State aid: Commission approves the provisional restoring to former level of a guarantee of German bank HSH Nordbank

The European Commission has provisionally approved the restoring of the guarantee provided by the regions of Hamburg and Schleswig-Holstein in favour of HSH Nordbank from €7 billion to the original framework of €10 billion under EU state aid rules. The restoring of the guarantee framework to its former level by its majority shareholders will ensure that the bank has adequate capital ratios against a background of increased demands on the capital base and the ongoing crisis in shipping markets. The Commission's approval is provisional pending a final decision.

At the same time, the Commission has opened an in-depth investigation to assess whether the measure is in line with EU state aid rules. The in-depth investigation allows interested third parties to comment on the measures under assessment, without prejudicing the outcome. The Commission has doubts about whether, given changed market circumstances, the restoring of the guarantee is still covered by its earlier decision and whether it is appropriate, and during the principal investigation procedure will examine in detail to what extent the measure is compatible with the aid rules.

The bank's and the guarantors' financial situation will now be as if the partial cancellations of the guarantee had not taken place. The restoring of the guarantee entails a one-off payment of some €275 billion for the risk shield granted by the regions, in addition to the yearly guarantee payment of around €120 million. This is intended to ensure that the restoring of the guarantee is compatible with the EU aid rules on impaired assets.

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Background

HSH Nordbank is approximately 85% owned by the State governments of Hamburg and Schleswig-Holstein in northern Germany. The German savings association and nine trusts advised by US private equity investor JC Flowers hold the remaining shares.

In September 2011, the Commission approved restructuring aid whereby HSH Nordbank was granted a risk shield of €10 billion by the regions of Hamburg and Schleswig-Holstein (see IP/11/1047). The risk shield consists of a second-loss guarantee which protects HSH Nordbank from losses in a portfolio of impaired assets and strengthens the bank's capital ratios. The first loss tranche of €3.2 billion is borne by HSH Nordbank itself. In 2011 the maximum amount of the second loss guarantee was reduced to €7 billion owing to partial cancellations. From today’s perspective, the bank gave up too soon the originally approved extensive protection of its capital ratios - protection it still needed in view of the exogenous risks entailed by the worsening crisis in the international shipping markets and the bank's dependence on the US dollar-euro exchange rate.

A non-confidential version of today’s decision will be made available under case number SA.29338 in the State Aid Register on the DG Competition website once any confidentiality issues have been resolved. New publications of state aid decisions on the Internet and in the Official Journal are listed in the State Aid Weekly e-News.