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C(2010)726 final

<p>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 [...].</p>		<p style="text-align: center;">PUBLIC VERSION</p> <p>This document is made available for information purposes only.</p>
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Subject: Extension of procedure in State aid case C11/2009 (Alleged aid to Fortis Bank Nederland and ABN Amro) to cover the additional recapitalisation measures in favour of Fortis Bank Nederland and ABN Amro and temporary approval until 31 July 2010 (NN 2/2010 (ex N 429/2009) and N 19/2010), the Netherlands

Sir,

The Commission wishes to inform the Netherlands that, having examined the information supplied by your authorities on the measures referred to above in favour of its ABN Amro activities and in favour of Fortis Bank Nederland (hereafter "FBN"), it has decided to extend the procedure laid down in Article 108(2) of the Treaty on the Functioning of the European

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Union¹ ("TFEU") to these measures. Meanwhile, the Commission has decided to authorise these measures as rescue aid until 31 July 2010 based on Article 107(3)(b) TFEU.

1. PROCEDURE

1. On 8 April 2009², the Commission initiated the procedure laid down in Article 108(2) TFEU with respect to alleged aid to FBN and the ABN Amro assets owned by the Dutch State.
2. On 16 June 2009, the Dutch Ministry of Finance informed the Commission that it was preparing a EUR 2.5 billion recapitalisation plan enabling the separation of ABN Amro Holding into three parts. The Dutch authorities also indicated that at a later stage additional measures might be necessary, without being able to quantify these.
3. On 17 July 2009, the Netherlands formally notified a plan with recapitalisation measures worth EUR 2.5 billion: a credit default swap (CDS) (with a capital relief effect of EUR 1.7 billion) and a Mandatory Convertible Security (MCS) of EUR 800 million. The MCS and the CDS were implemented on respectively 30 July 2009 and 31 August 2009. Given that the measures were implemented before the Commission took a decision on them, the case was moved from the register of notified aid into the non-notified aid register under number NN 2/2010.
4. By letter dated 24 July 2009, the Commission asked for more information, which the Dutch government provided on 19 August 2009 and on 2 September 2009.
5. On 8 September 2009, the Commission asked for more information on the outstanding hybrids capital instruments of FBN and ABN Amro, which the Dutch government provided on 24 September 2009.
6. On 1 September 2009, the Dutch government sent a non-paper in which it updated its ABN Amro plans. In an addendum to this non-paper sent on 10 November 2009, the Dutch government indicated that its new plan contained State support measures worth in total EUR 6.89 billion³. Further details were provided in an explanatory note on 13 November 2009.
7. On 4 December 2009, the Dutch government submitted a first draft of a business plan for the new entity that will result from the merger between FBN and the State's ABN Amro activities.
8. On 15 January 2010, the Dutch government formally notified a complete restructuring plan including additional State aid measures worth EUR 4.39 billion that were not notified in July 2009. This notification was registered under number N19/2010.

¹ With effect from 1 December 2009, Articles 87 and 88 of the EC Treaty have become Articles 107 and 108 respectively of the Treaty on the Functioning of the European Union. The two sets of provisions are, in substance, identical. For the purposes of this Decision, references to Articles 107 and 108 of the TFEU should be understood as references to Articles 87 and 88 respectively, of the EC Treaty where appropriate.

² Alleged aid to Fortis Bank Nederland and the ABN Amro Asset, OJ C 124, 4.6.2009, p.19.

³ This figure includes the measures of EUR 2.5 billion which were notified in June 2009.

2. DESCRIPTION

2.1 The Beneficiary

Context

9. In the Spring of 2007, Royal Bank of Scotland (RBS), Banco Santander and Fortis Holding created a new legal entity "RFS Holdings" to acquire ABN Amro Holding⁴. The members of the consortium set out the arrangements for dividing up the operations of ABN Amro Holding in a so-called consortium and shareholders' agreement (hereafter "CSA").
10. The consortium partners intended to split up ABN Amro Holding in three parts. In order to facilitate this break-up, the consortium members created so-called "tracking shares" representing the economic ownership of the businesses of each consortium member. As a result, Royal Bank of Scotland, Banco Santander and Fortis Holding became the economic owner of respectively the R-share, S-share and N-share (hereafter "ABN Amro R", "ABN Amro S" and "ABN Amro N"). ABN Amro R comprised inter alia the Business Units (BU) Global Business and Markets, Global Transaction Services and the international network, ABN Amro S comprised inter alia BU Latin America and BU Antoveneta (Italy), while ABN Amro N comprised BU Netherlands (including the International Diamond and Jewelry Group) and BU Private Banking.
11. Items that were not allocated to the individual consortium members were brought together in the so-called ABN Amro Z-share (hereafter ABN Amro Z), together with e.g. head office functions. Each consortium member holds a pro-rata stake⁵ in ABN Amro Z.
12. On 3 October 2008, the Dutch State acquired FBN from Fortis Holding, thereby also becoming the indirect owner of ABN Amro N and of 33.81% of ABN Amro Z, since, within the Fortis Group, FBN was the legal owner of these shares.
13. On 17 December 2008, the Dutch State became the direct owner of those shares after acquiring them from FBN. On 24 December 2008, RBS, Santander and the Dutch State signed an amendment to the CSA, by which the Dutch State officially took the place of Fortis Holding in the CSA. After the purchase of FBN by the Dutch State on 3 October 2008, Fortis Holding had remained formally a party to the CSA. However, the Dutch State committed to indemnify Fortis Holding for any charge it would face as a consequence of the continuation of its participation in the CSA.
14. In November 2008, the Dutch State announced already that it wished to combine ABN Amro N (which had yet to be hived off) with FBN. Before this can happen, ABN Amro N needs to be split off in accordance with the provisions of the CSA. First a new division will be created (ABN Amro II) which will take place in the beginning of February 2010. The shares in this company (with a banking licence) would then need to be transferred to the Dutch State at the end of March 2010. Then ABN Amro II and

⁴ ABN Amro Holding is a financial holding company, which conducts its business almost entirely through its wholly owned subsidiary ABN Amro Bank NV or this company's own subsidiaries. For a detailed flowchart, please see paragraph (16) and (17).

⁵ RBS (38.28%), Santander (27.91%) and Fortis Holding (33.81%).

FBN can merge and a new entity "ABN Amro Group NV" will be created. The legal merger is currently scheduled for [...]*

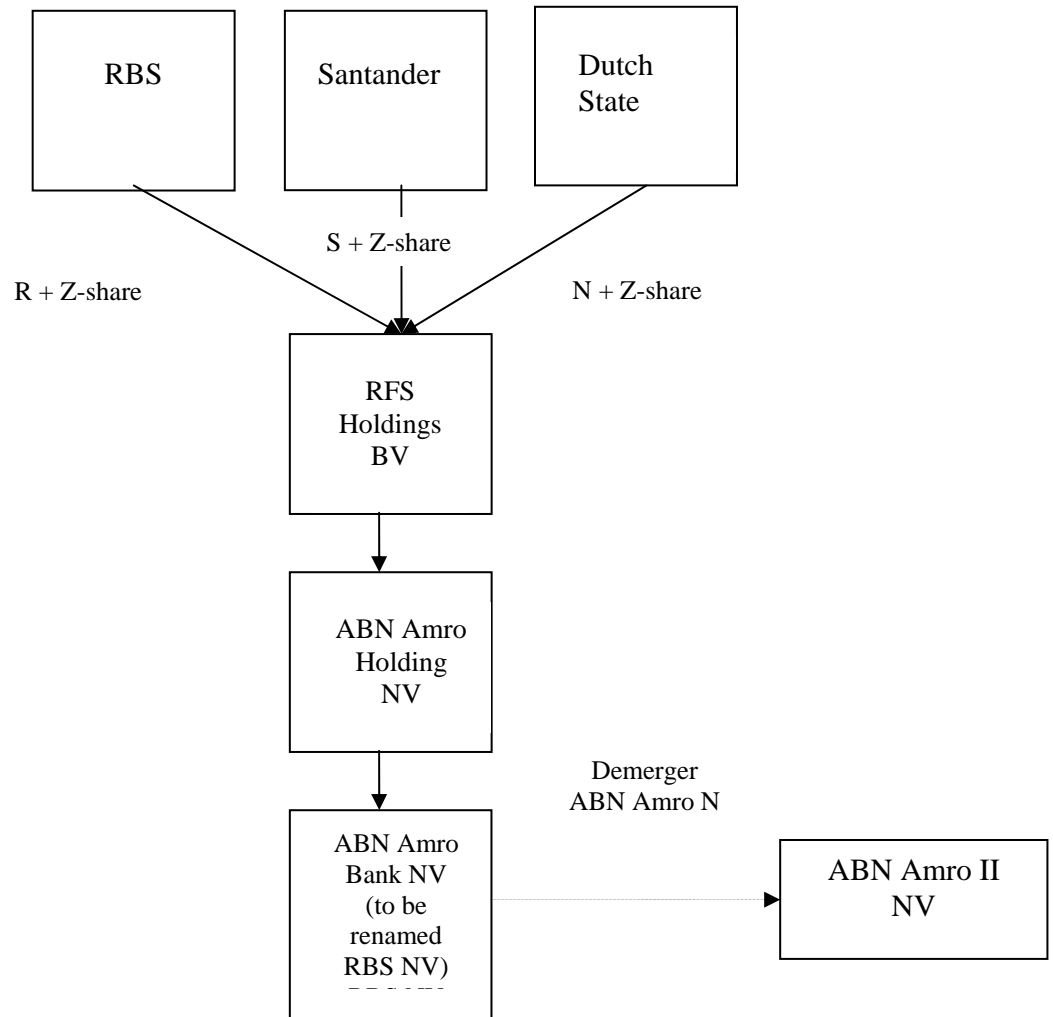
15. The Commission decided⁶ that a merger between ABN Amro N and FBN would create concentration problems in the Dutch banking market, especially in the segments of commercial banking and factoring. The Dutch government decided to sell a number of activities which were grouped in a new entity "New HBU"⁷. On 19 October 2009, the Dutch State and Deutsche Bank concluded a Heads of Agreement document with regard to the sale of new HBU. A Share Purchase Agreement with Deutsche Bank was signed on 23 December 2009.
16. The Dutch State will remain the owner of 33.81% of ABN Amro Z but wants to limit the resources needed to manage this participation. Therefore, the Dutch State will probably transfer its stake in ABN Amro Z to ABN Amro II.

The following table (Table I) explains the current structure of ABN Amro Holding and the anticipated de-merger of ABN Amro II.

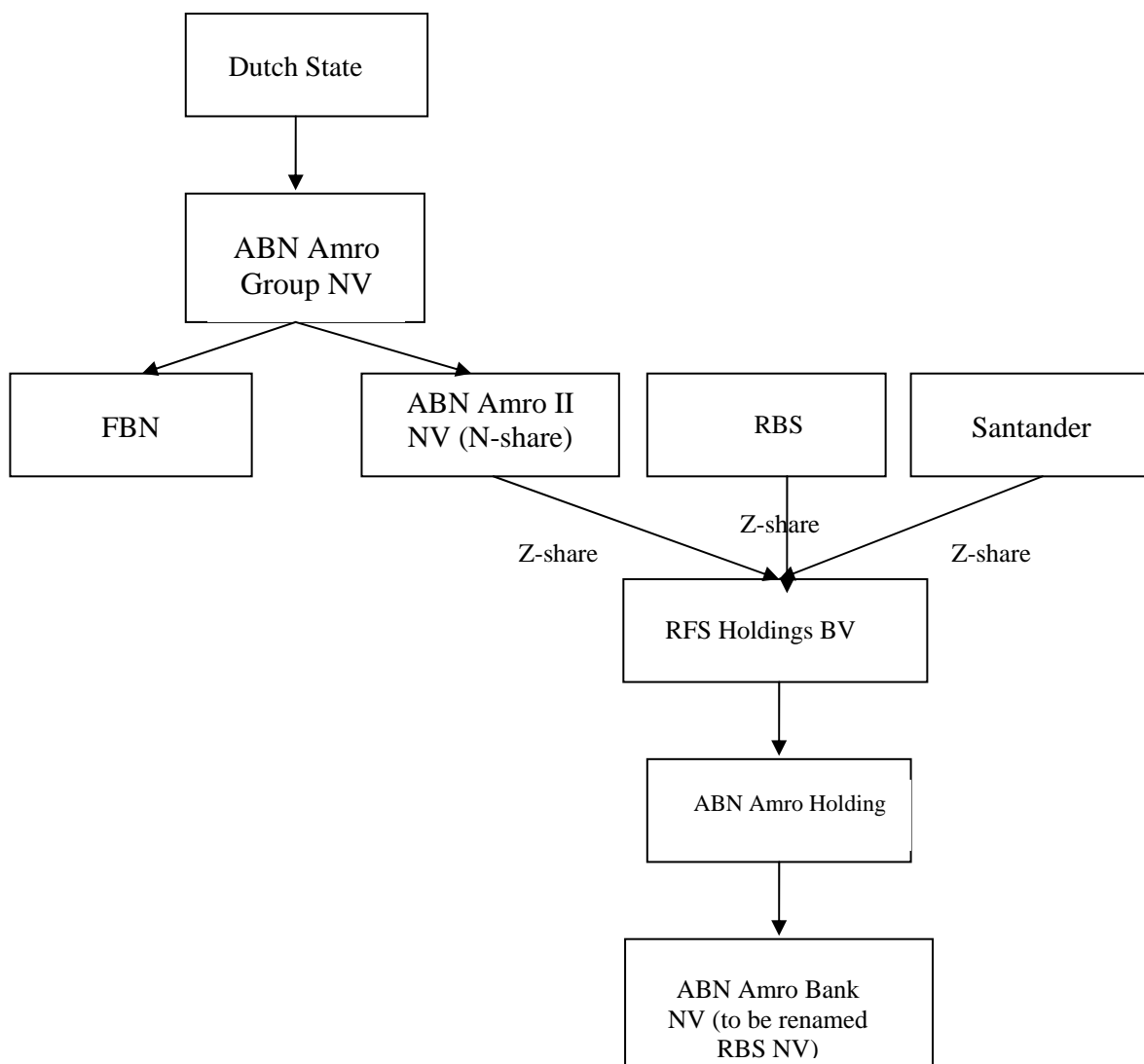
* Covered by the obligation of professional secrecy

⁶ For more details see the Commission decision dated 3 October 2007 in the merger case Fortis/ABN Amro Assets, case COMP/M.4844, OJ C 265, 7.11.2007, p.2

⁷ New HBU contains the commercial bank HBU (Hollandsche Bank Unie), some ABN Amro sales offices (13 out of 78), some ABN Amro Corporate Client Units (2 out of 5) and the factoring subsidiary IFN.



17. The most likely future structure of ABN Amro according to the Dutch State is represented on the diagram in Table 2 below.



Economic activities represented by ABN Amro N and ABN Amro Z

18. As indicated above, ABN Amro N consists of the Business Unit (BU) Netherlands (including the International Diamond and Jewelry Group) and the Business Unit Private Banking.
19. BU Netherlands focuses on retail clients and small- to medium-sized enterprises. It offers a broad range of commercial and retail banking products and services. The company has a multi-channel service model, which consists of a network of approximately 600 branches, internet banking facilities, customer contact centres and ATMs.
20. In 2008, BU Netherlands had a balance sheet total of EUR 158.9 billion, risk-weighted assets (RWA) of EUR 83.9 billion and a net operating profit of EUR 306 million. For comparison, in 2007 the corresponding figures were EUR 141.7 billion, EUR 78.7 billion and EUR 882 million. BU Netherlands includes the results of the International Diamond and Jewelry Group, which reported a net operating profit of EUR 28 million in 2008.

21. BU Private Banking offers private banking services to individuals with net invested assets of more than EUR 1 million. It has built up a network, through organic growth in the Netherlands and France and through acquisitions in Germany (Delbrück Bethmann Maffei) and Belgium (Bank Corluy). This BU also includes the insurance joint venture Neufelize Vie.
22. In 2008, BU Private Banking had total assets of EUR 18.2 billion, RWA of EUR 7.8 billion, assets under management of EUR 102 billion and a net operating profit of EUR 165 million. The corresponding figures over 2007 were EUR 19.6 billion, EUR 8.2 billion, EUR 140 billion and EUR 298 million.
23. The most recent audited financials of ABN Amro indicated that ABN Amro N was marginally profitable in the first nine months of 2009 (net profit of EUR 45 million compared with EUR 629 million in the first nine months of 2008). The drop in net profits was mainly attributable to lower net interest income (EUR 2 141 million in the first nine months of 2009 compared with EUR 2 407 million in the first nine months of 2008) and an increase of loan loss provisions (EUR 838 million in 2009 compared with EUR 383 million in 2008).
24. ABN Amro Z contains tax assets, a number of participations (amongst others in the Saudi Hollandi Bank) and the remaining private equity portfolio. On the liabilities side there is a provision to settle obligations in respect of the U.S. Department of Justice, other provisions (partly personnel related) and inter-company financing of company assets. As stated above, the stake owned by the Dutch State represents 33.81% of ABN Amro Z.

Fortis Bank Nederland

25. At the end of 2008, FBN had total assets of EUR 184 billion and RWA of EUR 45.9 billion. While the company realized a net loss of EUR 18 billion in 2008 because of the goodwill write-down of its participation in ABN Amro Holding, its net operating profit amounted to EUR 604 million. The net result also suffered because of a credit provision of EUR 922 million (after tax) related to the Madoff fraud. At the end of 2008, FBN's tier 1 ratio was 11.1%.
26. FBN is active in both the retail market and the wholesale market (commercial banking, corporate and public banking) and a number of specialized niches.
27. Fortis Retail (representing roughly [...]% of total RWA of FBN) combines retail and private banking. In retail banking, the company has 156 branches, [...] million individual customers and [...] SME clients. With a market share of [0-10]%, Fortis Retail is the fourth largest bank in the Netherlands, after ING, Rabobank and ABN Amro. In private banking, the company (under the "Mees Pierson" brand name) has a leading position especially in the prime segment (customers with assets greater than EUR 1 million).
28. Fortis Wholesale (representing roughly [...]% of total RWA of FBN) contains "commercial banking", which has 23 business centres in the Netherlands to serve companies with a turnover up to EUR 250 million. Companies with a turnover of more than EUR 250 million and the public sector are serviced in another subdivision i.e. "Corporate & Public Banking". The Wholesale division also includes a number of

specialized niches (financial markets, securities financing, M&A advisory, equity capital markets, acquisition finance, private equity, syndications, export and project finance, trade services, transaction banking, factoring, brokerage, clearing and custody, fund administration etc.).

29. In the first half of 2009, FBN realized a net profit of EUR 338 million. However, this profit included an exceptional capital gain of EUR 362.5 million. This profit could be broken down as follows: retail banking (+ EUR 62 million), private banking (- EUR 3 million), merchant banking (+ EUR 39 million) and other profit of EUR + 240 million.

ABN Amro Group NV (ABN Amro N + FBN)

30. ABN Amro Group NV, the entity which will integrate ABN Amro N and FBN, will mainly focus on the Dutch market. The new group should have assets of around EUR [...] billion and once the merger has been fully completed, its revenues should be around EUR [...] billion.
31. The new company will cover both "retail and private banking" and "commercial and merchant banking". In retail banking, the company is expected to retain market shares of respectively [...]% and [...]% in "Mass Retail" and "Preferred Banking"⁸. In private banking, the new group will have approximately [...]% of the Dutch market and the market share in "commercial and merchant banking" will be around [...]%.⁹
32. In terms of revenues, retail and private banking (with revenues of respectively EUR [...] billion and EUR [...] billion) should be slightly more important than commercial and merchant banking (with revenues of EUR [...] billion). The main focus will be on the Netherlands (with revenues of EUR [...] billion (or [...]% of the total) versus EUR [...] billion abroad.
33. ABN Amro Group NV will no longer include "New HBU" which will be divested in the framework of the merger remedy¹⁰. New HBU contains the commercial bank Hollandsche Bank-unie, some ABN Amro sales offices (13 out of 78) and some ABN Amro Corporate Client Units (2 out of 5) and ABN Amro's factoring division IFN Finance. At the end of 2008, New HBU had total assets of EUR [...] billion and it employed 1 200 full time equivalents.

2.2 Description of the State measures

34. In July 2009, the Dutch State notified several measures. The Dutch State granted a capital relief instrument (measure A with a capital relief effect of EUR 1.7 billion) and a mandatory convertible security (measure B1 of EUR 500 million) in order to fill a capital shortage at the level of ABN Amro Z of EUR 2.2 billion. At the same time, the Dutch State subscribed to another tranche of MCS (measure B2 of EUR 300 million) to cover a first tranche of separation costs.

⁸ "Preferred Banking" will target the mass affluent segment including households with annual income higher than EUR 50 000 and/or disposable assets between EUR 50 000 and EUR 1 million.

⁹ The latter already takes into account the divestment of New HBU.

¹⁰ For more details see the Commission decision dated 3 October 2007 in the merger case Fortis/ABN Amro Assets, case COMP/M.4844, OJ C 265, 7.11.2007, p.2

35. In January 2010, the Dutch State notified extra measures worth EUR 4.39 billion. The Dutch State will subscribe to additional MCS-instruments to cover additional separation costs (measure B3), the capital shortfall resulting from the sale of New HBU (measure B4) and integration costs (measure B5). The Dutch State will also swap its Tier 2 instruments in FBN into Tier 1 capital to improve the capital position of FBN (measure C). Finally the Dutch State will also pay consortium partners EUR 740 million in cash (measure D) and provide a guarantee to cover cross liabilities resulting from the sale of New HBU (measure E).

2.2.1 Credit protection instrument to cover part of the capital shortfall of ABN Amro Z (Measure A, EUR 1.7 billion)

36. The Dutch mortgage portfolio covered by the CDS granted by the State represents around [...] % of ABN Amro N's total home loan portfolio. Mortgages are only included in the portfolio if they meet well-defined criteria¹¹.
37. The portfolio insured by the State contains loans of [...] borrowers with an average net loan balance of EUR [...] and an average loan-to-foreclosure-value ratio of [...] %. The average maturity of a loan in the portfolio is [...] months.
38. For this credit protection instrument, the Dutch State receives an annual fee of 51.5 basis points (calculated as a percentage of the portfolio value in the beginning of each reference period).
39. This fee was based on the capital equivalent cost: the Dutch State wanted a 10% return on the capital released as a result of the CDS (i.e. 10% on EUR 1.7 billion), which is equivalent to 51.5 basis points of the initial portfolio of EUR 34.5 billion.
40. Each year, ABN Amro N keeps a first loss tranche of 20 basis points (calculated as a percentage of the initial portfolio value), but the State has a claw-back clause, which is triggered if years with credit losses of less than 20 basis points were to follow years with credit losses of more than 20 basis points. Since the first loss clause is calculated as a percentage of the *initial* portfolio value, when clients start to repay their mortgage loan it will represent an increasing percentage of the outstanding portfolio value.
41. ABN Amro N also keeps a vertical slice of 5% of the remaining risk.
42. The pricing of the credit protection instrument will not be adjusted once [...] ¹², even though the capital relief effect of the CDS will be smaller then.
43. In principle, the CDS-contract has a maturity of 7 years. ABN Amro N has however call options enabling the early termination of the contract on a number of reference dates (November 2009, January 2010, April 2010, July 2010, October 2010, January 2011 and January 2012). The State also has a call to terminate the transaction on the condition that the termination of the contract does not endanger the capital position of ABN Amro N.

¹¹ [...].
¹² [...].

2.2.2 Mandatory Convertible Security to cover part of the capital shortfall of ABN Amro Z (Measure B1, EUR 500 million)

44. The Mandatory Convertible Security (MCS)¹³ qualifies as hybrid Tier 1 capital, will carry a coupon of 10% and will automatically convert into shares of ABN Amro II at the time of the separation of ABN Amro N from ABN Amro Holding. At that point in time, it will qualify as core Tier 1 capital.

If, at the time of conversion, the Dutch State is still the only shareholder of ABN Amro II, the conversion price for the MCS will be equal to its nominal value. If there are new shareholders involved, the State and ABN Amro II management will ask a third party to determine the fair value of the newly created entity and the conversion will take place at the fair value price. If the regulatory ratios of ABN Amro Holding would fall below certain thresholds before the separation, the MCS would convert into Non-cumulative Modified Securities. The only difference with the original securities is that the coupon payments would no longer be cumulative. Under IFRS rules however, these new securities would qualify as equity.

2.2.3 Mandatory Convertible Security to cover separation costs (Measures B2 and B3, EUR 1.08 billion)

45. The Dutch State will subscribe to extra MCS to cover separation costs. A first tranche (measure B2) was already notified in July 2009 (roughly EUR 300 million), with the remainder being notified in January 2010 (measure B3). A description of the instrument is set out in paragraph (44) above. The full amount of EUR 1.08 billion (i.e. measure B2 and measure B3 together) includes well-defined separation costs of EUR 480 million, costs of EUR 90 million related to the set-up of a money market desk and a buffer of EUR 500 million.
46. The Dutch State estimates that the separation of ABN Amro II from its former parent company will cost in total EUR 480 million. This includes cross liabilities exposure (EUR [...] million), unwinding of risk allocation letters (EUR [...] million), repurchase of securitization notes (EUR [...] million), the transfer from ABN Amro R of trading-related market risk related to ABN Amro II clients (EUR [...] million), discontinuation of capital relief instruments (EUR [...] million) and general separation and unwinding costs (EUR [...] million).
47. After the separation from the parent company, ABN Amro II also needs EUR 90 million of extra capital if it is to set up a money market desk on its own.
48. Additionally, the Dutch State will inject an extra EUR 500 million, as a buffer covering unexpected needs in the course of what is a very complex disintegration process.

¹³ Measures B2, B3, B4 and B5 use the same MCS but the instrument will only be explained here.

*2.2.4 Mandatory Convertible Security to cover capital shortfall due to sale of New HBU
(Measure B4, EUR 300 million)*

49. Under the 2007 merger decision¹⁴, FBN can be integrated with ABN Amro N only if New HBU is sold. The Share Purchase Agreement was signed with Deutsche Bank on 23 December 2009. This sale has a negative capital impact on ABN Amro N of EUR 470 million. Since ABN Amro N does not have sufficient means to compensate for this, the State expects that it will have to contribute EUR 300 million. This contribution will be made by subscribing to additional MCS for this amount.

2.2.5 Mandatory Convertible Security to cover integration costs (Measure B5, EUR 1.2 billion)

50. The Dutch authorities claim that the merger between FBN and ABN Amro N will ultimately lead to synergies of EUR 1 billion per year (before tax). In order to reap the full benefit of these synergies, the merger will have to be implemented and this will lead to upfront integration costs of EUR 1.2 billion (after tax). Since these entities do not have sufficient capital to bear these costs, the State will subscribe to additional MCS for this amount.

*2.2.6 Swap of Tier 2 hybrid capital instruments of FBN into core Tier 1 capital
(Measure C, EUR 1.3 billion)*

51. In order to comply with the capital requirements of the DNB¹⁵, FBN needs to rebalance its capital structure. This requires an increase of core Tier 1 capital of EUR 1.26 billion. In addition, the separation from Fortis Holding, its former Belgian parent company, leads to extra costs of EUR 90 million, which relate to the set-up of a treasury desk, Basel models, licenses and consultancy services.
52. Measure C thus rebalances the capital structure of FBN. FBN needs more Tier 1 capital. The State, which purchased some Tier 2 loans to FBN from Fortis Holding at the time of the acquisition of FBN¹⁶, will provide the Tier 1 capital needed by exchanging some of these Tier 2 loans into Tier 1 capital. According to the Dutch authorities, this is equivalent to a scenario in which FBN repays to the State the Tier 2 capital instruments at par, followed by a Tier 1 capital injection by the State of the EUR 1.35 billion amount. The transaction does not involve any cash.

2.2.7 Payment obligations towards other consortium members (Measure D, EUR 740 million)

53. Certain payment obligations have become apparent during the de-merger process of ABN Amro Holding. The CSA contains a number of general principles to resolve such issues but the exact amounts result from a negotiating process in which the Dutch State (and Fortis Holding before it) participated.

¹⁴ See footnote 10

¹⁵ In a letter dated 17 December 2009, the DNB wrote to the Commission that it informed FBN on 3 September 2009 on the results of its "Supervisory Review and Evaluation Process 2009". The DNB decided – based on the results of a stress test and taking into account the RWA-impact of the earlier rejection of PD and LGD-models - that FBN had a Tier 1 capital shortage of EUR 1.26 billion as at 31 December 2008. Simultaneously, the DNB has also set FBN a minimum Tier 1 ratio at [...]%.

¹⁶ See paragraph 17 of the decision of 8 April 2009 (see footnote 2)

54. The total amount of EUR 740 million relates to the following:

-[...].

These cash outflows will partly be compensated by the fact that the Dutch State will receive EUR [...] million from the other consortium partners related to stranded costs.

55. The balance of the payment obligations in respect of other consortium shareholders (i.e. EUR 740 million) will be paid in cash, part of it directly to the other consortium members, part of it to ABN Amro Z.

2.2.8 Cross liabilities (*Measure E, EUR 950 million*)

56. Even after the divestment of New HBU, ABN Amro II will remain liable towards creditors of New HBU if New HBU is unable to meet its obligations towards its own creditors (and vice versa for new HBU which will also face cross liabilities). The Dutch State and Deutsche Bank (i.e. the purchaser of New HBU) agreed that new HBU and ABN Amro II would indemnify each other for these cross liabilities and provide to each other collateral, so as to reduce the induced regulatory capital requirements to a desired 20 %. As a result of this agreement, ABN Amro II will have to provide collateral to New HBU for an amount up to EUR 950 million (which will decline over time as liabilities mature) for the liabilities of New HBU towards ABN Amro II and towards ABN Amro Bank NV (to be renamed RBS NV). Since ABN Amro II does not have enough capital to provide the collateral needed in respect of the liability towards ABN Amro Bank NV, the State will provide a counter-indemnity for the entire amount (EUR 950 million)

57. The Dutch State has priced this risk as if it was a State guarantee on ABN Amro Bank NV subordinated debt. The pricing methodology of the Dutch State is based on the ECB Recapitalisation Recommendation i.e. 200bp plus the median CDS-spread¹⁷.

State support measures	Description	Size (in EUR billion)	Reason	Legal entity to which the measure is granted
Capital measures notified in June 2009 and implemented in July/August 2009				
Measure A	Capital relief instrument	CDS-protection on a EUR 34.5 billion portfolio (having a capital relief effect of EUR 1.7 billion)	Filling the capital shortage at the Z-share level	ABN Amro Bank NV ¹⁸
Measure B1	MCS	0.5	First tranche of	ABN Amro Bank
Measure B2	MCS	0.3		

¹⁷ www.ecb.eu/pub/pdf/other/recommendations_on_pricing_for_recapitalisationsen.pdf ; the CDS reference period is January 2007 – August 2008

¹⁸ Note that ABN Amro N and ABN Amro Z have no separate legal status, which implies that the measures are still implemented at the level of ABN Amro Bank (which itself is a 100% subsidiary of ABN Amro Holding)

			separation costs	NV
Additional capital measures notified in January 2010				
Measure B3	MCS	0.78	Second tranche of separation costs	ABN Amro Bank NV
Measure B4	MCS	0.3	Capital impact from sale of new HBU	ABN Amro Bank NV
Measure B5	MCS	1.2	Integration costs	ABN Amro Bank NV
Measure C	Exchange Tier 2 into Tier 1	1.35	Tier 1 shortage at the level of FBN	FBN
Measure D	Cash payment to consortium partners	0.74	Payment obligations resulting from the CSA	Other consortium partners / ABN Amro Bank NV
Measure E	Guarantee on a liability of EUR 950 million	0.95	Cross liabilities resulting from sale of new HBU	ABN Amro II

2.3 Description of presented business plan

58. In its business plan, the new ABN Amro Group has provided relatively detailed financial projections for the period 2009-2012 in both a base case and a best case scenario. For 2012, the company has also calculated a run-rate¹⁹ profit. The company also presented information on its exit strategy and on the measures it has taken in terms of burden sharing/limits to distortion of competition.

*Base case*²⁰

59. Both ABN Amro N and FBN are expected to report [...] at the end the fiscal year 2009 of respectively of [...] and [...]. This is partly due to extraordinary costs related to the separation from their respective former parent companies. The decline in the net interest income and the increase in the provisions for bad loans contribute also to this negative result.

60. In a base case scenario, the new ABN Amro Group expects to [...]. The company indicates that its run-rate profits in 2012 should amount to [...]. [...] ²¹ [...]. At the same time, direct costs²² should decrease on the back of synergies and also[...].

61. Starting from the 2012 run-rate figures, the new ABN Amro Group would have a return on equity (RoE) of [...] % and a cost/income ratio of [...] %.

Best case

¹⁹ The run-rate profit excludes transition costs and assumes that cost synergies were already accounted for the full year.

²⁰ In a base case scenario, the net interest margin recovers to close to the 2008-level, while volumes increase in line with inflation. Personnel costs rise by [...] %, while other costs are up by [...] %. The base case assumes that all the planned capital injections of the State take place as agreed and it assumes no dividend payments.

²¹ [...]

²² [...]

62. The best case scenario changes two key assumptions. The interest margin is [...] % higher than in the base case²³, while personnel costs rise by [...] % (rather than by [...] %).
63. The profits in the best case scenario are somewhat higher than in the base case scenario (EUR [...] million in 2010, EUR [...] million in 2011 and EUR [...] million in 2012). This scenario would lead to a 2012 run-rate return on equity of [...] % and a cost/income ratio of [...] %.

Exit

64. In its business plan, the Dutch State also provides more information on its exit strategy. The Dutch State contends that it does not see itself as a long-term investor in financial institutions, which implies that it will sell its shareholding in new ABN Amro Group at the appropriate time. The Dutch State indicates that the timing of the exit will take place once 1) the new group has been able to show a positive track record (especially in terms of synergies) and 2) market valuations for large financial groups have further normalized.
65. The Dutch State already plans a gradual repayment of the support provided to new ABN Amro Group before the full divestment of its shareholding. In the current projections, new ABN Amro Group would call the capital relief instrument in [...]. The Dutch State also indicates that it will manage closely the capital position of the group encouraging it to pay out any capital above a prudential limit agreed with the DNB. As the only shareholder of new ABN Amro Group, the State can steer the dividend policy (obviously within the limits set by the capital requirements of the financial supervisor).

Divestments

66. The Dutch State underlines that the aided banks have already divested a number of businesses.
67. First, to sort out concentration problems resulting from the merger between ABN Amro N and FBN, the Dutch State implemented a merger remedy. It sold New HBU to Deutsche Bank thereby reducing the presence of the new merged entity in "commercial banking" and "factoring".
68. In addition, in September 2009, FBN (and its partner BGL²⁴) decided to sell Intertrust to private equity company Waterland. Intertrust is one of the largest players in global trust and corporate management, helping its clients with corporate financial planning, management and operational issues, administration and accounting and asset planning services. Intertrust employs 1,000 experts in 19 countries. Intertrust's income and RWA in 2008 amounted to respectively EUR [...] million and EUR [...] million.
69. In 2008, New HBU (including IFN) reported income of EUR [...] million and RWA of EUR [...] billion.

²³ The company claims that this is in line with actual interest margins on new business

²⁴ BGL is one of the largest banks in Luxembourg and used to be a sister company of FBN in Fortis Holding. Since May 2009, BGL has become a member of the BNP Paribas group.

70. In 2008, New HBU and Intertrust together had revenues of EUR [...] million and RWA of EUR [...] billion. This represents respectively [...] % (revenues) and [...] % (RWA) of the new ABN Amro Group.
71. In addition, exclusive negotiations have been started with Credit Suisse²⁵ to sell the FBN division PFS ("Prime Fund Solutions"). PFS provides fund services to the alternative asset management industry allowing clients to focus fully on their investment process. PFS services include: administration, banking, custody and financing and its clients range from boutique asset managers to large scale global institutions such as pension funds and sovereign wealth funds. The EUR 922 million provision related to the Madoff-fraud which FBN registered in 2008 stemmed from this division.
72. On 31 July 2009, FBN acquired Fortis Clearing Americas from Fortis Bank Belgium for a price of approximately USD [...] million. This transaction was necessary to correct a misalignment which resulted from the break-up of Fortis Holding. FBN owned the BU Brokerage, Clearing and Custody and all the offices related to this business except the Chicago office (i.e. Fortis Clearing Americas) were within the legal scope of FBN.

3. POSITION OF THE NETHERLANDS

73. The Dutch State argues that the Commission should take into account that the Dutch State was obliged to buy FBN in very special circumstances. When Fortis Holding encountered important problems in September 2008, the Dutch State had no choice but to step in, to preserve financial stability. By acquiring FBN (including ABN Amro N and 33.8% of ABN Amro Z), the Dutch State became de facto a partner in the CSA, so that it took over a number of contractual obligations. This obliged the Dutch State to implement the de-merger process as described in the CSA and is for instance at the basis of the obligation to fill the regulatory capital shortfall in ABN Amro Z (measure A) and the obligation to settle remaining issues with other consortium shareholders (measure D).
74. The Dutch State claims to have based the ABN Amro recapitalisation plan on the principles set forward in the Banking Communication²⁶ and the Recapitalisation Communication²⁷ of the Commission. In general, the Dutch State argues that the measures it has implemented were well-targeted, proportionate to the challenges faced and designed in such a way to minimize negative spill-over effects to competitors.
75. The Dutch State argues that the financial means granted to ABN Amro N (measure A and measure B1) to cover the capital shortage of the Z-share is not State aid. The Dutch State indicates that the CSA implied that it had no choice but to fill the capital shortage of ABN Amro Z. It argues that the available capital position of ABN Amro N did not change as a result of the intervention, which implies that its relative position versus competitors has not changed because of these measures. According to the Dutch State, it has merely used ABN Amro N as an intermediate vehicle to sort out the ABN Amro Z

²⁵ http://www.fortis.nl/dnn_site/Portals/0/Press-Release_PFS_18-12.pdf

²⁶ Communication from the Commission – The application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis, OJ C 270, 25.10.2008, p. 8-14

²⁷ Communication from the Commission - The Recapitalization of financial institutions in the current financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition, OJ C 10, 15.1.2009, p.2-10

capital shortfall, which was actually the responsibility of the Dutch State as a shareholder of ABN Amro Z.

76. If the Commission were to consider measures related to the capital shortage of ABN Amro Z as State aid, the Dutch State argues that the Impaired Asset Communication²⁸ does not apply to the credit protection instrument of ABN Amro N. According to the Dutch State, the protected assets cannot be considered 'impaired' as that term is used in the Communication, while there is also no uncertainty as to their valuation. Should the Commission not share this point of view, the Dutch government contends that ABN Amro N's CDS still complies with the general principles put forward in that Communication. Besides, it argues that the credit protection instrument is necessary and proportional, while it keeps competition distortions to the minimum.
77. Practical and legal obstacles explain why the Dutch State favours the current solutions (with inter alia a CDS in combination with a mandatory convertible security) over, for instance, a classic cash capital injection. Any cash injected in ABN Amro Holding cannot be ring-fenced and might potentially become available to businesses that are not owned by the Dutch State. In this regard, the Dutch government points out that [...] and that the unwinding of ABN Amro Holding can only go ahead once also this problem has been addressed by RBS.
78. On the Credit Protection Instrument, the Dutch State underlines that [...]
79. The Dutch State also points out that the Credit Protection Instrument becomes relatively unattractive after [...].
80. The Dutch State considers the remuneration of the MCS to be higher than is required in paragraph (27) of the Recapitalisation Communication, underlining that the coupon is 10%.
81. The Dutch State claims that the separation costs and the capital shortfall related to the HBU-divestment (measures B2, B3 and B4) are obligations of the State as a shareholder of ABN Amro N and that ABN Amro N in the end will not have more financial means. The Dutch State argues that it is merely complying with a number of obligations it inherited from Fortis Holding. It argues that Fortis Holding took the decision to de-merge ABN Amro N and to merge the two entities and that the Dutch State now has to bear the costs of these decisions of Fortis Holding.
82. The Dutch State indicates that the State money granted to finance integration costs (measure B5) should be seen as a rational investment, leading to healthy returns in the form of synergies. The Dutch government estimates these synergies at around EUR 1 billion a year (pre-tax).
83. The Dutch State acknowledges that FBN will benefit from the injection of Tier 1 capital (measure C). At the same time however, the Dutch State underlines that the Commission should also take into account that FBN will repay the existing Tier 2 instruments at par, while the market now typically prices this type of instruments at a discount. The Dutch State claims, based on market data, that the repayment at par implied a benefit of EUR 200 million for the State, i.e. that the market value of these instruments was EUR 200

²⁸ Communication from the Commission on the treatment of impaired assets in the Community banking sector, OJ C 72, 26.3.2009, p.1-22

million below their nominal value. This would imply that the State aid component in this measure amounted to EUR 1.15 billion (rather than EUR 1.35 billion).

84. The Dutch State indicates that the payment of EUR 740 million (measure D) is not a payment to ABN Amro N. It underlines that the payment stems from its contractual obligations under the CSA.
85. .Also with respect to the State counter guarantee on the cross liabilities linked to the divestment of New HBU, the Dutch State claims that these resulted from the merger decision which was already taken by Fortis Holding in 2007. It contends that the underlying business of ABN Amro N will not benefit from the support provided to cover these costs (measure E).
86. The Dutch State considers the cross liabilities solution to be in line with the Commission Communications and it underlines that it has based its pricing on the ECB Recapitalisation Recommendations.
87. The Dutch State also attracts the attention of the Commission to the fact that the sale of New HBU has been very burdensome for the Dutch State and for ABN Amro N. New HBU was sold below book value and ABN Amro N also accepted a credit umbrella in which it took a 75% of the credit losses of the existing loan portfolio up to a maximum of EUR 1.6 billion. The Dutch State underlines that the HBU transaction led to an economic loss of EUR 1.2 billion, while it also had a negative capital impact of EUR 470 million.

4. ASSESSMENT

4.1 Existence of Aid

88. According to Article 107(1) TFEU, a State measure can be classified as State aid when 1) it gives a selective economic advantage; 2) it is financed by State resources; 3) it distorts or threatens to distort competition and 4) it affects the trade between Member States.
89. The Commission observes that all the measures which are the object of this decision clearly involve State resources since they are directly financed by the State (condition 2). As regards condition 4, the Commission observes that all the measures threaten to affect trade between Member States since both ABN Amro N and FBN are active on foreign markets, while subsidiaries of companies from other Member States compete with ABN Amro N and FBN on the Dutch market. The reinforcement of these two banks also threatens to discourage entry by foreign banks on the Dutch market. Because of the aid allowing the separation from the respective mother company and then the merger, ABN Amro N and FBN are stronger companies on the market, which distorts competition (condition 3). The following paragraphs will discuss more in detail whether the State measures described above represent a selective advantage to ABN Amro N and FBN (condition 1).,w

90. As regards measures A and B1 they seem to convey an advantage to ABN Amro N since they provide it with a guarantee and capital that it could not have found on the market. The Dutch State claims that these measures were granted to cover the capital shortage of ABN Amro Z, which has only limited economic activities. The Dutch State argues that this was an obligation of the State as a shareholder of the Z-share and as partner under the CSA. The Dutch State indicates that this obligation was not linked to ABN Amro N and therefore does not provide any advantage to ABN Amro N, i.e. the lines of business which will be transferred to ABN Amro II. According to the Dutch State, ABN Amro N is only used as an intermediate vehicle to settle the obligation of the State with respect to ABN Amro Z. At separation, ABN Amro N will have to leave EUR 2.2 billion to fill the shortage of ABN Amro Z and will therefore not receive any advantage. The Commission observes however that ABN Amro N and Z do not have separate legal status and that the Dutch State manages its ABN Amro activities (both ABN Amro N and Z) as a single economic entity. The Dutch authorities have provided no proof that ABN Amro N and Z are clearly ring-fenced from one other. On the contrary, there are indications that the profits and cash flows of the two units have not been clearly separated, especially in the past. In 2008, the consortium shareholders decided for instance to transfer EUR 1 billion in Unicredito shares from ABN Amro Z to the other entities (ABN Amro R, S and N), without any compensation. The Commission also notes that ABN Amro Z incurs the costs of head office functions, thereby providing a clear advantage to ABN Amro N apparently without any compensation. In other words, it seems that the capital shortage of ABN Amro Z partially stems from the transfer of net assets to ABN Amro N and from the provision of head office functions to ABN Amro N. By filling the capital shortage of ABN Amro Z, the Dutch State seems therefore to pay the remuneration for an advantage granted to ABN Amro N. It seems therefore that ABN Amro N should be seen as a beneficiary of the measures, since, if the Dutch State did not fill the capital shortage of ABN Amro Z, the two other consortium members would try to repatriate assets obtained by ABN Amro N to ABN Amro Z or directly to ABN Amro R and S. At this stage, the Commission can therefore not take a final view on the existence of an advantage to ABN Amro N financed by State resources. The Dutch government is invited to provide more evidence of its claim that the capital shortage at the level of ABN Amro Z existed already when it acquired FBN and its ABN Amro assets on 3 October 2008 and to precisely quantify the different causes of this capital shortage.
91. The recapitalisation granted to finance the separation costs of EUR 1.08 billion (measure B2 and B3) seems to constitute State aid to ABN Amro N. By supporting these costs for ABN Amro N, the State provides an advantage to ABN Amro N. It is the Commission's understanding that the Dutch State had to inject capital because ABN Amro N could not self-finance these costs. The Commission also observes that the use of a significant fraction of the total amount (i.e. the extra precautionary buffer of EUR 500 million) is not specified and remains rather unclear.
92. The sale of New HBU (measure B4) leads to a capital shortage at the level of ABN Amro N. ABN Amro N is able to cover only part of this. The fact that the State has to make up the balance (i.e. approximately EUR 300 million) represents therefore an advantage to ABN Amro N. The Dutch authorities claim that the sale of New HBU was an obligation of the State as a successor of Fortis Holding, following from the Commission's merger decision of 2007²⁹; the support granted to ABN Amro N only

²⁹ See footnote 10.

covers the costs caused by this sale without granting any net advantage to ABN Amro N. The Commission can not accept this claim at this stage. It observes that the aid finances the consequences of the sale of New HBU, a condition sine qua non for the merger between ABN Amro N and FBN. In other words, this aid allows a merger which will make ABN Amro Na stronger bank on the Dutch market. Moreover, the Commission notes that it was the decision of the Dutch State to merge FBN and ABN Amro N. When the Dutch State acquired FBN (including ABN Amro N and 33.8% of ABN Amro Z), there was no legal obligation to pursue a merger. The Dutch State could for instance also have chosen to manage the two companies as separate entities. The Dutch State has chosen to pursue the merger and therefore the claim that it inherited the obligation to sell New HBU from Fortis Holding is only partially correct. The same reasoning holds for the guarantee given for cross liabilities stemming from the sale of New HBU (measure E): there was no legal obligation to merge FBN and ABM Amro N and the cross liabilities are a cost stemming from the sale of New HBU, a sale had to be implemented following the decision to merge both banks in order to make them a stronger competitor on the Dutch market.

93. The Commission considers that the capital injection of EUR 1.2 billion capital (measure B5) to finance integration costs provides an advantage to ABN Amro N. Indeed, it provides additional resources to the company and without this capital injection the merger could not be financed.
94. As regards the swap of EUR 1.35 billion of Tier 2 hybrid loans to FBN for Tier 1 capital (measure C), it seems to be an advantage to FBN. FBN needs more Tier 1 capital to meet the capital requirements of the DNB and it is not able to finance these by its own means (including retained earnings). The Dutch authorities claim that the amount of State aid implied in this measure is not 100% since it should take into account the fact that this exchange of an existing subordinated claim is equivalent to FBN repaying the State's Tier 2 instruments at par, which seems to be above current market price of similar hybrid instruments. The Commission observes in this respect that several banks have indeed been able to repurchase their subordinated debt instruments at a significant discount in the last quarters. Based on a preliminary assessment, the claim of the Dutch government that the State aid implied in this measure amounts to EUR 1.15 billion seems a reasonable estimation
95. .As for the settlement of payment obligations as regards other consortium members (measure D), the Commission can only accept that it is not State aid if it does not imply a transfer of net assets or another advantage to ABN Amro N. At first sight, it seems that the EUR 740 million payment to the other consortium members based on CSA provisions mainly relates to adjusted purchase prices for existing assets and does not stem from the transfer of new assets to ABN Amro N, in which case there would be an advantage to the latter. This payment of EUR 740 million does not seem to convey an advantage to the consortium members either, since the State is contractually obliged to pay this amount under the CSA and if it does not pay it, consortium members could sue the State to make these payments or prevent the transfer of the BU Nederland and BU Private Banking to the Dutch State. At this stage, it seems that measure D does not convey any advantage. The Commission can however not exclude that a more in-depth analysis of the case will reveal that there is nevertheless an advantage. It can therefore not take a final position on the absence of advantage at this stage. The Dutch State is invited to provide more information ensuring that there is no transfer of net assets in favour of ABN Amro N involved in measure D.

96. The Commission observes that the Dutch authorities claim that certain of the measures constitute rational business decisions, increasing the value of the banks owned by the Dutch State. In particular, these measures are necessary to allow the merger between ABN Amro N and FBN, which will generate annual synergies larger than EUR 1 billion. Based on a preliminary assessment, the Commission considers that the private investor test cannot be applied to the present case. The State became the owner of FBN and ABN Amro N and Z on 3 October 2008 in the framework of a transaction aiming at rescuing these banks and which would not have been acceptable to a private investor, as concluded in paragraph (50) of the decision of 3 December 2008 on the aid to Fortis Bank S.A.³⁰. In other words, all the State measures which are assessed in the present decision that aim at preserving or increasing the value of ABN Amro N and FBN are the consequence of an aid measure, i.e. the rescue of these banks on 3 October 2008. Since these State measures are the direct consequence of an aid measure and since they are taken in framework of the restructuring of these two entities which directly follows from this purchase, the behaviour of the State can not be compared to that of a private investor. A private investor would not have found itself in the situation of the State, i.e. without the State aid of 3 October 2008 Fortis Holding including its subsidiary FBN would have disappeared.
97. In conclusion, based on a preliminary assessment, the Commission cannot exclude that the measures A, B1, B2, B3, B4, B5, C, D and E constitute State aid. Measure C benefits FBN, while the other measures provide an advantage to ABN Amro N. Any aid contained in these measures would come on top of any aid contained in the measures covered by the opening decision of 8 April 2009.
98. The Commission invites the Dutch authorities and the parties concerned to submit their comments on these preliminary conclusions concerning the existence of aid.

4.2 Compatibility of the alleged aid measures as restructuring aid

4.2.1 Legal basis for the assessment of compatibility

99. Article 107(3)(b) TFEU allows aid to remedy a serious disturbance in the economy of a Member State. In this regard, it is however important to underline that the Court of First Instance has emphasized that this provision should be applied restrictively³¹, which implies that the economic disturbance should have nation-wide implications and not just regional.
100. The Commission notes that ABN Amro N and FBN are leading Dutch banks with a nation-wide branch network and top market positions in a wide range of segments on the Dutch retail and SME banking market. In the context of the various uncertainties surrounding the current recovery from the global financial and economic crisis, the discontinuity of these banks would create a serious disturbance for the Dutch economy and therefore State aid from the Dutch government can be assessed under Article 107(3)(b) TFEU.

³⁰ Restructuring Aid to Fortis S.A/N.V, OJ C 80 3.4.2009, p. 8.

³¹ See in principle Joined Cases T-132/96 and T-143/96 *Freistaat Sachsen and Volkswagen AG v Commission* [1999] ECR II-3663, paragraph 167.

101. The Commission has explained in the Restructuring Communication how it will assess restructuring aid to banks in the current crisis: (i) the Member State should commit to implement a restructuring plan restoring the long-term viability of a bank without reliance on State support; (ii) the bank and its capital providers should contribute to the financing of the restructuring costs as much as possible with their own resources thereby limiting the total amount of State aid necessary; and (iii) the plan should contain sufficient measures to limit distortions of competition, which is most relevant in business segments where the bank's relative position remains strong³².
102. In addition to complying with the Restructuring Communication, the form of the aid measure has to comply with the corresponding Communication: the State guarantee measures (measures E) have to comply with the Banking Communication and the recapitalisation measures (measures A, B1, B2, B3, B4, B5, C and D) have to comply with the Recapitalisation Communication.
103. As regards measure A, the guaranteed portfolio is not made of impaired assets. However, the Commission considers that it should be assessed by analogy on the basis of the principles laid down in the Impaired Assets Communication. The principles developed in that Communication aim at ensuring that State guarantees on bank assets are done under conditions which ensure that these aid measures are well-targeted, that the aid is limited to the minimum and that distortions of competitions are limited. Since measure A is a State guarantee on a portfolio of loans held by ABN, the same principles should be applied to it.

4.2.2 Assessment of measure A under the principle laid down in the Impaired Assets Communication

104. Based on a preliminary assessment, the Commission acknowledges that the credit protection instrument has been developed to sort out a very particular problem, namely the need to address the shortage of regulatory capital identified by the Dutch supervisor. The latter will not authorize the separation of ABN Amro N before this shortage is solved. As such, the credit protection measure is intrinsically linked to the spin-off schedule. Within this specific framework, the Commission notes that the choice of the Dutch State to grant a credit protection instrument instead of a standard recapitalisation has been only dictated by the fact that the N-share represents per se only economic rights but not a separate legal entity; in case of a standard capital injection in ABN Amro, the Dutch State runs the risk that the money injected would benefit other parts of the group, i.e. the other consortium members. The credit protection instrument provides a capital relief and therefore covers the capital shortage without implementing a standard capital increase.
105. Moreover, at this stage, the Commission has no reason to believe that the protected portfolio contains 'impaired' assets. Indeed, it seems that expected losses of the guaranteed portfolio are very low and that all the underlying assets are currently performing without any exception. They are also considered as safe by the market. In conclusion, the Commission acknowledges that the situation is different to that of other cases with impaired assets. In spite of this, as explained in paragraph (103) above, the Commission thinks that the measure should comply with the general principles

³² Cfr. Paragraph (32) of the Restructuring Communication.

underlying the Impaired Asset Communication. In addition, when assessing measure A as a restructuring measure lasting longer than six months, the guiding principles of the Impaired Asset Communication should be complied with.

106. Sections 5.1 and 5.5 of the Impaired Asset Communication require that the assets covered by the State guarantee should be valued. Section 5.1 sets out in particular that such a valuation should be certified by recognized independent experts. The purpose of this valuation is to identify the "real economic value" of the assets covered. Section 5.5 indicates that the assets should not be transferred at a price larger than their real economic value. In the case of a guarantee, it means that the expected credit losses on the guaranteed assets should be calculated and these expected losses should be borne by the bank, the State only indemnifying the credit losses exceeding that level. As regards the level of the guarantee fee, Annex IV to that Communication indicates that it could be inspired by the remuneration that would have been required for recapitalisation measures having the same capital effect. Indeed, asset relief measures should not be used by recapitalised banks to pay a lower remuneration than the minimum remuneration required by the Recapitalisation Communication.
107. In the present case, the Commission observes that the Dutch government has only provided information coming from ABN Amro N on the expected credit losses. At this stage, there is no analysis made by recognized economic experts.
108. Based on the current information, the Commission tends to believe that the pricing of the capital protection instrument is in line with the Impaired Assets Communication (which itself refers to the Recapitalisation Communication as regards the detailed arrangements for remuneration). The pricing is based on the assumption that the Dutch government wants to realize a return of 10% on the capital relief effect of the provided credit protection. The Commission is however not sure whether other contractual features (e.g. the claw-back mechanism, the vertical slice) will not have a significant impact on the ultimate return that the government will achieve, so the Dutch authorities are invited to provide reassurance on this subject.
109. The Commission observes that the credit protection instrument includes a number of clauses which seem to encourage an early exit, but at the same time do not ensure that this exit will really will take place. These clauses include :
 - no price adjustment when ABN Amro [...], which entails that the measure will probably become more expensive for the bank;
 - a fixed first loss tranche of 20bp (calculated as a percentage of the initial portfolio);
 - call options, which allow ABN Amro to terminate the CDS, the last one being January 2012.
110. In conclusion, at this stage, the Commission can not confirm that the measure A complies with the relevant principles laid down in the Impaired Asset Communication.

4.2.3. Assessment of the measures B1, B2, B3, B4, B5, C and D under the Recapitalisation Communication

111. The Commission observes that the Dutch authorities strive for a minimum return of 10% on their capital injections. For the MCS (measure B1, B2, B3, B4 and B5), the Dutch State will get a 10% coupon until conversion into ordinary equity. This figure of 10% is in line with the requirements of the Recapitalisation Communication, which, by reference to the Recommendation of the ECB, requires an interest rate equal to at least the risk-free rate plus 600 basis points for capital injections and provides an indicative range of 7% to 9.3%.
112. The Commission observes that since the MCS will be converted into ordinary shares of ABN Amro II, the remuneration of the State will eventually depend on how many shares it receives and the price at which the Dutch State will be able to sell its shares. The same is true for measure C which will be an injection of capital in FBN. As regards the price at which ordinary shares should be subscribed, the Annex to the Recapitalisation Communication indicates that "For non-quoted banks, as there is no quoted share price, Member States should come to an appropriate market-based approach, such as full valuation." In other words, in exchange for its investment, the State should receive shares allowing it to expect a sufficient remuneration in the form of dividend payments and increase of the share price. The Commission considers that, since the State already owns 100% of the capital of ABN Amro II and FBN, the number of shares it will receive is not relevant (since if it receives more shares, it will simply dilute itself). Instead, what matters is whether the new capital translates into an increase of the value of the banks. In this respect, the Commission observes that without the injection of capital in FBN (measure C), FBN will no longer comply with regulatory capital requirements so that it will no longer be able to operate and will be worth nothing. Since the value of FBN is clearly higher than the size of measure C (in October 2008, [...] estimated its value to be between EUR [...] and [...] billion), this measure, which allows the Dutch State to preserve the value of the bank, offers a sufficient remuneration. The Commission also observes that the business plan implies that the ABN Amro Group would realise a run-rate RoE of [...] % in 2012 and the Commission sees at this stage no reason to doubt that figure. A sufficiently high RoE indicates that ABN Amro Group should be able to remunerate its shareholders in an appropriate way (in the form of dividends and capital appreciation).
113. As regards B1, B2 and B3, they finance the costs of separating ABN Amro N from ABN Amro Bank. The Commission considers that these investments give rise to a sufficient remuneration because the Dutch State is obliged under the CSA to separate ABN Amro N. If the Dutch State did not carry out the separation, the other consortium member would sue it and try to recover these costs through litigation or by seizing ABN Amro N, which would result in a loss at least equal to the amount invested now.
114. Measures B4 and B5 finance the integration costs of FBN and ABN Amro N. The Commission observes that this integration will generate synergies of at least EUR 1 billion per year. This will therefore dramatically increase the value of the shares held by the Dutch State (this increase will be around EUR 4 billion according to the Dutch State). The Commission therefore considers that the costs of the sale of HBU and the integration costs are lower than the increase in the value of the shares which will result from this merger. The Commission therefore considers that these investments will offer a sufficient remuneration.

115. The Commission concludes that the remuneration of these measures is in accordance with the Recapitalisation Communication..

4.2.4 Compatibility of measure E with the Banking Communication

116. The Commission observes that the government has given a counter-indemnification for cross-liabilities which might potentially arise from the de-merger of New HBU. More precisely, the Dutch State has given a protection to New HBU against the risk it runs towards the current senior and subordinated creditors of ABN Amro Bank NV (the current operational entity of ABN Amro Holding, to be renamed RBS NV). As a result, if ABN Amro Bank NV (to be renamed RBS NV) were to go bankrupt, its senior and subordinated creditors would have a claim against New HBU. The Dutch State agrees to indemnify New HBU for any payments it would have to make under this claim. The Commission tends to accept that this counter-indemnity is comparable with the risk of guaranteeing subordinated debt of ABN Amro Bank NV, since as soon as the subordinated creditors of ABN Amro Bank NV (to be renamed RBS NV) faced a credit loss, they would have recourse against New HBU. The recommendation of the ECB of October 2008 about the pricing of State guarantees on bank liabilities only concerns guarantees on senior bank liabilities. In order to find guidance on subordinated risk, it is necessary to use the recommendation of the ECB on the pricing of recapitalisation, to which the Recapitalisation Communication refers. The Commission considers that pricing retained by the Dutch authorities (200 basis points plus the historical CDS of ABN Amro Bank³³ during the period 1 January 2007 until 31 July 2008) is in line with the recommendation of the ECB and is therefore acceptable.

4.2.5 Assessment of the restructuring plan under the Restructuring Communication

Restoring viability

117. The Dutch State and the companies involved have provided financial projections for the combined ABN Amro Group for the coming years. The fact that FBN and ABN Amro N are currently still managed as separate entities has made this exercise more complex than in other cases.
118. The data provided so far seem to indicate that the profitability of the new ABN Amro Group is sufficiently high to integrally cover its costs and realize an appropriate return on equity³⁴. The Commission has observed however that the recovery of profits is to a large extent dependent from the realization of cost synergies and the improvement of the net interest margin. Becoming cost-efficient is key for the viability of the company and also the realized interest margins should improve quite markedly. More detail is necessary to judge whether the assumptions used are realistic.
119. The Commission observes also that the current business plan only contains projections for a base case scenario and a best case scenario. Paragraph (13) of the Restructuring Communication clearly indicates that the company should also be able to prove that it can survive in a worst-case scenario. In addition, the company should also provide the

³³ The Dutch authorities have shown that if the historical CDS of RBS is used, the results are the same. Using the historical CDS of RBS at first sight seems more appropriate, since ABN Amro Bank NV (to be renamed RBS NV) will be part of RBS and its probability of default depending on that group.

³⁴ In line with Paragraph (13) of the Restructuring Communication.

results of a number of stress tests which consider a range of scenarios, including a combination of stress events and a protracted global recession.

120. The current business plan also does not provide sufficient detail on a divisional and sub-divisional level³⁵. At this stage the Commission has not sufficient evidence to conclude that all viability issues at divisional level have been adequately tackled. A good illustration of this is the division "Prime Fund Solutions" (part of FBN), which reported a major Madoff-related loss in 2008. [...]even though the Commission understands that FBN is considering an outright sale of this business.
121. Paragraph (14) of the Restructuring Communication explains that it is key for long-term viability that any State aid is either redeemed over time or is remunerated according to normal market conditions. As indicated above, the Commission at this stage cannot confirm that the bank will generate a sufficient return to remunerate adequately its shareholders.
122. Finally, the Commission observes that since the take-over of FBN and ABN Amro N from Fortis Holding in October 2008, the Dutch State has several times revised upwards the amount of aid expected to be necessary to finance the separation of these banks from their parent company and to finance the sale of New HBU, arguing that unexpected costs had been identified. Given these circumstances, the Commission cannot realistically ascertain that no further aid measures will be necessary to finance the restructuring before ABN Amro N has been effectively separated from ABN Amro Holding and before the closing of the sale of New HBU has effectively taken place.
123. In conclusion, based on a preliminary assessment of the information available, the Commission cannot establish that the restructuring plan will restore long-term viability and that no further aid will be necessary. In this regard, the Commission observes that the Dutch State has also granted an extra prudential margin of EUR 500 million, which it deemed necessary "considering general uncertainties and the uncertainties arising from the separation process" ..

Minimum necessary/own contribution

124. It is clear from the Restructuring Communication that banks should try to sort out capital problems with their own means and only use State aid as a solution of last resort. Aid should be limited to the minimum necessary and should only cover costs which are necessary for the restoration of viability.
125. The Commission understands that part of the measures might have a temporary character to allow for the separation of ABN Amro N and FBN from their former parent groups. At this stage however, it is not clear to the Commission when and how these measures will be reversed, once they are no longer strictly needed from a viability point of view.
126. The Commission has taken note of the fact that measure A is structured in such a way that it might become relatively unattractive once the new group will [...] [...] and when precisely the capital relief instrument would be called, since there is no obligation to call it.

³⁵ In line with Paragraph (12) of the Restructuring Communication.

127. It is also the understanding of the Commission that the total State aid amount contains a prudential buffer of EUR 500 million. The Commission understands that this might be useful and even necessary to complete a rather complex disintegration process, but it is not clear to the Commission why this extra prudential buffer would still be needed once all the separation/integration issues have been settled. In order to limit the aid to the minimum and not leave excess capital in ABN Amro Group, it seems that the Dutch State and ABN Amro Group should for instance develop a repayment mechanism, thereby ensuring that on an on-going basis any excess capital is returned to the State.
128. The Dutch State also claims that it needs to inject EUR 1.2 billion in the new group to cover integration costs. The Dutch State sees this as an investment pre-financing the synergies which will be realized in the coming years. It is not clear to the Commission whether the returns on the integration investment will be repaid as soon as they are realized (i.e. when the synergies take place) or whether these will be accumulated within the new ABN Amro Group, giving it excessive capital and means to expand.
129. The Commission also notes that the capital requirements related to the credit umbrella³⁶ granted to New HBU will gradually decline as the guaranteed loans are progressively redeemed, which might make part of the aid related to New HBU superfluous. It is not clear at this stage whether the Dutch State has put in place sufficient measures to get repayment of the State aid which would become superfluous in the future.
130. . It seems that a small percentage of FBN capital (i.e. the preferred shares) is held by [...] private shareholders other than the State. This relates to the so-called FBNH Preferred Shares, which have been issued to a SPV (controlled by the Dutch State) in which [...] former holders of [...] participate. At this stage, the Commission doubts that these holders of preference shares have participated and will participate in the financing of the restructuring costs and whether this participation is sufficient. It invites the Dutch authorities to provide more information on that issue.
131. The Commission is also not sure whether the aid is only used to cover costs related to the restoration of viability. It is the Commission's understanding that the new ABN Amro Group wants to re-develop a number of activities, which do no longer exist in ABN Amro N or in FBN as they remain respectively with the ABN Amro R (now owned by RBS) and with other parts of the former Fortis Holding (i.e. Fortis Bank Belgium (currently owned by BNP Paribas) or Fortis Holding which groups a number of insurance assets). Apparently the new group does not exclude small add-on acquisitions, for instance to rebuild an international network. In this regard, the Commission would refer to paragraph (23) of the Restructuring Communication. State aid cannot be used to finance market-distorting activities not linked to the restructuring process. Acquisitions or new investments cannot be financed through State aid unless this is essential for restoring an undertaking's viability. It seems therefore necessary that the Dutch authorities provide a detailed list of activities that ABN Amro Group expects to rebuild internally or to acquire in the framework of the restructuring plan and that it precisely justifies why these activities are necessary for the restoration of viability. At this stage,

³⁶ The sale of New HBU to Deutsche Bank included a so-called credit umbrella, which basically implies that ABN Amro II accepted – as part of the sale agreement with Deutsche – to guarantee 75% of net credit losses on the existing loan portfolio (up to a maximum of EUR 1.6 billion). Obviously, this guarantee translates in additional capital requirements. Since a relatively large part of the loan portfolio [...] matures in the next five years ([...] even in the next year), the credit portfolio on which the credit umbrella applies will gradually decrease in size and so will the associated capital requirements.

it seems that the Dutch authorities should commit that the bank will not make any acquisition other than acquisitions aiming at rebuilding those activities which are identified in that list as necessary for restoring viability.

Measures limiting distortions of competition

132. Paragraph 28 of the Restructuring Communication indicates the type of distortion of competition which may occur when State aid is provided in order to support financial stability in times of systemic crisis: *"Where banks compete on the merits of their products and services, those which accumulate excessive risk and/or rely on unsustainable business models will ultimately lose market share and, possibly, exit the market while more efficient competitors expand on or enter the markets concerned. State aid prolongs past distortions of competition created by excessive risk-taking and unsustainable business models by artificially supporting the market power of beneficiaries. In this way it may create a moral hazard for the beneficiaries, while weakening the incentives for non-beneficiaries to compete, invest and innovate."*
133. As explained in the decision of 3 December 2008, the difficulties of Fortis Holding and Fortis Bank S.A. followed from excessive risk taking in two well-identified areas: (i) Fortis Bank S.A. invested a large amount of money in structured credit and (ii) Fortis Holding decided to purchase ABN Amro N at a very high price. As described in paragraph 28 of the Restructuring Communication, such banks accumulating excessive risk should normally lose market share and possibly exit the market. State aid granted to rescue such banks frustrate that normal functional of the market and create a moral hazard. In order to authorize aid to such banks, the Commission therefore requires a significant reduction of the market presence of the beneficiary. In this respect, the Commission observes that Fortis Holding has been cut into four: the Belgian and international insurance assets are still part of the listed Fortis Holding; Fortis Bank S.A. and GBL have been acquired by BNP Paribas; the Dutch State acquired FBN (including ABN Amro N); and the Dutch also acquired the insurance activities³⁷. In other words, Fortis Holding has been split in smaller entities and Fortis Bank S.A. itself has been cut into two parts. In its decisions of 3 December 2008 and 12 May 2009, the Commission observed on that basis and on the basis of other commitments that sufficient measures had been implemented to limit the distortion of competition created by the aid to Fortis Holding and Fortis Bank S.A.
134. The Commission observes that the measures in favour of FBN and ABN Amro N assessed in the present decision have specific features which differ from other restructuring cases it had to deal with during the current crisis, including the aforementioned aid to Fortis Bank S.A. and Fortis Holding. In the present case, FBN and ABN Amro N do not need State aid because they took wrong management decisions, i.e. the need for State aid does not stem for instance from the accumulation of excessive risks in their investments or in their lending policy, or because they had undertaken an unsustainable pricing policy. As indicated above, the difficulty of Fortis Holding and Fortis Bank S.A. did not stem from risky lending or pricing policies in the retail banking, private banking or commercial banking activities, which were on the contrary profitable units (in other words, the activities of FBN and ABN Amro N were not at the basis of the problems of Fortis Holding and Fortis Bank S.A.).

³⁷ These last two businesses are managed as separate entities and the Dutch authorities announced in November 2008 that they will not integrate them.

135. The need for State aid stems from the fact that, when separated from Fortis Bank S.A., these business units had a small capital base and could therefore not finance their separation costs and the costs related to the merger (merger remedies and integration costs). As indicated above, these investments will preserve and increase the value of the banks. In other words, they are rational from a financial point of view, as is confirmed by the fact that Fortis Bank S.A. intended to incur all these costs, which is a factor that the Commission should take into account when establishing the appropriate form of measures limiting distortions of competition.
136. It cannot therefore be said that the aid "*prolongs past distortions of competition created by excessive risk-taking and unsustainable business model*". Similarly, it does not "*create moral hazard for the beneficiaries*" since the beneficiaries (FBN and ABN Amro N) did not take excessive risk in the past. Consequently, the Commission considers that the aid to FBN and ABN Amro N is significantly less distortive than the aid approved in favour of financial institutions which had accumulated excessive risks. Since these banks did not take excessive risks and since the aid is necessary only to finance costs which are rational to incur in order to preserve and increase the value of these entities, the Commission considers on the basis of the information on the aid measures submitted at this stage that further divestitures for FBN or ABN Amro N (or from the entity which will result from their merger) are unlikely to be necessary
137. However, it needs to be ensured that the aid is not used by FBN and ABN Amro N to grow at the expense of competitors, for instance by implementing an unsustainable pricing policy or by acquiring other financial institutions. In that case, the aid would "*weaken the incentives for non-beneficiaries to compete, invest and innovate*" and could undermine "*incentives for cross-border activities*" by discouraging entry in the Dutch market.
138. Accordingly, it seems that behavioural measures to limit distortions of competition should be introduced. The Restructuring Communication (paragraph (44) states clearly that State aid should not be used to offer rates or conditions that cannot be matched by other competitors. In other words, it seems advisable to respect a price leadership commitment also in the restructuring phase (i.e. also after 31 July 2010). It is also clear that State aid should not be used to acquire competing businesses (paragraph 40).
139. Moreover, given the repeated and massive intervention of the Dutch State in favour of Fortis Bank S.A., FBN and ABN Amro N, the public, and depositors in particular, might consider that the State will intervene again if further difficulties occur. Consumers might perceive the new entity ABN Amro Group to be a very safe bank, which might make it easier for the group to collect deposits. The Dutch government apparently wants to end this distortion of competition by selling the group to private investors as soon as this is practically feasible. The Dutch authorities have however not yet provided details on their exit strategy.

Conclusion on the compatibility under the Restructuring Communication

140. The Commission doubts at this stage that the aid measures and the restructuring plan fulfil all the conditions laid down in the Restructuring Communication. The Dutch authorities are invited to present an updated plan which addresses the issues raised in this decision.

4.3 Compatibility of the alleged aid measures as rescue aid

141. When assessing the measures as rescue aid, it needs to be verified whether they comply with the general principle of appropriateness, necessity and proportionality. In particular, paragraph 15 of the Banking Communication indicates that all support measures have to be: "
- well-targeted in order to be able to achieve effectively the objective of remedying a serious disturbance in the economy,
 - proportionate to the challenge faced, not going beyond what is required to attain this effect, and
 - designed in such a way as to minimize negative spill-over effects on competitors, other sectors and other Member States.
142. The Commission considers the aid to be well-targeted. These measures are intrinsically linked to specific problems arising during the de-merger process of ABN Amro N and FBN from their respective parent companies and their subsequent merger. Without the aid, these operations can not be effectuated. The de-merger of FBN from Fortis Holding was part of the rescue operation of the Fortis Holding approved by decision of 3 December 2008. The de-merger of ABN Amro N from ABN Amro Holding was already committed by Fortis Holding in the CSA in 2007 and the Dutch State, which took the place of Fortis Holding in the CSA, had no possibility to reverse this decision. The CSA obliges the consortium partners to take the measures needed to pursue the split of ABN Amro Holding in three parts. As regards the decision of the Dutch State to merge FBN and ABN Amro N, the Commission observes that the intention of Fortis Holding announced in 2007 when taking over ABN Amro N was to merge it with FBN. This illustrates that this integration is rational from an economic point of view.
143. As regards limitation of the aid to the minimum necessary, the Commission considers that the current measures are strictly necessary to spin off ABN Amro N and pursue the merger. The Commission understands that there are a number of measures which might have a temporary character (e.g. Capital Protection Instrument + buffer of 500 million + part of the HBU-related State aid). The Commission accepts that the current measures are the minimum necessary to enable the de-merger, but this does not pre-judge the position that the Commission will take after 31 July 2010 on the issue of whether the aid is the minimum necessary in the restructuring phase and for instance whether it should not be reimbursed when synergies will translate into increased profits.
144. State aid should not lead to undue distortions of competition. The Commission believes that safeguards against possible abuses and distortions of competition are necessary. The Commission notes that FBN and ABN Amro have repeatedly received State support in the past few months and that the total amount of State measures has become large (i.e. EUR 6.89 billion). In this context, it needs to be ensured that the banks are not using the State support to grow at the expense of competitors³⁸. Against this background, a price leadership clause seems warranted. The Commission has noted that ABN Amro N and FBN have taken the commitment to respect the following restrictions in terms of their

³⁸ One competitor, commenting on the opening decision of 8 April 2009, has claimed that the two banks were using the State support to offer higher interest rates to depositors, at the expense of competitors. That will be part of the investigation during the opening.

pricing policy. ABN Amro N and FBN committed to a price leadership clause which implies that they will not be the market leader in a large number of products. A monitoring trustee will monitor whether the companies involved comply with these commitments. Moreover, the company has agreed to make a best effort to achieve the projections (including projected net interest revenues as presented to the Commission in the restructuring plan)³⁹. This should ensure that the bank does not implement unsustainable pricing policy at the expense of competitors, since the financial projections of the restructuring plan indicate an increasing net interest margin over time.

Conclusion:

145. The Commission observes that the State measures are immediately necessary to allow the separation of FBN and ABN from their respective mother company. If this is not done, the Dutch State would be subject to high litigation risk from the consortium members, which are already complaining about the multiple delays. Above all, prolonging the current transition period, which has already been long, is destabilizing for ABN Amro N and FBN. It is therefore urgent to separate these banks from their mother companies and to clarify their structure, in order to allow these banks to fulfil their important role of financing of the Dutch economy. The Commission therefore considers that the measures A, B1, B2, B3, B4, B5, C, D and E can be allowed as temporary rescue aid until 31 July 2010 on the basis of Article 107(3)(b) TFEU.

5. DECISION

In the light of the foregoing considerations, the Commission, acting under the procedure laid down in Article 108(2) TFEU, requests the Netherlands to submit its comments and to provide all such information as may help to assess the measures, within one month of the date of receipt of this letter. It requests your authorities to forward a copy of this letter to the potential recipient of the aid immediately.

³⁹ Fortis Bank Nederland and ABN AMRO Bank (N-Share, ABN AMRO NL) and in future the relevant legal entity which will control both banks after their proposed concentration ("the Bank") will each commit to the following behavioural constraints.

[...]

4. Monitoring Trustee

The Bank shall pre-select, in consultation with the Dutch State, and the Bank and the Dutch State shall appoint, subject to European Commission's approval, a trustee in charge of the overall task of monitoring and ensuring, under European Commission's instructions, compliance with the commitment set out under 1 (the "Monitoring Trustee").

For that purpose the Bank shall invite two parties for pre-selection. The Bank will submit the selected Monitoring Trustee to the European Commission for approval, no later than one month from the decision date. The Monitoring Trustee shall be appointed within one week of the European Commission's approval in accordance with the mandate approved by the European Commission and shall report to the European Commission as to the Bank's compliance with the Commitments at least once every two months from the decision date.

The Bank shall provide and cause its advisors to provide to the Monitoring Trustee all such co-operation, assistance and information as it may reasonably require to perform its tasks, including the possibility to appoint advisors. The Monitoring Trustee shall be remunerated by the Bank, in a way that does not impede the independent and effective fulfilment of its mandate.

The Commission regrets that the Netherlands have put into force the measures subject to the NN2/2010, in breach of Article 108(3) TFEU.

The Commission has come to the conclusion that the measures which the Dutch authorities granted and intend to grant in the framework of the de-merger of ABN Amro N and FBN and in the framework of their merger (measures A, B1, B2, B3, B4, B5, C, D and E) are compatible with the internal market until 31 July 2010 as temporary rescue aid pursuant to Article 107(3)(b) TFEU.

The Netherlands have exceptionally accepted to receive the text of this Decision only in English.

The Commission would draw your attention to Article 14 of Council Regulation (EC) No 659/1999, which provides that all unlawful aid may be recovered from the recipient.

The Commission warns the Netherlands that it will inform interested parties by publishing this letter and a meaningful summary of it in the *Official Journal of the European Union*. It will also inform interested parties in the EFTA countries which are signatories to the EEA Agreement, by publication of a notice in the EEA Supplement to the *Official Journal of the European Union* and will inform the EFTA Surveillance Authority by sending a copy of this letter. All such interested parties will be invited to submit their comments within one month of the date of such publication.

If this letter contains confidential information which should not be published, 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 publication of the full text of this letter. Your request specifying the relevant information should be sent by registered letter or fax to:

European Commission
Directorate-General for Competition
State Aid Greffe
Rue de la Loi/Wetstraat, 200
B-1049 Brussels
Fax No: +32-2-296 12 42

Yours faithfully,
For the Commission

Neelie KROES
Member of the Commission