

Brussels, 28 January 2009

## State aid: Commission authorises modification of French scheme to inject capital into certain credit institutions

*The European Commission has approved, under EC Treaty state aid rules, a modification of the French scheme to inject capital into credit institutions which it approved on 8 December 2008 (see [IP/08/1900](#)). The change to the scheme essentially entails giving banks the option to use preference shares instead of subordinated debt securities for their recapitalisation by the State. Banks will also be able to convert subordinated debt securities already issued into preference shares. The Commission has also approved an increase in the budget for the second recapitalisation tranche, which is to go up from EUR 10.5 billion to EUR 11 billion, and an extension of the scheme to 31 August 2009. The modified scheme is consistent with the Commission's recommendations on support measures for banks during the crisis ([IP/08/1495](#) and [IP/08/1901](#)). It provides in particular for an adequate remuneration of state intervention.*

Competition Commissioner Neelie Kroes commented: "This modification of the French recapitalisation scheme allows intervention arrangements to be adjusted to reflect market expectations while limiting distortions of competition. It is in line with the decisions approved by the Commission in other Member States."

On 21 January 2008 the French authorities formally notified the capital-injection scheme for certain credit institutions. The scheme was approved by the Commission on 8 December 2008 (see [IP/08/1900](#)) with a total budget of EUR 21 billion in favour of six large banks and a first tranche of EUR 10.5 billion was paid. For the second phase of operations, the French authorities will give eligible banks the option of issuing before 30 August 2009 one of two instruments: subordinated debt securities on the same terms as those approved in the decision of 8 December 2008, or preference shares. Negotiations with the Commission led to the establishment of a higher remuneration for preference shares, reflecting their higher degree of risk.

This second capital-injection tranche will be apportioned among the beneficiary banks according to the method already used for the first operation. However, the French authorities have increased the amount of the second tranche to take account of the merger of the central bodies of the Caisses d'Épargne and the Banques Populaires within the limit of 50 basis points of the Tier 1 ratio of the new entity. This adjustment represents an addition of EUR 500 million (maximum) to the EUR 10.5 billion initially earmarked for the second tranche.

All the other elements of the capital-injection scheme as approved in the decision of 8 December 2008 remain unchanged.

The Commission has concluded that the capital-injection scheme is an appropriate, necessary and proportionate means of restoring confidence to financial markets and enabling French banks to increase lending to the real economy.

In particular, the Commission has concluded that the level of remuneration of preference shares provides adequate remuneration of the State and will ensure that its involvement in the banks' capital will be as brief as possible.

The non-confidential version of the decision will be made available under case number N 29/2009 in the [State aid register](#) on the [DG Competition](#) website once any confidentiality issues have been resolved. The latest publications of state aid decisions on the internet and in the Official Journal are listed in the [State Aid Weekly e-News](#).