IP/09/711

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State aid: Commission approves recapitalisation of Commerzbank

The European Commission has approved under EC Treaty state aid rules the recapitalisation of Commerzbank. On the basis of the German financial crisis scheme, Germany already granted €8 billion of capital to the bank in December 2008 and intends to grant another €10 billion of capital. Germany notified this second tranche to the Commission for reasons of legal certainty so that the Commission could verify the compatibility of the measure with state aid rules. On the basis of the notified plans, the Commission is satisfied that Commerzbank's long term viability has been demonstrated, and that the aid is kept to the minimum and will not lead to undue distortions of competition. It has therefore declared the aid compatible.

Competition Commissioner Neelie Kroes said: "Financial stability requires that banks adjust to new market conditions and possibly revisit their business models to be viable in the long term. State aid rules provide the right legal framework to support the trend towards newly sustainable banks. State aid rules can also ensure that banks receiving state aid do not benefit at the expense of their competitors. I am very pleased with the good collaboration we have enjoyed with Germany which has led to a good result in the Commerzbank case."

The bank

After its acquisition of Dresdner Bank, Commerzbank (Coba) is the second largest private German bank with a pro-forma balance sheet total of €1,100 billion. Coba is a universal bank, i.e. it is active in both commercial and investment banking, but focuses on retail clients and corporations (with an emphasis on SMEs), both within Germany and in Central and Eastern Europe.

Aid granted to Commerzbank

After Commerzbank sustained major losses, in particular deriving from the Dresdener Bank ABS portfolio, and in view of increased capital needs demanded from financial markets in the current crisis, the German Government agreed for to provide €18 billion of new capital to the bank.

The aid is granted to ensure financial stability under a German financial crisis scheme, approved by the Commission on 12th December 2008 (see IP/08/1966). This scheme allows recapitalisation for fundamentally sound banks if the remuneration and exit incentives are appropriate, as laid down in the scheme, in accordance with the Commission's Recapitalisation Communication (see IP/08/1901). However, given the amount of aid involved, Germany presented the Commission with a business plan setting out measures to restore the viability of the bank.

The plan

The main element of Coba's plan is a focus on its core businesses, namely retail and corporate banking including in Central and Eastern Europe, which generated stable returns in the past. In contrast, volatile investment banking will be reduced over time and commercial real estate activities will be divested as regards Eurohypo. The bank has also reviewed its practices regarding risk management and corporate governance.

The plan includes a number of measures aimed at keeping the aid to the minimum necessary. These measures include divestments by Commerzbank of activities and the sale of subsidiaries (including the sale of Eurohypo, an important European player in the real estate and public finance business) to address the Commission's concerns as regards possible distortions of competition due to the large size of the aid granted, and the suspension of dividend and interest payments to holders of hybrid capital.

In addition, to allay further concerns related to potential distortions of competition, the bank will be subject to a general ban for three years on acquisitions of financial institutions or other businesses which potentially compete with it. Furthermore, the bank will not be allowed to do business (including deposit taking) under more favourable price conditions than its top three competitors in markets/products where it has a market share above 5%.

Commission assessment of the plan

The Commission's assessment found that the plan is likely to restore the bank's **long term viability,** as demonstrated in a number of simulations including stress test scenarios, despite rising credit risk provisioning deriving from the current crisis.

Also, Coba demonstrated that its funding situation has been stable throughout the crisis and it still has significant liquidity buffers.

The large-scale divestments (amounting to roughly 45% of Coba's current balance sheet total) and the suspension of payments of dividends and interests foreseen in the plan limit the aid to the **minimum necessary and ensure an adequate contribution of the bank to the measures**.

Finally, the Commission deems the plan also sufficient for **mitigating the potential distortions of competition.** In particular the Commission notes that the ban on acquisitions and the price leadership prohibition are suited to avoid that state aid is abused for both organic and un-organic growth at the expense of competitors which have not received state aid.

The non-confidential version of the decision will be made available under the case number N625/2008 in the State Aid Register on the DG Competition website. New publications of state aid decisions on the internet and in the Official Journal are listed in the State Aid Weekly e-News.