EUROPEAN COMMISSION

Brussels, 31.08.2018
C(2018) 5749 final

In the published version of this decision, some information has been omitted, pursuant to articles 30 and 31 of Council Regulation (EU) 2015/1589 of 13 July 2015 laying down detailed rules for the application of Article 108 of the Treaty on the Functioning of the European Union, 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.

Subject: State Aid SA.51026(2018/N) – Italy
Second prolongation of the Italian guarantee scheme for the securitisation of non-performing loans

Sir,

1. PROCEDURE

(1) By its decision of 10 February 2016 in State aid case SA.43390 (2016/N) ("the original decision")[1], the European Commission ("the Commission") decided not to raise objections to the Italian guarantee scheme to support the securitisation of non-performing loans ("NPLs") ("the Scheme") since it did not constitute State aid. The Scheme as notified by Italy had a duration of 18 months as of the date of the original decision.

(2) On 4 August 2017, Italy notified – for reasons of legal certainty – a first prolongation of the Scheme. By its decision of 6 September 2017 in State aid case SA.48416 (2017/N) ("the first prolongation decision")[2], the Commission decided not to raise objections to the prolongation of the Scheme since it did not constitute

[1] OJ C 161, 4.5.2016, p. 5.
[2] OJ C 40, 2.2.2018, p. 8.

Onorevole Enzo Moavero Milanesi
Ministro degli Affari esteri e della Cooperazione Internazionale
P.le della Farnesina 1
I - 00194 Roma

State aid. The prolongation of the Scheme as notified by Italy had a duration of 12 months as of the date of adoption of the first prolongation decision and is approved until 6 September 2018.

(3) Following pre-notification contacts, on 13 August 2018, Italy completed its notification for reasons of legal certainty of a second prolongation of the Scheme for six months, starting from 7 September 2018.

(4) By letter dated 2 July 2018, Italy exceptionally agreed to waive its rights deriving from Article 342 of the Treaty on the Functioning of the European Union ("TFEU") in conjunction with Article 3 of Regulation 1/1958[3] and to have the present decision adopted and notified in English.

2. DESCRIPTION OF THE NOTIFIED SCHEME

(5) The Scheme is governed by Italian Decree Law 18/2016 ("the Decree Law") adopted on 14 February 2016 and converted into law with amendments on 8 April 2016 (Law 49/2016)[4], setting out the legal framework for the Scheme, named "GACS" ("Garanzia sulla Cartolarizzazione delle Sofferenze"). A Ministerial Decree ("the Ministerial Decree") of 3 August 2016[5] contained further implementing provisions for the Scheme. By Ministerial Decree adopted on 21 November 2017 (the prolongation Ministerial Decree”)[6], the Scheme was for a first time prolonged for 12 months.

(6) A detailed description of the Scheme is provided in the original decision, in particular in recitals (6) to (9) (concerning the background of the Scheme) and (11) to (25), as well as in Annex 1 of the original decision. The prolongation implied limited technical changes regarding the Scheme, which are outlined in recitals (11) to (13) in the first prolongation decision.

(7) The budget envisaged by Italy for the notified second prolongation of the Scheme remains the same with an overall notional amount of guarantees of EUR 5 billion.

Use of the Scheme

(8) During the first two years of its operation (i.e. between 10 February 2016 and 6 March 2018), the Scheme has been accessed five times by four different banks, thereby contributing to the removal of EUR 8.5 billion of bad loans (gross book value) from the Italian banking system. The Scheme has thereby significantly contributed to the net overall decrease of ca. EUR 30 billion in the stock of bad

[3] OJ 17, 6.10.1958, p. 385.

[4] Decreto-legge 14 febbraio 2016, n. 18. Misure urgenti concernenti la riforma delle banche di credito cooperativo, la garanzia sulla cartolarizzazione delle sofferenze, il regime fiscale relativo alle procedure di crisi e la gestione collettiva del risparmio (G.U. n.37 del 15-2-2016). Decreto-Legge convertito con modificazioni dalla L. 8 aprile 2016, n. 49 (G.U. n.87 del 14-4-2016).

[5] Decreto 3 agosto 2016. Fondo di garanzia di cui all'art. 12, comma 1, del decreto-legge 14 febbraio 2016, n. 18, convertito, con modificazioni, dalla legge 8 aprile 2016, n. 49, recante disciplina in materia di garanzia sulla cartolarizzazione delle sofferenze (GACS) (G.U. n.188 del 12-8-2016).

[6] Decreto 21 novembre 2017. Prolungamento dello schema di garanzia italiano per la cartolarizzazione dei crediti di sofferenza (GACS) di cui al Capo II del decreto-legge 14 febbraio 2016, n. 18, convertito, con modificazioni, dalla legge 8 aprile 2016, n. 49. (17A08257) (G.U. n. 285 del 06-12-2017).

loans in Italy during this period (i.e. from EUR 144 billion at the end of January 2016 to EUR 114 billion at the end of February 2018 (gross book value)).

(9) During the first 18-month period of operation of the Scheme, three banks – Banca Popolare di Bari S.c.p.A., Banca Carige S.p.A. and Credito Valtellinese S.p.A. – accessed the Scheme.

(10) Banca Popolare di Bari S.c.p.A. transferred NPLs (with a gross and net book value of EUR 480 million and EUR 148.3 million respectively) to a securitisation vehicle at a transfer value of EUR 148.2 million. On 5 October 2016, Banca Popolare di Bari S.c.p.A. applied for a State guarantee under the Scheme in respect of the vehicle's EUR 126.5 million senior tranche. On 24 October 2016, the Banca Popolare di Bari S.c.p.A. sold the junior and mezzanine notes of the vehicle to a private investor. On 25 January 2017, Banca Popolare di Bari S.c.p.A.was admitted to the Scheme.

(11) Banca Carige S.p.A. transferred NPLs (with a gross and net book value of EUR 938.3 million and EUR 375.3 million respectively) to a securitisation vehicle at a transfer value of EUR 309.7 million. On 7 July 2017, Banca Carige S.p.A. applied for a State guarantee under the Scheme in respect of the vehicle's EUR 267.4 million senior tranche. On 8 August 2017, Banca Carige S.p.A. sold the junior and mezzanine notes of the vehicle to a private investor. On 9 August 2017, Banca Carige S.p.A. was admitted to the Scheme.

(12) Credito Valtellinese S.p.A. transferred NPLs (with a gross and net book value of EUR 1 405 million and EUR 531.1 million respectively) to a securitisation vehicle at a transfer value of EUR 516.4 million. On 18 July 2017, Credito Valtellinese S.p.A. applied for a State guarantee under the Scheme in respect of the vehicle's EUR 464 million senior tranche. On 17 July 2017, Credito Valtellinese S.p.A. sold the junior and mezzanine notes of the vehicle to a private investor. On 11 August 2017, Credito Valtellinese S.p.A. was admitted to the Scheme.

(13) During the first six months of the first prolongation period of the Scheme, two banks – Banca Unicredit S.p.A. and Banca Popolare di Bari S.c.p.A. – accessed the Scheme.

(14) Banca Unicredit S.p.A. transferred NPLs (with a gross and net book value of EUR 5 374.1 million and EUR 890.2 million respectively) to a securitisation vehicle at a transfer value of EUR 794.3 million. On 23 November 2017, Banca Unicredit S.p.A. applied for a State guarantee under the Scheme in respect of the vehicle's EUR 650 million senior tranche. On 31 July 2017, Banca Unicredit S.p.A. sold the 50.1% of the junior and mezzanine notes of the vehicle to a private investor. On 20 December 2017, Banca Unicredit S.p.A. was admitted to the Scheme.

(15) Banca Popolare di Bari S.c.p.A. transferred NPLs (with a gross and net book value of EUR 312.9 million and EUR 102.4 million respectively) to a securitisation vehicle at a transfer value of EUR 102.4 million. On 4 December 2017, Banca Popolare di Bari S.c.p.A. applied for a State guarantee under the Scheme in respect of the vehicle's EUR 80.9 million senior tranche. On 12 December 2017, Banca Popolare di Bari S.c.p.A. sold the junior and mezzanine

notes of the vehicle to a private investor. On 11 January 2018, Banca Popolare di Bari S.c.p.A. was admitted to the Scheme.

New elements in the notified second prolongation of the Scheme

(16) The Italian authorities have notified a six-month prolongation of the Scheme. The associated commitments remain identical to those described in the original decision with two exceptions.

(17) First, the notified prolongation includes an amended commitment 9 as set out in Annex 1.

(18) According to the commitment as presented for the first two decisions, the pricing of the State guarantee is to be calculated at the time of an application to the Scheme, based on the average over the preceding six months of the CDS mid-prices of each company included in the relevant market benchmark basket ("six-month averaging"). Averaging was introduced to smoothen out volatility in CDS mid-prices and make the pricing of State guarantees under the Scheme more predictable for applicants.[7]

(19) In the second half of May 2018, Italian corporate CDS premiums rose significantly. That market development will be reflected in the pricing of the State guarantee only with a delay due to the six-month averaging. To address potential State aid concerns arising from that or similar market developments, Italy introduced a change to the averaging mechanism.

(20) Italy commits to calculating the averages of the 3-year CDS mid-prices of the companies in the relevant market benchmark basket over an averaging period of two months ("two-month averaging") as well as over an averaging period of six months as in the original formula. If the resulting benchmark basket price for the applicable basket based on the 3-year CDS premiums using two-month averaging is at least 15% larger than the corresponding benchmark basket price using six-month averaging, Italy commits to calculating the GACS guarantee fee for all periods (i.e. years 1-3, years 4-5, years 6-7, and beyond year 7) on the basis of the existing formula but using two-month averaging.

(21) Second, the notified prolongation envisages updating the composition of the market benchmark baskets on the basis of which the fee for the State guarantee is determined.[8] The rationale of this update is to reflect the changes in the rating of the companies included in the market benchmark baskets since the adoption of the original decision.

(22) Similar to the approach followed for the first prolongation of the Scheme (recital (13) of the first prolongation decision), the composition of the baskets underlying the market benchmark for the pricing of the State guarantee (see Annex 2) will be fixed for the whole duration of the second prolongation period, and will thus not be adjusted during the lifetime of the Scheme to reflect rating changes of the companies in the baskets occurring after the date of adoption of this decision.

---

7 See recital (68) of the original decision

8 ENEL S.p.A. is excluded from the updated First Basket (see Annex 2 to this decision) as compared to the first prolongation Decision following its credit rating changes (in application of recital (25)(b) of the original decision).

(23) The prolongation of the Scheme including the changes to the composition of the basket and the averaging rule will be implemented by a new Ministerial Decree, complementing the Decree Law and the Ministerial Decrees referred to in recital (5).

3. POSITION OF ITALY

(24) Italy requests a prolongation of the Scheme by six months. It submits that any guarantee provided under the Scheme will continue to be provided at market terms and therefore will not contain State aid within the meaning of Article 107(1) TFEU.

(25) Italy seeks legal certainty about the continued aid-free character of the Scheme for another six-month period as of the date of the present decision, implying another six-month period during which the guarantees can be granted.

(26) Italy submitted commitments ("the Commitments") relating to the Scheme which are listed in Annex 1 to the present decision. The Commitments are an integral part of the Scheme as described in Annex 1 to the original decision.

4. ASSESSMENT OF THE MEASURE

(27) Italy has notified the measure to the Commission as no aid for reasons of legal certainty. The Commission therefore has to assess whether the Scheme described in Section 2 is free of State aid.

(28) In the present decision, the Commission will limit its assessment to the new elements introduced in the notification for the second prolongation period, as described in recitals (17) and (22). All the other elements of the Scheme remain unchanged and have already been assessed in Section 5 of the original decision and in Section 4 of the first prolongation decision, and those assessments remain valid.

(29) During a very short time span in the second half of May 2018, corporate CDS premiums in Italy roughly doubled from their previous levels. Since then, CDS premiums have only partially and gradually decreased. The increase in the second half in May 2018 was a very rare event (including a 40% increase in one day). The fact that CDS premiums have not eased considerably since then could be interpreted as a […] change in the market, representing a fundamental re-assessment of risks inherent to Italy.

(30) Such a strong […] increase in CDS premiums raises two concerns from the perspective of the aid-free nature of the GACS guarantee scheme. First, due to the long persistence over time of past CDS premium regimes related to the use of six-month averaging in the calculation of the GACS guarantee fee, applicants for a GACS guarantee might receive an economic benefit from taking into account in the averaging the lower CDS premiums from before the increase in the second half of May 2018. Second, the fact that CDS premiums seem to have changed […] could imply that the market considers another significant rise possible during the approval period.

(31) The commitment notified by Italy is supposed to address those issues by reducing the averaging period applied in the calculation of the benchmark basket prices to two months if the benchmark basket price for 3-year CDS mid-prices calculated

based on two-month averaging is at least 15% greater than the same benchmark basket price calculated based on six-month averaging.

(32) To assess whether that commitment addresses sufficiently any concerns over a potential advantage for the GACS applicants, the Commission considered a scenario where the 3-year CDS mid-prices had jumped from a flat, lower level instantaneously to the peak level reached around the end of May 2018 and then remained constant ("the stylised scenario"). In this stylised scenario, the difference between the two-month and six-month averages reaches a maximum two months after the increase and then reduces to zero over the following four months. Four months after the increase, the maximum difference between two-month and six-month averages would have reduced by half. In practical terms, choosing as a threshold the difference at the four-month point would mean that a GACS application made during at least the second, third and fourth month following a strong structural increase in CDS premiums would be subject to two-month averaging. In the fifth and sixth month after the increase, the usual six-month averaging rule would apply again.

(33) Arithmetically, any increase of CDS premiums of more than 48.6% over a period of two months compared to a previously constant spread will lead to a period where the two-month average will be at least 15% greater than the six-month average. The greater the rise, the longer that period is going to be.

(34) Considering that the CDS premiums roughly doubled in the second half of May and calibrating the stylised scenario to that increase, the two-month average would be around 20% higher than the six-month average four months after the increase in CDS premiums occurred. Considering the actual evolution of CDS premiums over the last six months but assuming that the premiums would have remained at the peak May level, two-month averages remain more than 15% greater than the six-month averages well into the second half of September. On that basis, a 15% threshold significantly reduces the scope for a possible economic advantage arising from a persistent jump in CDS premiums like the one seen in May 2018.

(35) The historical two-month volatility of the 3-year CDS premium prior to May 2018 was around 17.5%. Taking into account that level of volatility, and if returns were normally distributed, a rise of 48.6% or greater during a two-month period would be expected to occur about twice in three years. Such an event would have to be considered rare. Using six-month averaging during such a period would therefore not just smoothen out what could be considered normal volatility but would likely underestimate the appropriate market spread and thereby give rise to an advantage.

(36) On that basis, the 15% threshold is well calibrated to make a distinction between what the Commission would consider normal volatility and any structural changes in CDS premiums which should be reflected in the guarantee prices for the GACS to remain aid-free. Moreover, given that the 15% threshold is calibrated on the normal distribution whereas returns in financial markets are not normally distributed but extreme events occur significantly more frequently than predicted by a normal distribution, the Commission considers the 15% threshold sufficiently conservative.

(37) Based on the observation that CDS premium curves in May 2018 were more volatile in the short end as well as the fact that the 3-year corporate CDS are usually the most liquid, the Commission views positively the fact that the threshold is based on the 3-year CDS mid-prices rather than the 5-year or 7-year CDS mid-prices.

(38) Taking together the observation that CDS premium curves in May 2018 were more volatile in the short end and the Commission's assessment in the original decision that "the seven year tenor corresponds to a time when a significant reduction in risk taken by the State will have been achieved even if the senior tranche has not yet been repaid in full"[9], the 15% threshold at the three year point will actually correspond to an even lower cost difference over the full seven years. Based on the original assumptions on the workout in the guarantee pricing formula[10], the difference would likely be no more than 7.5% of total (non-discounted) guarantee fees to be paid. The Commission considers such a difference acceptable in light of the desired quality of the Scheme's averaging mechanism to smoothen out CDS premium fluctuations which could render the guarantee pricing unpredictable for applicants.

(39) Finally, the Commission recalls that the original guarantee pricing formula was based on an assumed discount rate of 2% which the Commission considered conservative in light of the fact that it was significantly greater than the yield of seven-year Italian government bonds.[11] Currently, the yield of seven-year Italian government bonds is about 2.8%. However, as the Commission pointed out in the same recital of the original decision, the sensitivity of the pricing formula to the discount rate is small. The overall difference in total costs would correspond to 0.05%. Such a price difference cannot alter the aid-free character of the GACS scheme.

(40) In conclusion, the Commission considers the choice of 15% appropriate as a threshold to distinguish between the application of two-month and six-month averaging for the calculation of the GACS guarantee fees. It serves to exclude the presence of an advantage to applying banks in the context of a strong and […] increase in CDS premiums such as the one occurred in the second half of May 2018, while preserving the desirable qualities of the GACS guarantee pricing formula, in particular with respect to smoothing out normal volatility to provide predictable pricing to market applicants.

(41) As regards the update of the market benchmark baskets (see the new composition of the baskets in Annex 2) on the basis of which the market-conform fee for the State guarantee is calculated, as described in recital (21) above and following the application of recital (25)(b) of the original decision, the Commission observes that for the prolongation it ensures the continued alignment of the fee to market conditions, thereby contributing to the aid-free character of the Scheme.

(42) With regard to the continued approach of the Italian authorities to fix the composition of the baskets underlying the market benchmark for the pricing of

[9] Recital (75) of the original decision

[10] See Annex 4, recital (2)a in the original decision

[11] Recital (73) of the original decision

the State guarantee for the second prolongation period, as described in recital (22) above, it implies transparency and simplicity for the implementation of the Scheme. Notwithstanding this, the Commission notes that if the list of companies in each basket (see Annex 2) remains fixed for a long period of time, this could entail a risk that some of those companies have their rating upgraded or downgraded, which in turn could lead to an under- or over-estimation of the market-conform guarantee fee. However, given that the notified prolongation of the Scheme is only 6 months, the Commission considers this risk sufficiently small compared to the benefits of transparency and simplicity as a result of having a stable list of companies for each basket. In the Commission's view, the fixed composition of the baskets for a six-month period would be acceptable for a market economy guarantor.

(43) The Commission concludes that the changes introduced in the notification for the prolongation of the Scheme do not warrant a change of its conclusion in the original decision, namely that the State guarantee under the Scheme is provided at market terms, and therefore does not confer an advantage to participating banks and their securitisation vehicles. The Commission thus maintains its original conclusion that the Scheme is free of aid.

Monitoring of the compliance with commitments

(44) In the context of the original and the first prolongation decision, the Italian authorities committed to ensure that the Scheme, its implementation and the various specificities in its setup – in particular the rating requirements and their application – would be subject to regular monitoring by a monitoring trustee, appointed by the Commission upon proposal by Italy.

(45) The monitoring trustee will provide the Commission with the required information that all transactions covered under the Scheme are in line with the commitments undertaken by Italy to ensure that the specific transactions covered under the Scheme are free of State aid.

(46) The first report of the monitoring trustee, relating to the six-month period between 16 December 2016 and 16 June 2017[12], was finalised on 28 July 2017. It analysed the use of the Scheme by Banca Popolare di Bari S.c.p.A[13] during the reference period and indicated that all safeguards in place to ensure that the use of the Scheme does not entail State aid, appeared to be fully complied with. The Italian authorities indicated that they had no comments on the first report of the monitoring trustee.

(47) The second report of the monitoring trustee, relating to the period between 17 June 2017 and 14 August 2017, was finalised on 19 June 2018. It analysed the use of the Scheme by Banca Carige S.p.A. and Credito Valtellinese S.p.A. during the

[12] The Scheme became fully operational on 16 December 2016 when the first monitoring trustee was appointed, as committed by Italy following recital (34) of the original decision. The Scheme could not be accessed by any bank prior to that date.

[13] See recital (10)

reference period[14] and indicated that all safeguards in place to ensure that the use of the Scheme does not entail State aid, appeared to be fully complied with.

(48) The third report of the newly appointed monitoring trustee[15], relating to the period between 6 September 2017 and 6 March 2018, was finalised on 26 July 2018. It analyses the use of the Scheme by Banca Unicredit S.p.A. and Banca Popolare di Bari S.c.p.A during the first six months of the first prolongation period[16] and indicated that all safeguards in place to ensure that the use of the Scheme does not entail State aid, appeared to be fully complied with.

(49) On that basis, the Commission has sufficient comfort to conclude that the usage of the amended Scheme up to 6 March 2018 complies with the commitments contained in the respective Commission decisions.

5. CONCLUSION

The Commission has decided not to raise objections to the measure notified by Italy, in light of the commitments made by that Member State (including those relating to the activities and remuneration of a monitoring trustee). On that basis, the Commission has decided that the measure does not constitute aid within the meaning of Article 107(1) TFEU.

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 electronically to the following address:

European Commission,
Directorate-General Competition
State Aid Greffe
B-1049 Brussels
Stateaidgreffe@ec.europa.eu

Yours faithfully
For the Commission

Margrethe VESTAGER
Member of the Commission

[14] See recitals (11) and (12)

[15] A new monitoring trustee was appointed on 21 December 2017 to monitor the usage of the Scheme during the first prolongation period.

[16] See recitals (14) and (15)

CERTIFIED COPY
For the Secretary-General,

Jordi AYET PUIGARNAU
Director of the Registry
EUROPEAN COMMISSION

Annex 1 – Italy's commitments

Italy hereby provides the following Commitments (the "Commitments") which are integral part of the Guarantee Scheme as described under Annex 1 - "Description of the measure" attached to Decision SA.43390 (2016/N) as amended according to the notification submitted in relation to the Case SA.48416 (2017/PN).

(1) Italy commits to implement the Guarantee Scheme at the terms described under Annex 1 – "Description of the Scheme" attached to Decision SA.43390 (2016/N) as amended according to the notification submitted in relation to the Case SA.48416 (2017/PN).

(2) Italy commits that the rating and the calibration of the notes structure, i.e. the thickness of the different tranches of the securitisation notes, will take into account at least the following factors:

a. The expected cash flows and their timings coming from the NPL servicing such as recovery payments, sales proceeds, etc.;
b. Any cashflows received or paid under the hedging agreements;
c. Fees for the servicing of NPLs;
d. Contractual payment obligations on the issued notes;
e. Guarantee fee on the guaranteed notes;
f. Any other costs incurred by the securitisation structure in its normal business operations;
g. The thickness of the junior tranche (and if present the mezzanine tranche).

(3) Italy commits to provide to the rating agency full access to at least the following information:

a. Qualitative and quantitative information about the selected NPL servicer including:

i. track record as successful private NPL servicer in Italy (aspects considered: successful, present in Italy, unproven/without track record, no specialist);

ii. management team present on the specific deal;

iii. fee structure.

b. Loan-by-loan information on the underlying NPL portfolio including the full loan documentation and contractual documents, including the vintage of the NPL cohorts and related work-out times under judicial procedures;

c. Access to anonymised information on work-out and recovery rates from the Italian central credit register in order to model work-out times under the judicial procedure and related recovery rates;

d. The operational setup of the securitisation vehicle including all costs;

e. The guarantee pricing formula to include related fee payments in the cash flow model.

(4) Where information is not available, assumptions will be made on a prudent basis.

(5) Italy commits that, if the scheme covers not only sofferenze but also other categories of NPLs, the information reflecting specificities of those categories other than sofferenze will be made available to the rating agency.

(6) Italy commits to ensure that the Guarantee Scheme, its implementation and the various specificities in its setup, in particular the rating requirements and its application, will be subject to regular monitoring by a monitoring trustee, to be appointed by the Commission upon proposal by Italy.

(7) Italy will make available to the monitoring trustee a report setting out how the different criteria and conditions set out above have been taken into account and contributed to the final rating result.

(8) Italy will ensure that both the originating banks and the rating agency will provide the necessary access to information for the monitoring trustee to enable it to discharge its monitoring duties.

(9) Italy commits that for each individual guarantee application under the Scheme, the pricing of the guarantee fee will be calculated based on the formula provided in Annex 1 – "Description of the Scheme" attached to Decision SA.43390 (2016/N) as amended according to the notification submitted in relation to the Case SA.48416 (2017/PN) applied at the time of application for the guarantee. Italy also commits that for each guarantee application under the Scheme received after 6 September 2018 the pricing of the guarantee fee will also be calculated pursuant the above formula but considering, for each CDS price as part of the benchmark basket, the average over the last 2-month of 3-year mid prices at the time of the transaction. If this 2-month price is at least 15% higher than the basket average of the 6-month averages of the 3-year CDS prices, the 2-month price (i.e. the above formula using the 2-months averages) will be used as the price of the guarantee. Otherwise, the above formula considering the 6-month averages will be applied. The monitoring trustee will ensure that the changes in corporate ratings will be correctly reflected in the basket composition underlying the benchmark according to Recital (12) in Annex 1 – "Description of the Scheme" attached to Decision SA.43390 (2016/N) as amended according to the notification submitted in relation to the Case SA.48416 (2017/PN).

(10) Italy commits to limit the window for granting guarantees under the Scheme for a period of six months, up to 6 March 2019, following the Commission approval of the Guarantee Scheme as a no-aid guarantee scheme.

(11) If a renewal of the scheme is notified, Italy commits to provide a report on the usage of the scheme together with the notification for renewal.

Annex 2 – Baskets

1) First Basket
(used if the rating of the senior tranche is BBB-/Baa3/BBB-/BBB L)

UBI BANCA SPA
UNICREDIT SPA
INTESA SANPAOLO
ACEA SPA
TELECOM ITALIA SPA
LEONARDO SPA
MEDIOBANCA SPA

2) Second Basket
(used if the rating of the senior tranche is BBB/Baa2/BBB/BBB)

UBI BANCA SPA
MEDIOBANCA SPA
UNICREDIT SPA
INTESA SANPAOLO SPA
ASSICURAZIONI GENERALI SPA
ENEL SPA
ACEA SPA
ATLANTIA SPA

3) Third Basket
(used if the rating of the senior tranche is BBB+/Baa1/BBB+/BBB H)

UNICREDIT SPA
INTESA SANPAOLO SPA
ASSICURAZIONI GENERALI SPA
ENEL SPA
ACEA SPA
ENI SPA
ATLANTIA SPA