reference to credit risk and lending policies if consulted in relation to CGD's business plans and plans for lending to specific sectors of the economy.

6.5.5. The Credit Council, the Extended Credit Council, and the Audit Committee of CGD shall be put into a position to act fully independently, and all appointments to the Credit Council, the Extended Credit Council, and the Audit Committee respect that members of those bodies must be in a position to act independently and free of any conflict of interest.

6.5.6. CGD ensures that until 31 December 2013 at the latest its credit and risk policies will incorporate the principle that all customers are to be treated fairly through non-discriminatory procedures other than those related to credit risk and ability to pay, which is to be consistently applied within the group. The credit and risk policies will define the principles and thresholds above which the granting of loans must be approved by higher levels of management, the terms and conditions for the restructuring of loans, and the handling of claims and litigations.

6.5.7. CGD ensures that until 31 December 2013 at the latest a specific section within the credit and risk policies will be devoted to the rules governing relations with connected borrowers (including employees, shareholders, directors, managers, as well as their spouses, children and siblings and any legal entity directly or indirectly controlled by any of those).

6.5.8. In order to ensure CGD’s compliance with principles set out in point 6.5.1 to 6.5.7 the Trustee will be allowed to:

6.5.8.1. receive copies of all reports emanating from internal control bodies including the minutes of the meetings, and be entitled to interview, at its sole discretion, any controller or auditor, no matter his/her managerial responsibilities. The Trustee shall ensure (i) that recommendations from permanent supervisors or periodic controllers/auditors are dully enforced and (ii) that action plans are implemented in order to correct any failure identified within the internal control framework.

6.5.8.2. regularly monitor CGD's commercial practices, with a focus on credit policy and deposit policy. The Trustee shall review CGD's policy toward the restructuring and provisioning of non-performing loans. CGD shall communicate to the Trustee any risk report communicated to the Executive Board, or any analysis/review aimed at assessing the credit exposure of CGD. The Trustee shall perform its own analysis and investigations, on the basis of the above-mentioned reports, interviews, and, if need be, the review of individual credit files. In that regard, a full access to credit files is to be granted to the Trustee, who is entitled to interview credit analysts and risk officers when deemed appropriate.

6.5.8.3. regularly monitor CGD's management of claims and litigations. The Trustee shall ensure that claims and litigations are managed according to the procedures defined in the internal control framework of CGD, and that CGD complies with the industry best practices. The Trustee will identify corrective actions to implement in case of deficiencies in the current process.

6.6. Remuneration of bodies and employees:

6.6.1. CGD shall verify the incentive effect and appropriateness of its remuneration systems and ensure that they do not result in exposure to undue risks, are oriented towards sustainable, long-term company objectives, and are transparent.

6.6.2. CGD as a financial institution shall establish and implement its policies on salary and compensation matters strictly in accordance with the rules set forth by the Portuguese Government in Decree-law 104/2007, of 3 April (which transposed the Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions) as amended by Decree-Law 88/2011, of 20 July, and with the rules established by the Portuguese Central Bank in *Aviso* 10/2011, of 29 December.

6.6.3. Furthermore, CGD’s remuneration policy of the Board Members shall also be compliant with Decree-Law 71/2007 of 27 March, which establishes the regime of the statute of the Stated controlled companies’ board members.

6.6.4. Likewise, CGD commits to ensure that the Bank complies with the rules and recommendations set out by the European Commission in this subject within the EU framework for State aid.

6.6.5. In particular, CGD undertakes to restrict the total remuneration to any member of staff, including board members and senior management, to an appropriate level, including all possible fixed and variable components, comprising pensions and in line with Articles 92 and 93 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

6.7. Ban on dividend, coupon and interest payments: CGD will not (and shall procure that none of its subsidiary undertakings shall) make any payments of dividends, coupons or interest to holders of preference shares and subordinated debt, in so far as those payments are not owed on the basis of contractual or legal obligations. However, CGD shall be allowed to make payments (or allow its subsidiary undertakings to make payments) of dividend, coupons or interest to holders of preference shares or subordinated debt if it can prove that non-payment would hinder or prevent the repayment of the CoCos (or payment of coupons on the CoCos) that is described in section 5.

6.8. Support of Portuguese SMEs: In view of securing financing to and deleveraging of the real economy, CGD has committed to the Portuguese Government to allocate EUR 30 million per year to a fund that will invest in equity of Portuguese SMEs and mid-cap corporates. The fund shall be managed according to international best practice by the Bank or a third party with sufficient expertise and awareness of investment opportunities. The investment in the fund shall be subject to prior approval by the Portuguese Ministry of Finance according to the criteria defined in the Ministerial Order setting the terms for the recapitalization under national law and will be held by CGD. Any funds not transferred to such fund within 12 months of commitment shall be transferred to the Portuguese Treasury. The fund shall not be used as a refinancing mechanism for existing loans. Any investment exceeding the above referred amount shall be subject to prior approval by the European Commission.

6.9. Other rules of conduct: CGD shall continue expansion of its risk monitoring operations and conduct a commercial policy that is prudent, sound and oriented towards sustainability.

6.10. Monitoring Trustee

6.10.1. Portugal shall ensure that the full and correct implementation of the Restructuring Plan and the full and correct implementation of all Commitments are continuously monitored by an independent, sufficiently qualified Monitoring Trustee.

6.10.2. The appointment, duties, obligations and discharge of the Monitoring Trustee must follow the procedures set out in Appendix I hereof.

6.10.3. Portugal and CGD shall ensure that, during the implementation of the Decision, the Commission or the Monitoring Trustee have unrestricted access to all information needed to monitor the implementation of the Decision. The Commission or the Monitoring Trustee may ask CGD for explanations and clarifications. Portugal and CGD are to cooperate fully with the Commission and the Monitoring Trustee with regard to all enquiries associated with monitoring of the implementation of the Decision.

6.10.4. CGD will report annually to the Commission on the evolution of the Non-Core Activities after the dismissal of the Monitoring Trustee at the end of the Restructuring Period.

6.11. Divestiture Trustee

6.11.1. Portugal shall ensure that CGD sells the insurance business unit's assets (estimated EUR […] billion) of Caixa Seguros in due time. To that end, CGD shall appoint a Divestiture Trustee on […] in the event that CGD has not entered into a final binding sale and purchase agreement at the latest by […].

6.11.2. Portugal shall ensure that CGD sells its non-strategic holdings (stake in […] corresponding to EUR [200-250] million). To that end, CGD shall appoint a Divestiture Trustee on […] in the event that CGD has not completely divested at the latest by […].

6.11.3. The Divestiture Trustee shall be independent of CGD and work on behalf and under instruction of DG COMP, possess the necessary qualifications to carry out its mandate (for example as an investment bank or consultant) and shall neither have nor become exposed to a conflict of interest. The Divestiture Trustee shall be remunerated by CGD in a way that does not impede the independent and effective fulfilment of its mandate.

Appendix I – The Monitoring Trustee

(A) Appointment of the Monitoring Trustee

(i) Portugal undertakes to ensure that CGD appoints a Monitoring Trustee who is to be subject to the duties and obligations set out in paragraph C of this Appendix. The mandate applies to the entire duration of the Restructuring Plan; i.e. until 31 December 2017. At the end of the mandate, the Trustee must submit a final report.

(ii) The Trustee must be independent of CGD. The Trustee must possess, for example as an investment bank, consultant or auditor, the specialised knowledge that is required in order to carry out its mandate, and must at no time be exposed to any conflict of interest. The Trustee is to be remunerated by CGD in a way that must not impede the independent and effective fulfilment of its mandate.

(iii) Portugal shall submit the names of two or more persons to the Commission for approval as monitoring Trustee no later than six weeks after notification of the Decision.

(iv) These proposals must contain sufficient information about those persons to enable the Commission to verify whether the proposed Trustee fulfils the requirements set out in paragraph A(ii), and must in particular include the following:

(a) the full terms of the proposed mandate with all the provisions which are necessary to enable the Trustee to fulfil its duties; and

(b) the draft of a work plan describing how the Trustee intends to carry out its assigned duties.

(v) The Commission has the discretion to approve or reject the proposed Trustees and to approve the proposed mandate subject to any modifications that it deems necessary in order to enable the Trustee to fulfil its obligations. If only one name is approved, CGD will appoint the person or institution concerned as Trustee or cause that person or institution to be appointed, in accordance with the mandate approved by the Commission. If more than one name is approved, CGD is free to decide which of the approved persons should be appointed as Trustee. The Trustee will be appointed within one week of the Commission's approval, in accordance with the mandate approved by the Commission.

(vi) If all the proposed Trustees are rejected, Portugal shall submit the names of at least two further persons or institutions within two weeks of being informed of the rejection, in accordance with the requirements and procedure set out in paragraphs A(i) and A(iv).

(vii) If all further proposed Trustees are also rejected by the Commission, the Commission will nominate a Trustee which CGD will appoint or cause to be appointed, in accordance with a Trustee mandate approved by the Commission.

(B) Appointment of the Divestiture Trustee

(i) Portugal undertakes to ensure that CGD appoints a Divestiture Trustee following the appointment procedure as set out above for the Monitoring Trustee.

(ii) Portugal shall submit the names of two or more persons to the Commission for approval as Divestiture Trustee no later than […], in the event that CGD has until then not yet entered into a final binding sale and purchase agreement for Caixa Seguros.

(iii) Portugal shall submit the names of two or more persons to the Commission for approval as Divestiture Trustee no later than […], in the event that CGD has until then has not yet entered into a final binding sale of the remaining non-strategic holdings ([…])

(C) General duties and obligations

(1) The Trustee is to assist the Commission to ensure CGD's compliance with the Commitments and to assume the duties of a monitoring Trustee specified in the Commitments document. The Trustee is to carry out the duties under this mandate in accordance with the work plan, as well as revisions of the work plan that have been approved by the Commission. The Commission may, on its own initiative or at the request of the Trustee or CGD, issue orders or instructions to the Trustee in order to ensure compliance with the Commitments. CGD is not entitled to issue instructions to the Trustee. The Trustee shall be bound by legal confidentiality duties.

(D) Duties and obligations of the Monitoring Trustee and the Divestiture Trustee

(1) The duty of the Trustee is to guarantee full and correct compliance with the obligations set out in the Commitments, and full and correct implementation of CGD's Restructuring Plan. The Commission may, on its own initiative or at the request of the Trustee, issue any orders or instructions to the Trustee or CGD in order to ensure compliance with the Commitments attached to the Decision.

(2) The Trustee:

i. is to propose to the Commission in its first report a detailed work plan describing how it intends to monitor compliance with the Commitments attached to the Decision;

ii. is to monitor the full and correct implementation of CGD's Restructuring Plan, in particular:

a) the reduction of the balance sheet total and the RWA;

b) the restriction of business activities;

c) the discontinuation of predefined business areas;

d) the sales process for shares in the predefined business areas;

e) the restructuring of the operations in Spain;

iii. is to monitor that CGD follows the principles in the corporate governance section, actually has an efficient and adequate internal organisation in place, and actually applies proper commercial practices. The Trustee will hence:

a) receive copies of all reports emanating from internal control bodies, and be entitled to interview, at its sole discretion, any controller or auditor, no matter his/her managerial responsibilities. The Trustee shall ensure (i) that recommendations from permanent supervisors or periodic controllers/auditors are duly enforced and (ii) that action plans are implemented in order to correct any failure identified within the internal control framework.

b) regularly monitor CGD's commercial practices, with a focus on credit policy and deposit policy. The Trustee shall review CGD's policy toward the restructuring and provisioning of non-performing loans. CGD shall communicate to the Trustee any risk report communicated to the Executive Board, or any analysis/review aimed at assessing the credit exposure of CGD. The Trustee shall perform its own analysis and investigations, on the basis of the above-mentioned reports, interviews, and, if need be, the review of individual credit files. In that regard, a full access to credit files is to be granted to the Trustee, who is entitled to interview credit analysts and risk officers when deemed appropriate.

c) regularly monitor CGD's management of claims and litigations. The Trustee shall ensure that claims and litigations are managed according to the procedures defined in the internal control framework of CGD, and that CGD complies with the industry best practices. The Trustee will identify corrective actions to implement in case of deficiencies in the current process.

iv. is to monitor compliance with all other Commitments;

v. is to assume the other functions assigned to the Trustee in the Commitments attached to the Decision;

vi. is to propose measures to CGD that it considers necessary to ensure that CGD fulfils the Commitments attached to the Decision;

vii. is to take into account any regulatory changes on solvency and liquidity when verifying the evolution of the actual financials with respect to the projections made in the Restructuring Plan; and

viii. is to submit a draft written report to the Commission, Portugal and CGD within thirty days after the end of each six-month period. The Commission, Portugal and CGD can submit comments on the draft within five working days. Within five working days of receipt of the comments, the Trustee is to prepare a final report, incorporating the comments as far as possible and at its discretion, and submit it to the Commission and to Portugal. Only afterwards the Trustee is also to send a copy of the final report to CGD. If the draft report or the final report contains any information that may not be disclosed to CGD, only a non-confidential version of the draft report or the final report is to be sent to CGD. Under no circumstances is the Trustee to submit any version of the report to Portugal and/or CGD before submitting it to the Commission.

The report is to focus on the duties set out in the mandate by the Trustee and compliance with the obligations by CGD, thus enabling the Commission to assess whether CGD is being managed in accordance with the obligations. If necessary, the Commission may specify the scope of the report in more detail. In addition to these reports, the Trustee is to report promptly in writing to the Commission if it has reasons to suppose that CGD is failing to comply with these obligations, sending a non-confidential version to CGD at the same time.

(3) The Divestiture Trustee shall sell the insurance business unit's assets (estimated EUR [0-5] billion) of Caixa Seguros […] to a purchaser. The Divestiture Trustee shall include in the sale and purchase agreement such terms and conditions as it considers appropriate for an expedient sale before […]. In particular, the Divestiture Trustee may include in the sale and purchase agreement such customary representations and warranties and indemnities as are reasonably required to effect the sale. The Divestiture Trustee shall protect the legitimate financial interests of CGD, subject to CGD’s unconditional obligation to divest […].

(4) The Divestiture Trustee shall sell remaining non-strategic holdings (estimated sale price EUR [200-250] million) […] to a purchaser. The Divestiture Trustee shall include in the sale and purchase agreement such terms and conditions as it considers appropriate for an expedient sale before […]. The Divestiture Trustee shall protect the legitimate financial interests of CGD, subject to CGD’s unconditional obligation to divest […].

(E) Duties and obligations of CGD

(1) CGD is to provide and to require its advisors to provide the Trustee with all such cooperation, assistance and information as the Trustee may reasonably require to

perform its tasks under this mandate. The Trustee is to have unrestricted access to any books, records, documents, management or other personnel, facilities, sites and technical information of CGD or of the business to be sold that are necessary to fulfil its duties under the mandate. CGD is to make available to the Trustee one or more offices at its business premises and all employees of CGD are to be available for meetings with the Trustee in order to provide it with all the information it needs to perform its duties.

(2) Subject to CGD's approval (this approval may not be unreasonably withheld or delayed) and at its expense, the Trustee may appoint advisors (in particular for corporate finance or legal advice), if the Trustee considers the appointment of such advisors necessary or appropriate for the performance of its duties and obligations under the mandate, provided that any costs and other expenses incurred by the Trustee are reasonable. Should CGD refuse to approve the advisors proposed by the Trustee, the Commission may approve their appointment instead, after hearing CGD's reasons. Only the Trustee is entitled to issue instructions to the advisors.

(F) Replacement, discharge and reappointment of the Trustee

(1) If the Trustee terminates its functions under the Commitments or if there are any other significant grounds, such as a conflict of interest on the part of the Trustee:

i. the Commission can, after hearing the Trustee, require CGD to replace it, or

ii. CGD, with the approval of the Commission, can replace the Trustee.

(2) If the Trustee is removed in accordance with paragraph F (1), it may be required to continue in its function until a new Trustee is in place to whom the Trustee has effected a full handover of all relevant information. The new Trustee is to be appointed in accordance with the procedure referred to in paragraphs A(iii) to A(vii).

(3) Besides removal in accordance with paragraph F(1), the Trustee is to cease its activities only after the Commission has discharged it from its duties. This discharge is to take place when all the obligations with which the Trustee has been entrusted have been implemented. However, the Commission may at any time require the

reappointment of the Trustee if it is subsequently found that the relevant remedies have not been fully and properly implemented.

* * *

Appendix II – Net assets contribution arising from participations on other domestic business units (Equity method)

Values as of December 2012

Business Unit	Country	Stake (%)	Net asset Equity method (€ million)	Activity
SIBS SGPS	Portugal	21,6	14,7	Holding company specialized in electronic payments and in the management of the Portuguese ATM system used by all banks present in Portugal. The company is participated by 26 banks that act in the Portuguese market.
Prado – Cartolinas da Lousã	Portugal	37,4	4,4	Industrial unit producer of cardboard and paper. […].
Torre Ocidente	Portugal	25,0	4,1	Real estate company, owner of a single asset for commercial leasing. […].
Locarent	Portugal	50,0	3,9	Provider of car renting services.
Cª Papel do Prado	Portugal	37,4	1,3	Company that owns the real estate assets of the inactive factory […].
TF Fundo Turismo	Portugal	33,5	1,3	Manager of real estate investment funds in the tourism sector, whose majority shareholder is the Portuguese State.
Yunit Serviços	Portugal	33,33	0,3	Company that develops e-commerce solutions for products and services of SMEs.
Bem Comum SCR	Portugal	32,0	0,1	Investment fund manager specialized in the promotion and support to the creation of new business by individual entrepreneurs and the unemployed.

Appendix III – Detailed assets of BCG Spain (including assets that will be transferred to the Spanish branch)

Appendix IV – Detailed assets of the Spanish branch

Appendix V – List of the […] Spanish branches ([…])