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Subject: State Aid SA.102741 (2022/N) – Greece
Calculation Methodology for guarantee fees to banks for Large Corporate Financing.

Excellency,

1. PROCEDURE

(1) On 14 September 2020, Greece pre-notified its intention to re-implement its calculation methodology establishing the guarantee premiums for public guarantees provided to large undertakings. That methodology had originally been approved in 2016 by a Commission decision[1] for a duration of four years, and expired on 29 July 2020.

(2) Between 29 September 2020 and 18 February 2022, pre-notification exchanges took place.

(3) On 21 April 2022, Greece submitted a notification of the calculation methodology.

[1] State Aid SA.45125 (2016/N) – Greece Methodology to calculate the aid element in State guarantees to companies, decision of 29.7.2016 C(2016) 4904 final.

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2. DETAILED DESCRIPTION OF THE MEASURE

2.1. Calculation Methodology

(4) The purpose of the notification is to establish a methodology in order to calculate the appropriate guarantee premiums in state guarantees backing loans to large undertakings[2] in compliance with sections 3.2 or 3.4 of the Guarantee Notice[3].

(5) At the same time, Greece also intends to use the methodology to calculate the Gross Grant Equivalent for State guarantees granted to large undertakings at below market prices, in accordance with section 4 of the Guarantee Notice, inter alia, under the *de Minimis* Regulation[4] and General Block Exemption Regulation[5].

(6) The cornerstone of the methodology lies in establishing the credit risk of the borrower (expressed as a one (1) year probability of default), which in this case will be done based on the credit scoring system of the ICAP Group, the Credit Rating Agency recognized by the European Securities and Markets Authority (ESMA), and will be mitigated by the collaterals provided.

(7) The proposed methodology is based on two key factors, the probability of default of the borrower according to the 10-grade ICAP rating scale and the coverage ratio of the loan facility (or contract).

(8) Table 1 below shows the correspondence between the risk classification of ICAP and the rating classes of Standard & Poor's, Fitch and Moody's, which are the rating agencies most frequently used.

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2 Large undertakings are undertakings that are not SMEs as defined in the Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises, OJ L 124 , 20/05/2003 p. 36-41.

3 Commission Notice on the application of Articles 87 and 88 of the EC Treaty to State aid in the form of guarantees, OJ C 155, 20/06/2008, p. 10-22.

4 Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid, OJ L 352, 24/12/2013, p. 1-8.

5 Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty. OJ L 187, 26.6.2014, p.1, as amended.

Rating Agency					Average Default Rates per Rating Class			
ICAP		S&P	Fitch	Moody's	S&P (1981-2013)	Fitch (1990-2013)	Moody's (1983-2013)	**AVERAGE D.R.**
AA	0% - 0,05%	AAA	AAA	Aaa	0,000%	0,000%	0,000%	**0,000%**
		AA+	AA+	Aa1	0,000%	0,000%	0,000%	**0,000%**
		AA	AA	Aa2	0,020%	0,000%	0,000%	**0,020%**
		AA-	AA-	Aa3	0,030%	0,060%	0,049%	**0,046%**
A	0,05% - 0,13%	A+	A+	A1	0,060%	0,000%	0,079%	**0,070%**
		A	A	A2	0,070%	0,060%	0,066%	**0,065%**
		A-	A-	A3	0,080%	0,170%	0,058%	**0,103%**
BB	0,13% - 0,27%	BBB+	BBB+	Baa1	0,140%	0,140%	0,148%	**0,143%**
		BBB	BBB	Baa2	0,200%	0,100%	0,166%	**0,155%**
		BBB-	BBB-	Baa3	0,320%	0,420%	0,253%	**0,331%**
B	0,27% - 0,56%	BB+	BB+	Ba1	0,430%	1,010%	0,644%	**0,695%**
C	0,56% - 1,1%	BB	BB	Ba2	0,680%	0,870%	0,720%	**0,757%**
		BB-	BB-	Ba3	1,130%	1,770%	1,623%	**1,508%**
D	1,1% - 2,2%	B+	B+	B1	2,310%	1,120%	2,184%	**1,871%**
E	2,2% - 4,5%	B	B	B2	4,730%	2,520%	3,352%	**3,534%**
		B-	B-	B3	7,920%	2,940%	5,728%	**5,529%**
F	4,5% - 12%	CCC+	CCC+	Caa1	26,870%	26,640%	7,306%	**7,306%**
		CCC	CCC	Caa2	26,870%	26,640%	16,748%	**16,748%**
G	12% - 25%	CCC-	CCC-	Caa3	26,870%	26,640%	26,842%	**26,842%**
H	> 25%	CC	CC					**>28,842%**
			C					

(9) In order to price sufficiently prudently, and taking into account the average default rates (D.R.) per rating classes as well as that default probabilities (PDs) do not increase linearly across the various rating classes, Greece deemed it prudent to assume the highest default probability for each rating class up to class D, and the mid-point for the rest (classes/categories E-H).

(10) The base guarantee premium or total commission fee (both terms are used interchangeably in this Decision) is based on three components: a commission fee to compensate for normal risk costs, an administrative charge for operational costs and a remuneration of capital.

(11) The commission fee has been calculated using a prudent default probability assumption based on historical data per rating category to arrive at realistic loss expectations.

(12) Greece will add an administrative charge of 0.25% per annum on top of the amount of the commission fee.

(13) To cover the required remuneration of capital, Greece adds a fee of 0.38% per annum for the rating categories (AA-C) and a fee of 0.57% per annum for the lower rating categories (D-H) to establish a reserve fund and to cover potential capital shortfalls.

(14) The required base guarantee premium will thus be the sum of the commission fee, the administrative charge and the remuneration of capital.

(15) Furthermore, to ensure consistency with market rates, a floor[6] will be applied to the base guarantee premium per rating category, based on the Itraxx Europe or Itraxx Europe Crossover indices. This floor will be calculated using the daily averages of the previous quarter for the appropriate maturities (with the closest duration to the relevant Itraxx Index[7]), with a 5-year maturity minimum. The floor will then apply to all guarantees given in the following quarter[8].

(16) The following table summarizes the applicable guarantee fees (in the column "total commission fee"):

ICAP RATING	Applicable PD	Commission fee			Cost			Total Commission Fee			With a floor of
		Uncovered	Covered < 30%	Covered ≥ 30%	Operational	Capital	Total	Uncovered	Covered < 30%	Covered ≥ 30%	
AA	0,05%	0,09%	0,08%	0,07%	0,25%	0,38%	0,63%	0,72%	0,71%	0,70%	ITRAXX Europe
A	0,13%	0,23%	0,21%	0,18%	0,25%	0,38%	0,63%	0,86%	0,84%	0,81%	ITRAXX Europe
BB	0,27%	0,48%	0,45%	0,36%	0,25%	0,38%	0,63%	1,11%	1,08%	0,99%	ITRAXX Europe + 50 bps
B	0,56%	1,00%	0,92%	0,76%	0,25%	0,38%	0,63%	1,63%	1,55%	1,39%	ITRAXX Europe + 50 bps
C	1,10%	1,25%	1,11%	0,81%	0,25%	0,38%	0,63%	1,88%	1,74%	1,44%	ITRAXX Crossover - 100 bps
D	1,65%	2,34%	2,05%	1,35%	0,25%	0,57%	0,82%	3,16%	2,87%	2,17%	ITRAXX Crossover - 50 bps
E	3,35%	3,57%	3,12%	2,06%	0,25%	0,57%	0,82%	4,39%	3,94%	2,88%	ITRAXX Crossover
F	8,25%	8,79%	7,68%	5,07%	0,25%	0,57%	0,82%	9,61%	8,50%	5,89%	ITRAXX Crossover + 200 bps
G	18,50%	19,71%	17,23%	11,38%	0,25%	0,57%	0,82%	20,53%	18,05%	12,20%	No applicable floor
H	>25%	26,64%	23,28%	15,37%	0,25%	0,57%	0,82%	27,46%	24,10%	16,19%	No applicable floor

(17) Finally, in case an individual company has an observable Credit Default Swap (CDS) price in the market which is higher than the guarantee premium computed under recital (15), then that CDS price should be taken as a market price.

(18) To assess the collateralization, three coverage ratio bands have been defined in order to accommodate different funding schemes which require different amounts of collateralization:

- Uncovered
- Coverage up to 30%
- Coverage above 30%

Only collateral in the form of first rank liens on real estate will be counted for the purposes of this calculation methodology. In addition, the collaterals on real estate shall be valued by authorized engineers of the respective credit institutions to the level of the net foreclosure value[9] of the collateral at the time of granting the guarantee.

(19) The guarantee-providing authorities will verify the evidence provided by the credit institution to ensure that the valuation was performed, that the collateral is

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[6] The application of a floor based on the credit derivative market indices means that the effective guarantee premium will be the higher of the base total commission fee and the floor.

[7] For example, for a guarantee with an 8 year commitment, the 7 year Itraxx index will be used; for an 11 year commitment, the 10 year Itraxx will be applied.

[8] For example, for guarantees given between 01.04.2022 and 30.06.2022, for a rating A, the floor will be the average of the Itraxx Europe 5Y index over the period 01.01.2022 to 31.03.2022.

[9] The net foreclosure value usually amounts to about 2/3 of the commercial value of the real estate to reflect the average confiscation and auction costs, in line with credit institution best practice.

available as security and that the credit institution has full legal recourse in first lien in case of foreclosure.

(20) In case of default, any collateral liquidations will be allocated pari-passu between the State as guarantor and the lender, according to the guarantee coverage ratio set in the guarantee contract, and any proceedings of subsequent enforcement will be deducted from any guarantee claims in the same ratio.

(21) The guarantee premiums will be adapted to reflect the level of expected and potential losses according to the level of collateralization, with higher premiums charged for less collateralized exposures. The proposed total commission fees, depending on the level of collateralization, are shown in three columns of the table under recital (16).

(22) To ensure that no aid is given to the lending bank or financial intermediary and to ensure that the interest charged on the partially guaranteed loan (usually 80% of the outstanding nominal loan amount) is not excessive in comparison to the guarantee fee, Greece will implement a governance mechanism to link the two (i.e. interest rate and guarantee fee) for all loans that, over the lifetime of the loan, have a nominal amount of the outstanding loan that is higher than EUR 2.5 Million.

(23) To achieve this, Greece will, via its General Accounting Office (GAO) of the Hellenic Ministry of Finance compute the implied CDS rate for each borrower according to the following formula:

$$\text{CDS(Client)} = \frac{(R - F - G * CDS(Greece))}{(1 - G)}$$

(24) In this formula, R denotes the effective interest rate charged by the financial intermediary (including all charges and fees related to the loan and guarantee transaction), F is the funding and administrative costs for Greek commercial banks and is deemed to be equal to 0.75%, G denotes the percentage of the outstanding loan amount being guaranteed (usually 80% or lower) and CDS(Greece) would be the current 5Y Sovereign Credit Default Swap rate of Greece[10].

(25) If the implied CDS rate is higher than the total guarantee premium as resulting from the methodology described above in recitals (10) to (21), then GAO will try to convince the bank to provide a lower effective interest rate R so that the implied CDS (Client) rate obtained from the formula falls below the guarantee premium. If no bank is willing to lend at such an interest rate, the total commission fee will be increased to the CDS (Client) value obtained from the formula[11].

[10] 0.60% at the time of pre-notification, 1.28% on 25 April 2022.

[11] As an example, consider an Icap Rating D risk for an uncovered loan. The total commission fee in the table under recital (16) would result in a guarantee premium of 3.16% (assume the Itraxx floor remains below). If the effective interest rate R is 2.10%, then the CDS (Client) formula would lead to 4.35%. In this case the effective interest rate would have to fall to 1.86%. Alternatively, the guarantee premium would have to be increased to 4.35% (and 4.35% would be retained as total annual commission fee).

(26) GAO will ensure that the interest rate is not kept artificially low by the financial intermediary through charging higher banking or loan fees instead. This is why the effective interest rate is used in the formula instead of a mere coupon or nominal interest rate.

(27) In addition, GAO will ensure that no artificial splits of loans into tranches of EUR 2.5 Million are made to circumvent this governance mechanism, by grouping all applicable guaranteed loans per company over a 6-month period and assessing whether the total amount exceeds EUR 2.5 Million.

(28) In case of guarantees where 80% of the outstanding loan amount is guaranteed, GAO wants to work with a simplified table for ease of reference (which is an application of the formula in case the CDS rate of Greece is 0.60%) as follows:

If the rate of the bank is X%, then the guarantee premium should be at least...				
Effective Interest Rate that the bank is charging	CDS(client) Implied Guarantee Fee		Effective Interest Rate that the bank is charging	CDS(client) Implied Guarantee Fee
1,40%	0,85%		2,50%	6,35%
1,50%	1,35%		2,60%	6,85%
1,60%	1,85%		2,70%	7,35%
1,70%	2,35%		2,80%	7,85%
1,80%	2,85%		2,90%	8,35%
1,90%	3,35%		3,00%	8,85%
2,00%	3,85%		3,10%	9,35%
2,10%	4,35%		3,20%	9,85%
2,20%	4,85%		3,30%	10,35%
2,30%	5,35%		3,40%	10,85%
2,40%	5,85%		3,50%	11,35%

(29) The proposed methodology will be applied for a period of 4 years from the date of the notification of this Decision. Only this period of 4 years is covered by the present decision. Before the end of the four year period, the Greek authorities will reassess the scheme in collaboration with the Commission in order to refine and improve it, based on experience gained by that time and will notify a new scheme.

(30) The Greek authorities also commit to verify the self-financing nature of the scheme by reviewing the adequacy of the premiums at least once a year. Based on the actual loss rate of the scheme, the premiums will be increased if required to do so, in line with the Guarantee Notice.

(31) In line with section 6 of the Guarantee Notice, the Greek authorities commit to submit an annual report to the Commission both for aided and non-aided schemes as well as for aided and non-aided individual guarantees that make use of the notified methodology. This reporting will include, in each case, listed by rating category: the number and amount of guarantees issued; the number and amount of guarantees outstanding by year end; the number and value of the defaulted guarantees in each year; the yearly premium income; the yearly guarantee indemnifications paid; and, the total yearly administration cost and the total annual surplus.

2.2. Application Scope

(32) According to Greek Law 4549/2018[12], guarantees may be granted as individual guarantees or within the framework of guarantee schemes.

(33) The state guarantees granted to cover loans, letters of guarantee, letters of credit, counter guarantees and any other financial instrument, may be provided in favour of natural persons, public and private companies and cooperatives, under the particular conditions provided in Law 4549/2018, without prejudice to further limitations described below[13].

(34) Enterprises in financial difficulty[14] are explicitly excluded.

(35) The guarantees will be granted for a fixed maximum amount and will be limited in time. The guarantee granting acts (ministerial decisions on the basis of Law 4549/2018) provide for the specific conditions, which should be met so as for the state guarantee to be called (e.g. it could be provided that the lender has the right to call the guarantee in case the borrower fails to pay three instalments or that the state has to pay the lender only after the latter has taken all the possible enforcement measures against the borrower and still has unsatisfied claims from the loan).

(36) Guarantees, in principle, will not cover more than 80% of each outstanding loan or other financial obligation. If an individual guarantee or an aid scheme were to contain loans that are covered by a State guarantee in a percentage higher than 80%, it would not be covered by the present decision. Greece will notify such measures separately, so that the Commission can assess the justification for such exceptions at that time.

(37) The proposed methodology will not be used in case of State guarantees in favour of banks or credit institutions. It will also not be used in favour of companies listed on stock markets or on multilateral trading facilities, except for guarantees granted to cover loans for European Public Financial Organisations for investment for social purposes or guarantees granted to enterprises in order to ensure the provisions of services of public interest.

2.3. Guarantees with an aid element

(38) The methodology will also be used to calculate the aid element in a guarantee if applicable.

(39) The aid element will be estimated as a theoretical cash grant that is the difference between, on the one hand, the appropriate market price of the guarantee as

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12 Law 4549/2018: Provisions for the completion of the Financial Objectives and Structural Reform Agreement (725048).

13 Law 4549/2018 foresees inter alia guarantees to undertakings in difficulty (as part of rescue and restructuring), which are explicitly proscribed by the Guarantee Notice but which are also outside the scope of this calculation methodology and are therefore not covered by the present decision.

14 Undertaking in difficulty is referring to the definition of Article 2 (18) of Commission Regulation No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (GBER), OJ L 178, 26/06/2014, p. 19.

determined by the proposed methodology (i.e. the total commission fee in recital (16), potentially adjusted by the CDS index floor, an actual CDS price and the governance mechanism described under recitals (22) to (28)) and, on the other hand, the guarantee premium that is actually being paid.

(40) To compute the resulting Gross Grant Equivalent (GGE), the annual theoretical grants shall be discounted to their present value using the applicable reference rate[15] and then summed up to obtain the total grant equivalent.

(41) In case of a guarantee duration of less than one year, no discounting is applied and the gross grant equivalent of the guarantees provided by schemes applying the notified methodology is:

$GGE = D * Z * [F – G]$

where

D = amount of the outstanding loan that is being covered by the guarantee,

Z = percentage of outstanding loan D covered by the guarantee,

F = theoretical market premium of the guarantee, as derived from recitals (14) to (17) and recital (25), if applicable,

G = premium that is actually paid by the beneficiary for admission to the guarantee scheme.

(42) In case of a guarantee duration exceeding 12 months, the differences between the theoretical market premium and the premium actually paid at the end of each period are discounted to their present value. In this case, the gross grant equivalent is:

$GGE = \Sigma_{t=1}^{M} D_t * Z * (F_t - G_t) * (1+i)^{-t}$

where:

i = reference rate as provided by the Reference Rate Communication,

F_t = theoretical yearly market premium of the guarantee for the year t, as derived from recitals (14) to (17), and recital (25), if applicable,

D_t = the outstanding debt at year t of the guaranteed loan,

G_t = yearly premium actually paid by the beneficiary for admission to the guarantee scheme at year t,

M = maturity of the loan.

[15] The applicable reference rate will be the base rate increased by a fixed margin of 100 basis points, in line with the Communication from the Commission on the revision of the method for setting the reference and discount rates, OJ C 14, 19/01/2008, p. 6-9.

(43) Finally, if the duration of a guarantee exceeds 12 months, but the actual premium required for the guarantee is paid by the applicant as a one-off upfront amount P_u at the time the guarantee is granted, then the formula to be applied for determining the gross grant equivalent shall be:

(44) $GGE = \Sigma_{t=1}^{M} D_t * Z * F_t * (1+i)^{-t} - P_u$

where the parameters are the same as in recital (42).

(45) In case of State aid in the form of guarantees, the Greek authorities commit to ensure that any aid granted will be compatible with State aid rules. In particular, aid will either be granted on the basis of the General Block Exemption Regulation or any other exemption regulation or Commission decision, provided that the conditions therein are fulfilled, or after the Commission's approval.

3. ASSESSMENT

(46) The Commission has to assess the calculation methodology against the requirements of the Guarantee Notice, specifically the requirements in sections 3.2 (for individual guarantees), 3.4 (for guarantee schemes), 4.1 and 4.2 (for individual guarantees containing an aid element), 4.4 (for guarantee schemes containing an aid element), 5 (on compatibility conditions of State aid) and 6 (with respect to reporting requirements).

3.1. Market conformity of individual guarantee premiums

(47) The Commission notes, as described in recital (34) that borrowers that are in financial difficulty are excluded from measures that rely on this calculation methodology.

(48) As the guarantees will be granted for a fixed maximum amount on a specific financial instrument the extent of the guarantee can be properly measured when it is granted, and it is linked to a specific financial transaction. As cited in recital (35), the guarantees are also limited in time.

(49) Furthermore, as indicated in recitals (20) and (36), guarantees will not cover more than 80% of the outstanding loan amount and losses will be sustained by the State as guarantor and the lender in the same ratio as stipulated in the guarantee contract. In the same manner, net recoveries generated from the recuperation of the debt from the securities given by the borrower proportionally reduce the losses borne by the lender and the State as guarantor. If a scheme or an individual guarantee were to foresee state guarantees exceeding 80% of the loan amount, Greece intends to notify such schemes separately, so that the Commission can assess the justification to this exception on an ad hoc basis in a decision.

(50) The Commission notes that, in case the borrower has a quoted CDS price, that market reference price will be used, as indicated in recital (17).

(51) In the absence of an observable market price, the guarantee premium will cover an administrative cost, a remuneration for capital which is dependent on the credit quality of the borrower and a remuneration for expected losses, which is dependent on the level of collateral.

(52) Moreover, the prices will be floored by a rating and maturity dependent reference CDS index plus or minus a margin, as explained in recital (15).

(53) The Commission has examined the proposed total commission fees in the category 30% coverage, floored by the respective reference indices and margins and compared them to the credit spreads on bonds of European corporates in April 2022, which would have a comparable loss given default rate and risk profile.

(54) The table below shows, for each of the ICAP ratings and maturity buckets of the methodology, what the guarantee premium resulting from the methodology would be using current market parameters (first three columns) and the median credit spreads as well as the credit spread ranges in the European corporate bond market.

ICAP Rating	Equivalent Moody's	Guarantee Premium for 30% covered			Market Credit Spread Median & [Ranges]			
		up to 5Y	7Y	10Y and up	3Y-5Y	5Y-7Y	7Y-10Y	10Y-20Y
AA	Aa3	78	95	113	24[0-125]	40[0-125]	59[10-150]	72[15-175]
A	A3	81	95	113	58[10-200]	67[10-250]	79[10-250]	88[20-275]
BB	Baa3	128	145	163	108[30-300]	126[30-450]	147[40-325]	130[65-300]
B	Baa3-Ba1	139	145	163	145[30-400]	162,5[30-500]	190[30-325]	181[50-350]
C	Ba2	273	307	340	315[200-600]	320[250-450]	320[300-500]	400
D	B1	323	357	390	401[175-775]	375[300-400]	314[300-375]	500
E	B2	373	407	440	477[275-1100]	438[350-500]	471[400-600]	N/A
F	Caa2	589	607	640	628[575-800]	578[550-675]	528[500-675]	N/A
G	Caa3	1220	1220	1220	818[800-1175]	712[700-1175]	676[600-1175]	N/A
H	Below	1619	1619	1619	N/A	N/A	N/A	N/A

(55) The Commission first observes that the guarantee premiums charged for a particular maturity bucket or credit quality step generally remain within the range of credit spreads observed in the market for that particular maturity or rating category.

(56) They are also close to the median values of each maturity and credit quality category table entry: any deviations in basis points from the median are small (typically less than 50 basis points, or 0.50%), with the possible exception of very short dated exposures of rating category D and E and very long dated exposures of rating category D, when compared to the median credit spread.

(57) However, the limited number of data points of long maturities in lower rating categories can explain the deviation in the latter. To this extent, the Commission notes that the 10Y-20Y maturity buckets in rating categories C and D each contain only a single bond. And on average, over all maturities, the deviation in rating category D is limited to 0.40%.

(58) In addition, the shorter dated maturities typically have a higher variance of credit spreads within their rating category, which is more pronounced in the lower rating categories.

(59) On average over all rating categories and all maturities, the guarantee premiums are 0.40% higher than the comparable bond credit spread, which shows a degree of conservatism in the pricing scheme.

(60) The Commission notes that based on the above, the floor linked to the credit indices described in recital (15) above is an essential element to ensure alignment

with market rates, as for some maturities it becomes active for all ratings better than ICAP rating F.

(61) Furthermore, the Commission notes that Greece will implement a governance mechanism that links the effective interest rate of the partially guaranteed loan with the guarantee premium, and will adjust this premium upwards if the effective interest rate would imply a higher credit risk than indicated by the table.

(62) The mechanism thus ensures that the guarantee premium is aligned with what a market operator, in casu the bank or financial intermediary, considers to be an appropriate risk premium for its exposure.

(63) The Commission considers this mechanism essential in the light of the variance of credit spreads of borrowers applying for a guarantee, even when considered per rating category and maturity, as it mitigates adverse selection of borrowers. Indeed, if the scheme were to attract borrowers within each rating category for which the market would require higher credit margins than the median or average values of their category, the adjustment through the governance mechanism will assure market conformity of the guarantee premium in such cases.

(64) As the guarantee premium is thus benchmarked both against relevant credit default swap indices and the risk perception by the financial intermediary, the Commission concludes that the calculation methodology will yield a market conform guarantee premium.

(65) Furthermore, the Commission considers the formula of recital (23) adequate to express the implied credit risk premium of the borrower as a function of the effective interest rate that the lending bank is charging.

(66) As indicated in recital (25), if the implied CDS rate is higher than the total guarantee fee resulting from the methodology, then GAO will either convince the lending bank to provide a lower effective interest rate (thus eliminating any selective advantage to the lender) or will increase the total commission fee to the CDS(Client) value obtained from the formula. In the latter case, it can be assumed that the market risk perception of the lender is higher than indicated by the values in the total guarantee fee table, thus justifying the elevated effective interest rate as being in line with the Market Economy Investor Principle.

(67) The Commission therefore concludes that the application of the methodology will also mitigate the risk of aid to the financial intermediary as referred to in section 2.3 of the Guarantee Notice.

(68) In the case of absence of collateral valued at 30%, the Commission notes that the guarantee premiums are higher and adequately reflect the higher risk entailed by this absence. As a result, the adequate market benchmarking of the premiums in the category 30% coverage ensures a sufficiently conservative premium for the other categories.

(69) In the light of its findings in recitals (47), (48), (49), (64), (67) and (68) the Commission concludes that the conditions of section 3.2 of the Guarantee Notice are fulfilled to rule out the presence of State aid when the guarantee premiums of individual guarantees are derived from the notified methodology.

3.2. Market Conformity of guarantees granted in schemes

(70) The Commission has already concluded in recitals (47), (48) and (49) that both individual guarantees and schemes will not be available to borrowers in financial difficulty, that the extent of the guarantees can be properly measured when they are granted and that guarantees do not cover more than 80% of each outstanding loan or financial obligation, and that recoveries and losses will be sustained by the State as guarantor and the lender in the same ratio as stipulated in the guarantee contract, in accordance with section 3.4 (a), (b) and (c) of the Guarantee Notice.

(71) Specifically for guarantee schemes, the Commission needs to assess a number of additional conditions.

(72) First, the base guarantee premium covers the expected losses for each of the rating categories and coverage ratios under conservative assumptions.

(73) Second, the scheme foresees an administrative cost fee of 0.25% per annum, which the Commission deems reasonable, in light of the methodology targeting larger undertakings for larger loan amounts.

(74) Third, the remuneration of capital is obtained by assuming a capital requirement of 9.5% and a risk premium of 400 basis points[16] for the stronger rating categories and of 600 basis points for the weaker rating categories, which are above the minimum requirements set out in section 3.4 (f) of the Guarantee Notice.

(75) In addition, the methodology foresees a floor linked to Credit Default Swap Index prices of appropriate maturity and a governance mechanism linking the risk perceived by the financial intermediary, reflected by the interest rate it charges on the loan, to the total guarantee premium. The Commission therefore concludes that guarantee schemes under this methodology will be, in all probability, self-financing, and will also exclude, to the extent possible, aid at the level of the financial intermediary, in line with sections 2.3 and 3.4 (d) of the Guarantee Notice.

(76) The methodology also complies with the other requirement of that same section 3.4 (d) regarding the need to assess each new guarantee on the basis of all relevant factors, including the credit quality of the borrower (by virtue of its ICAP rating), the level of securities (with three different coverage ratio levels) and the duration of the guarantee (with three different maturity buckets on the CDS Index floor).

(77) Furthermore, the Commission notes positively that the duration of the method is limited in time. Greece will reassess the scheme in collaboration with the Commission in order to refine and improve it, based on experience gained over time. The Commission also notes the commitment by Greece to verify the self-financing nature of the scheme by reviewing the adequacy of the premiums at least once a year, in line with section 3.4 (e) of the Guarantee Notice.

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[16] The 9.5% capital requirement on the notional exposure (Risk Weighted Assets) x 4.00% = 0.38%; 9.5% * 6.00% = 0.57%.

(78) Finally, by clearly outlining the application scope and the terms under which future guarantees are granted or benchmarked against, the methodology also complies with section 3.4 (g) of the Guarantee Notice.

(79) The Commission therefore concludes that the methodology, when applied to guarantee schemes, is in line with section 3.4. of the Guarantee Notice, such that guarantee premiums in guarantee schemes that fulfil all the conditions of the notified methodology, can be considered free of State aid.

3.3. Assessment of guarantees with an aid element

(80) Where an individual guarantee or a guarantee scheme is not provided on market terms, in particular when the State guarantee is not properly remunerated, it may entail State aid. In such case, the aid element can be calculated by using the notified methodology and it will amount in principle to the difference between the appropriate market price of the guarantee (as calculated based on the notified methodology) and the actual guarantee premium paid. The resulting cash grant equivalents should then be discounted to their present value in line with the reference rate communication as referred to in footnote 15.

(81) The Commission notes that, as indicated in recitals (39) and (40), Greece intends to use precisely this method to determine the State aid amounts. The methodology to compute gross grant equivalents using annual discounting, described in recitals (40)-(44) is an acceptable means of compliance with Article 4(6) of the *de Minimis* regulation.

(82) In addition, the exclusion of companies in financial difficulty and adherence to the other conditions of section 3.2 of the Guarantee Notice ensures compliance with the conditions of section 4.1 of the Guarantee Notice in case of an aid element.

(83) Furthermore, the theoretical market premium for the guarantees, which is also applicable to schemes, includes the coverage of normal risks as well as the administrative and capital costs, as shown in recitals (72)-(74).

(84) The Commission therefore concludes that the application of the methodology to quantify the aid element in public guarantees is in line with section 4 of the Guarantee Notice.

(85) As shown in recital (45), Greece has committed to ensure that any aid granted will be compatible with State aid rules. Moreover, Greece has ensured (see recital (35)) that the mobilization of all guarantees will only occur under specific conditions that are contractually linked.

(86) The Commission thus concludes that the application of the methodology is in line with section 5 of the Guarantee Notice.

3.4. Reporting Requirements

(87) The Commission notes positively that Greece commits to comply with the reporting requirements mentioned under section 6 of the Guarantee Notice (recital (31)).

4. CONCLUSION

The Commission concludes that the methodology allows an appropriate risk appraisal of the transactions supported by the State for the determination of the total guarantee premiums and an appropriate calculation of the aid element in guarantees which entail State aid. The Commission takes the view that the calculation method is in line with the Guarantee Notice.

The Commission has accordingly decided:

The aid comprised in guarantees and calculated according to the approved methodology will therefore be considered as transparent in the meaning of Article 5(2)(c)(ii) of the Commission Regulation (EU) N° 651/2014 ("GBER") and of Article 4(6)(d) under Commission Regulation (EU) N° 1407/2013 (*de Minimis* Regulation).

The methodology is approved for four years from the moment of the notification of this Decision, i.e. until 21 April 2026.

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 this Decision in the authentic language on the Internet site: http://ec.europa.eu/competition/elojade/isef/index.cfm.

Your request should be sent electronically to the following address:

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

Yours faithfully,

For the Commission

Margrethe VESTAGER
Executive Vice-President