EUROPEAN COMMISSION



Brussels, 9.4.2015 C(2015) 2353 final

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

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Subject: State aid SA.33442 (2011/N) – Ireland
Restructuring of Irish Life and Permanent Group Holdings plc

Sir,

1 PROCEDURE

- (1) By decision of 20 July 2011 in case SA.33311 (2011/N)¹, the Commission authorised a recapitalisation worth up to EUR 2.7 billion for Irish Life & Permanent Group Holdings (now called Permanent TSB, "PTSB"), a capital injection by the Minister for Finance ("Standby State Investment") in the Irish Life Group worth up to EUR 1.1 billion as well as guarantees by the Irish authorities on the basis of several commitments including the submission of a restructuring plan by 31 July 2011.
- (2) By electronic mail of 29 July 2011 the Irish authorities submitted a first restructuring plan for PTSB, followed by a second restructuring plan on 30 June 2012 and a third restructuring plan on 16 August 2013. A further updated version

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Commission decision in case SA.33311 (2011/N) – Rescue recapitalisation in favour of Irish Life and Permanent Group Holdings plc, OJ C 268, 10.9.2011, p. 4 (the "Temporary Decision")

- of the restructuring plan (the "Restructuring Plan") was submitted on 22 October 2014, which is the object of the present decision.²
- (3) The Commission requested information with regard to the Restructuring Plan several times. Those requests for information were answered by the Irish authorities between the submissions of the revised restructuring plan in October 2014 and 16 March 2015.³

2 FACTS

2.1 Description of the beneficiary

- (4) PTSB is the third-largest domestically-owned Irish bank and is also present in the United Kingdom. In its primary market of Ireland, PTSB is a retail-focussed operator, primarily offering residential mortgages, retail deposits and personal current accounts. It has 76 branches spread throughout Ireland. It has a small business lending book focused on retail lending. In terms of market share in Ireland, in 2014 PTSB had approximately 19% of the outstanding retail mortgage stock and 13% of the retail deposits stock. In absolute terms, in December 2014 PTSB had residential mortgages of EUR 26.6 billion, commercial lending of EUR 0.36 billion and a consumer finance loan book of EUR 0.25 billion. It also had retail deposits and current accounts of EUR 14.9 billion.
- (5) Prior to the financial crisis, the market shares of PTSB were relatively stable. While they remained unchanged in most markets, they fell significantly in the market for mortgages during the financial crisis, where PTSB's market share of mortgage flows decreased from more than 20% in 2007 to 3% in 2012.
- (6) PTSB's activities in the United Kingdom consist chiefly of Capital Home Loans ("CHL"). CHL is a portfolio of mostly good quality but lower-yield buy-to-let assets, funded by securitised debt and systemic funding. CHL's book gross value was approximately GBP 5.04 billion at December 2014.
- (7) The overall funding mix of PTSB in 2014 comprised 60% of customer accounts, 34% long-term wholesale funding, including 12% of long-term funding from the European Central Bank ("ECB"), and 6% short-term wholesale funding, which includes 4.5% of ECB funding.
- (8) As a result of the recapitalisation measures examined in the present decision⁴, the Irish Minister for Finance holds 99.2% of PTSB's issued share capital.

2.1.1 Business activity

(9) Following the recapitalisation measures, the Irish authorities envisaged to separate legally PTSB's high quality assets from its lower quality ones (lower yield or noncore assets), which eventually would have been transferred to a wind-down vehicle. In the meantime, the economic situation in Ireland as well as PTSB's financial situation improved. It also became conceivable to sell unprofitable or low-yielding assets. Therefore, that envisaged split did not materialise. However,

Recital (27) and following of the present decision sets out the background and the reasons for such a protracted interim period

The most important supplementary contributions were submitted on 31 October 2014, 11 November 2014, 14 January 2015, 27 February 2015 and 16 March 2015, and related to financial projections and to the capital raising plan of PTSB.

See recital (17).

PTSB's banking products and services still fall into two divisions: (i) a Core Bank Unit encompassing PTSB's main retail banking operations, which include deposit acquisition, new retail lending (primarily home loans and buy-to-let loans) and arrears management and collection capabilities, and (ii) a Non-Core Bank Unit encompassing PTSB's Non-Core assets in the UK and Ireland, which have been ring-fenced and sufficiently capitalised for all projected future losses, including planned deleveraging.

(10) Apart from the portfolio under arrears management, a significant part of the Non-Core Bank Unit consists of mortgages in the United Kingdom based on tracker rates – that is based on rates set at a fixed percentage above the interest rates of the Bank of England - while the remainder consists mainly of Irish commercial loans. While PTSB focuses on the Irish retail business, it nonetheless holds Irish Commercial Real Estate ("CRE") loans with a gross value amounting to EUR 2.7 billion.

2.2 The difficulties of PTSB

- (11) PTSB's problems built up gradually, along with other Irish players in the market. From 2003 to 2008, the growth of PTSB's lending book was broadly in line with the rapidly expanding market. Reacting to competitive pressures and increasing consumer demand, PTSB increased considerably the proportion of tracker mortgages in its portfolio (up to approximately 65% of its lending book by July 2011) and used the broker channel to originate most of its new mortgage flows (approximately 60% from 2003 to 2007). As explained in recital (10), those tracker mortgages are based on rates set at a fixed percentage above the interest rates of the ECB, which fell sharply when the financial crisis began. Therefore, PTSB's interest income fell significantly, while the bank could not reduce its cost of funding in the same fashion, in particular because of strong competition from other banks to capture deposits, which resulted in significant stress on PTSB's profitability. That stress on profitability, combined with insufficient prudent credit risk policy, for example with respect to loan-to-value ratios, also increased the riskiness of the loan book.
- (12) Given the deterioration of market conditions, PTSB's asset quality worsened rapidly, resulting in a growth in impairment charges from 0.9% of assets (EUR 0.4 billion) in 2008 to 4% (EUR 1.4 billion) in 2011. Those increased impairment charges consumed the capital of the bank and resulted in a need for its recapitalisation.
- (13) At the same time, PTSB's reliance on wholesale market funding resulted in a significant liquidity shortage as debt markets closed. This liquidity shortage led to a substantial increase in the cost of funds (through expensive deposits), further straining PTSB's profitability and compounding the pressures on its capital base. This liquidity shortage also led to an increasing reliance on Eurosystem funding. PTSB's level of reliance on ECB funding and on support from government guarantees gradually revealed its difficulties in returning to normal market operations.

2.3 The aid measures

(14) As one of the three main domestic banks in Ireland, PTSB was of critical importance to the entire Irish financial system. PTSB has, as a result, benefitted from several aid measures including a State guarantee on liabilities, a

recapitalisation and liquidity assistance. Those measures and their amounts are laid out in Table 1 and described in recitals (15) and following of the present decision.

Table 1: Overview of the aid measures granted to PTSB

	Type of measure	Amount (in EUR billion)	Remuneration
1	Guarantees under the CIFS scheme (amount of guaranteed liabilities)	Up to 22.1	In accordance with the CIFS scheme
2	Guarantees under the ELG scheme (amount of guaranteed liabilities)	Up to 19.2	In accordance with the ELG scheme
3	Recapitalisation in the form of new equity capital, July 2011	2.3	
4	State guarantee on Emergency Liquidity Assistance ("ELA")	Up to 8.1	
5	Recapitalisation in the form of contingent capital notes ("CoCo"), July 2011	0.4	Fixed mandatory interest rate of 10% p.a.
6	Standby State Investment, July 2011	1.1	

Source: Irish authorities

- (15) Between 2008 and 2012, PTSB benefitted from the CIFS Scheme, which guaranteed all eligible deposits and certain other liabilities on the PTSB's balance sheet.⁵ Between 2010 and June 2014, PTSB also availed of the ELG Scheme, a successor to the CIFS Scheme. The ELG Scheme guaranteed all eligible deposits and certain other liabilities on PTSB's balance sheet.⁶
- (16) PTSB received Emergency Liquidity Assistance ("ELA") from the Central Bank of Ireland ("CBI") in 2011-2012. The cost of that funding was the ECB marginal lending rate plus a 175 bps margin, as determined by the CBI.
- (17) On 26 July 2011, the Irish Minister for Finance acquired 99.2% of the issued share capital of PTSB. That acquisition was achieved through the issue of EUR 2.3 billion worth of new ordinary shares and a EUR 0.4 billion convertible debt instrument ("CoCo") which, together, conferred on the Minister for Finance majority voting and governance rights in PTSB. Furthermore, the Minister for Finance granted PTSB a further EUR 1.1 billion capital injection ("Standby State Investment") that could have been used if the various capital raising measures (recapitalisation, asset disposal and liability management exercise) had not achieved the target of EUR 4 billion capital need identified by the Irish authorities in liaison with the Commission, the International Monetary Fund and the ECB.⁷

CIFS stands for Credit Institutions Financial Support and was a blanket scheme covering all deposits, senior debt, covered bonds and dated subordinated debt of participating Irish banks. The scheme commenced on 30 September 2008 and expired on 29 September 2010 (see Commission decision in case NN48/2008 - *Guarantee scheme for banks in Ireland*, OJ C 312, 06.12.2008, p. 1)

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ELG stands for Eligible Liabilities Guarantee and is a scheme that commenced on 9 December 2009 and covers deposits and eligible debt securities fulfilling certain criteria (see Commission decision in case N349/2009 - *Eligible Liability Guarantee Scheme – Ireland*, OJ C 72, 20.03.2010, p. 6).

That target was eventually met and the Standby State Investment was not executed. These measures have been authorised in the Temporary Decision.

Following PTSB's recapitalisation, a number of PTSB's former shareholders (the (18)"PTSBGH shareholders") filed a lawsuit notably on the grounds that the capital injection described in recital (17) is incompatible with the Second Company Law Directive. 8,9 Their action in still pending before Irish courts. The PTSBGH shareholders sent several letters to the Commission to assert that the Commission could not adopt a final restructuring decision because to do so would validate a capital injection made in contravention of an EU directive. However, the application of the Second Company Law Directive to PTSB's recapitalisation is not intrinsically linked to the State aid rules since the there is no necessary connection between the amounts of aid to PTSB and purposes for which it is granted, on the one hand, and the detailed arrangements by which that aid is granted, on the other. Any decision taken by the Commission on the capital injections made by the Irish authorities into PTSB does not relate to the means by which those capital injections have occurred, but only to the presence of aid and to whether it is appropriate, necessary and proportionate to the objective of remedying a serious disturbance in the economy of a Member State. The present decision is therefore without prejudice to the litigation initiated by the PTSBGH shareholders.

2.4 Restructuring measures already implemented by PTSB

- (19) Over the course of 2011, PTSB bought back its own subordinated debt with a book value of EUR 1.2 billion, for a cash consideration of EUR 0.2 billion, leading to a EUR 1 billion loss for subordinated debt holders. In 2012, PTSB bought back its subordinated debt of EUR 1.2 billion, for a cash consideration of EUR 0.9 billion, leading to a EUR 0.3 billion loss for subordinated debt holders.
- (20) In addition, PTSB sold the consistently profitable Irish Life Group (the largest life assurer in Ireland) to Canada Life for EUR 1.3 billion on 29 June 2012. It completed the sale of the EUR 0.5 billion Springboard Asset Portfolio on 22 October 2014. Furthermore, PTSB wound down the greatest part of PTSB Finance Limited in 2012 [...] and a tranche worth GBP 172 million of the CHL Asset Portfolio in 2014.

Directive of the European Parliament and of the Council on coordination of safeguards which, for the protection of the interests of members and others, are required by Member States of companies within the meaning of the second paragraph of Article 54 of the Treaty on the Functioning of the European Union, in respect of the formation of public limited liability companies and the maintenance and alteration of their capital, with a view to making such safeguards equivalent, OJ L 315, 14.11.2012, p. 7

See Commission decision in case M.6883 – *Canada Life/Irish Life*, OJ C 196, 09.07.2013, p. 1.

PTSB Finance Limited focused on the advancement of auto loans via car dealerships and also operated Blue Cube, which was engaged in the advancement of unsecured personal loans and had been closed to new lending since 2008. PTSB Finance Limited was overall loss-making.

The PTSBGH shareholders contend that the General Meeting rejected the proposed terms of the recapitalisation. According to the PTSBGH shareholders, the Minister for Finance nonetheless submitted those terms to the Irish High Court which in turn made the decision of recapitalisation on 26 July 2011.

Springboard was originally a joint venture between the US bank Merrill Lynch and PTSB that offered subprime mortgage loans. Most of those loans were non-performing and the portfolio was in wind-down since 2013.

Irish Life was the largest life insurance company in Ireland. It was mainly active in Ireland – and to a limited extent in the UK – in the markets for life and pension insurance, both for individuals and for employers and public sector union members.

- (21) Moreover, PTSB undertook a number of measures to reduce its costs. PTSB closed 27 of its branches between January 2008 and June 2014, wound up the defined benefit programme and required its current pensioners to forego any future increases in their pensions while active and deferred members had their benefits reduced significantly. PTSB moreover decreased its benefits, granted no pay rises or bonuses across the board since 2010 and reduced the salaries granted to the top management.
- (22) Just before the completion of Ireland's notification on 16 March 2015, it was announced that PTSB had reached an agreement regarding the sale of GBP 2.5 billion of the CHL portfolio and EUR 1.5 billion of the CRE portfolio, that is approximately half of the deleveraging targets that Ireland committed to as part of the Restructuring Plan.

2.5 The Comprehensive Assessment

- (23) Following an Asset Quality Review ("AQR"), an in-depth review of assets on a point-in-time basis assessed as of 31 December 2013, the Single Supervisory Mechanism ("SSM") and the European Banking Authority ("EBA") undertook the 2014 "Stress Test", a forward-looking view of banks' shock absorption capacity under stress in a baseline and adverse scenarios. The overall exercise is hereafter referred to as the "Comprehensive Assessment". On 26 October 2014 the EBA and the SSM published the results for 123 banks, including PTSB. The aim of the stress test was to assess the resilience of EU banks to adverse economic developments, so as to understand remaining vulnerabilities, complete the repair of the EU banking sector and increase confidence.
- (24) For PTSB the conclusion was that the bank had an adequate shock absorption capacity under the AQR and the baseline scenario. However, it had a EUR 855 million capital shortfall under the adverse scenario.
- (25) PTSB could cover a part of the shortfall by measures it recently had undertaken or was about to undertake but it still had to raise EUR 525 million (EUR [...] million Common Equity Tier 1 ("CET1") and EUR [...] million Additional Tier 1). PTSB plans to raise that capital in the market. A capital plan to that effect was submitted by PTSB to the ECB on 21 November 2014 and was approved by the ECB on 20 February 2015. 14
- (26) According to the information provided by the Irish authorities, PTSB will reasonably be able to obtain those amounts from private investors. In any case, the Irish authorities commit that PTSB will raise the capital amounts needed to cover the capital shortfall by 26 July 2015.¹⁵

See decision of the ECB of 20 February 2015 establishing prudential requirements for Permanent TSB.

^{*} Confidential information

The ECB can in its sole discretion postpone that deadline. However, the Irish authorities commit as part of the Restructuring Plan that the external capital raise be completed by 26 October 2015 at the latest.

2.6 The Restructuring Plan for PTSB

- On 29 July 2011, the Irish authorities submitted a first draft restructuring plan. Over the course of 2012, a dedicated management team was recruited and a second draft restructuring plan was submitted on 30 June 2012. The changes in the market conditions led to a third restructuring plan, which was submitted by the Irish authorities on 16 August 2013. In view of the then imminent AQR that aimed at assessing the financial viability of the banking industry, the Irish authorities postponed the submission of a final restructuring plan.
- (28) Following the Comprehensive Assessment, the Irish authorities submitted on 22 October 2014 the Restructuring Plan covering the period 2015 to 2018 (the "Restructuring Period").
- (29) By the end of the Restructuring Period, PTSB plans to return to being a solid, profitable and well-funded institution with sound capital ratios and a traditional business model. The plan sets out a business strategy that positions PTSB as a smaller full-service retail bank, focused on Ireland.
- (30) The main drivers of PTSB's return to viability are:
 - (i) The re-orientation of PTSB into a smaller bank with an improved funding profile, focused on Ireland;
 - (ii) Improved levels of profitability through the sale of non-profitable portfolios, the reduction of the proportion of low-yielding trackers in the remaining loan portfolio, significant improvements in both its funding mix and rates and a high likelihood of future write backs of provisions, given the observed and foreseen evolution of the House Price Index ("HPI");
 - (iii) An improved capital buffer.

2.6.1 The base case

2.6.1.1 Macro-economic assumptions and key financial projections

- (31) In the base case of the Restructuring Plan, it is expected that the gradual recovery in the Irish economy will continue during 2015-2018. The ECB base rate is forecast to remain at historically low levels throughout the Restructuring Period. That low ECB base rate [...] will continue to act as a drag on PTSB's profitability.
- (32) However, the interest rate effect is offset by continuing improvements in the wider macroeconomic environment. With a strong economic recovery already underway, the unemployment rate in Ireland is expected to continue to decrease from [10-20]% in 2014 to [10-20]% at the end of 2018 and the GDP in Ireland will grow at a positive rate over the Restructuring Period ([0-5]%-[0-5]% per year). In addition, following a HPI peak-to-trough fall of approximately [50-60]% during the financial crisis, the HPI is forecast to rise throughout the Restructuring Period. House prices are expected to increase by approximately [20-30]% from 2014 to 2018, resulting at the end of 2018 in an HPI [30-40]% below its 2007 peak. That improvement is expected to generate greater lending volumes as the economy recovers, and may also allow PTSB to normalise levels of impairments and release associated provisions over the Restructuring Period.
- (33) The Restructuring Plan of PTSB results in the following financial projections under the base case scenario:

Table 2: PTSB's financial results and financial projections in the base case scenario

Key financial indicators	2014 Actual	2015 Plan	2016 Plan	2017 Plan	2018 Plan
- Capital & Risk Weighted Assets ("RWAs")					
- Common Equity Tier 1 ("CET1") ratio (%)	14,2%	[10-16]%	[10-16]%%	[10- 16]%%	[10-16]%%
- Capital buffer (EUR m) vs. 10,25% CET1	586	[0-1000]	[0-1000]	[0-1000]	[0-1000]
- RWAs (EUR m)	14 830	[10000 - 15000]	[10000 - 15000]	[10000 - 15000]	[10000 - 15000]
- Profitability					
- NIM – excluding ELG (%)	0,9%	[0,8-2,0]%	[0,8-2,0]%	[0,8- 2,0]%	[0,8-2,0]%
- Cost income ratio	103%	[100- 120]%	[70-90]%	[55-65]%	[50-60]%
- Profit after tax (EUR m) ¹⁶	(100)	[(750) to 0]	[(750) to 0]	[0-200]	[0-200]
- Return on equity ("ROE") ¹⁷	-4%	[-25 35]%	-[1020]%	[0-10]	[5 – 10]%
- Funding					
- Liquidity Coverage Ratio ("LCR")	154%	[100- 150]%	[100-150]%	[100- 150]%	[100-150]%
- LDR	138%	[100- 130]%	[100-130]%	[100- 130]%	[100-130]%
- ECB reliance (% of total liabilities ¹⁸)	13%	[10 - 20]%	[10 - 20]%	[10 - 20]%	[10 - 20]%
- Others					
- Gross loans and advances to customers (EUR m)	31 969	[20000- 30000]	[20000- 30000]	[20000- 30000]	[20000- 30000]
- Total Assets (EUR m)	36 296	[20000- 30000]	[20000- 30000]	[20000- 30000]	[20000- 30000]
- FTE (number)	2 201	[2000 – 2500]	[2000 - 2500]	[2000 - 2500]	[2000 – 2500]

Source: PTSB's restructuring plan

2.6.1.2 Main drivers of PTSB's return to viability

(i) A smaller domestically focussed bank with an improved funding profile

(34) By means of major non-core asset deleveraging, notably through the sale of large low-yielding portfolios, PTSB aims to become a smaller institution when compared to the period preceding the financial crisis. PTSB will sell its largest portfolio in the United Kingdom, namely (i) the CHL portfolio – whose gross asset value amounts to EUR 6.7 billion, and (ii) part of the CRE portfolio¹⁹ –

The projected losses in 2015 and 2016 mainly stem from the projected losses of disposal from the sales of the CHL and of part of the CRE portfolio. Those losses are one-off costs and do not reveal a recurrent issue.

ROE includes Preference Shares in average equity.

Excluding equity

Within the CRE portfolio, PTSB intends to sell the non-performing loans that qualify as Non-Core. The gross value of this part of the CRE portfolio equals EUR 1.7 billion, whereas the whole CRE portfolio has a gross value of EUR 2.7 billion.

whose gross asset value equates to EUR 1.7 billion. The benefit of the sale of those portfolios will be manifold: (i) the sale of the CHL portfolio will first improve PTSB's profitability since that portfolio consists of low-yielding assets; (ii) both sales will enable PTSB to focus on its core business, that is retail lending in Ireland; and (iii) they will improve its loan-to-deposit ratio ("LDR"). PTSB has already completed major deleveraging. Its total assets have reduced from EUR 44.9 billion at the end of 2011 to EUR 36.3 billion at 31 December 2014 (a 19% reduction).

- (35) That large deleveraging/downsizing programme undertaken by PTSB, combined with a growing customer deposit base, has helped improve its funding profile. The proportion of customer deposits over the total source of funds (i.e. total liabilities²⁰) improved from 36.4% at the end of 2011 to 60% at the end of 2014, while the LDR decreased from 227% at the end of 2011 to 138% as of 31 December 2014. Overall, the LDR is expected to improve further throughout the Restructuring Period, reaching [100-130]% in 2018.
- (36) During the Restructuring Period, PTSB projects to further increase the proportion of customer deposits in total funds (i.e. total liabilities), from 60% in 2014 to [70-80]% in 2018, while the ECB funding is expected to decrease from EUR 4.9 billion in 2014 to EUR [4.0-4.5] billion in 2018.
- (37) During 2013 PTSB already gained access to the wholesale markets and successfully issued residential mortgage-backed securities of EUR 500 million to external investors.
- (38) As regards liquidity ratios, PTSB predicts a LCR during the Restructuring Period well above the minimum regulatory requirements (see Table 3).

Table 3: PTSB's liquidity ratios

T + +11/4 ()	2015	2016	2017	2018
Liquidity ratios	Plan	Plan	Plan	Plan
LCR	[100-150]%	[100-150]%	[100-150]%	[100-150]%
Minimum LCR ²¹		70%	80%	100%
Net Stable Funding Ratio	[70-120]%	[70-120]%	[70-120]%	[70-120]%

Source: PTSB's restructuring plan

(ii) An improved level of profitability

- (39) PTSB projects to return to profitability in 2017, with an expected profit after taxation of EUR [0-200] million, which will reach EUR [0-200] million in 2018. The return on equity ("ROE") is expected to be [0-10]% in 2017 and [5-10]% in 2018. That outcome will be achieved in the following way.
- (40) First, PTSB's proportion of low yielding assets (i.e. tracker mortgages, CHL mortgages and NAMA²² bonds) to total assets is projected to rise to [50-60]% in 2015 and then gradually decrease to [40-50]% in 2018 as a result of the

Excluding equity

Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) 575/2013 with regard to liquidity coverage requirement for Credit Institutions, OJ L 11, 17.01.2015, p. 1.

National Asset Management Agency

redemption of NAMA bonds and the amortisation of the tracker mortgage portfolio. As regards the CHL mortgages, PTSB plans to sell that unprofitable portfolio, amounting to GBP 5.04 billion in 2014, which will help the bank to focus its activity on restoring a profitable loan portfolio in Ireland, with a planned increase in the amount of standard variable rates mortgages, in consumer finance and SME lending, all of which feature higher yields than those of the trackers. The yields exhibited in Table 4 shed light on the difference between the low-yielding back-book and the more profitable front-book.

- (41) Second, through significant improvements in both its funding mix and rates. The funding mix is evolving towards a higher proportion of less expensive current accounts and retail deposits, with retail deposit rates reducing significantly faster than originally expected.
- (42) Third, through partial future write backs of provisions, which could reasonably be expected, given the observed and foreseen evolution of the HPI.²⁴ The last available data show that the HPI in 2014 is -44.4% peak-to-trough, while PTSB continued in December 2014 to maintain a conservative 50% peak-to-trough provisioning assumption. In addition, its Asset Management Unit has performed well, with total cases past due by over 90 days in mortgage portfolios in 2014 being around 14% below their peak levels in 2013. Those assumptions seem reasonable, as evidenced by the 15% increase in the average house price in 2014.²⁵
- (43) Fourth, through continued cost reduction, as the discontinuation of the ELG Scheme after 28 March 2013 will bring an improvement in the Net Interest Margin ("NIM") after ELG costs. Indeed, the guarantee fees paid to the State will be reduced as covered liabilities are gradually replaced. Those fees amounted to EUR 105 million in 2013 and are expected to be only EUR 2 million in 2017. Moreover, the bank levy²⁶ is expected to come to an end after 2016; its annual cost amounted to EUR 27 million in 2014.
- (44) Finally, with a view to reaching sustainable pre-provision operating profits, PTSB plans a further reduction of its operating costs from EUR 317 million in 2014 to EUR [200-300] million in 2018.

10

On 9 March 2015, PTSB announced that an agreement had been reached for the sale of GBP 2.5 billion of CHL assets, which is approximately half of the entire CHL portfolio to deleverage.

PTSB's impairment provisioning model relies on a peak-to-trough HPI of 50% while the actual CSO HPI was at 38% in December 2014.

Source: CSO statistical release, 24 September 2014 and Eurostat's house price index database.

Under the 2010 Central Bank Reform Act, the CBI prescribes an annual industry funding levy to be paid by regulated financial institutions to the CBI. The purpose of this bank levy is to fund approximately half of the annual budget for national financial regulation.

Table 4: PTSB's expected evolution of average yields on assets and liabilities

Average yield	2014 Actual	2015 Plan	2016 Plan	2017 Plan	2018 Plan
Average yield - New lending	4,0%	[2-6]%	[2-6]%	[2-6]%	[2-6]%
Average yield - Back-book loans	2,4%	[2-3]%	[2-3]%	[2-3]%	[2-3]%
Average yield - Total assets	2,5%	[1-5]%	[1-5]%	[1-5]%	[1-5]%
Average yield – Retail deposits (including current accounts)	-1,5%	[-0.5 to - 2.5]%	[-0.5 to - 2.5]%	[-0.5 to - 2.5]%	[-0.5 to - 2.5]%
Average yield - Total liabilities	-1,7%	[-0.5 to - 2.5]%	[-0.5 to - 2.5]%	[-0.5 to - 2.5]%	[-0.5 to - 2.5]%

Source: PTSB's restructuring plan

(iii) Maintaining a strong capital buffer

- (45)As described in recital (25), PTSB intends to raise capital for an amount of EUR 525 million in 2015 as required by the SSM following the Comprehensive Assessment.
- (46) PTSB expects to maintain a strong capital buffer during the Restructuring Period primarily through this EUR 525 million capital raise, and the reduction in RWAs derived from the planned sales of portfolios. Also, the bank foresees returning to profitability from 2017 onwards, which will help to achieve a CET1 ratio of [10-16]% in 2018.
- (47) In its approval of PTSB's capital plan following the results of the Comprehensive Assessment, the ECB prescribed a CET1 ratio of 15.75% for PTSB, which could however be reduced following the realisation of post-provision losses. In any event, PTSB must maintain a CET1 ratio above the floor of 10.25%.²⁷
- As presented in Table 2, PTSB's CET1 ratio is expected to range between [10-(48)16]% throughout the Restructuring Period. [...] PTSB intends to maintain a CET1 above 11% throughout the Restructuring Period and even under that conservative assumption the capital buffer of PTSB above that target is expected to range between EUR [0-1000] million and EUR [0-1000] million over the Restructuring Period.

2.6.2 The adverse scenario

The adverse scenario put forward by the Irish authorities is based on the adverse macro-economic assumptions designed by the European Systemic Risk Board ("ESRB") for the purposes of the Comprehensive Assessment. In that scenario, Ireland would face a limited GDP growth of 0.5% in 2016 from -1.3% in 2014. Similarly, the unemployment rate would rise from 12.4% in 2014 to 14% in 2016 in that scenario, while both commercial and residential properties would suffer from significant inflation.

(50)In that adverse scenario, the capital position is markedly better than in the adverse scenario of the Comprehensive Assessment. That difference mainly comes from the disposal of low-yielding assets as well as from the capital raise in the adverse scenario of the Restructuring Plan. The CET1 ratio therefore remains greater than

²⁷ See decision of the ECB of 20 February 2015 establishing prudential requirements for Permanent TSB.

- [10-20]% during the Restructuring Period, which is above the capital floor of 10.25% set by the ECB.
- (51) The adverse scenario of the Restructuring Plan differs from the adverse scenario of the Comprehensive Assessment in several respects. First, in the former PTSB gets rid of some of its low-yielding assets. Second, the Restructuring Plan covers a wider time-span than the Comprehensive Assessment that had a three-year horizon. In the adverse scenario of the Restructuring Plan, PTSB incurs higher impairment charges and issues less new lending than in the base case scenario. In spite of those difficulties, PTSB maintains an appropriate solvency level.

2.7 Commitments proposed by Ireland

- (52) The Irish authorities have given a number of commitments that will be observed by PTSB during the Restructuring Period. Those commitments relate to:
 - a capital raise of at least EUR 525 million from private investors
 - disposals of the CHL portfolio and of part of the CRE portfolio,
 - deleveraging [...] of the non-performing loans based on tracker rates,
 - restructuring of the mortgages loan portfolios (meeting quantitative restructuring targets for restructuring/proposing sustainable solutions reaching [50-60]% in 2018),
 - reduction of the whole balance sheet to a level of EUR [20-30] billion from 2016 onwards,
 - the limitation of lending based on tracker rates,
 - cost-income ratio targets ranging from [100-120]% in 2015 to [50-60]% in 2018,
 - the limitation of exposure to Irish Sovereign bonds to EUR [0-10] billion,
 - behavioural commitments on limiting acquisitions, marketing and advertising and sponsorship in Ireland and dividend ban;
 - measures to enhance competition in the Irish banking market ("market opening measures", comprising a services package and a customer mobility package), and
 - the appointment of a monitoring trustee to monitor the respect of those commitments.
- (53) Ireland has undertaken to ensure that the Restructuring Plan is implemented in full, including the commitments set out in detail in the Annex.

3 Position of the Irish Authorities

- (54) Ireland accepts that the measures constitute State aid and is of the view that the measures are compatible with the internal market on the basis of Article 107(3)(b) of the Treaty as they are necessary to remedy a serious disturbance in the Irish economy.
- (55) As described in Section 2.7 of this decision, Ireland has given a series of commitments, which are set out in detail in the Annex.

ASSESSMENT

Existence of State aid

- (56)The Commission must first assess whether the measures granted to the beneficiaries constitute State aid within the meaning of Article 107(1) of the Treaty. 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 qualification of a measure as State aid requires the following conditions to be (57)met: (i) the measure must be financed through State resources; (ii) it must grant an advantage upon its recipient; (iii) that advantage must be selective; and (iv) the measure must distort or threaten to distort competition and have the potential to affect trade between Member States. Those conditions being cumulative, they must all be present before a measure is characterised as State aid.
- The Commission has already established in previous decisions²⁸ that the (58)conditions set out in Article 107(1) of the Treaty are met for all restructuring aid measures listed in Table 1 with the exception of the State guarantee on ELA and that those measures therefore constitute aid within the meaning of that provision. In particular, in the present case the Irish authorities submitted that PTSB could not have raised such financing in such a timeframe at comparable conditions from private investors.
- (59)As regards the State guarantee on ELA, the risk that it entails is carried by the State. Any monies to be paid out if the guarantee was activated would be paid out of the State's Central Fund. Thus, the State guarantee on ELA clearly involves State resources.²⁹ That State guarantee relates to PTSB only but is not remunerated. Therefore, the State guarantee on ELA confers a selective advantage to PTSB.³⁰ Lastly, the State guarantee on ELA strengthens PTSB's position compared to that of its competitors in Ireland and other Member States and must therefore be regarded as distorting competition and affecting trade between Member States. As a result, the State guarantee on ELA also constitutes State aid within the meaning of Article 107(1) of the Treaty.
- (60)The total aid amount of State aid has been calculated at EUR 2.7 billion of recapitalisation which constituted nearly 18% of PTSB's RWA at the time, EUR 1.1 billion of Standby State Investment, guarantees on issued liabilities up to EUR 41.3 billion and guarantees on ELA up to EUR 8.1 billion.

For capital injection measures, see: Commission Decision in case N 160/2010, recitals (40) to

^{(47);} Commission Decision in case N 241/2009, recitals (43) to (48); Commission Decision in case SA.31891 (N 553/2010), recitals (59) to (65) and Commission Decision in case SA.33296, recitals (54) to (60).

In addition, the Commission has established in prior decisions that support granted under the CIFS and ELG schemes constitute State aid (see Commission decisions in cases N349/2009 - Eligible Liability Guarantee Scheme - Ireland and NN48/2008 - Guarantee scheme for banks in Ireland).

See the 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, 20.6.2008, p. 10.

³⁰ While other banks in Ireland benefit from similar State guarantees on ELA, such measures are nonetheless selective as they only concern the banking sector.

4.2 Compatibility

- 4.2.1 Application of Article 107(3)(b) of the Treaty
- (61) Article 107(3)(b) of the Treaty sets out that State aid can be regarded as compatible with the internal market where it is granted to "remedy a serious disturbance in the economy of a Member State".
- (62) Despite the slow economic recovery observed since 2013, the Commission still considers that the requirements for State aid to be approved pursuant to Article 107(3)(b) of the Treaty continue to be fulfilled in view of the persisting stress in financial markets. In July 2013, the Commission confirmed that view by adopting the 2013 Banking Communication.³¹
- (63) Without the restructuring aid measures granted, PTSB would have not met its capital and liquidity requirements. As a result, the supervisory authority would have had no choice but to withdraw the banking licence of PTSB. PTSB has a systemic importance in Ireland. Therefore, the bankruptcy of the bank would have seriously affected the financial stability of Ireland. It results that Article 107(3)(b) of the Treaty can be applied to the case under assessment.

4.2.2 Compatibility assessment

- (64) All measures identified as State aid have been provided in the context of the restructuring of PTSB. The Restructuring Communication³² sets out the rules applicable to the granting of restructuring aid to financial institutions in the current crisis. According to the Restructuring Communication, to be compatible with the internal market under Article 107(3)(b) of the Treaty, the restructuring of a financial institution in the context of the current financial crisis has to (i) lead to the restoration of the viability of the bank, (ii) include sufficient own contribution by the beneficiary (burden-sharing) and ensure that the aid is limited to the minimum necessary and (iii) contain sufficient measures limiting the distortion of competition.
- (65) The Commission has based its compatibility assessment on the base scenario proposed by PTSB, which relies on reasonable assumptions overall. The adverse scenario relies on the assumptions designed by the ESRB for the purpose of the Comprehensive Assessment.
- (66) Since the restructuring aid notified for PTSB was registered by the Commission prior to 1 August 2013, the compatibility of those measures with the internal market must be examined in light of the criteria in force at the time of the notification. As such, none of the modifications to the Restructuring Communication introduced by the 2013 Banking Communication needs to be taken into account.

Restoration of long-term viability

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Communication 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, OJ C 216, 30.7.2013, p. 1 (see in particular point 6).

Commission Communication - 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.

- (67) As the Commission has indicated in the Restructuring Communication, the Member State needs to provide a comprehensive restructuring plan which shows how the long-term viability of the entity will be restored without State aid within a reasonable period of time and within a maximum of five years. According to point 13 of the Restructuring Communication, 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 return on equity, taking into account the risk profile of the bank. Point 14 of the Restructuring Communication stipulates that long-term viability requires that any State aid received is either redeemed over time or is remunerated according to normal market conditions, thereby ensuring that any form of additional State aid is terminated.
- (68) The Irish authorities have submitted the Restructuring Plan which sets out PTSB's strategy to return to viability without further State aid by focusing on (i) the re-orientation of PTSB into a smaller institution, focused on retail Ireland, with an improved funding profile; (ii) improved levels of profitability through NIM enhancement and gradually reduced impairment charges; and (iii) maintaining a strong capital buffer.

(i) A smaller institution, focused on retail Ireland, with an improved funding profile

- (69)PTSB is already undertaking far-reaching restructuring measures leading to a considerably smaller balance sheet as compared to pre-crisis levels, which were the result of uncontrolled growth (EUR 36.6 billion in 2014 compared to EUR 52.8 billion in 2009 and EUR 44.9 billion in 2011 when the first State aid was granted to PTSB). The reduction is notably going to be achieved through foreign business disposals, basically the CHL portfolio and part of the CRE portfolio, and other asset deleveraging. As a result, PTSB's current exposure to the commercial property and construction sector has been reduced and is expected to further decrease in relative terms until the end of the Restructuring Period. The new strategy is prudent and appropriate in a post-crisis environment, and will be directly supported by the commitments given by Ireland that PTSB will sell the CHL portfolio as well the greatest part of the non-performing loans from the CRE portfolio and that PTSB will reduce [...] the amount of defaulted tracker mortgages. Ireland has also committed that PTSB will reduce its balance sheet and restructure its non-performing residential mortgages portfolio. To that end, the Restructuring Plan includes targets throughout the Restructuring Period for the percentages of non-performing residential mortgages for which solutions will be proposed as well as for the percentages thereof that will lead to an agreement between the bank and its customer.
- (70) PTSB is also returning to a more conservative traditional banking model where it will substantially fund its loan portfolio through customer deposits with a projected LDR of approximately [100-130]% at the end of the Restructuring Period. That target is the result of an overall deleveraging plan and relatively prudent assumptions regarding the evolution of the volume of deposits. Moreover, PTSB projects not to be overly dependent on wholesale funding and institutional funding sources, such as ECB funding.
- (71) Furthermore, Ireland has committed PTSB to disposing of a significant part of the

CRE portfolio. Indeed, commercial real estate is a market that differs from retail banking. Therefore, that disposal will help PTSB focus on its core business. The commitment given by Ireland to limit its exposure to Irish sovereign will also limit the activities of PTSB to those necessary to manage its liquidity profile and will limit non-necessary transactions.

(ii) Improved levels of profitability

- (72) With regard to the return to profitability, the plan sets out an appropriate mix of planned actions. First, as described in recital (20), PTSB has already sold several portfolios at prices greater than their net book values. In the future, tracker mortgages which currently have low profitability will be amortized and new lending will be granted at higher interest rates, basically through standard variable rate mortgages, consumer finance and to a lesser extent SME lending. NAMA bonds which have low profitability will fall as a proportion over total assets from current 4% to [0-5]% in the Restructuring Period and the Irish authorities committed that the unprofitable CHL portfolio will be sold before [...] 2016. In addition, PTSB will significant improve the pricing of deposits and gradually reduce impairment charges. [...]. Those measures, together with the discontinuation of the ELG Scheme guarantee fees, will enable PTSB to progressively drive the recovery of its NIM.
- (73) The strong cost reduction, combined with the planned increase in income, will help PTSB to significantly improve its cost-income ratio (projected at [50-60]% in 2018 as compared to 103% in 2014). In that respect, Ireland committed to the limitation of PTSB's operating costs to EUR [300-350] million over the Restructuring Period and the commitment that the cost-income ratio will be gradually brought down to a maximum of [50-60]% in 2018 (unless GDP growth for a given year is below 2%, in which event a 5% buffer will be added to the target of that year).
- [74] [...] expects a release of current impairment charges over the Restructuring Period in the baseline scenario. That trend is reasonable given that (i) the expected economic recovery in Ireland should slow down the pace of arrears formation, (ii) the projected increase in house prices should limit loss severity on mortgage loans and (iii) PTSB's strengthened credit management activities³³ should accelerate/improve loans collections and restructuring. In that respect, Ireland made a commitment in relation to PTSB's restructuring targets relating to its non-performing residential mortgages.

As described in recital (9), PTSB set up an arrear management unit with a view to managing its non-performing loans portfolio and to improve their profitability when possible through renegotiation of the terms or through closure.

- (75) In the base case scenario, PTSB will return to profitability in 2017. Notwithstanding the impact of impairment charges, PTSB's profitability is structurally weak due to a large legacy portfolio of low-yielding assets (primarily tracker mortgages). As a result, PTSB will continue to incur losses until 2016 and achieve profits as of 2017. The forecasted ROE amounts to [0-10]% in 2017 and [5-10]% in 2018. Therefore, PTSB is on the right path to reach more competitive ROE levels/profitability in the future, as the new lending with higher margins and the re-priced (back-book) loans will progressively compensate for the drag on profitability stemming from those low-yielding legacy assets. Therefore, profitability is expected to gradually improve. In that respect, Ireland committed PTSB to offering no new tracker mortgage products (with limited exceptions³⁴) and will deleverage (through a combination of cures, closures, write-offs and asset sales) [...] of its non-performing tracker loans since as described in recital (11) those products have significantly dragged down the bank's profitability.
- (76)PTSB's objectives are ambitious. However, the Commission has carried out a sensitivity analysis to test the underlying assumptions of the Restructuring Plan. That sensitivity analysis focused on several aspects of the financial projections, mainly on (i) the expected profitability of the consumer finance portfolio (more specifically the calculations have been made on the basis of a more sluggish growth than forecasted in the Restructuring Plan), (ii) the forecasted interest rates on deposits (the calculations have been made on the basis of a [0-5]% fixed term rate and [0-5]% corporate rate instead of [0-5]% and [0-5]% respectively in the Restructuring Plan), (iii) the forecasted cost of wholesale funding (the calculations have been made on the basis of a [0-5]% cost of fund instead of [0-5]% in the Restructuring Plan) and (iv) the forecasted operating expenses (more specifically, the calculations assumed that the bank levy was maintained beyond 2016). That sensitivity analysis revealed that PTSB's return to profitability is robust, although under those conservative assumptions PTSB's ROE is lower than [0-5]% in 2017 and greater than [0-5]% in 2018.

(iii) A strong capital buffer

- (77) Finally, following the capital raise of EUR 525 million PTSB will be a well-capitalised institution with a comfortable capital buffer until the end of the Restructuring Period. In the base case scenario, PTSB will maintain a capital buffer ranging from EUR [0-1000] million to EUR [0-1000] million above the capital floor of 10.25% set by the ECB. Such a buffer will enable PTSB to absorb further losses if the objectives of the restructuring plan are not fully achieved. Furthermore, PTSB holds EUR 400 million of CoCo available to strengthen its capital base if needed. In that respect, Ireland committed that PTSB will carry out the capital raise prescribed by the SSM.
- (78) The commitment given by Ireland that PTSB will dispose of the CHL portfolio and of a significant part of the CRE portfolio are subject to maximum haircuts on their gross values (equating to 10% and [...]% respectively). Those ceilings have

Those exceptions in particular allow PTSB to capitalise on interests (i.e. to add unpaid interests to the principal balance) in relation to tracker mortgages that have already been issued.

The amount of EUR 525 million is required by the ECB following the results of the adverse scenario of the Comprehensive Assessment. However, the ECB can its sole discretion alter that amount. The underlying assumption of the Restructuring Plan is not the hard number but the fulfilment of that requirement of the ECB.

been set in such a way as to prevent PTSB from incurring too significant losses. Therefore, the asset disposals are aimed at improving PTSB's profitability but will in any event not consume its capital beyond reasonable amounts.³⁶ These maximum haircuts are realistic and similar transactions reveal that the sales are likely to be completed.

(iv) Conclusion

- (79) The initiatives already undertaken by PTSB (i.e. deleveraging, cost reductions, improved funding profile) combined with those planned throughout the Restructuring Period in order to restore its profitability (i.e. new lending at higher price, re-pricing of deposits and change of funding mix, deleveraging of the CHL and portfolio and of a significant part of the CRE portfolio, further operating expenses reductions) and the foreseen capital raise are considered to be appropriate regarding the nature of PTSB's financial difficulties.
- (80) Accordingly, the Restructuring Plan convincingly sets out the right strategy for PTSB's return to long-term viability. The combination of the actions described above appears apt to ensure PTSB's future viability without further State support.
- (81) It is true that PTSB's return to profitability might be slow to occur before the end of the Restructuring Period due to PTSB's low-yielding legacy assets. However, even though PTSB's ROE, under the sensitivity analysis carried out by the Commission, remains at a comparatively low level, even at the end of the Restructuring Period, it shows a moderate upward trend.
- (82) Taking into account the above elements, the Commission concludes overall that the Restructuring Plan of PTSB convincingly sets out the path to restoring its long-term viability.

Limiting aid to the minimum: own contribution and burden sharing

- (83) Section 3 of the Restructuring 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 moral hazard. To that end, it provides that (i) the amount of aid should be limited and (ii) a significant own contribution is necessary.
- (84) The Restructuring Communication further provides that, to keep the aid limited to the minimum, the bank should first use its own resources to finance the restructuring. The costs associated with the restructuring should not only be borne by the State but also by those who invested in the bank. That objective is achieved in particular by absorbing losses with available capital.
- (85) Almost complete burden-sharing has been achieved from the former owners of PTSB. Shareholders have been diluted and the State currently owns 99.2% of PTSB. Therefore, the amount of burden-sharing from the former owners is significant and adequate.

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For instance, the sale of a tranche of the CRE portfolio announced in March 2015 was approximately at net book value, while the loss on the sale of CHL was at a reasonable haircut of approximately 10%.

- (86) PTSB contributed to meeting the costs of its own restructuring through the sale of the consistently profitable Irish Life Group to the Irish Minister for Finance in 2012 for EUR 1.3 billion, which in turn sold it to Canada Life.³⁷
- (87) PTSB also conducted several liability management exercises in 2011 and 2012, representing significant burden-sharing on the part of PTSB's creditors. Over the course of 2011, PTSB bought back its own subordinated debt with a book value of EUR 1.2 billion for a cash consideration of EUR 0.2 billion, leading to a EUR 1.0 billion loss for subordinated debt holders. In 2012, PTSB bought back its own subordinated debt with a book value of EUR 1.2 billion, for a cash consideration of EUR 0.9 billion, leading to approximately EUR 0.2 billion loss for subordinated debt holders. Therefore, subordinated creditors have adequately contributed to bearing the restructuring costs.
- (88) PTSB pays a nominal interest rate of 10% for the CoCo held by the Minister for Finance, which is a further significant contribution to restructuring costs. Between 2011 and June 2014, PTSB paid EUR 117 million of interest in relation to the coupon payment. The CoCo may be converted into common equity during the Restructuring Period, as described in recitals (43) and (44) of the Temporary Decision. The Commission has previously found that remuneration to be in line with its decisional practise and with the Recapitalisation Communication. Apart from the Coco, the only outstanding subordinated debt of PTSB relates to zero coupon bonds.
- (89) In that respect, Ireland committed PTSB to making no equity dividend payment until the CoCos have been repaid, converted or sold by the Minister for Finance.
- (90) Considering the above, the Commission concludes that the PTSB's Restructuring Plan provides for appropriate own contribution and burden-sharing.

Measures limiting the distortions of competition

(91) Section 4 of the Restructuring Communication requires that the restructuring plan contains measures limiting distortions of competition. Such measures should address the distortions on the markets where the beneficiary operates after restructuring. In the present case it needs to be ensured that potential new entrants can easily enter the concentrated Irish banking market to enhance competition.

(92) PTSB commits to operate certain competition measures, namely the provision to relevant competitors³⁹ of a Services Package and a Customer Mobility Package.

(93) The Service Package aims at reducing the cost of entry or the cost of expansion of a competitor. In particular, the beneficiary of the Service Package will receive support for several back-up functions (such as clearing, treatment of paper transactions) at incremental cost by PTSB (costs directly incurred by the provision of that service), and may then decide to invest in its own infrastructure only at a later stage when its customer base is large enough to absorb fixed costs. That

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

See Commission decision in case M.6883 – Canada Life/Irish Life, OJ C 196, 09.07.2013, p. 1.

For the purpose of that commitment, "relevant competitor" is defined as a credit institution operating in Ireland which is not under a State aid restructuring period when requesting measures under the Services or Customer Mobility Package.

- beneficiary will also access PTSB's ATM network at incremental cost, immediately offering a national coverage to its customers.
- (94) The Customer Mobility Package will reduce the costs of customer acquisition for its beneficiaries. The beneficiaries will contact PTSB's customers, via PTSB, and will present them with alternative products for deposits (including current accounts), residential mortgages and credit cards. Although it is difficult to predict how many customers of PTSB will decide to switch their banking products to the beneficiaries of the measure, this customer approach is more targeted and less costly than general advertising measures.
- (95) The measures described above provide a framework to stimulate new entry on the Irish banking market and hence limit the distortions of competition caused by the aid granted to PTSB. They are similar to measures aimed at limiting distortions of competition in previous cases of the Commission's decisional practise, yet with different markets and thresholds adapted to the circumstances of the present case. 40
- (96) In addition, Ireland made commitments in relation to certain business restrictions during the Restructuring Period, in particular PTSB will not engage with aggressive commercial practises. Moreover, PTSB will respect behavioural commitments during the Restructuring Period relating to a ban on advertising and sponsorship and to an acquisition ban. Those business restrictions will ensure that the State aid is not used to take over competitors, but will instead serve its intended purpose, namely to finance the restructuring process. Furthermore, the commitments given by Ireland to exit the CRE market and to the limitation of the size of PTSB's balance sheet will equally ensure that the State aid is not used to fund anti-competitive behaviour.

Implementation and monitoring

- (97) Finally, section 5 of the Restructuring Communication requires that detailed regular reports are made available to the Commission so that it can verify that the restructuring plan is being implemented properly.
- (98) Ireland has committed that a monitoring trustee will be appointed who will provide regular reports to the Commission on the implementation of the Restructuring Plan by PTSB and the respect of the commitments given.
- (99) Taking into account the commitments, the far-reaching restructuring measures already implemented by PTSB and in light of the appropriateness of the own contribution and burden-sharing as set out above, there are sufficient safeguards to limit potential distortions of competition despite the high amount of aid granted to PTSB.

CONCLUSION

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The Commission concludes that the EUR 2.7 billion of recapitalisation, the EUR 1.1 billion of Standby State Investment, the guarantees on issued liabilities up to EUR 41.3 billion under the CIFS and the ELG schemes and the guarantees on ELA up to EUR 8.1 billion constitute State aid pursuant to Article 107(1) TFEU.

See Commission decisions in case SA.29786 – $restructuring\ of\ AIB/EBS$, OJ L 44, 18.02.2015, p. 40.

In the light of the Restructuring Plan for PTSB submitted by the Irish authorities, the Commission raises no objection to the aid measures as restructuring aid as they are compatible with the internal market pursuant to Article 107(3)(b) TFEU subject to Ireland and PTSB adhering to the commitments as set out in Annex of the present decision.

If this decision contains confidential information which should not be published, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to the publication of the full text of the decision on the Internet site:

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

Your request specifying the confidential information should be sent by registered letter or fax to:

European Commission Directorate-General for Competition State Aid Greffe MADO 12/59 B-1049 Brussels Belgium Fax No: +32-2-296 12 42

> Yours faithfully For the Commission

Margrethe VESTAGER
Member of the Commission

Annex

TERM SHEET – Case SA.33442 – Ireland – Restructuring of PTSB

Ireland undertakes to ensure that the 2015 Restructuring Plan Update, submitted on 22 October 2014, as amended and supplemented by written communications, is correctly and fully implemented. This document (the "Term Sheet") sets out the terms for the restructuring of the Group which Ireland has committed to implement.

1 **Definitions**

In this document, unless the context requires otherwise, the singular shall include the plural (and vice versa) and the capitalised terms used herein have the following meanings:

- 1.1 "Acquisition" shall have the meaning ascribed to it in Clause 9.1 herein;
- 1.2 "Annual Operating Expenses" means the aggregate of (1) staff costs, (2) impairment, depreciation and amortisation on property, equipment and intangible assets and (3) other administrative and operating expenses as set out in the Group's annual report in line with then prevailing applicable international financial reporting standards;
- 1.3 "Annual Operating Income" means operating income as set out in the Group's annual report in line with then prevailing applicable international financial reporting standards;
- 1.4 "Asset Sale" means the binding agreement between a member of the Group and a counterparty to the sale of an asset by the Group to such counterparty and shall include any sale or disposal of a legal entity, business unit, specific assets of portfolios of assets and any combination of the foregoing;
- 1.5 "Business Day" means a day between, and including, Monday to Friday but does not include any public holiday in Ireland;
- 1.6 "CBI" means the Central Bank of Ireland;
- 1.7 "CHL Loan Portfolio" means a portfolio of Capital Home Loans which gross value amounted to GBP 5.04 billion at December 2014;
- 1.8 "CIR" means annual Cost to Income Ratio, calculated as Annual Operating Expenses divided by Annual Operating Income;
- 1.9 "Clause" means a clause in this document only and such a clause forms part of the document. However, headings to Clauses are for convenience only and are not binding:

- 1.10 "Closure" means a Mortgage where (a) the Group has been granted an order for possession of the mortgaged property; or (b) the borrower has agreed to the voluntary sale or voluntary surrender of the mortgaged property;
- 1.11 "CoCo" means the contingent capital note as described in note 32 to the Group's financial statements in the Annual Report of Irish Life & Permanent plc 2011;
- 1.12 "Commitments" means the commitments set out in the Final Decision and this Term Sheet;
- 1.13 "Concluded" means, in the context of Clause 4, that the customer has accepted the offer of a Sustainable Mortgage Arrears Solution and passed a 6 month trial (sustainable solution instance) and in respect of legal cases, the term "Concluded" means that a civil bill has been issued by the Circuit Court or a summons issued by the Central Office of the High Court of Ireland;
- 1.14 "Core Bank" means the part of the Group excluding Non-Core;
- 1.15 "CRE" means commercial real estate;
- 1.16 "Cure" means a Mortgage that was a Defaulted Tracker Mortgage where either (a) the borrower has paid all arrears on this Mortgage to 90 days or below; or (b) the borrower has been offered and accepted a treatment of the Mortgage that is sustainable in accordance with the Group's mortgage arrears management policies or mandatory CBI regulations and all arrears on this Mortgage have been reduced to 90 days or below;
- 1.17 "Customer Mobility Package" means the package of measures described in Clause 12 herein;
- 1.18 "Date of the Request" means the day on which a Relevant Competitor makes a Valid Application in writing to the Group in connection with the Customer Mobility Package set out in Clause 12 herein;
- 1.19 "Defaulted Tracker Mortgage" means an Irish Tracker Mortgage Product that is more than 90 days in arrears as determined by reference to the Mortgage terms and conditions (including any agreed modification to the Mortgage terms and conditions) as of 31 December 2014;
- 1.20 "Deposits" includes, but is not limited to, notice accounts, demand accounts, current accounts and fixed term accounts;
- 1.21 "Divestiture" means any full or partial sale or disposal of entities and/or assets or liabilities, including a sale to a private or corporate buyer or buyers, or a sale to the general public through an Initial Public Offering (or "IPO"), or any other loss of ownership or control;
- 1.22 "Divestiture Trustee" means the divestiture trustee as described in Schedule 2 of this Term Sheet:
- 1.23 "Final Decision" means the Commission decision accompanying this Term Sheet clearing all State Aid provided to the Group;
- 1.24 "FRAND" means fair, reasonable and non-discriminatory;

- 1.25 "Group" means permanent tsb Group Holdings plc., formerly Irish Life & Permanent Group Holdings plc., and its subsidiaries, the subject of the Final Decision and this Term Sheet;
- 1.26 "Incremental Cost" means an additional cost incurred by the Group as a direct consequence of the provision of services to Relevant Competitors in application of the Measures. In particular, Incremental Costs do not cover any fixed or variable cost that the Group would bear in the absence of the Measures;
- 1.27 "Ireland" means the Republic of Ireland and includes Irish governmental authorities from time to time including, without limitation, the Department of Foreign Affairs, the Department of Finance and the Central Bank of Ireland (or "CBI");
- 1.28 "Mailing Date" shall have the meaning ascribed to it in Clause 12 herein;
- 1.29 "Marketing, Advertising and Sponsorship" means the promotion of the business (or part of the business) of the Group by means of communication such as television, radio, newsprint, internet and other similar means of communication;
- 1.30 "Market Share" means, unless otherwise provided, the proportion of the market, expressed in percentage terms, for (i) stock or (ii) flow held by an undertaking in any particular market in Ireland (being a market for a Relevant Product) and as measured on a suitable practical basis by an independent external source proposed by the Group and approved by the Monitoring Trustee (which approval shall not be unreasonably withheld) on a case by case basis as needed before the Date of the Request;
- 1.31 "Material" shall have the meaning ascribed to it in Clause 12 herein;
- 1.32 "Measures" means the obligations imposed on the Group by virtue of the Commitments made by Ireland in Clauses 3 to 15 herein;
- 1.33 "Minister for Finance" means the Minister for Finance of Ireland;
- 1.34 "Monitoring Trustee" means the monitoring trustee as described in Schedule 1 below, namely, one or more natural or legal person(s), independent from the Group who is approved by the European Commission and appointed by the Group, and who has the duty to monitor the Group's compliance with the Commitments attached to the Final Decision and whose role is more fully described in Schedule 1 hereto;
- 1.35 "Mortgage" means a loan secured on residential property in Ireland issued by a credit institution or building society where the purpose of the advance of money is, typically, to either finance the change of ownership of, or improvements to, the residential property on which the loan is secured but which may also include non-property related purposes. Any references to a Mortgage include both owner occupier and buy-to-let property;
- 1.36 "Non-Core" means the part of the bank comprising:

- (i) Non Core UK, which predominately comprises CHL, a UK residential mortgage portfolio of mostly buy-to-let loans (predominantly tracker mortgages). CHL also administers a smaller legacy portfolio of mostly residential buy-to-let loans on behalf of two wholly owned Isle of Man based Group subsidiaries, Irish Permanent (IOM) Limited ("PIOM") and Irish Permanent International (Isle of Man) Limited ("PIL"). Separately, a deposit business in the Isle of Man operated through Permanent Bank International Limited ("PBI"), while considered core to the overall business of the Group, is included within the Non-Core Business (and more particularly, the UK element thereof), to enable the Group to hedge its foreign exchange exposure more efficiently. This Isle of Man deposit business is expected to grow in the future; and
- (ii) Non Core Ireland, which comprises an Irish commercial real estate portfolio incorporating both performing and non-performing components. The non-performing component is planned for sale, and as this disposal progresses, it is expected that the performing component will be transferred to the Core Bank in due course;
- 1.37 "Notification Date" shall mean the date on which the Group notifies the Relevant Competitor that the latter's Material is to be mailed by the Group;
- 1.38 "Proposed" means that the Group has offered a customer a sustainable solution or that the Group has instructed a solicitor (for legal outcomes);
- 1.39 "Relevant Competitor" means an undertaking which at the Date of the Request: (1) is licensed in Ireland or elsewhere to operate as a credit institution in Ireland; (2) is not in receipt of State Aid (i.e. banks which have received State Aid and which are still in the restructuring period are not considered "Relevant Competitors"; however, banks which have received State Aid but whose restructuring period has ended, are considered "Relevant Competitors"); and (3) has (by virtue of all related undertakings) a Market Share of less than [10-20]% of stock or flow in Ireland of a Relevant Product market in which the Group has a Market Share above the Threshold (of stock or flow, if applicable) of the Relevant Product market, based on a Market Share measurement by an independent external source proposed by the Group and approved by the Monitoring Trustee;
- 1.40 "Relevant Product" means: (i) Deposits (as defined in Clause 1.20); (ii) residential Mortgages; and (iii) credit cards (excluding debit cards);
- 1.41 "Restructuring Period" means the period commencing on the date of the Final Decision and ending on 31 December 2018;
- 1.42 "2015 Restructuring Plan Update" means the update to the Restructuring Plan and is the relevant restructuring plan for the purposes of this Final Decision;

- 1.43 "Schedule" means a schedule to this document only and such a schedule forms part of the document. The Schedule is an integral part of the Term Sheet and equally binding as all other parts of the Term Sheet but in the event of a conflict between a provision in the Schedule and a provision in the rest of the Term Sheet then the latter provision shall prevail;
- 1.44 "State Aid" shall, for the purposes of this Term Sheet, have the meaning ascribed to it in Clause 2.1 herein;
- 1.45 "Sustainable Mortgage Arrears Solutions" means an arrangement concluded under a bank's mortgage arrears resolution process in accordance with the CCMA (where required to do so), where the borrower is cooperating under the process and the bank has satisfied itself that the arrangement provides a sustainable solution which is likely to enable the customer to meet the original or, as appropriate, the amended terms of the mortgage over the full remaining life of the mortgage, including repayment of the original or an agreed revised principal sum where offered. This may include an interest only or other temporary solution for a period if it is likely that full repayment of the original or revised principal will be achieved over time, or where there is a payment plan to return the account to sustainability through the clearance of arrears;
- 1.46 "Term Sheet" means this document only and shall not include any other oral or written statement whatsoever;
- 1.47 "Threshold" means: (i) in relation to Deposits (as defined in Clause 1.20), a Market Share of [10-20]% of stock in Ireland; (ii) in relation to residential Mortgages a Market Share of [10-20]% of stock or flow in Ireland; and (iii) in relation to credit cards (excluding debit cards) a Market Share of [10-20]% of stock or flow in Ireland;
- 1.48 "Tracker" means a Tracker Mortgage Product;
- 1.49 "Tracker Mortgage Product" means a mortgage where the interest rate is calculated by reference to a fixed percentage over a central bank reference rate for which a hedge is not available in the market on reasonable terms acceptable to the Group;
- 1.50 "Tracker Portability Mortgage" offers customers the opportunity to move their current Tracker Mortgage to a new property, with the addition of 100 basis points to their Tracker interest rate and with a maturity that does not exceed that of the original Tracker Mortgage. This product does not allow the tracker portion of the principal to be increased as any new lending is at the current variable rate;
- 1.51 "Valid Application" means an application made by an undertaking who is a Relevant Competitor who is, on the Date of the Request, a Relevant Competitor for a service contained in Clause 12 herein and which sets out, in reasonable detail, sufficient information to enable the Group to provide the service; and
- 1.52 "Writeoff" means the de-recognition of a Mortgage from the financial statements of the Group where the Group considers the prospects of an improved outlook for recovery under such Mortgage to be unlikely.

2 Basis of the Measures

- 2.1 The measures set out below are conditional on the European Commission (the "Commission") adopting a Final Decision that all State Aid received by Irish Life & Permanent Group Holdings plc (or the "Group") including the State Aid element of Ireland's 2008 and 2009 bank guarantee schemes and the recapitalisations by Ireland of Irish Life & Permanent Group Holdings plc as described in the decision dated 20 July 2011 relating thereto (all such aid is referred to herein as "State Aid") are compatible with the internal market in accordance with Articles 107 to 109 of the Treaty on the Functioning of the European Union.
- 2.2 The Group shall use all reasonable endeavours to comply with the obligations imposed on it as a result of the measures arising out of the Commitments made by Ireland (including seeking all necessary approvals).
- 2.3 In relation to the Group's obligation to implement these measures, the Group shall not be obliged to breach any of its legal or regulatory obligations. In case of a conflict between an obligation arising from a measure in this Term Sheet and the Group's legal or regulatory obligations, the Group will inform the Monitoring Trustee and will undertake to propose an alternative solution that will enable the Group to fulfil its obligations. The Monitoring Trustee, in consultation with the Commission will, acting reasonably, verify whether the alternative solution is in line with the Commitments in this Term Sheet and the Group's legal or regulatory obligations.

3 Commitment: Restructuring of the Group

3.1 Ireland commits that the Group will maintain the reporting split of its balance sheet into two units: Core Bank and Non-Core.

4 Commitment: Portfolio Restructuring

- 4.1 Ireland commits that the Group will achieve the following targets in respect of Non-Performing Residential Mortgages (i.e.: the mortgages in arrears of more than 90 days on 31 December 2013):
 - 4.1.1 By 31 December 2015, Sustainable Mortgage Arrears Solutions will have been Proposed by the Group for [80-90]% of Non-Performing Residential Mortgages, and such solutions will have been Concluded with customers for [50-60]% of all Non-Performing Residential Mortgages.
 - 4.1.2 By 31 December 2016, Sustainable Mortgage Arrears Solutions will have been Proposed by the Group for [80-90]% of Non-Performing Residential Mortgages, and such solutions will have been Concluded with customers for [60-70]% of all Non-Performing Residential Mortgages.

5 Commitment: Limitation on Balance Sheet Size

- 5.1 Ireland commits that the Group's closing balance sheet will not exceed (i) EUR [30-40] billion at 31 December 2015, (ii) EUR [20-30] billion at 31 December 2016, (iii) EUR [20-30] billion at 31 December 2017 and (iv) EUR [20-30] billion at 31 December 2018.
- 5.2 Ireland commits that the Group will not offer new Tracker Mortgage Products, save for Tracker Mortgage Products offered exclusively to or in connection with existing properties on which there is already a Tracker Mortgage Product with the Group (i.e. Tracker Portability Mortgage). This commitment will not oblige the Group to breach any commitment to a regulator or any binding obligation to provide customers with Tracker Mortgage Products where those customers have a legal or regulatory entitlement to obtain a Tracker Mortgage Product from the Group. Capitalisation of interest on non-performing Trackers will not be considered as new Tracker lending.
- 5.3 The targets set out in Clause 5.1 for the years 2016 (and where applicable 2017 or 2018) must be increased by the gross asset value of the retained part of the CHL Loan Portfolio if in line with Clause 6.1 the CHL Loan Portfolio is not entirely sold in 2016 (and where applicable 2017 or 2018).
- 5.4 The targets set out in Clause 5.1 for the years 2016 (and where applicable 2017 or 2018) must be increased by the gross asset value of the retained part of the CRE portfolio if in line with Clause 6.3 the CRE portfolio is not entirely sold in 2016 (and where applicable 2017 or 2018).

6 Commitment: Deleveraging

Disposal of the CHL loan portfolio

- Ireland commits that the Group will sell the CHL Loan Portfolio. Ireland commits that the Group will conduct an Asset Sale of the CHL Loan Portfolio by [...] 2016, but the Group is not obliged to sell at lower than 90% of gross asset value on average. If no such sale takes place before [...] 2016, then the Divestiture Trustee will manage the sale according to these terms until [...].
- 6.2 Dependent on purchaser requirements, this business may be sold including but not limited to by way of an Asset Sale or a number of Asset Sales to a purchaser or to a number of purchasers or by way of a sale of the CHL business or company.

Disposal of the CRE portfolio

6.3 Ireland commits that the Group will sell EUR [0-5] billion of non-performing loans relating to the CRE portfolio which has been classified as Non-Core. The EUR [0-5] billion of loans relating to the CRE portfolio must be sold by [...]. In the context of the CRE portfolio, the Group is not obliged to sell at lower than [...]% of gross asset value on average. If no such sale takes place before[...], then the Divestiture Trustee will manage the sale according to these terms until [...].

- 6.4 Dependent on purchaser requirements, this business may be sold including but not limited to by way of an Asset Sale or a number of Asset Sales to a purchaser or to a number of purchasers.
- 6.5 With respect to the CRE portfolio, the Group may advance funds under contractually committed but not yet paid-out loan facilities.
- 6.6 Ireland commits that the Group will not provide any new lending targeted at the CRE market but this shall not prevent the Group taking security over CRE assets to secure lending in the ordinary course of the Group's business. With respect to the CRE portfolio existing at the time of the Final Decision, the Group may not provide additional financing which is not contractually committed at the time of the Final Decision (in line with Clause 6.5 above). As an exception to that prohibition, the Group may provide additional amounts to existing borrowers if:
 - It is strictly necessary to preserve the value of the loan collateral (e.g. to cover collateral maintenance, insurance, tax, security, insolvency or legal costs); or
 - It is otherwise related to minimising capital losses and/or enhancing the expected recovery value of a loan or other asset on a net present value basis (e.g. meet essential investment working capital or liquidity needs of the underlying business/ regulatory group).
 - The total additional financing corresponding with the exceptions listed in Clause 6.6 remains below EUR 85 million.

Deleveraging of Defaulted Tracker Mortgages

- 6.7 Ireland commits that the Group reduces the stock of Defaulted Tracker Mortgages by (i) EUR [0-0.5] billion by 31 December 2015, (ii) EUR [0.25-0.75] billion by 31 December 2016 and (iii) EUR [1-1.5] billion by 31 December 2017 by way of Cures, Closures, Writeoffs, Asset Sales or a combination of these.
- 6.8 For each of the targets set out in Clause 6.7, the deleveraging achieved by way of Writeoffs will not exceed EUR [0-0.5] billion in aggregate.

7 Commitment: Capital Raise

7.1 Ireland commits that the Group will carry out an external capital raise from private investors of at least EUR 525 million, as required by the ECB by 26 July 2015 or such other date as determined by the ECB in its sole discretion provided that the external capital raise has to be completed by 26 October 2015. The amount of capital to be raised from private investors may be altered if that amount is amended by the ECB in its sole discretion.

8 Commitment: Use of State Aid for Marketing and Advertising Purposes

- 8.1 Ireland commits that the Group will cap the nominal level of its expenditure externally on Marketing and Advertising in Ireland at a level of EUR [...] million for each year of the Restructuring Period.
- 8.2 During the Restructuring Period, Ireland commits that the Group will not use the granting of State Aid measures or the Minister for Finance's shareholding in the Group or any advantages arising therefrom for advertising purposes to promote its products or its standing in the market, nor take any measure that might reasonably be deemed an aggressive commercial practice.
- 8.3 The cap referred to in Clause 8.1 shall not apply to any: (a) expenditure required or recommended by any regulatory or governmental authority; and/or (b) expenditure related to any Measure herein; and/or (c) expenditure related to charities; and/or (d) initiative reasonably necessary to advise customers and others of issues such as fraud, criminal acts (e.g., forged banknotes or bank robberies), changes in terms and conditions in products or greater exposure to risk.

9 Commitment Acquisition and Scope of Business Restrictions

- 9.1 Ireland commits that until the end of the Restructuring Period, the Group will not for any reason whatsoever, acquire any stake in any undertaking (meaning an undertaking which has the legal form of a company or package of assets which form a business) (an "Acquisition") subject to the exceptions set out at Clause 9.2.
- 9.2 The Group may make such an Acquisition:
 - 9.2.1 with the prior written consent of the Commission, such consent to be granted on the basis that the Acquisition is deemed necessary in exceptional circumstances to restore financial stability or to ensure effective competition;
 - 9.2.2 where the purchase price for that Acquisition (excluding the assumption of debt) paid by the Group is less than [0-5]% of the Group's total assets at the Date of the Final Decision and the cumulative purchase price for all Acquisitions made during the Restructuring Period (excluding the assumption of debt) paid by the Group, is less than [0-5]% of the Group's total assets at the Date of the Final Decision; or
 - 9.2.3 where the Acquisition takes place in the ordinary course of the banking business in the management of existing claims towards ailing firms.

10 Commitment: Exposure to the Irish Sovereign

10.1 Ireland commits that the value of Irish Sovereign bonds held by the Group, excluding those bonds issued by NAMA, shall not exceed EUR [0-10] billion at any point in time during the Restructuring Period. Such a commitment however shall be without prejudice to the Group's regulatory requirements and obligations.

11 Commitment: CIR Target

- 11.1 During the Restructuring Period, Ireland commits that the Group will actively manage its costs so as to achieve the following targets:
 - 11.1.1 CIR will not exceed [100-120]% in 2015, [70-90]% in 2016, [55-65]% in 2017 and [50-60]% in 2018.
 - 11.1.2 Annual Operating Expenses will not exceed EUR [300-350] million during the Restructuring Period.
- 11.2 The target set out in Clause 11.1.1 is subject to a real GDP growth above or equal to 2%. If Irish real GDP growth (measured from 1 July in the previous year until 30 June of the ongoing year) is below 2% in a given year, the CIR target of that year is increased by 5 percentage points. Targets for other years remain unchanged.
- 11.3 If a bank levy is applicable in 2017 the target CIR for 2017 as set out in Clause 11.1.1 will be adjusted upwards to take account of the full amount of the bank levy. If a bank levy is applicable in 2018 the CIR target for 2018 as set out in Clause 11.1.1 will be adjusted upwards to take account of the lower of (i) the amount of such levy that year and (ii) EUR 10 million.

12 Commitment: Competition Measures

Introduction

- 12.1 Commencing on the date three months after the date of the Final Decision for a period of three years but only during the Restructuring Period, Ireland commits that the Group will operate certain competition measures, namely, the provision to Relevant Competitors of: (a) a Services Package; and (b) a Customer Mobility Package.
- 12.2 Ireland commits that the Group will contribute EUR 100 000 per annum for a period of three years commencing on 1 January 2015 to a public awareness campaign (such campaign to be facilitated by Ireland through an appropriate state body) to raise awareness and promote customer switching.
- 12.3 Any dispute between the Group and a Relevant Competitor relating to this Clause will be referred by the Group and the Relevant Competitor to the Monitoring Trustee, who shall mediate a solution. In case no solution is found, the Monitoring Trustee will refer the matter for resolution to the Commission,

Services Package

- 12.4 Ireland commits that the Group will operate a Services Package for Relevant Competitors who seek to avail of such package.
- 12.5 The Group shall provide, in so far as the Group provides such services, on FRAND terms and on terms which recoup the Group's Incremental Costs (including the relevant cost of capital where cost of capital means the cost of the Group's funds (e.g., debt and equity) to support this business), to Relevant Competitors:

- 12.5.1 access to Ireland's bank clearing system (both servicing paper and electronic transactions);
- debit card access to any automated teller machine network in Ireland of which the Group is a member;
- 12.5.3 access to market intelligence (e.g., rate of default of customers generally and macro/micro-economic data generally) but such access shall be subject to compliance with all laws, codes and practices including, without limitation, those relating to data protection, confidentiality, intellectual property, contract and competition;
- 12.5.4 access to cash supply and distribution services; and
- 12.5.5 foreign exchange supply and distribution services.
- 12.6 The Group will give due consideration to all reasonable requests from a Relevant Competitor via the Monitoring Trustee for a change in the services to be provided under this Clause 12. For the avoidance of doubt, the provision of such services shall be in compliance with all applicable laws, codes and practices generally (including, without limitation, the EU's Payment Services Directive) and the Group shall only be obliged to provide such services as it actually provides in the market (whether by its own resources or using third party providers) and are within its control and power.

Customer Mobility Package

- 12.7 Ireland commits that the Group will provide a Customer Mobility Package for Relevant Competitors who seek to avail of such a package. The Group also commits not to avail of the customer mobility packages offered by Allied Irish Banks plc or Bank of Ireland.
- 12.8 The Customer Mobility Package will enable a Relevant Competitor to have its advertising material relating to a Relevant Product mailed to the Group's customers provided that all of the following conditions in this Clause 12.8 are satisfied in full:
 - the Group has received a Valid Application from the Relevant Competitor;
 - the Relevant Competitor qualifies as a Relevant Competitor on the Date of the Request;
 - the Group has a Market Share above the Threshold (in respect of the stock or flow, if applicable) of that Relevant Product as at the Date of the Request;

- the Relevant Competitor will reimburse the Group on commercial 12.8.4 terms for all costs directly involved with mailing the Relevant Relevant Competitor's material concerning the **Product** ("Material") to the Group's customers (including, where relevant, printing, packaging and posting such material). Relevant Competitors will be responsible for all costs involved with the production of the relevant materials, delivery and related costs of the same to the Group and the cost of mailing. The costs of customer selection in relation to the Customer Mobility Package will be borne by the Group. Other costs not directly involved with mailing the Relevant Competitor's Material to the Group's customers will be borne by the Group;
- 12.8.5 the Relevant Competitor takes full responsibility for, and shall ensure, the lawfulness, accuracy and appropriateness of the Material and provides to the Group in advance a written indemnity from and against all and any loss or damage caused or suffered by the Group in connection with the mailing. For the avoidance of doubt, the Group shall not be obliged to review the Materials (although it reserves the right to review and comment on the content of the Materials as to, inter alia, their lawfulness, accuracy and appropriateness), and the Group shall bear no responsibility or liability whatsoever for the Material distributed pursuant to this Measure or the fulfilment of this Measure generally; if there is any dispute in this regard between the Group and the Relevant Competitor then it will be referred to the Monitoring Trustee, who shall mediate a solution. In case no solution is found, the Monitoring Trustee will refer the matter to the Commission for resolution; and
- sufficient copies of the Material to be distributed hereunder shall be received by the Group from the Relevant Competitor by 17:00 five clear Business Days prior to the Mailing Date and the Material shall comply in all respects with all applicable laws, codes and practices. Any dispute shall be referred to the Monitoring Trustee, who shall mediate a solution. In case no solution is found, the Monitoring Trustee will refer the matter to the Commission for resolution.
- 12.9 The following shall apply to the mailing undertaken by the Group:

- the mailings will be divided over six periods of six months, the first period starting on the date which is 3 months after the Date of the Final Decision. During these periods, Relevant Competitors may submit an application for a mailing to the Group. Each Relevant Competitor is allowed to approach the Group once in each six month mailing period;
- 12.9.2 for each six month mailing period, the mailings shall be made on 3 predetermined dates (the "Mailing Dates") taking into account the interest of the Relevant Competitors and the mailing schedule of the Group, provided that the Date of the Request by the Relevant Competitors is a reasonable number of days before the Mailing Dates to enable the Group to prepare for such voluminous mailings respectively for each of the Mailing Dates (and such requests to be received by the Group no later than 17.00 (Dublin time) on the relevant Date of the Request). The Group will ensure that the Mailing Dates are made public on the Group's website in advance, in order to allow interested Relevant Competitors a reasonable time to prepare an application. Any dispute shall be referred to the Monitoring Trustee, who shall mediate a solution. In case no solution is found, the Monitoring Trustee will refer the matter to the Commission for resolution;
- 12.9.3 for the purposes of the mailing, the Group shall randomly select, at the request of the Relevant Competitor, up to one-third of its customer base for each mailing taking place in the first six month mailing period; such customer base being the Group's customers for the Relevant Product to be advertised by the Relevant Competitor in that mailing, limited solely to those of the Group's customers who have provided their consent to receive marketing information from the Group. The Group will select a different third of its customer base in the second six month mailing period and the final third of its customer base in the third period. The same process will be repeated in the successive 3 six month mailing periods. The Monitoring Trustee will verify the selection of the customers by the Group. At the request of the Relevant Competitor, the number of customers contacted during a six month mailing period may be reduced, on the basis of filtering criteria that can be easily implemented by the Group (meaning the instruments necessary to conduct this filtering are readily available to the Group, or are easily computable in the Group). In accordance with relevant data protection law, no customer shall be sent material where the customer has not given consent to the Group to receive similar materials from the Group;

- in the interests of ensuring that consumers are not inundated unreasonably with advertising literature and in order to maximise the chances of the Material supplied by Relevant Competitors being read, the Material of no more than two Relevant Competitors per Relevant Product will be mailed on each Mailing Date by the Group in each of the six month mailing periods as part of this Measure;
- for the avoidance of doubt, the unused mailing opportunities shall be forfeited and not carried forward.
- 12.10 The mailing will be managed, processed and completed by the Group (or its agent) on behalf of, and for the account of, the Relevant Competitor without any input or involvement of the Relevant Competitor. For the avoidance of doubt, the Relevant Competitor shall not have access to the names and addresses or other details of the Group's customer base.
- 12.11 The Group shall be obliged to send Material on behalf of no more than two Relevant Competitors per Relevant Product on each Mailing Date and those two Relevant Competitors per Relevant Product shall be selected in the order in which they apply to the Group or, in the event of more than two Relevant Competitors per Relevant Product applying simultaneously for each Mailing Date, then the two Relevant Competitors per Relevant Product will be selected by lot by the Monitoring Trustee. In order for an application to be valid, the Relevant Competitor must qualify as a Relevant Competitor on the Date of the Request and have satisfied all of the conditions set out in this Clause. The Group will notify the Relevant Competitor in writing whether it has been successful in its application and that its Material is going to be mailed by the Group.
- A Relevant Competitor may request Material to be mailed in respect of one or 12.12 more Relevant Products but no other products. Furthermore, the Relevant Competitor may point out the possibility for customers to fully or partially switch their banking relationship and make general references to other banking products. If the marketing materials received from the Relevant Competitor include materials for products other than the Relevant Products (except for general references to fully or partly switching their banking relationship and general references to other banking products), then the Group shall not be obliged to mail such materials but will notify the Relevant Competitor of its decision, where practicable and possible, in a timely manner to afford the Relevant Competitor the opportunity to re-submit amended materials. Any dispute in this regard shall be referred to the Monitoring Trustee, who shall mediate a solution. In case no solution is found, the Monitoring Trustee will refer the matter to the Commission for resolution. The Group will be under no obligation to mail the resubmitted materials unless they are received by 17:00 on a day at least five clear Business Days prior to the Mailing Date and provided that such resubmitted materials are in compliance with the terms of this Clause 12.12.
- 12.13 For each Relevant Product subject to a mailing, the Group commits:

- not to contact a customer with advertising literature relating to that Relevant Product where that customer has been one selected for contact and has been contacted on behalf of a Relevant Competitor, during the six months following such contact on behalf of the Relevant Competitor;
- not to contact that customer for an additional one year with advertising literature relating to that Relevant Product, if such a customer switches to the Relevant Competitor under this Measure and the Group knows that such a customer has switched; and
- 12.13.3 not to contact that customer during the additional one year referred to in Clause 12.13.2 with any advertising literature which is specifically designed to recapture customers to the Relevant Product switched.
- 12.14 For the avoidance of doubt, the Group shall remain free to contact such customers for regulatory reasons and as part of any initiative reasonably necessary to advise customers and others of issues such as fraud, criminal acts (e.g. forged banknotes or bank robberies, changes in terms and conditions in products) or greater exposure to risk.
- 12.15 The Group commits that in case a Group customer pursuant to the mailing of the Materials of the Relevant Competitor decides to switch part or all of its business (including both Relevant Products and other products) to the Relevant Competitor, the Group will not impede the switching in any way, nor charge any (penal) switching fees unless required by law or legal obligation or which are part of the Group's product terms and conditions.
- 12.16 In case there is reasonable doubt regarding the Market Share of a Relevant Competitor the Relevant Competitor in question shall provide, on a strictly confidential basis, to the Monitoring Trustee such information, as may reasonably be required by the Monitoring Trustee to establish the Relevant Competitor's market share in the Relevant Product market, failing which, the Relevant Competitor shall not be entitled to avail of the Customer Mobility Package for that Relevant Product.

13 Commitment: Geographical Participation

13.1 Ireland commits that apart from its activities in regard to CHL and the Isle of Man, no more than 1% of the rest of the Group's loans to customers will relate to activities outside Ireland. This is in line with the Group's primary focus being on its activities in Ireland.

14 Commitment: Payment of Dividend

14.1 Ireland commits that the Group will not make any equity dividend payments until the earliest of: (a) the CoCo has been fully repaid or repurchased; or (b) the CoCo has been sold by the State; or (c) the CoCo has been converted.

14.2 Ireland commits that the Group will not engage in any equity dividend payment which would compromise the ability of the Group to deliver on its Commitments, in particular Commitments provided in Clause 6.

15 Commitment: Diversification

15.1 Ireland commits that during the Restructuring Period, the Group will not deviate from its current activities in any way which would differ materially from its current activities and in any way which would be damaging to the Group.

SCHEDULE 1: MONITORING TRUSTEE

- 1 Ireland is to ensure that the full and correct implementation of all Commitments within this Term Sheet is monitored continuously by an independent and sufficiently qualified Monitoring Trustee (who is obliged to maintain confidentiality).
- 2 The appointment, duties, obligations and discharge of the Monitoring Trustee must follow the procedures set out herein.
- 3 Ireland and the Group are to ensure that, during the implementation of the Final Decision, the European Commission or the Monitoring Trustee has unrestricted access to all information necessary to monitor the implementation of this Final Decision. The European Commission or the Monitoring Trustee may ask the Group for explanations and clarifications. Ireland and the Group are to cooperate fully with the European Commission and the Monitoring Trustee with regard to all enquiries associated with monitoring of the implementation of this Final Decision. The Monitoring Trustee shall act reasonably at all times.
- 4 Ireland undertakes to ensure that the Group appoints the "Monitoring Trustee" to carry out the duties of a monitoring trustee as set out in this Term Sheet.
- The mandate applies to the entire duration of the Restructuring Period. At the end of the mandate, the Monitoring Trustee must submit a final report.
- The Monitoring Trustee must be independent of the Group. The Monitoring Trustee must possess (for example, as an investment banker, consultant or auditor) the specialised knowledge that is required in order to carry out its mandate, and must at no time be exposed to any conflict of interest. The Monitoring Trustee is to be remunerated by the Group in a way that must not impede the independent and effective fulfilment of its mandate.

- 7 Ireland undertakes to ensure that the Group submits the names of two or more persons to the European Commission for approval as Monitoring Trustee no later than four weeks after notification of the Final Decision.
- 8 These proposals must contain sufficient information about those persons to enable the European Commission to verify whether the proposed Monitoring Trustee fulfils the requirements set out in paragraph 6 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 Monitoring Trustee to fulfil its duties;
 - b. the draft of a work plan describing how the Monitoring Trustee intends to carry out its assigned duties.

- 9 The European Commission has the discretion to approve or reject the proposed Monitoring Trustees and to approve the proposed mandate subject to any modifications that it deems necessary in order to enable the Monitoring Trustee to fulfil its obligations. If only one name is approved, the Group will appoint the person or institution concerned as Monitoring Trustee or cause that person or institution to be appointed, in accordance with the mandate approved by the European Commission. If more than one name is approved, the Group is free to decide which of the approved persons should be appointed as Monitoring Trustee. The Monitoring Trustee will be appointed within one week of the European Commission's approval, in accordance with the mandate approved by the European Commission.
- 10 If all proposed Monitoring Trustees are rejected, Ireland undertakes to ensure that the Group submits the names of at least two further persons or institutions within two weeks of being informed of the rejection, in accordance with the requirements and procedure set out herein.
- 11 If all further proposed Monitoring Trustees are also rejected by the European Commission, the European Commission will nominate a Monitoring Trustee which the Group will appoint or cause to be appointed, in accordance with a Monitoring Trustee mandate approved by the European Commission.
- The Monitoring Trustee is to assist the European Commission to ensure the Group's compliance with the Commitments and to assume the duties of a Monitoring Trustee specified in the Commitments document. The Monitoring 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 European Commission. The European Commission may, on its own initiative or at the request of the Monitoring Trustee or the Group, issue orders or instructions to the Monitoring Trustee in order to ensure compliance with the Commitments. The Group is not entitled to issue instructions to the Monitoring Trustee.

13 The duty of the Monitoring Trustee is to guarantee full and correct compliance with the obligations set out in the Commitments. The European Commission may, on its own initiative or at the request of the Monitoring Trustee, issue any orders or instructions to the Monitoring Trustee or the Group in order to ensure compliance with the Commitments attached to the Final Decision.

14 The Monitoring Trustee:

- a. is to propose to the European Commission in its first report a detailed work plan describing how it intends to monitor compliance with the Commitments attached to the Final Decision;
- b. is to monitor the full and correct implementation of the Group's Commitments;
- c. is to monitor compliance with all other Commitments,
- d. is to assume the other functions assigned to the Monitoring Trustee in the Commitments attached to the Final Decision;
- e. is to propose measures to the Group that it considers necessary to ensure that the Group fulfils the Commitments attached to the Final Decision;
- f. is to take into account any regulatory changes on solvency and liquidity when verifying the evolution of the actual financials with respect to the Commitments described in this Term Sheet;
- g. is to submit a draft written report to the European Commission, Ireland and the Group within 60 days of publication of the annual and interim reports of the Group. The European Commission, Ireland and the Group may submit comments on the draft within five working days. Within 15 working days of receipt of the comments, the Monitoring Trustee is to prepare a final report, incorporating the comments as far as possible and at its discretion, and submit it to the European Commission and to the pertinent Irish authorities. Only afterwards the Monitoring Trustee is to also send a copy of the final report to the Group. If the draft report or the final report contains any information that may not be disclosed to the Group, only a non-confidential version of the draft report or the final report is to be sent to the Group. Under no circumstances is the Monitoring Trustee to submit any version of the report to Ireland and/or the Group before submitting it to the European Commission.

- Trustee and compliance with the obligations by the Group, thus enabling the European Commission to assess whether the Group is being managed in accordance with the obligations. If necessary, the European Commission may specify the scope of the report in more detail. In addition to these reports, the Monitoring Trustee is to report promptly in writing to the European Commission if it has reasons to suppose that the Group is failing to comply with these obligations, sending a non-confidential version to the Group at the same time.
- Trustee with all such cooperation, assistance and information as the Monitoring Trustee may reasonably require to perform its tasks under this mandate. The Monitoring Trustee is to have unrestricted access to any books, records, documents, management or other personnel, facilities, sites and technical information of the Group that are necessary to fulfil its duties under the mandate. At the Monitoring Trustee's discretion, the Group is to make available to the Monitoring Trustee one or more offices at its business premises and all employees of the Group are to be available for meetings with the Monitoring Trustee in order to provide it with all the information it needs to perform its duties.
- 17 Subject to the Group's approval (this approval not to be unreasonably withheld or delayed) and at its expense, the Monitoring Trustee may appoint advisors (in particular for corporate finance or legal advice), if the Monitoring Trustee considers the appointment of such advisors necessary or appropriate for the performance of its duties and obligations under the mandate, provided that any costs and other expenses incurred by the Monitoring Trustee are reasonable. Should the Group refuse to approve the advisors proposed by the Monitoring Trustee, the European Commission may approve their appointment instead, after hearing the Group's reasons. Only the Monitoring Trustee is entitled to issue instructions to the advisors.
- 18 If the Monitoring 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 Monitoring Trustee,
 - a. the European Commission may, after hearing the Monitoring Trustee, require the Group to replace it, or
 - b. the Group, with the approval of the European Commission, can replace the Monitoring Trustee.

- 19 If the Monitoring Trustee is removed, it may be required to continue in its function until a new Monitoring Trustee is in place to whom the Monitoring Trustee has effected a full handover of all relevant information. The new Monitoring Trustee is to be appointed in accordance with the procedure referred to above.
- 20 Besides its removal as mentioned, the Monitoring Trustee is to cease its activities only after the European Commission has discharged it from its duties. This discharge is to take place when all the obligations with which the Monitoring Trustee has been entrusted have been implemented. However, the European Commission may at any time require the reappointment of the Monitoring Trustee if it is subsequently found that the relevant remedies have not been fully and properly implemented.

SCHEDULE 2:DIVESTITURE TRUSTEE

- 21 This schedule, Schedule 2, would apply only if there is a failure to comply with the commitments in Clause 6 of the Term Sheet.
- 22 Ireland must propose to the European Commission for approval, no later than one month before the relevant deadlines specified in Clause 6 (or if the deadline has been extended, one month before the extended deadline), two or more persons one of whom it would appoint as a Divestiture Trustee in respect of Clause 6 of the Term Sheet where those commitments have not be completed by the relevant dates for sale.
- 23 The Divestiture Trustee must be appointed by Ireland within one week of the European Commission's approval of such a person in accordance with the mandate approved by the European Commission.
- 24 Ireland, including, without limitation, its Minister for Finance and agencies, must grant comprehensive powers of attorney to the Divestiture Trustee:
 - a) to effect the Divestiture of the relevant assets as specified in Clause 6 (including the necessary powers to ensure the proper execution of all the documents required for effecting the Divestiture) and not to sell at a price lower than the thresholds specified in Clause 6; and
 - b) to take all actions and declarations which the Divestiture Trustee considers reasonably necessary or appropriate to achieve the Divestiture, including the appointment of advisors to assist with the Divestiture.

- 25 The Group must provide the Divestiture Trustee with all such co-operation, assistance and information as the Divestiture Trustee may reasonably require in order for the Trustee to perform its tasks.
- 26 The Divestiture Trustee will be remunerated by the Group and in a way that does not impede the independent and effective fulfilment of the Divestiture Trustee's mandate.
- Ireland commits that the Group, in turn, commits to divest, or procure the divestiture of the divestment assets identified in Clause 6 of the Term Sheet by the periods set out therein to a purchaser and on terms of sale approved by the Commission. To carry out the Divestiture, the Group commits to find a purchaser and to enter into a final binding sale and purchase agreement for the sale of the divestment assets within the divestment period (or as may be extended by the Commission). If the Group has not entered into such an agreement at the end of the divestment period (i.e. [...] in the case of Clause 6.1, [...] in the case of Clause 6.7) (as may be extended by the Commission), the Group shall grant the Divestiture Trustee an exclusive mandate to sell the divestment assets.
- 28 The Group shall be deemed to have complied with this commitment if: (i) by the end of the divestiture period (or as may be extended by the Commission), the Group has entered into a final binding sale and purchase agreement; (ii) if the Commission approves the Purchaser and the terms in accordance with the procedure described herein and (iii) if the closing of the sale of the divestment assets takes place within an agreed period of time after the approval of the purchaser and the terms of sale by the Commission with all parties acting in accordance with reasonable market practice.
- 29 The assets to be divested include where relevant and necessary:
 - (a) all main tangible and intangible assets (including intellectual property rights), which contribute to the current operation or are necessary to ensure the viability and competitiveness of the divestment asset or assets as referred to in clause 6; all licences, permits and authorisations issued by any governmental organisation for the benefit of the divestment assets;
 - (b) all main contracts, leases, commitments and customer orders of the divestment assets; all customer, credit and other records of the divestment assets;
 - (c) key personnel.

- 30 The final binding sale and purchase agreement shall be subject to the Commission's approval. When the Group has reached an agreement with a purchaser, it shall submit a fully documented and reasoned proposal, including a copy of the final agreement(s), to the Commission and the Monitoring Trustee.
- 31 The sale of the divestment assets will be subject to all relevant legal, regulatory, accounting and financial requirements and consents (including where required the consent of the shareholders or the board of directors of the Group). Nothing herein shall oblige the Group to abstain from taking any step or to act in breach of any applicable law, code or practice including, but without limitation, data protection, consumer protection, competition, taxation, communications or other applicable laws.
- 32 In respect of any service provided to any third party, the Group shall not be responsible for monitoring or ensuring compliance with applicable laws, codes or practices by such third party and the Group shall be entitled to recover damages for any loss or damage caused to the Group by any act or omission by such third party.
- 33 In order to be approved by the Commission, the purchaser must meet the purchaser requirements i.e., : (i) be independent of, and unconnected to, the Group; (ii) neither be likely to create, in the light of the information available to the Commission, *prima facie* competition concerns nor give rise to a risk that the implementation of the measures will be delayed, and (iii) must, in particular, reasonably be expected to obtain all necessary approvals from the relevant regulatory authorities for the acquisition of the divestment assets.
- 34 If there is any conflict between the obligations of the Group which are set out herein then it is the Commission, acting on the advice of the Monitoring Trustee, that shall decide which obligation shall prevail acting reasonably.
- 35 Ireland shall do all in its power to assist the Group is fulfilling these obligations and, in particular, shall assist the Group if the fulfilment of these obligations were to be or will be unreasonable or difficult through no fault of the Group.

- The Divestiture Trustee shall sell the divestment assets identified in clause 6 in accordance with the terms set out in clause 6 to a purchaser in the period of time allocated for sale by the Divestiture Trustee, provided that the Commission has approved both the purchaser and the final binding sale and purchase agreement. The Divestiture Trustee shall include in the sale and purchase agreement such terms and conditions as it considers appropriate for an expedient sale in the period of time allocated for sale by the Divestiture Trustee. In particular, the Divestiture Trustee may include in the sale and purchase agreement such customary representations and warranties and indemnities as are reasonably required to effect the sale. The Divestiture Trustee shall protect the legitimate financial interests of the Group recognising, in particular, the limitations on sale included in clause 6 of the Term Sheet.
- 37 The Divestment Trustee shall be appointed at the expense of the Group and in an equivalent way and applying equivalent criteria regarding the appointment of the Monitoring Trustee as set out in the schedule above mutatis mutandis.
- 38 In the period of time allocated for sale by the Divestiture Trustee (or otherwise at the Commission's request), the Divestiture Trustee shall provide the Commission with a comprehensive monthly report written in English on the progress of the divestiture process. Such reports shall be submitted within an agreed period with a simultaneous copy to the Monitoring Trustee and a non-confidential copy to the Group.
- 39 The Group must provide the Divestiture Trustee with all such co-operation, assistance and information as the Divestiture Trustee may reasonably require to perform its tasks.
- 40 The Group shall grant comprehensive powers of attorney, duly executed, to the Divestiture Trustee to effect the sale, the closing and all actions and declarations which the Divestiture Trustee reasonably considers necessary or appropriate to achieve the sale and the closing, including the appointment of advisors to assist with the sale process. Upon request of the Divestiture Trustee, the Group shall cause the documents required for effecting the sale and the closing to be duly executed.

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