

ESM proposal for the terms of the fourth Tranche of €6.7 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 €40.2 billion has been provided to Greece under the first, second and third tranches, upon compliance with conditionality and prior actions defined in the Memorandum of Understanding ('MoU'). Currently, following a prepayment on 20 February 2017 of an amount of €2 billion related to the redemption of contingent convertible bonds used for the recapitalisation of National Bank of Greece, Greece's loan outstanding amounts to €38.2 billion.

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 were 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 2015 respectively. The first and second bank recapitalisation disbursements, made using ESM Notes, each in an amount of €2.7 billion, were released to the HFSF on 1 and 8 December 2015, 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.

On 17 June 2016, the ESM Board of Directors approved the second tranche under the FFA for Greece for an amount of €10.3 billion. On 21 June 2016, the ESM released the first disbursement under this second tranche, in the amount of €7.5 billion, out of which €5.7 billion were disbursed for debt servicing needs and €1.8 billion were disbursed for arrears clearance. On 26 October 2016, the ESM released the second disbursement under this second tranche, in the amount of €2.8 billion, out of which €1.1 billion were disbursed for debt servicing needs and €1.7 billion were disbursed for arrears clearance.

On 7 July 2017, the ESM Board of Directors approved the third tranche under the FFA for Greece for an amount of €8.5 billion. On 10 July 2017, the ESM released the first disbursement under this third tranche, in the amount of €7.7 billion, out of which €6.9 billion were disbursed for debt servicing needs and €0.8 billion were disbursed for arrears clearance. On 30 October 2017, the ESM released the second disbursement under this third tranche, in the amount of €0.8 billion, for arrears clearance.



On 2 March 2018 the European Commission, in liaison with the European Central Bank, circulated its final report on Greece's compliance with the prior actions of the MoU under the third review of the ESM programme.

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

The fourth tranche amounts to €6.7 billion and is subject to compliance with prior actions, as defined in the supplemental MoU. 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 financing needs, the €6.7 billion under the fourth tranche is expected to be disbursed for the following needs:

- €3.3 billion for debt service
- €1.5 billion for domestic arrears clearance
- €1.9 billion as a cash buffer

2. Specific terms of the tranche

A. Amounts to be disbursed and usage:

- The maximum amount of this fourth tranche will be €6.7 billion and will be disbursed to Greece in separate disbursements.
- The first disbursement under the fourth tranche, in an amount of up to €5.7 billion, will be disbursed before 15 April 2018.
- Out of the total of the first disbursement, an amount of €3.3 billion will be disbursed to the segregated account, to be used for debt servicing needs, an amount of €0.5 billion will be disbursed to a dedicated account, to be used for arrears clearance, and an amount of €1.9 billion to contribute to the building up of the cash buffer will be also disbursed to to the segregated account or, subject to agreement on safeguards that will be acceptable by the ESM, to the dedicated account set up for this purpose.
- Disbursement of the €0.5 billion dedicated to arrears clearance under the first disbursement will be subject to Greece having reduced its stock of arrears (as measured in July 2017) by an amount equivalent to 150% of the aggregate disbursements dedicated to this purpose under the third tranche.
- The remaining €1 billion under the fourth tranche will be used for arrears clearance and may be disbursed, in one or more further disbursements, from 1 May 2018 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 (versus the targeted stock of €4.1 billion in December 2017), by an amount equivalent to 200% of the amount of the previous disbursements under the fourth tranche dedicated to arrears clearance, will



indicate satisfactory performance. Satisfactory performance will be assessed by the European institutions, and will be determined closer to each disbursement.

- A report by the European institutions on the effectiveness of the e-auctions system setting out a favourable assessment will be an additional condition for further disbursements for arrears clearance purposes.
- Arrears will be cleared using a combination of Greece's own resources and disbursement proceeds, in the proportion of at least 1 euro of own resources for every 1 euro 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 a certain threshold for a certain period, 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. The Acceptance Notice will also set out provisions regarding the final confirmation of full and timely use of the amounts disbursed for arrears clearance.
- The latest date for any disbursements for arrears clearance after the initial one made for that purpose will be 15 June 2018.

B. Instruments

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

C. Main characteristics of the fourth tranche

- An up-front Service Fee of 50 bps will be deducted directly from each disbursement under the fourth 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.