



13 July 2018

ESM proposal for the terms of the fifth Tranche of €15 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. On 21 June 2018 the FFA was amended, by adding the Hellenic Corporation of Assets and Participations ('HCAP') as a party, bringing it into the lending structure. 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 €46.9 billion have been provided to Greece in four tranches, upon compliance with conditionality and prior actions defined in the Memorandum of Understanding ('MoU'). Currently Greece's outstanding loan amounts to €44.9 billion, following a prepayment of €2 billion on 20 February 2017 related to the redemption of contingent convertible bonds used for the recapitalisation of National Bank of Greece.

Following the approval of the FFA, the ESM Board of Directors ('BoD') approved on 19 August 2015 the first tranche in an amount of €26 billion. It comprised two sub-tranches, disbursed over the period August 2015 to January 2016. Sub-tranche A was provided in cash for budget financing and debt servicing needs, in an amount of up to €16 billion. 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. Sub-tranche B was made available in a segregated account and in the form of ESM Notes, to cover bank recapitalisation and/or resolution costs of up to €10 billion. The first and second bank recapitalisation disbursements, 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.

The ESM BoD approved the second tranche under the FFA for Greece for an amount of €10.3 billion on 17 June 2016. The ESM released the first disbursement, in an amount of €7.5 billion, under this second tranche on 21 June 2016. Out of the total first disbursement, €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.

The third tranche under the FFA for Greece was approved by the ESM BoD on 7 July 2017, in 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 27 March 2018, the ESM BoD approved the fourth tranche under the FFA for Greece in the amount of €6.7 billion. The ESM released the first disbursement under this fourth tranche on 28 March 2018 in the amount of €5.7 billion, out of which €3.3 billion were disbursed for debt servicing needs, €1.9 billion were disbursed to contribute to the building up of the cash buffer and €0.5 billion were disbursed for arrears clearance. On 15 June 2018, following an assessment of Greece's satisfactory performance in arrears clearance and the effectiveness of the e-auctions system, the ESM released the second disbursement under this fourth tranche, in the amount of €1 billion for arrears clearance.

On 23 June 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 fourth review of the ESM programme.

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

The fifth tranche amounts to €15 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 €15 billion under the fifth tranche is expected to be disbursed for the following needs:

- €5.5 billion for debt service
- €9.5 billion as a cash buffer

The availability period for the fifth tranche expires on 20 August 2018, alongside the ESM programme.

2. Specific terms of the tranche

A. Amounts to be disbursed and usage:

- The maximum amount of this fifth tranche will be €15 billion and may be disbursed to Greece in separate disbursements.
- Out of the total of the fifth tranche, an amount of up to €5.5 billion, to be used for debt servicing needs, will be disbursed to the segregated account and an amount of up to €9.5 billion, to contribute to the building up of the cash buffer, will be disbursed to the dedicated cash buffer account set up for this purpose.
- Further safeguards related to the monitoring of the dedicated cash buffer account and use of the disbursement proceeds will be defined in the relevant Acceptance Notice. These will ensure that the legal status and mechanics of the account are preserved and that sufficient monitoring and information requirements are in place. They will allow for sufficient



flexibility regarding the use of the cash buffer while warranting that financing needs are covered using Greece's own resources as well, and require ESM's consent and a remedy plan when the cash buffer is used in excess of what was foreseen. The ESM will at any time be entitled to repurpose any funds remaining in the cash buffer account, following an assessment of whether they are needed as a cash buffer, and of the benefits of an alternative use of such funds, and following a decision of the BoD.

B. Instruments

- The ESM proposes to disburse the amounts requested in cash and/or in the form of ESM Notes. This will be defined in the relevant Acceptance and Confirmation Notices.

C. Main characteristics of the fifth tranche

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