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

Subject: State aid SA.39854 (2014/N) – Bulgaria
Restructuring plan of First Investment Bank (FIB) - Bulgaria

Sir,

1. PROCEDURE

(1) On 29 June 2014 the Commission approved a scheme for liquidity support to banks in Bulgaria ("the Liquidity Scheme")[1].

(2) According to the Liquidity Scheme decision banks using the scheme should submit a restructuring plan within two months of receipt of the aid[2]. In line with that commitment, on 29 August 2014 Bulgaria notified to the Commission the restructuring plan of First Investment Bank AD ("FIB" or "the Bank"), a bank which had benefited from the Liquidity Scheme.

1 Case SA.38994, OJ C 301, 5.09.2014, p. 4

2 Pursuant to point (iv) of Annex I to the Decision authorising the Liquidity Scheme, beneficiaries of State aid under that scheme have to submit a restructuring plan within two months from receiving the assistance.

ДАНИЕЛ МИТОВ
Министър на външните работи
ул. „Ал. Жендов“ № 2
BG-1040 СОФИЯ

(3) The restructuring plan for FIB was discussed between the Bulgarian authorities and the Commission services in a series of meetings, telephone conferences, electronic mails and other information exchanges between September 2014 and November 2014.

(4) On 12 November 2014, Bulgaria notified additional support for FIB, in the form of a prolongation of the liquidity support for the Bank. Bulgaria also presented a revised version of the restructuring plan, taking into account the additional State aid measure.

(5) Bulgaria exceptionally accepts that the present decision be adopted in the English language, for reasons of urgency.

2. DESCRIPTION

2.1. The Bulgarian banking system

(6) According to data of the Bulgarian National Bank ("BNB")[3], Bulgaria's banking system is mostly foreign-owned (69,8%), with subsidiaries and branches of banks from other Member States holding a total of 67,7% of the market as of 31 March 2014. While 25 banks are active in Bulgaria, the market is relatively highly concentrated, as the five largest banks hold 50% of the total assets in the banking system:

Table 1 – Overview of top five Bulgarian banks – situation of 31 March 2014

Bank	Ownership	Total assets (in BGN[4] billion)	% total of system assets
UniCredit Bulbank	UniCredit financial groups	12,7	15%
DSK Bank	Hungarian OTP group	8,9	10%
First Investment Bank	Bulgarian owned (Ivaylo Dimitrov Mutafchiev – 42,5%, Tzeko Todorov Minev – 42,5%)	8,7	10%
Corporate Commercial Bank ("KTB")	Tzvetan Radoev Vassilev holds 50,66 %, the Sultanate of Oman - 30,35 % (other shareholders are below 10%)	7,3	8%
United Bulgarian Bank	National Bank of Greece – 99,91 %	6,6	8%
Total top five banks		44,2	51%
Total of Bulgarian Banking system		86,5	100%

[3] Publication of the BNB: http://www.bnb.bg/bnbweb/groups/public/documents/bnb_publication/pub_b_in_b_2014_04_en.pdf

[4] BGN, the Bulgarian Lev, is fixed against the euro at an exchange rate of 1.95583 BGN per EUR, within the framework of a currency board arrangement.

(7) In terms of capital, the system appears well-capitalised, based on 31 March 2014 figures, as the Tier one capital reached a ratio of 18,2%. The capital surplus of the banking system, as estimated by the BNB, stood at BGN 4,8 billion. In addition, BNB reported a high level of liquidity in the banking system at 31 March 2014, with a liquid assets ratio of 27,1%. However, it should be noted that the banking license of Corporate Commercial Bank ("KTB") was revoked on grounds of insolvency by the Central Bank of Bulgaria on 6 November 2014.

(8) In recent years, credit risk has been a challenge for Bulgarian banks, but the share of net non-performing loans ("NPL") has not increased and has remained relatively stable, averaging 10,6% at the end of 2012, 10,3% at the end of 2013 and 9,9% at the end of March 2014 for the entire system.

(9) On the profitability side, at the end of March 2014 the banking system's unaudited profits totalled BGN 224 million (BGN 56 million higher than in the same period of 2013) and the average return on equity ("ROE") ratio reached 8,35% compared to a 5,6% level on December 2013. The recent increase of ROE level is, inter alia, due to the reduction of impairment costs. However, a low level of profitability has been a characteristic of the banking system in Bulgaria in recent years, as the ROE has largely remained under 6% since 2011[5]. That low profitability has been mainly a consequence of banks' earnings being affected by the worsening credit quality, while at the same time the banks have maintained high capital and liquidity ratios.

2.2. The beneficiary

(10) The beneficiary of the measure is FIB. FIB is a Bulgarian universal bank that serves all segments of clients: retail, corporate and institutional, offering a wide range of products and financial services. FIB is the third-largest bank in terms of assets (after Unicredit Bulbank and DSK) operating in Bulgaria.

(11) FIB has continuously grown since its creation in 1993 through innovation (e.g. virtual banking), expansion of its client portfolio, and targeted acquisitions (the latest acquisition was MKB Unionbank in 2013).

(12) In July 2014 the market capitalisation of FIB amounted to BGN 359 million and the shareholders structure included: (i) Mr. Ivaylo Mutchafchiev (42,5%); (ii) Mr. Tzeko Minev (42,5%) and (iii) free floating shares (15%).

(13) The business of FIB is essentially based in Bulgaria, and the bank is also present in Cyprus and Albania (representing in total 2,44% of its balance sheet in 2013). FIB provides corporate and retail banking services through a network of 210 branches across Bulgaria, 10 in Albania and 1 in Cyprus, and employed 3 554 people as of 31 December 2013. FIB’s financial services include retail and corporate banking, health insurance, capital and market.

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[5] As can be observed based on the "Banks in Bulgaria" report published by the BNB starting 1999 at http://www.bnb.bg/ResearchAndPublications/PubPeriodical/PubPBanksInBulgaria/index.htm.

(14) In 2013 FIB acquired 100% of the capital of MKB Unionbank AD from a Hungarian bank, MKB Bank Zrt., which is a subsidiary of the German Bayerische Landesbank AG. As of 31 December 2013, FIB's consolidated total assets (including the newly acquired Unionbank) amounted to BGN 8,7 billion, of which BGN 4,9 billion were corporate loans and BGN 1,3 billion were retail loans. FIB's total capital adequacy ratio was 14,3% while its Tier 1 ratio was 13,3% before the acquisition, and dropped to 11% after the acquisition.

(15) The key financial figures for year end 2011 to 2013 are summarized in Table 2 (2011 and 2012 are pro-forma figures, unaudited, reflecting the combined entity resulted from the acquisition of Unionbank, in order to allow comparability with the 2013 figures).

Table 2 FIB consolidated balance sheet (as per the restructuring plan):

in BGN million	**2011**	**2012**	**2013**	**June 2014**
Total assets	**7 886**	**8 684**	**8 778**	**9 013**
Out of which loans & advances to customers	5 438	5 730	6 021	5 941
Total deposits from customers	6 804	7 545	7 541	7 710
Total wholesale funds	393	421	526	553
Equity	672	698	690	717
Loan-to-deposit ratio	85%	80%	84%	77%

(16) In regard to funding, FIB relies […] on deposits, as deposit operations of the Bank at 31 December 2013 amounted to BGN 7,54 billion and included mostly retail depositors (approximately 74% of the total deposits amount was from the retail segment, most of which came from individuals). At that point in time, its loan-to-deposit ratio (LDR) was also very comfortable, with loans accounting for approximately 80% of the deposits (compared to the 112% ratio shown by banks in the Union in December 2013[6]).

(17) Prior to the June 2014 crisis, which is described further in section 2.3, FIB's liquidity ratio had stood at 29% in 2011 and 30,2% in 2012, compared with the 20% minimum set by the BNB. After the merger with Unionbank, the consolidated balance sheet still showed a high level of liquidity, at 26,4% in 2013. That continuously high liquidity position is explained by the large level of high liquid assets kept by the Bank during that period (on average between 2011 and 2013 liquidities represented 15.3% of the assets compared to a 10,3% on average at national level in 2013).

(18) The Bank's profitability has improved over recent years: in 2013 FIB's net profit amounted to BGN 36 million, which was 80% above its net profit in 2012. The ROE was 5,2% in 2013, as against 3% in 2012, converging towards the average of the Bulgarian banking system. In 2014, FIB also achieved similar results, with a net profit

[6] http://www.eba.europa.eu/documents/10180/679742/EBA+Dashboard+-+Q1+2014.pdf/00695018-df2e-4966-87d7-ae022c50cfa1.

of BGN 23 million at 30 June 2014, indicating a continuation of the growth trend of 2013.

Table 3 FIB consolidated P&L (as per the restructuring plan):

in BGN million	**2011**	**2012**	**2013**[7]	**June 2014**
Net interest income	216	206	220	129
Non-interest/other income	105	111	139	62
Total income	**321**	**317**	**359**	**191**
Operational expenses	-198	-199	-190	-103
Credit impairment charges	-64	-83	-104	-52
Other income/losses	-13	-13	-25[8]	-9
Profit after tax	41	20	36	23

2.3. The events triggering the measures

(19) The difficulties of FIB emerged in the context of a more general liquidity crisis that unfolded in Bulgaria in June 2014.

(20) On 20 June 2014 the BNB received a written notice from the management of KTB, which was then the fourth-largest bank in Bulgaria, informing it that KTB's liquidity had been fully depleted and that KTB had suspended making payments and conducting all types of banking transactions.

(21) In line with the provisions of Bulgarian legislation governing the situation where official information is received on the depletion of a bank's liquidity, on 22 June 2014 the BNB Governing Council announced that it had placed the KTB and its subsidiary Credit Agricole Bank (subsequently renamed Victoria Bank) under conservatorship. Their activities were suspended initially until 21 July 2014 but the conservation period was afterwards extended by the BNB, until 20 November 2014. The main issue around KTB was the quality of its assets and the looming capital shortfall.

(22) FIB was the second bank to face a deposits outflow, prompted mainly by a surge of speculative information about the Bank. On 27 June alone, the outflow of deposits totalled an amount of BGN 788 million (over 10% of its deposits). In total, between 20 June 2014 and 3 July 2014, FIB paid out BGN 1 424 million (compared to BGN 7 535 million of deposits as of 31 December 2013). The bank could not have sustained the shock if it had not had a very liquid balance sheet.

7 2013 figures represent fully combined P&L of FIB and Unionbank (while the accounting view only incl. Q4 Unionbank), and income is corrected for BGN 152 million of negative goodwill resulting from the acquisition of Unionbank.

8 2013 income is corrected for BGN 152 million of negative goodwill resulting from the acquisition of Unionbank.

(23) Uncertainty regarding the asset quality of KTB increased the overall uncertainty and eroded depositors' trust in the Bulgarian domestically-owned banking system. FIB was particularly vulnerable in that context, as apart from KTB it is the only other large Bulgarian bank owned by Bulgarian shareholders.

(24) In addition to those external factors, FIB's […] as its predominant source of funding […]. That funding profile stemmed from FIB's position […], as well as from the conservative management of the balance sheet.

3. THE AID MEASURES

3.1. The liquidity support granted to FIB under the Liquidity Scheme

(25) Because the liquidity crisis of June 2014 endangered the Bulgarian banking sector, with KTB and other banks seeing increased outflows of deposits, Bulgaria designed the Liquidity Scheme, with a total amount of BGN 3 billion (EUR 1,65 billion), to preserve the stability of the financial system. The scheme was notified to the Commission on 29 June 2014 and approved that same day.

(26) The Liquidity Scheme allowed Bulgaria to make State deposits in credit institutions, subject to the following conditions: (i) the State deposits would have a five-month maturity (the State could not provide longer term liquidity because of budgetary constraints at that time), (ii) the State would provide the deposits only to solvent institutions and (iii) the State deposits would be remunerated at least at the level observed in the market for the same maturity in the period preceding the State intervention (iv) a restructuring plan should be notified by Bulgaria to the Commission in respect of beneficiaries of the Liquidity Scheme within two months of receiving the deposit.

(27) On 29 June 2014 FIB received a State deposit, which was placed in the Bank through an account held in the name of the Ministry of Finance. The amount of the deposit was BGN 1,2 billion (EUR 0,6 billion) with a maturity of five months, expiring on 28 November 2014. According to information presented by the Bank and the Bulgarian authorities, the deposit […].

(28) The maturity of the deposits was limited to five months, in line with the legal basis of the Liquidity Scheme, which included the Bulgarian Law on the State Budget applicable at that time. As of the date of granting the liquidity support, the State Budget accounts that had already been decided by the Parliament only allowed for short-term lending, with maturities not exceeding the end of November 2014. Therefore, the Liquidity Scheme could not have been extended beyond that period in the absence of officially authorized limits for new mid- and long-term borrowing by the State budget.

(29) The remuneration of the State deposits was to be, according to the Commission decision for the Liquidity Scheme, at least at the level observed in the market for similar deposits one month prior to the State aid. The Bank and the Bulgarian authorities have informed the Commission that the remuneration rate applied for the five-month State deposit at FIB was 2,2%. That rate was aligned with the rate for

Bulgarian corporate deposits (2,2%) in May 2014, one month prior to State aid. As a further point of reference, the relevant interbank rate for BGN, the five-month SOFIBOR averaged 1,3% in May 2014, which is lower than the 2,2% agreed between FIB and the Bulgarian authorities.

3.2. The additional support measure ("the additional liquidity support)

(30) According to Bulgaria, full repayment by FIB of the State deposit upon the existing maturity, in November 2014, would […]. A full repayment would weaken significantly the liquidity position of FIB and bring it below the minimum requirements of the regulator, the BNB. The BNB, has estimated that a repayment of the State deposit in November 2014 would result in a liquidity ratio[9] of [8-20]% against the recommended target of BNB of 20%.

(31) Therefore, the Bulgarian authorities have notified an extension of the State deposit for an amount of BGN 900 million (EUR 460 million) by an additional 18 months. FIB plans to repay the liquidity support by the following schedule:

- […]
- […]
- […] by 28 May 2016.

(32) As confirmed by the BNB and the restructuring plan of FIB, that repayment schedule is expected to allow the Bank to maintain its liquidity ratio at a level considered acceptable by the BNB. Although liquidity will not be at the 20% level […] for the banking sector in Bulgaria, it will only depart from that level by a very low margin. However, it is also indicated that FIB plans significantly exceed the new Liquidity Coverage Ratio (LCR)[10] set by the Capital Requirement Regulation[11] and Capital Requirement Directive[12] (CRR and CRD). […]:

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9 As defined by the BNB: the ratio of a bank's liquid funds to total deposits other than deposits from credit institutions.

10 The objective of the LCR is to promote the short-term resilience of the liquidity risk profile of banks. It does this by ensuring that banks have an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario.

11 Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, OJ L176, 27.06.2013, p. 1.

12 Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, OJ L 176, 27.6.2013, p. 338.

Table 4. FIB expected liquidity ratios (as per the restructuring plan):

Year:	2014	2015	2016	*2017*[13]	*2018*[14]
Liquidity ratio:	[…]%	[…]%	[…]%	[…]%	[…]%
LCR	[…]%	[…]%	[…]%	[…]%	[…]%

(33) The liquidity support will be provided in the form of State deposits […].

(34) The remuneration that will be paid is similar to what was established under the Liquidity Scheme and it is set at least at [0.8-3]%.

4. THE RESTRUCTURING PLAN AND COMMITMENTS OF FIB

(35) The Bulgarian authorities have submitted a restructuring plan covering the restructuring period from the date of adoption of the present Commission Decision until the earlier date of either i) 28 May 2016 and ii) the date at which the State aid has been repaid in full ("the restructuring period"). Nevertheless, in order to be comprehensive, the plan includes projections going until 2018, under a base case and a stress case scenario. As an integral part of the restructuring plan, Bulgaria has submitted a number of commitments, all of which are listed in full in the Annex.

(36) The main pillars of the restructuring plan are:

(a) Strengthening the funding policy, both by regaining and stabilising the deposit base and diversifying the funding base by tapping non-retail market funding;

(b) Realigning loan growth with funding, […];

(c) Delivering a cost-efficiency plan, including cost synergies from the recent Unionbank acquisition and maintaining strict cost control;

(d) Improving FIB's overall risk management and corporate governance

(37) To ensure due implementation of the plan, the Bulgarian authorities and FIB have provided a series of commitments, which are presented in a separate document dated 17 November 2014 in case SA.39854 (2014/N) – Restructuring plan of First Investment Bank (FIB) - Bulgaria (the "Commitment Catalogue") that is annexed to the present decision and is an integral part of the restructuring plan.

Strengthening the funding policy

(38) FIB’s deposit business is well established, especially in the Bulgarian retail market, with retail deposits totalling BGN 5,2 billion and a 12,8% market share. Overall, FIB's

[13] The restructuring plan goes until 28 May 2016, while the years 2017 and 2018 are provided for information.

[14] See footnote 12.

depositor base is composed predominantly from individuals/retail deposits (approximately 93% of all depositors).

(39) Throughout the restructuring period, FIB sets out a deposit-centred strategy with the aim at regaining deposits lost since June 2014 and further improving funding stability and liquidity. That improvement is to be achieved through specific measures such as: focusing on customer communications and deepening customer relationships, preparing frontline and back-office personnel to minimise operational risk, monitoring closely deposit inflows/outflows, with clear mechanisms for early warning, escalation, and proactive management of customers.

(40) Within the base case scenario, during the restructuring period (2014 - 2016), FIB projects [3-11]% compound annual growth rate (CAGR) on their deposits. That growth is higher than the level of 5,7% foreseen by the BNB for the Bulgarian banking market. The performance of FIB is based on strategy aiming at recapturing lost deposits. As FIB lost a lot of deposits during June and July 2014, that growth rate is still conservative, at the Bank projects to recover their pre-crisis deposit level only in 2016. In consequence, FIB implicitly does not plan further growth of its deposits base.

(41) Under the restructuring plan FIB has committed to achieve, as a minimum, the following […] level for each individual financial year of the restructuring period:

[…]

Realigning loan growth with funding

(42) Between 2011 and 2013 FIB expanded its loans portfolio faster than the market (9,4% CAGR as opposed to 2% CAGR), mainly due to the acquisition of Unionbank. However, that growth has not been done at the expense of the balance sheet structure, as the LDR has remained around 85%.

(43) To rebuild and maintain a strong liquidity position, the restructuring plan sets out a liability-led strategy. That means that the targeted loan level is determined on the expected growth in deposits.

(44) FIB's loan growth forecasts are […], reaching […]% CAGR over the 2014-2016 period, compared to a level of […]% projected by the BNB for the market. Those targets will allow FIB to maintain a prudent liquidity position, with LDR peaking at [….]% in 2016 before falling to […]% in 2018.

Delivering cost efficiency

(45) As regards the Bank's commitment to overall improved cost efficiency, FIB already took measures in 2013 […]

(46) Under the restructuring plan, FIB will further reduce its cost base by delivering on the benefits of synergies from the Unionbank acquisition. Those synergies are expected to have a full-year impact of BGN […] in 2015 onwards. FIB will also maintain strict cost management from 2015 to 2018. That latter measure will help FIB achieve a

further reduction in the cost-to-income ratio, from [40-65]% in to [40-60]% in 2018. That level will is comparable with the current standard observed on the Bulgarian market of 51%.

Improving FIB's risk management and corporate governance

(47) The restructuring plan notes that FIB's cost of risk increased from 0,8% in 2012 to 1,2% in 2013 and then to [1.3-3]% in 2014. In 2013, the increase was due to […] loan exposures that defaulted. In 2014, cost of risk increased due to the adoption of a more conservative risk management approach and prudent provisioning of the Unionbank loan book.

(48) From 2015 onwards, a decline in cost of risk is expected in the restructuring plan, driven by a gradual reversion to FIB's historical cost of risk performance (before the Unionbank acquisition) and more favourable market conditions, driven primarily by an improving economic situation and the diminishing effect of loans which were originated in the 2006 – 2008 period. However, given the more conservative approach to risk management, the cost of risk will not converge to the […] level, but remain at [1-2.5]% in […] and onwards.

(49) In credit risk management, FIB will address the cost of risk by continuously improving its policies, processes and systems in areas such as credit policy, loan approvals process, credit scoring models, problem loan management, early warning systems, and provisioning and impairment policy.

(50) The restructuring plan set outs that FIB has undergone a review by the IFC (International Finance Corporation) to prepare an independent assessment of the Bank's corporate governance and risk management. The IFC provided specific recommendations in that area and Bulgaria and FIB have committed to implement the IFC's recommendation following a clearly defined timeline and steps, which are described in the Annex.

(51) As of 30 June 2014 the top […] clients of FIB represented […]% of its loan book. By December 2015 FIB will have […] its loan book diversification […]. For the loan portfolio FIB will also commits to regularly perform a deep review all the elements of all the credit files representing at least 0,5% of its total loan portfolio or 10% of capital exposure. This to ensure that all the significant credit files are compliant the new quality requirements and are under regular scrutiny.

(52) To control the implementation of its corporate governance policies and the effectiveness of its improved risk practices FIB will appoint a Monitoring Trustee that will report directly to the Commission.

Financial projections

Table 5. FIB restructuring plan under base case scenario (2017 and 2018 only for information purposes):

in BGN million	**2014**	**2015**	**2016**	***2017***	***2018***
Total assets	[…]	[…]	[…]	[…]	[…]
Out of which loans & advances to customers	[…]	[…]	[…]	[…]	[…]
Total deposits from customers	[…]	[…]	[…]	[…]	[…]
Total wholesale funds	[…]	[…]	[…]	[…]	[…]
Equity	[…]	[…]	[…]	[…]	[…]
Loan-to-deposit Ratio	[…]%	[…]%	[…]%	[…]%	[…]%
Tier 1 capital Ratio[15]	[…]%	[…]%	[…]%	*v%*	[…]%

(53) On the basis of the restructuring plan and under a base case scenario the Bank will be able to reimburse the liquidity support without harming its liquidity position.

in BGN million	**2014**	**2015**	**2016**	***2017***	***2018***
Net interest income	[…]	[…]	[…]	[…]	[…]
Non-interest/other income	[…]	[…]	[…]	[…]	[…]
Total income	[…]	[…]	[…]	[…]	[…]
Operational expenses	[…]	[…]	[…]	[…]	[…]
Credit impairment charges	[…]	[…]	[…]	[…]	[…]
Other income/losses	[…]	[…]	[…]	[…]	[…]
Profit after tax	[…]	[…]	[…]	[…]	[…]

5. POSITION OF THE BULGARIAN AUTHORITIES

(54) The Bulgarian authorities accept that the additional liquidity support notified on 13 November 2014 in the context of the restructuring of FIB constitutes State aid within the meaning of Article 107(1) TFEU. They request the Commission to verify if such aid is compatible with the internal market on the basis of Article 107(3)(b) TFEU, as it is necessary in order to remedy a serious disturbance in the Bulgarian economy.

[15] From 2014 onwards Bulgarian banks are subject to macro-prudential measures including (i) 2,5% mandatory capital conservation buffer requirement applicable from May 2014; and (ii) a 3% systemic risk buffer applicable to all credit exposures in Bulgaria from October 2014.

(55) Bulgaria submitted a letter from the BNB dated 11 November 2014 further supporting the need for the additional liquidity support to FIB, to safeguard the stability of the financial system in Bulgaria […]..

(56) The BNB has indicated that such […] . The BNB further argued that […]. The BNB publishes on regular basis liquidity ratios per individual bank on its website […].

(57) Therefore, the Bulgarian authorities and the BNB consider that […] the stability of the financial system.

(58) Bulgaria's understanding is that the notified support measure is fully compatible with applicable State aid rules. Bulgaria also argues that the Restructuring Plan complies with all conditions set forth in the Restructuring Communication[16] and the 2013 Banking Communication[17].

(59) In particular, Bulgaria is of the opinion that that the aid is limited to the minimum necessary and that the restructuring plan ensures FIB's long-term viability without State resources, provides sufficient own contribution to the restructuring costs and limits competition distortion. In order to ensure prudent decision-making processes in the managing of the Bank's activities, Bulgaria has provided commitments to strengthen its corporate governance.

(60) The list of commitments provided by Bulgaria is set out in the Annex to this decision. A Monitoring Trustee will be appointed, who will be mandated to follow the implementation of the restructuring plan and the application of those commitments throughout the restructuring period.

6. ASSESSMENT

6.1. Existence and amount of State aid

(61) The Commission first has to assess whether the notified measure (the additional liquidity support) constitutes State aid within the meaning of Article 107(1) TFEU. According to that provision, State aid is any aid granted by a Member State or through State resources in any form whatsoever which distorts, or threatens to distort, competition by favouring certain undertakings, in so far as it affects trade between Member States. The Commission in that context observes that the Bulgarian authorities do not dispute that the measure constitutes State aid.

(62) The Commission established in its decision on the Liquidity Scheme that liquidity support measure in the form of State deposits constituted State aid. The provision of the State deposit to FIB until 28 November 2014 qualifies as State aid, which was approved by the Commission under the Liquidity Scheme.

16 Commission's Communication of 23 July 2009 on the return to viability and the assessment of restructuring measures in the financial sector in the current crisis under the State aid rules, OJ C 195, 19.8.2009, p. 9.

17 Communication from the Commission on the application, from 1 August 2013, of State aid rules to support measures in favour of banks in the context of the financial crisis ('Banking Communication'), OJ C 216, 30.7.2013, p. 1.

(63) Therefore in this decision the Commission will take into account all of the aid received by FIB in the context of its examination of the restructuring plan as follows :

(i) the liquidity support of BGN 1 200 million that FIB received in the form of a State deposit the 30 June 2014, […], ending the 28 November 2014 and,

(ii) the additional liquidity support of 900 million notified on 12 November 2014 provided the 29 November repayable in tranches at the latest […] 28 May 2016. The liquidity support will be remunerated at least at [0.8-3]%.

(64) The liquidity support of BGN 1 200 million received by FIB in the form of a State deposit on 30 June 2014 constitutes State aid as was assessed and concluded under the Liquidity Scheme decision[18]. Therefore the Commission will only assess whether the additional liquidity support is qualified for State aid.

(65) The Commission observes that the additional liquidity support is granted by Bulgaria and is directly financed through State resources.

(66) The additional liquidity support confers an advantage to FIB, which it could not obtain on the market. In particular, it allows FIB to obtain liquidity necessary to comply with regulatory requirements, in a volatile situation where due to the uncertainty surrounding the Bulgarian domestically-owned banking sector, in the context of the problems associated with KTB, it would be impossible to attract such liquidity from the market.

(67) Since the additional liquidity support is available only to FIB, it confers a selective advantage on it. Given that FIB is and will be active in the Bulgarian financial sector, which is open to intense international competition (as most of its competitors are subsidiaries and branches of foreign banks), any advantage from State resources to the Bank has the potential to affect intra-Union trade and to distort competition.

(68) On the basis of the foregoing, the Commission considers that the additional liquidity support for FIB amounting to BGN 900 million in the form of a State deposit for the period of 29 November 2014 to 28 May 2016 fulfils all the conditions laid down in Article 107(1) TFEU and that it qualifies as State aid to the Bank.

6.2. Compatibility of the aid

(69) The Commission already considered the aid received under the Liquidity Scheme as compatible with the internal market. Therefore the Commission will focus its current assessment on the compatibility of the additional liquidity support of BGN 900 million notified on 12 November 2014 although the analysis of compatibility takes account of all aid received by the Bank.

18 See recital (2).

6.2.1. Legal basis for the compatibility assessment

(70) Article 107(3)(b) TFEU empowers the Commission to find that State aid is compatible with the internal market if it is intended "to remedy a serious disturbance in the economy of a Member State". The Commission has acknowledged that a financial crisis can create a serious disturbance in the economy of a Member State and that measures supporting banks are apt to remedy that disturbance. This has been successively detailed and developed in the six Crisis Communications as well as in the 2013 Banking Communication.

(71) The Commission's previous approval of the Liquidity Scheme undertaken by the Bulgarian authorities to combat a crisis in the Bulgarian financial system confirmed that the threat of a serious disturbance in the Bulgarian economy could be mitigated with support granted to banks.

(72) Given the recent developments related to KTB, which have led to ongoing uncertainty as to the stability of the Bulgarian banking system, and specifically the domestically-owned banking system, and considering the systemic importance of FIB, which is one of the leading banks in Bulgaria, the Commission accepts that its failure to satisfy its liquidity requirements, which would result from not prolonging the liquidity support, would entail serious consequences for the Bulgarian banking system and consequently to its economy.

(73) In addition, the BNB with its letter dated 11 November 2014 confirmed that the additional liquidity support in favour of FIB is necessary to preserve the stability of the Bank in particular and of the system in general, to regain the trust of the depositors in the banking system, and for FIB to comply with the liquidity requirements of the BNB.

(74) Therefore, the Commission considers that the requirements for State aid to be assessed pursuant to Article 107(3)(b) of the Treaty are fulfilled.

6.2.2. Compatibility with the Restructuring Communication as adapted and complemented by the 2013 Banking Communication

(75) The 2013 Banking Communication applies to State aid measures notified from 1 August onwards. In the present case, Bulgaria has notified the State aid measures in favour of FIB after 1 August 2013. As a result, the provisions of the 2013 Banking Communication apply to the compatibility assessment.

(76) The Commission acknowledges that the additional liquidity support measure for FIB needs to be assessed as part of the restructuring plan of FIB, which has to be assessed under the Restructuring Communication as supplemented.

(77) Therefore the Commission will base its compatibility assessment on the 2013 Banking Communication and the Restructuring Communication.

(78) According to point (31) of the 2013 Banking Communication, any restructuring plan involving restructuring aid will, with the exception of the requirements on capital

raising and burden-sharing, continue to be assessed on the basis of the Restructuring Communication.

(79) According to the Restructuring Communication and the 2013 Banking Communication, first, the restructuring plan has to demonstrate that the restructuring process a beneficiary of State aid is undergoing is suitable to restore its long-term viability. Second, the aid amount must be limited to the minimum necessary and both shareholders and subordinated creditors must contribute proportionately to the restructuring when there is a capital shortfall. Third, measures need to be in place to limit distortions of competition created by artificially supporting the market power of the beneficiary and to ensure a competitive banking sector. Finally, monitoring and procedural issues need to be addressed.

(80) The Commission notes that FIB did not face any capital shortfall. On the contrary, its capital position remains stable according to the projections of the restructuring plan (see recitals (15) and Table 5).

(81) FIB only experiences a sharp liquidity outflow due to external factors. The additional liquidity support for FIB, i.e. the extension of the State deposit by 18 months, is linked to the on-going market consequences of the liquidity crisis that occurred in Bulgaria in June and July 2014, and not to structural problems of the Bank itself.

(82) Therefore the Commission will focus on examining the viability of the Bank during the period until the State aid will be repaid (see recital (31)), which represents the restructuring period for FIB.

(83) For the reason mentioned in recitals (80) and (81) the Commission considers that lighter restructuring is required to ensure compatibility of aid such as that granted to FIB compared to the what it would seek when confronted with a bank receiving State aid to cover a capital shortfall.

(i) Restoration of healthy liquidity levels and assessment of the future profitability

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

(85) The restructuring period of FIB covers the time until the repayment of the State aid, i.e., 28 May 2016. Nevertheless, in order to be complete, Bulgaria submitted a plan that shows figures covering the period until 2018 for information. However, the Commission is basing its assessment on the figures of the restructuring period, which runs until either the full repayment of the State aid or the 28 May 2016, whichever occurs first.

(86) Point 10 of the Restructuring Communication requires that the proposed restructuring measures remedy the entity's weaknesses. The restructuring plan explains the […] factors causing FIB's difficulties. The main causes of those difficulties are related to the eroded trust in the Bulgarian banking system, and […], after KTB was closed and put into special supervision on 21 June 2014 prior to the revocation of KTB's license on 6 November 2014. A factor that contributed to maintaining a fragile situation in the Bulgarian financial system was the uncertainty regarding the approach to be taken with respect to KTB. […] . It was therefore from that perspective vulnerable to speculations […].

(87) In order to improve the liquidity situation of the Bank, regain the trust of customers and make it more resilient to stress FIB will implement the following measures, which the Commission will assess below.

(88) FIB plans to improve the balance of its lending base between corporate and retail business with a greater focus on retail, thereby broadening its customer base. That approach aims at:

(i) Maintaining a sufficient level of liquidity,

(ii) […]starting a reduction of the cost of risks associated with […] loans.

(89) As already mentioned in recital (18) FIB was historically profitable […][19]. The business plan included in the notification (see recital (53)), using the macro assumptions provided by the BNB, shows that FIB remains profitable on a base case scenario.

(90) The projections include a cost efficiency plan delivering a BGN […] of operational costs savings between 2014 and 2015.

(91) To improve the profitability tracking but also linked to the internal control process FIB will develop and implement a new pricing tool by 30 September 2015 and a profit monitoring tool by 31 December 2015 at the latest.

(92) In relation to the structure of FIB's balance sheet, the measures to maintain the level of profitability described in recitals (89) to (91) will not be implemented at the expense of the Bank's funding and liquidity stability. Therefore, additional appropriate measures will be implemented to restore the stability of the funding structure of FIB[20]:

(i) Targeting growth of the deposit base in […] and […] to, respectively, […],

(ii) Maintaining a LDR below 90% until the end of the restructuring period,

(iii) Complying with both:

[19] See commitment 8 in the Annex.

[20] See commitments 7 and 11 in the Annex.

– the LCR and Net Stable Funding Ratio[21] ahead of the minimum requirements set by the CRD and CRR

– and the national guidance on liquidity provided by the BNB.

(93) The Bank will also use […] additional liquidity […].

(94) In order to strengthen its pricing policies and risk management framework FIB will undertake a series of measures[22].

(95) The Bank will introduce separate CRO […] and CCO […] functions by end of 2015 at the latest. Furthermore FIB will implement a regular review […] and regularly update […].

(96) FIB will implement additional risk assessment on exposure (the lowest between 0,5% of loan portfolio per exposure or 10% of capital exposure). That limitation system will be accompanied by a quarterly compliance review of the credit contracts and implementation of early warning signals.

(97) Regarding the monitoring of operational risk, FIB will improve the existing system of tracking and control of the operational incidents through the definition of key risks indicators and the improvement of the system of monitoring with proper tolerance limits.

(98) In order to strengthen its corporate governance and controls the Bank will carry out a series of measures[23]. FIB will, in particular:

(a) Develop a Corporate Governance Improvement Plan by end of March 2015 at the latest;

(b) Appoint a Corporate Governance Leader by end of 2014 at the latest;

(c) Adopt full Corporate Governance Code by mid-2015 at the latest;

(d) Add one independent Member to Supervisory Board by end of 2015 at the latest;

(e) Set-up a Nomination Committee by end of 2014 at the latest;

(f) Strengthen the role of the Audit Committee and review its membership by end of 2015 at the latest;

(g) Hold on-going executive sessions for assessment of the performance of the Managing Board;

(h) Add the CFO to the Managing Board by the end of 2015 at the latest;

(i) Organise quarterly meeting between Internal Audit Department and Audit Committee; and

[21] The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. That ratio should be equal to at least 100% on an ongoing basis. The calibration of the ratio is ongoing and it is expected that the NSFR compliance requirement will become binding on Union banks in 2018.

[22] See commitment 9 in the Annex.

[23] See commitment 10 in the Annex.

(j) […].

(99) The commitments on the enhanced corporate governance framework aim to further improve and remedy any outstanding identified weaknesses of FIB's corporate governance. That framework establishes adequate safeguards to prevent possible conflicts of interest. It will also ensure that strategy and decisions are business-oriented and are neither biased by objectives other than value maximisation nor subject to improper external influence. Planned changes to the corporate governance will make the Bank less vulnerable to external influence and at the same time will introduce even more market discipline through enhanced control and transparency in management decisions.

(100) The Commission considers that the restructuring plan presented by the Bank[24] including the commitments is suitable to maintain its long-term viability and restore its liquidity position.

(101) The commitments regarding the improvement of the corporate governance and the risk control are appropriate to the specific situation of the Bank. As already mentioned in recitals (10) and (18) FIB is a diversified and profitable business. Therefore the commitments are aiming at increasing the independence of key functions (the board and management) and profit monitoring. They will improve pricing practices of the Bank for all loans, thereby limiting the possibility for the Bank to engage in non-profitable business.

(102) The commitments on corporate governance ensure that strategy and decisions are business-oriented and are neither biased by objectives other than value maximisation nor subject to improper external influence. Planned changes to the corporate governance will make the Bank less vulnerable to external influence and at the same time will introduce more market discipline through enhanced control and transparency in management decisions.

(103) The commitments regarding the risk management policies are adequate to improve risk monitoring covering legacy and future business risk assessment by an effective review of the most significant loans

(104) The Commission welcomes the involvement of a Monitoring Trustee to ensure that all commitments are properly implemented including the regular review of the most significant loans.

(105) The Commission therefore considers that the restructuring plan is apt to restore FIB’s long-term viability.

(ii) Own contribution and burden-sharing

(106) The Restructuring Communication supplemented by the 2013 Banking Communication indicates that an appropriate contribution by the beneficiary is necessary to limit the aid to a minimum and to address distortions of competition and

[24] See recital (89).

moral hazard. To that end, it provides (i) that both the restructuring costs and the amount of aid should be limited and (ii) that there should be a maximum burden-sharing by existing shareholders and subordinated creditors.

(107) The sensitivity analysis shows that there is no capital shortfall, which needs to be covered in any of the scenarios (best, base and worse scenarios). The Bank has not experienced any tension on its capital position. Despite the massive liquidity outflow it remained well capitalised. Therefore FIB sought liquidity support only.

(108) When the State provides a capital injection, equity capital and subordinated debt holders must contribute to reducing the capital shortfall to the maximum extent. Such contributions can take the form of either a conversion into Common Equity Tier 1 or a write-down of the principal of the instruments. In the absence of any capital need in the case of FIB the Commission will not require such measures.

(109) Appropriate remuneration of any State intervention is critical to ensure that the aid is limited to the minimum necessary and that an appropriate contribution to the restructuring costs is provided by the aid beneficiary[25]. With those considerations in mind, the Commission has assessed the level of remuneration to be paid by the Bank for the additional liquidity support.

(110) The remuneration agreed between the Bulgarian State and FIB is at least [0.8 - 3]% on annual basis.

(111) The Commission acknowledges that the existence of a Currency Board Arrangement[26] in Bulgaria has a significant impact on the economy and monetary policy as it prevents the central bank from implementing a national monetary policy. In addition, under such an arrangement the central bank is not acting as lender of last resort.

(112) To assess the compliance of the remuneration agreed between FIB and the Bulgarian authorities with the principle set in recital (109) the Commission has used as a base the cost of funding of the Bulgarian State, by taking into consideration the average-weighted yield on government securities issued in BGN, with comparable maturity. To that base line, the Commission has added a top-up resulting from the calculation of the fee applicable to the pricing of State guarantees, defined in the Annex to the 2011 Prolongation Communication[27].

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[25] Point 22 of the Restructuring Communication.

[26] As a general rule a currency board:

- does not engage in forward-exchange transactions,
- has no discretionary powers to affect monetary policy and does not lend to the government. Governments cannot print money, and can only tax or borrow to meet their spending commitments.
- does not act as a lender of last resort to commercial banks, and does not regulate reserve requirements.
- does not influence interest rates by establishing a discount rate like a central bank.

[27] Commission Communication on the application, from 1 January 2012, of State aid rules to support measures in favour of banks in the context of the financial crisis, OJ C 256, 6.12.2011, p. 7.

(113) On the basis of that methodology and for a deposit with a maturity of 12 to 18 months such as the additional liquidity support the Commission obtains a range for a compatible level of remuneration of around 1,6% to 2,1% using the remuneration rate calculated with the formula presented in recital (102).

(114) The Commission positively notes that the rate agreed between FIB and the Bulgarian State is close to, but on average exceeds the rate that comes out when applying the existing State aid practices. Therefore the Commission considers that the remuneration is compatible with State aid rules.

(115) The restructuring plan does not contain any elements that suggest that the aid exceeds the means required to cover the costs resulting from the restoration of viability of the bank. The amount of aid serves its purpose of maintaining FIB's liquidity ratios and achieving the levels acceptable for the regulator. The liquidity provided at the amount of BGN 900 million will allow the Bank to stabilise its liquidity position and sustain future shocks until the Bank regains the lost liquidity in the market.

(116) In that respect FIB provided the Commission with the scenario where FIB would not receive the additional liquidity support. In the latter case it shows that without the liquidity support the Bank would have […].[15-25]% in 2014, above that minimum level. FIB also plans to […] its liquidity position to meet […] the level of 20% recommended by the BNB. Considering the on-going uncertainty and instability in the Bulgarian banking market which justifies a buffer in addition to the minimum required, the Commission considers the liquidity provided to FIB as adequate and limited to the minimum necessary.

(117) In addition, to ensure appropriate burden-sharing Bulgaria committed to behavioural measures entailing a coupon ban, a dividend ban and an acquisition ban.

(118) In that context the Bank will suspend any coupon payments on outstanding instruments until the State aid has been fully repaid. In particular the Bank will cancel coupon payments on its hybrid and perpetual bands.

(119) Regarding existing call options and buy backs, the Bank will suspend the exercise of any call options or other capital management deals without prior authorisation of the Commission until the State aid has been fully repaid.

(120) […].

(121) Finally, FIB will implement a cost-cutting programme for the period 2014-2018 which will result in reducing its costs by […].

(122) For the reasons described above, the Commission concludes that the restructuring plan provides for an appropriate own contribution and burden-sharing.

(iii) Measures limiting the distortion of competition

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

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

(124) To limit competition distortions Bulgaria has committed to behavioural constraints. The Commission welcomes a ban on advertising State support and on aggressive commercial practices, which would prevent FIB using the aid for anti-competitive market conduct.

(125) As set out in point 40 of the Restructuring Communication as regards measures for minimizing competition distortion, banks which receive restructuring aid should not use State aid for the acquisition of competing businesses. The Commission notes that Bulgaria has committed to an acquisition ban […].

(126) Furthermore the Commission positively notes that the assumptions retained for the restructuring plan are coming from the BNB and present sufficient level of prudence and conservatism. Regarding FIB own market evolution the bank plans to have a loan growth lower than the expected market evolution (see recital (44)) which is an element limiting distortion of competition.

(127) Taking into account that mix of measures and commitments, there are sufficient safeguards to limit distortions of competition in view of the amount and form of aid to FIB.

6.2.2.1. Monitoring of the Restructuring Plan

(128) Pursuant to section 5 of the Restructuring Communication, regular reports are required to allow the Commission to verify that the restructuring plan is being implemented properly. In this respect, the Commission notes that Bulgaria has committed to appoint a Monitoring Trustee, to ensure the correct implementation of the restructuring plan respect of the commitments contained in it.

(129) The Monitoring Trustee will submit a quarterly written report to the Commission.

6.2.2.2. Conclusion on the compatibility of the aid measure

(130) The Commission finds that the restructuring plan for FIB and the additional aid measure it includes are compatible with the internal market for reasons of financial stability on the basis of Article 107(3)(b) of the Treaty, in light of the commitments set out in the Commitment Catalogue annexed to this decision.

7. CONCLUSION

The Commission has accordingly decided, in view of the commitments undertaken by the Republic of Bulgaria regarding the restructuring of FIB, to consider the liquidity support in the amount of BGN 900 million provided to FIB for the period 29 November 2014 to 28 May 2016 to be compatible with the internal market pursuant to Article 107(3)(b) of the Treaty on the Functioning of the European Union

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

If this letter contains confidential information which should not be disclosed to third parties, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site:

http://ec.europa.eu/competition/elojade/isef/index.cfm

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

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

Yours faithfully,
For the Commission

Margrethe Vestager
Member of the Commission

ANNEX

COMMITMENT CATALOGUE - CASE SA.39358 (2014/PN) – RESTRUCTURING PLAN OF FIRST INVESTMENT BANK (FIB) – BULGARIA

From Republic of Bulgaria

Bulgaria commits:

Background

(1) This appendix ("List of commitments") sets out the terms ("Commitments") for the restructuring of First Investment Bank ("Fibank" or the "Bank"), which the Republic of Bulgaria and Fibank have committed to implement.

Definitions and abbreviations

(2) In the List of commitments, unless the context requires otherwise, the singular shall include the plural (and vice versa).

(3) All words have been defined in the Restructuring Plan i.e., this present document as submitted by the Republic of Bulgaria ("Bulgaria") in respect to Fibank to the European Commission, part of the Decision.

(4) The Restructuring Period is the time from the date on which the European Commission Decision ("Decision") is adopted until the earlier date of either i) 31st May 2016 and ii) the date at which the State aid has been repaid in full.

Commitments Fibank

(5) Bulgaria will ensure that the Restructuring Plan is fully implemented. Bulgaria will ensure that the Commitments listed in paragraphs (6) to (31) below are fully observed and fulfilled during the implementation of the Restructuring Plan.

(6) The Commitments enter into force and the Restructuring Period start from the date on which the Decision is adopted. The Commitments apply during the whole of the Restructuring Period, unless specified otherwise.

(7) Measures to restore funding stability:

a. Build stability in the deposits book: under the Restructuring Plan Fibank will achieve, as a minimum, the following customer deposit level for each individual financial year of the Restructuring Period:

[…]

b. Realign loan growth with funding: Fibank will contain its loan growth by maintaining a LDR below 90% throughout the Restructuring Period.

(8) Measures to improve profitability:

a. Deliver cost efficiency: Fibank will deliver step-change improvement in cost efficiency with OpEx decreasing by BGN […] from BGN […] in 2014 to BGN […] by 31st December 2015 and OpEx/assets remaining below […]% during the Restructuring Period

b. Develop and implement a pricing policy and tools for the setting of individual product price (per categories of clients or per client, as appropriate), to be implemented by 30th September 2015 at the latest.

c. Develop and implement tools to monitor the profitability per client and per portfolio, to be implemented by 31st December 2015 at the latest.

(9) Measures to enhance risk management:

a. Fibank will implement the IFC's recommendations (an excerpt of which is attached on Appendix 9.5 as part of the Restructuring Plan) and introduce full CRO (Chief Risk Officer) and CCO (Chief Compliance Officer) functions with departments charters for each by end of 2015 at the latest. This includes among others the regular review and update (or set up, when needed) of clear escalation limits (or limits for decisions) for the approval of credit files.

b. Regarding clients (or groups of connected clients) to which the Bank has an exposure representing at least 0.5% of its total loan portfolio or 10% of capital exposure, whichever is the lowest, Fibank shall ensure that:

> i. Any amendment of the amount, maturity, or repayment schedule of the loans is based on all the elements of a credit file (such as financial analysis, projections proving repayment capacity, risk assessment, up-date of the risk rating, re-evaluation of collaterals etc.).
>
> ii. A review, including all the elements of a credit file (such as financial analysis, projections proving repayment capacity, risk assessment, up-date of the risk rating, re-evaluation of collaterals etc.), is performed regularly (at least once per year).
>
> iii. Quarterly monitoring is performed, to confirm compliance of the client with the conditions set out in the credit contracts and identify any warning signals. If warning signals are identified, the monitoring should be accompanied by an analysis of the signals and/or mitigating actions proposed by the bank.

The application of commitment (9) b. shall be first reviewed at 30/06/2015.

c. Fibank will also improve and maintain the system for registration, tracking and control of operational incidents and near-misses by end of June 2015 at the latest. This will include the following components:

> i. Improve key risk and performance indicators and improve the processes for escalating, tracking and deciding upon them:
>
> > 1. Identify the key risk indicators related to operational risks and develop a clear mapping of those indicators to individual processes and events.
> >
> > 2. Identify and eliminate any key risk indicators not correlated to operational events.
> >
> > 3. Set the process for escalation, based on specific tolerance limits, for the key risk indicators.
> >
> > 4. Set the tolerance limits in a clear and unequivocal manner.
> >
> > 5. Define a clear and unequivocal escalation and decision process and clear governance bodies when key risk levels exceed tolerance limits.

6. Review the tolerance limits and escalation processes and associated documentation once a year, to ascertain that they are still relevant given the business mix and economic environment.

ii. Develop integrated process map clarifying the exposure of each department with respect to operational risk losses:

1. Identify potential operational risk events for each department.

2. Classify (internal classification) identified potential operational risk events.

3. Map internal classification to CRD4.

iii. Allocate occurred operational losses to business units.

iv. Establish RCSA (Risk & Control Self-Assessment) methodology to assess operational risks at the process level, before and after controls.

v. Conduct scenario analysis for high-risk events, including high level guidelines for potential mitigation responses based on frequency of events and severity of events.

(10) Measures to enhance governance and controls: Fibank will deliver enhanced governance and controls through implementing the agenda agreed as part of the IFC governance review, namely:

i. Develop a Corporate Governance Improvement Plan by end of March 2015 at the latest

ii. Appoint a Corporate Governance Leader by end of 2014 at the latest

iii. Adopt full Corporate Governance Code by mid-2015 at the latest

iv. Add one independent Member to Supervisory Board by end of 2015 at the latest

v. Set-up a Nomination Committee by end of 2014 at the latest

vi. Strengthen the role of the Audit Committee and review its membership by end of 2015 at the latest

vii. Hold on-going executive sessions for assessment of the performance of Managing Board

viii. Add the CFO to the Managing Board by the end of 2015 at the latest

ix. Organise quarterly meeting between Internal Audit Department and Audit Committee

x. […]

(11) Fibank will maintain regulatory ratios within the following thresholds:

a. CT1 ratio above [8-12]% throughout the Restructuring Period

b. NSFR meeting CRD4 requirements and respective Commission implementing act

c. LCR levels compliant with CRD4 and respective Commission implementing act throughout the Restructuring Period

d. Liquidity ratio (according to BNB definition) above […]% for 2014 and 2015

(12) Repayment of State aid: Fibank will repay the State aid according to the following schedule:

[…]

(12a) […].

(12b) The remuneration of the State deposit will be not less than [0.8-3] % p.a.

Burden sharing measures

Bulgaria will ensure that the following additional commitments will be adhered to during the Restructuring Period.

(13) Ban on acquisitions: Fibank will not make any acquisitions during the Restructuring Period. This applies to both the purchase of companies with their own legal identities, and shares in companies, as well as asset bundles that represent a commercial transaction or a branch of activity or an undertaking. This does not apply to acquisitions that must be made in order to maintain financial and/or association related stability, or in the interests of effective competition, provided they have been approved beforehand by the Commission. This does not apply to acquisitions that belong, in terms of the management of existing obligations of customers in financial difficulty, to the Bank's normal ongoing business. […].

(14) However, Fibank may acquire stakes in undertakings (without seeking the approval of the Commission) provided that the purchase price paid by Fibank for any acquisition is less than 0.01% of the balance sheet size of Fibank at the date of the Decision and that the cumulative purchase prices paid by Fibank for all such acquisitions over the whole Restructuring Period is less than 0.025% of the balance sheet size of Fibank at the date of the Decision.

(15) Advertising: Fibank will not refer to State aid support for the purpose of advertising.

(15a) Ban on aggressive commercial practices […] : Fibank shall avoid engaging in aggressive commercial practices throughout the duration of the Restructuring Plan.

(16) Ban on dividends: Fibank will not pay any dividends on its ordinary stock until the end of the Restructuring Period.

(17) Fibank will not make any coupon and interest payments on hybrid instruments and subordinated debt where there is no legal obligation to proceed with such payment until the end of the Restructuring Period. Such payment of interest of coupon is subject to the Commission's approval.

(18) Ban on buy-backs: Fibank will not buy back any shares held by shareholders other than the State, hybrid instruments other than those held by the State, subordinated debt and similar securities, unless previously authorised by the Commission. […].

Monitoring Trustee

(19) Bulgaria will ensure that the full and correct implementation of the Restructuring Plan and the full and correct implementation of all Commitments within this List of commitments are continuously monitored by an independent, sufficiently qualified Monitoring Trustee.

(20) If in the course of implementing the Restructuring Plan Fibank has reasons to assume that it may fail to meet any target set out in this List of commitments, Fibank has to work out on its own initiative a plan with Remedial Actions that are apt to bring the restructuring approach back in line, in order to ensure that all targets will be met. Fibank has to present the Remedial Actions to the Monitoring Trustee who will analyse them and report to the Commission on their adequacy. If there are serious doubts that the revenue projections in the Restructuring Plan will not be met, the shortfall has to be compensated so that the profit before tax is within a 10% tolerance of the agreed scenario. Possible remedial actions are, among others, targeted cost cutting.

(21) Bulgaria and Fibank will ensure that, during the Restructuring Period, the Commission or the Monitoring Trustee have unrestricted access to all information needed to monitor the implementation of the Decision. The Commission or the Monitoring Trustee may ask Fibank for explanations and clarifications. Bulgaria and Fibank are to cooperate fully with the Commission and the Monitoring Trustee with regard to all enquiries associated with monitoring of the implementation of the Decision.

(22) Bulgaria will ensure that Fibank appoints a Monitoring Trustee as set out below. The mandate applies to the entire duration of the Restructuring Period. At the end of the mandate, the Trustee will submit a final report.

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

(24) Fibank will submit two or more proposals to the Commission for approval as monitoring Trustee, no later than four weeks after notification of the Decision. These proposals must contain sufficient information about those potential Trustees to enable the Commission to verify whether the proposed Trustee fulfils the requirements set out in paragraph (23), and must in particular include the following:

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

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

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

(26) If all proposed Trustees are rejected by the Commission, the Commission will nominate a Trustee which Fibank will appoint, in accordance with a Trustee mandate approved by the Commission.

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

(28) The duty of the Trustee is to guarantee full and correct compliance with the obligations set out in the Commitments, and full and correct implementation of Fibank’s Restructuring Plan. The Commission may, on its own initiative or at the request of the Trustee, issue any orders or

instructions to the Trustee or Fibank in order to ensure compliance with the Commitments attached to the Decision.

(29) The Trustee:

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

b. is to monitor the full and correct implementation of Fibank's Restructuring Plan;

c. is to monitor compliance with all other Commitments;

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

e. is to submit a quarterly draft written report to the Commission within twenty five calendar days (or as otherwise agreed with the Commission) after the end of each calendar quarter. The Commission may submit comments on the draft within ten working days. Taking into accounts the Commission's comments, the Monitoring trustee shall then send the preliminary written Monitoring Report to the Bulgaria and Fibank, copy the Commission, giving each the opportunity to submit comments within fifteen working days. Within five working days of receipt of the comments, the Trustee is to prepare the final report and submit it to the Commission, to Bulgaria and to Fibank. Under no circumstances is the Trustee to submit any version of the report to Bulgaria and/or Fibank before submitting it to the Commission. The report is to focus on the duties set out in the mandate by the Trustee and compliance with the obligations by Fibank, thus enabling the Commission to assess whether Fibank is being managed in accordance with the obligations. If necessary, the Commission may specify the scope of the report in more detail. In addition to these reports, the Trustee is to report promptly in writing to the Commission if it has reasons to suppose that Fibank is failing to comply with these obligations.

f. is to monitor that Fibank follows corporate governance principles. The Trustee should therefore regularly attend, as an observer, meetings of the Managing Board, Credit Council, Credit Committee, and attend, if deemed useful, meetings of the Audit Committee. The Trustee will receive copies of all reports emanating from internal control bodies, and be entitled to interview, at its sole discretion, any controller or auditor, no matter his/her managerial responsibilities. The Trustee shall ensure (i) that recommendations from permanent supervisors or periodic controllers/auditors are duly enforced and (ii) that action plans are implemented in order to correct any failure identified within the internal control framework.

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

(31) The Trustee may appoint advisers (in particular for corporate finance or legal advice), if the Trustee considers the appointment of such advisers necessary or appropriate for the performance of its duties and obligations under the mandate, provided that any costs and other expenses incurred by the Trustee are reasonable. Should Fibank refuse to approve the advisers proposed

by the Trustee, the Commission may approve their appointment instead, after hearing Fibank's reasons. Only the Trustee or the Commission is entitled to issue instructions to the advisers.

(32) If the Trustee terminates its functions under the Commitments or if there are any other significant grounds, such as a conflict of interest on the part of the Trustee, the Commission can, after hearing the Trustee, require Bulgaria to replace him.

(33) If the Trustee is to be removed or replaced in accordance with paragraph (32), it may be required to continue in its function until a new Trustee is in place to which the Trustee has effected a full handover of all relevant information. The new Trustee is to be appointed in accordance with the procedure referred to in paragraphs (24) and (25).

(34) Besides removal in accordance with paragraph (32), a Trustee is required until all the obligations with which the Trustee has been entrusted have been completed. However, the Commission may at any time require the reappointment of the Trustee if it is subsequently found that the relevant measures have not been fully and properly implemented.