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ESM proposal for the terms of the third tranche of €8.5 billion under the Financial Assistance Facility Agreement for Greece

1. Proposal

On 19 August 2015, the ESM entered into a Financial Assistance Facility Agreement ('FFA') with the Hellenic Republic ('Greece'), the Bank of Greece and the Hellenic Financial Stability Fund ('HFSF') for an amount of up to €86 billion. The funds under the FFA are available, until 20 August 2018, to cover general financing needs of the public sector as well as bank recapitalisation and/or resolution costs.

Since the beginning of the programme, a total of €31.7 billion has been provided to Greece in seven separate disbursements under the first tranche and the second tranche, after ensuring, where appropriate, compliance with prior actions defined in the Memorandum of Understanding ('MoU'). The first tranche comprised two sub-tranches – sub-tranche A, provided in cash, for budget financing and debt servicing needs, in an amount of up to €16 billion, and sub-tranche B, to cover bank recapitalisation and/or resolution costs of up to €10 billion, which was made available in a segregated account in the form of ESM Notes. The first cash disbursement of €13 billion was transferred on 20 August 2015, while the second and third cash disbursements of €2 billion and €1 billion were transferred on 24 November and 23 December respectively. The first and second disbursements made using ESM Notes, each in an amount of €2.7 billion, were released to the HFSF on 1 and 8 December, in order to cover recapitalisation costs of Piraeus Bank and National Bank of Greece respectively. The remaining unutilised ESM notes (€4.6 billion) were cancelled after the expiration of the availability period at the end of January 2016. The second tranche was provided in cash, for debt servicing and domestic arrears clearance needs, in an amount of up to €10.3 billion. The first cash disbursement of €7.5 billion was transferred on 21 June 2016, while the second cash disbursement of €2.8 billion was transferred on 26 October 2016. On 20 February 2017, Greece repaid an amount of €2 billion following the redemption of contingent convertible bonds related to the National Bank of Greece recapitalisation. Currently, ESM's outstanding loans to Greece amount to €29.7 billion.

On 14 June 2017, the European Commission, in liaison with the European Central Bank, circulated its report on Greece's compliance with the prior actions of the MoU under the second review of the ESM programme.

On this basis, the ESM proposes the disbursement of the third tranche under the Greek FFA.

In accordance with the assessment of Greece's financing needs carried out in August 2015 (at the time of the FFA approval), as well as the most recent appraisal of the current programme financing needs, the third tranche amounts to up to €8.5 billion and is expected to be disbursed for the following needs:

- €6.9 billion for debt service
- €1.6 billion for domestic arrears clearance



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2. Specific terms of the tranche

A. Amounts to be disbursed and usage:

- The maximum amount of this third tranche will be €8.5 billion and will be disbursed to Greece in several disbursements.
- The first disbursement under the third tranche, in an amount of up to €7.7 billion, will be disbursed before 31 July 2017.
- Out of the total of the first disbursement, an amount of €6.9 billion will be disbursed to the segregated account, to be used for debt servicing needs, and an amount of €0.8 billion will be disbursed to a dedicated account, to be used for arrears clearance.
- Disbursement of the €0.8 billion dedicated to arrears clearance under the first disbursement will be subject to Greece having reduced its stock of arrears by an amount equivalent to 80% of the aggregate disbursements dedicated to this purpose under the second tranche disbursed in 2016.
- The remaining €0.8 billion under the third tranche will be used for arrears clearance and may be released, in one or more further disbursements, from 1 September 2017 onwards.
- Disbursement and size of each of the further disbursements for arrears clearance will be subject to Greece's satisfactory performance in reducing its stock of arrears using previously disbursed funds. Reduction of the stock of arrears (as measured in April 2017), by an amount equivalent to 150% of the amount of the first disbursement under the third tranche dedicated to arrears clearance, will indicate satisfactory performance. Satisfactory performance will be assessed by the institutions, and will be determined closer to each disbursement.
- Arrears will be cleared using a combination of Greece's own resources and the disbursement proceeds, in the proportion of at least 1 euro of own resources for every 2 euros of disbursement proceeds.
- Further provisions related to the monitoring of the dedicated arrears clearance account and use of the disbursement proceeds will be defined in the relevant Acceptance Notice. These will include monthly reporting on the use and source of funds debited and credited to the account, will entitle the ESM to require an arrears clearance plan if the balance of the account remains above €0.3 billion for three consecutive months, and will entitle the ESM to repurpose the remaining funds or require that they are repaid, if the account is not debited in a material amount for three consecutive months.



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- After the final disbursement for arrears clearance under the third tranche, Greece will confirm that, since the time of the first disbursement for arrears clearance under the third tranche, the total stock of arrears has been reduced by 150% of the aggregate disbursements for arrears clearance under this third tranche. Confirmation will be provided within four months after the final disbursement for arrears clearance under the third tranche, or one month after the proceeds of the final disbursement have been completely utilised, whichever comes earlier.
- The latest date for release of any remaining disbursements will be 31 October 2017.

B. Instruments

- The ESM proposes to disburse the amounts requested in cash.

C. Main characteristics of the third tranche

- An up-front Service Fee of 50 bps will be deducted directly from each disbursement under the third tranche. Otherwise this fee will have to be paid by Greece following the receipt of an invoice sent by the ESM.
- An Annual Service Fee of 0.5 bps will accrue day to day, to be paid in arrears with effect from the first interest payment date of each disbursement, as part of the ESM Cost of Funding. It will follow the interest payment schedule.
- A Margin of 10 bps will accrue day to day, to be paid in arrears with effect from the date of each disbursement. It will follow the interest payment schedule.
- The Commitment Fee allocated to Greece will be payable following the receipt of an invoice, as part of the ESM Cost of Funding.
- The term/maturity will be determined at the time of issuance of each Confirmation Notice, taking into account the overall maximum average maturity of 32.5 years.
- The repayment profile for each disbursement will be bullet or amortising, as may be defined in the relevant Confirmation Notice.

For the avoidance of doubt, all elements affecting the pricing may be adjusted throughout the life of the loan in line with the FFA.