II

(Acts whose publication is not obligatory)

COMMISSION

COMMISSION DECISION

of 30 July 1997

conditionally approving aid granted by France to the GAN group

(Only the French text is authentic)

(Text with EEA relevance)

(98/204/EC)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community, and in particular Articles 92 and 93 thereof,

Having regard to the Agreement establishing the European Economic Area, and in particular Articles 61 and 62 thereof,

Having given the parties concerned the opportunity to submit their comments, in accordance with the abovementioned Articles [1],

Whereas:

1. INTRODUCTION

GAN is a publicly owned financial group which operates in the banking and insurance sectors. It has been experiencing major difficulties since 1993 following losses on its property financing business and in insurance. These difficulties prompted the State in 1995 to grant support to GAN in the form of a FRF 2,86 billion capital increase through the transfer of assets.

Having examined the restructuring plans for GAN and its subsidiary UIC and the audit report drawn up by the investment bank Morgan Stanley (advisor to the Treasury), the Commission decided on 18 September 1996 to regard the operation as non-notified State aid (aid No NN 43/96) and to approve it subject to implementation in full of the restructuring plan submitted to it. The plan provided *inter alia* for the sale of GAN's majority holding in the CIC banking group so as to ensure a return to viability and to minimise the distortive effects of the aid.

By letters dated 28 February and 3 March 1997, the French authorities stated that the approved aid was insufficient in view of the group's worsening financial situation in the property financing sector and in the light of the failed attempt to privatise CIC, and that they were therefore notifying some FRF 20 billion of additional aid.

On 12 March 1997 the Commission decided to reopen the Article 93(2) procedure in respect of the 1995 FRF 2,86 billion capital increase and to initiate the same procedure in respect of the new aid measures notified, namely a FRF 11 billion capital increase to be carried out in 1997 and a Government commitment to cover GAN's estimated losses of FRF 9 billion. The Commission's decision was notified to the French authorities by letter dated 8 April 1997 (SG(97) D/2644).

In order to analyse in detail the documents handed over by the French authorities concerning the financial position of the GAN group, its restructuring plan and its viability, the Commission enlisted the help of an international investment bank prominent in the consultancy sphere.

[1] OJ C 149, 17.5.1997, p. 6.

As part of the present proceedings, the French authorities collaborated fully with the Commission by furnishing all the information requested. By letter dated 18 July 1997 the French Minister for Economic Affairs, Finance and Industry forwarded to the Commission the French Government's undertakings concerning the GAN group. No written comments were received from other interested parties within the period allowed.

2. GAN AND THE REASONS FOR ITS COLLAPSE

GAN is a financial group which is listed on the stock exchange, is controlled by the State (which holds more than 80 % of the capital of the central GAN company, GAN Société Centrale) and operates in the insurance and banking sectors. In insurance, GAN is the fifth largest group in France in terms of turnover (some FRF 53,5 billion in 1996) after the private groups AXA-UAP and AGF. Its other main competitors are the private group Victoire and the mutual societies. GAN's share of the French insurance market is about 5 %. GAN controls over 93 % of the CIC banking group, a network of 10 regional banks having total assets worth over FRF 600 billion and net banking income in 1996 of some FRF 17 billion, making it the fifth largest of the banks belonging to the French Association of Banks [2]. The CIC group, which is particularly active in the financing of SMEs, also operated in the property sector through its subsidiary UIC, which has since been transferred to GAN. UIC is now 97 % controlled by the central GAN company. The group also has holdings in industrial companies.

The GAN group has 9 600 employees in the insurance sector in France (5 150 administrators, 2 450 in-house producers and 2 000 agents), 4 100 employees in foreign insurance, 21 350 employees in the CIC banking group and 560 in UIC.

GAN's activities cover all classes of insurance, including non-life insurance (both firms and private individuals), life assurance and capitalisation operations. The various insurance companies are grouped together under the holding company GAN SA. The product distribution network comprises brokers, agents and the company Socapi. Being a company which is jointly owned (50/50) by GAN and the CIC banking group, Socapi uses the banking network of the CIC group to distribute life assurance products. Although the combining of banking and insurance is widespread among banking and insurance groups, GAN is almost alone among French insurers in controlling a banking group [3], the reverse situation, namely banks controlling insurance companies, being much more common.

GAN also operates abroad (in the United Kingdom in particular, but also in Germany, Italy, Spain, Portugal, Switzerland, Morocco, the United States and Canada), which accounts for about 25 % of its turnover.

GAN's difficulties relate both to banking and to insurance: its banking arm has been hard-hit by the crisis in the property sector and the deterioration in the financial position of SMEs; and its non-life insurance business has suffered the consequences of the aggressive expansion strategy which accompanied the cyclical upturn in the market. In 1993 the poor quality of the approximately FRF 19 billion-worth of debts and assets linked to real-estate projects held by the CIC banking group through its subsidiary UIC and the specialised company Sofal meant that GAN had to intervene to remove UIC from CIC's area of consolidation, thereby enabling it to meet its regulatory obligations in the banking sphere. Subsequently, the continuing fall in the value of these commitments proved more than GAN itself could bear, and it had to resort to two hive-off vehicles (Parixel and Bâticrédit) to remove these risks from its balance sheet. However, since the GAN group was both guarantor and source of financing for these hive-off vehicles, instead of being settled the risks stemming from those vehicles were spread over time and distributed among the various entities of the group in the hope that the group's profits might offset the vehicles' losses. Following disappointing results on the insurance side, GAN was unable to offset the deficit in its property business and had to rely on support from the State, which decided to transfer to it FRF 2,86 billion of Elf and CIC securities in 1995 and provide other assistance worth approximately FRF 20 billion in 1997. State support thus enabled GAN to limit its losses at consolidated level to FRF 1,8 billion in 1995 and FRF 5,7 billion in 1996.

The difficulties experienced by GAN and in particular by its banking subsidiary UIC have to be viewed against the background of the crisis in the French real estate sector which occurred following the speculative boom of the late 1980s and which affected a number of financial institutions, including publicly owned ones, to a greater or lesser degree. Thus, those institutions which were riding on the crest of the speculative wave, those which specialised in financing the real estate sector and those which reacted too late to the downturn incurred very

[2] GAN already had a minority holding in the capital of CIC as from 1985.

[3] In order to deal with the difficulties of their minority-holding banking subsidiaries or at the request of the State, insurers have recently taken control of banking groups: thus, AGP has taken control of CDE and UAP has taken control of Worms Bank.

substantial losses. Some institutions — including a number of publicly owned ones — such as Crédit Lyonnais, Comptoir des Entrepreneurs, Crédit Foncier, Société Marseillaise de Crédit and GAN resorted to State support. Others, such as the Suez and Paribas groups, had to undergo drastic restructuring. Others, such as BRED, had access to the collective guarantee fund of the cooperative banking societies. Others again, such as Banque La Hénin and Banque Pallas Stern, went into liquidation.

French insurance is undergoing a profound upheaval stemming from the transition to an increasingly competitive system, commencing in 1989 with the reform of the Insurance Code. As a result, profit margins have shrunk and, in the absence of adequate restructuring at company and industry level, profitability has collapsed. Between 1984 and 1994 profitability on non-life insurance own funds fell from 14 % to 0,4 % and that of life assurance from 18 % to 8,9 %. Non-life insurance saw a cyclical downturn at the beginning of the 1990s, involving 'business' risks and 'motor vehicle' risks, with a very sharp increase in claims and repair costs.

In non-life insurance, GAN is now paying the price for an inappropriate growth strategy aimed at gaining market share at any cost, which led it to take excessive risks. The mutual societies and private groups such as AXA were relatively less affected, having remained more aloof from property speculation and having introduced a more effective system for monitoring claims.

The following table shows the losses incurred by GAN since 1992, as communicated by the French authorities (Table 1).

Table 1

GAN's losses since 1992

(billion FRF)

	1992	1993	1994	1995	1996	Total
UIC - property hive-off	—	– 3,4 (1)	– 5,7	– 3,5	– 14,1	– 26,7
Non-life insurance	– 1,3	– 1,0	– 1,3	– 0,6	– 0,2	– 4,4
Loss in value of assets				– 3,0 (2)	– 1,0	– 4,0
Total	– 1,3	– 1,3	– 7,0	– 7,1	– 15,3	– 35,1

(1) Excluding FRF 2,6 billion in unrealised gains on property, allocated by GAN SA to the hive-off.
(2) Impact of the entry into force of the new insurance accounting plan.

Source: French authorities.

The recent sharp deterioration in GAN's situation has been highlighted by the audits on the group's property subsidiaries. According to the French authorities, in mid-1996 GAN informed its shareholder of new, and much worse, forecasts for 1996 which showed clearly that there could be no return to equilibrium in 1996. In particular, GAN expected further losses from UIC, while the performance of insurance was worse than forecast. In view of the speed of this deterioration and the increasingly worrying forecasts for 1996, the State decided to make its approval of the half-yearly accounts for 1996 subject to the carrying-out of a full audit of the property business before the closing of the 1996 accounts. The comprehensive review of the position of UIC and of the hive-off vehicles revealed the need for a further injection of FRF 14 billion and prompted the State to intervene a second time in support of GAN with a FRF 20 billion aid package.

3. ASSESSMENT OF THE AID CONTENT OF THE FINANCIAL SUPPORT MEASURES FOR GAN

In assessing State aid the Commission generally applies the 'market economy investor' principle, as set out in its communication on public undertakings (4). The communication states that there is an element of aid in a transaction if a comparable private investor, operating under normal market economy conditions, would not have carried it out. As regards public authorities' holdings in company capital, it is considered that a private investor would not have carried out such a

(4) Commission Communication to the Member States on the application of Articles 92 and 93 of the EEC Treaty and of Article 5 of Commission Directive 80/723/EEC to public undertakings in the manufacturing sector (OJ C 307, 13.11.1993, p. 3).

transaction, and that there is therefore a presumption that aid is involved, where the company's financial position is such that a normal return (in dividends or capital gains) on the capital invested cannot be expected within a reasonable period of time [5]. In the case of the provision of public guarantees, there is a presumption that State aid is involved where no consideration is given for the guarantee or where the consideration cannot be considered sufficient in view of the particularly high or excessively long-drawn-out risks inherent in such an operation.

The measures which may contain State aid components are the FRF 2,86 billion capital increase carried out in 1995 through the transfer of Elf and CIC securities (a transaction which was not notified), and the recently notified measures totalling FRF 20 billion.

The first transaction, involving an amount of FRF 2,86 billion, consisted in the transfer by the State of 5 327 509 Elf Aquitaine shares (about 2 % of its capital), 2 041 428 shares in Compagnie Financière de CIC et de l'Union Européenne (about 7,13 % of its capital) and 1 125 724 voting right certificates in Compagnie Financière de CIC et de l'Union Européenne (about 7,13 % of its voting rights) in return for an increase in the State's holding in GAN of 10 829 505 shares in the central GAN company, representing 18,93 % of its capital after the transfer.

The second transaction, involving an amount of FRF 20 billion, may be broken down as follows:

(a) a FRF 11 billion capital injection to restore UIC's capital base following the losses recorded in 1996 and to give the insurance companies an appropriate financial structure, in accordance with the relevant rules. The capital injection consists of FRF 7,1 billion for UIC and FRF 3,9 billion for the insurance companies;

(b) a government commitment to cover the estimated losses of FRF 9 billion which GAN SA will incur in implementing the guarantees it will have to provide, as part of the restructuring plan, for loans granted to the hived-off real-estate company Bâticrédit Finance et Cie, set up in 1994.

3.1. Assessment of the old aid measures

On 18 September 1996 the Commission took the view, on the basis of the information available, that the FRF 2,86 billion capital increase constituted State aid within the meaning of Article 92(1) of the Treaty, but that it could be regarded as compatible pursuant to Article 92(3)(c) despite the fact that it had not been notified.

Analysis of the business plan indicated that the transaction would not produce sufficient results to demonstrate that the State had acted like a private investor. The business plan anticipated that GAN would suffer a loss of FRF 1,785 billion in 1995 and achieve profits of FRF 120 million and FRF 1,574 billion in 1996 and 1997. Even on the basis of the assumptions underlying the business plan, it was evident that future profits were insufficient to offset the initial loss and shortfall in earnings on investment during the early years, either in absolute terms or in discounted terms at a satisfactory internal rate of return estimated at 12 % [6]. For the following period, applying GAN's assumptions of a profitability level of almost 12 %, it was also evident that GAN could not have achieved additional profits that could offset the previous losses and at the same time give the State as shareholder an adequate return. The Commission also noted that the State was the only GAN shareholder participating in the transaction, the other shareholders (notably stock exchange shareholders and foreigners) having decided to abstain.

The French authorities have not drawn attention in the course of the present proceedings to any new factors such as might lead the Commission to draw a different conclusion. The conclusion which the Commission reached at the time, namely that the FRF 2,86 billion capital increase constituted aid, therefore remains entirely valid.

3.2. Assessment of the new aid measures

With regard to the new public measures in support of the GAN group, which include capital increases of some FRF 11 billion and a State guarantee estimated to be worth some FRF 9 billion, the French authorities have stated that these measures became necessary following the comprehensive review of the situation of the subsidiary UIC and of the hive-off vehicles, which revealed a provisioning requirement of some FRF 14 billion, placing the group — and some of its companies in particular — in a situation that conflicts seriously with the prudential and regulatory constraints to which it is subject.

In particular, these results reflect:

— the deterioration in the property market, and the costs associated with the asset appropriation process, which were substantially higher than anticipated,

[5] See the Commission's 1984 Communication in *Bulletin of the European Communities* No 9-1984.

[6] Use of the discounted method for assessing State aid was set out in the Commission communication referred to in footnote 4. This method has been used in other cases, notably in the banking sector, where the same 12 % discounting rate was applied.

— a change in outlook resulting in the rapid disposal of property assets, whose book values were re-estimated on the basis of market values taking account of the yield required by market operators,

— changes in accounting methods and their implementing arrangements designed to record immediately in UIC's accounts future conveyancing costs and all future fees, administrative, marketing and liquidation costs and various charges.

The provisioning of UIC to take account of the above three factors thus amounts to FRF 5,4 billion, to which must be added the losses for the 1996 financial year, calculated in accordance with the previous accounting methods, i.e. some FRF 2,5 billion, which means that UIC is thus in a negative net position. For its part, the cost of the hive-off vehicles would amount to nearly FRF 6 billion.

In view of this worsening situation, the State support will help reduce the net amounts outstanding of UIC and the hive-off vehicles by more than half, from FRF 26,1 billion in 1995 to FRF 11,4 billion in 1996, of which FRF 7,7 billion is classed as doubtful loans, against 74,7 % of which provision has been made. The rate of provisioning of property lending will amount to 69,2 % gross and 73,4 % in the case of doubtful loans.

These measures form part of an overall restructuring plan for GAN, which, moreover, confirms the undertakings already given under the recovery plan approved by the Commission in its decision of 18 September 1996. The primary objective of the arrangements adopted by the Government is to allow the insurance arm GAN SA, the banking group CIC and UIC to be disposed of in the near future.

Several factors indicate that these measures constitute State aid. First, the measures were notified by the French authorities, which referred to them as State aid. Secondly, the State is acting in all probability without the backing of the other shareholders. Thirdly, the restructuring plan presented by the French authorities shows that the State is not going to be able to recover its money in full and obtain a return on it in proportion to the risk it is incurring. Consequently, the measures must be deemed to be State aid.

The Commission also notes that the costs to the State of the rescue operation would have been lower if an in-depth analysis such as that carried out recently had been conducted earlier. Faced with the downturn in business activity, any private investor would have acted sooner and more radically to limit the risks described above rather than waiting several years, as the French authorities have done. The fall in the value of GAN shares during the 25 months preceding the announcement of the latest State aid (from about FRF 280 at the beginning of 1995 to about FRF 100 at the end of January 1997) bears this out.

The aid measures notified have become necessary to GAN's survival because the recovery plan drawn up in 1995 and strengthened in 1996 has failed. As was stated above, on the basis of the recovery plan, GAN should have achieved profits of FRF 120 million in 1996 and FRF 1,574 billion in 1997. Without State support, losses in 1996 will be close to FRF 15 billion, putting the group in a negative net position. The State support will enable GAN to limit its losses in 1996 to some FRF 5,7 billion. Since 1992, losses will amount to FRF 35 billion, including FRF 27 billion due to UIC, the property financing subsidiary, alone.

The French authorities have attributed the failure of the plan to the audits carried out in 1996 on the property business, which revealed a much more serious financial situation than had been apparent from earlier inspections. The Commission is of the opinion, however, that the reasons for this failure must also be sought in the fact that GAN's core businesses, notably insurance, returned results which were worse than expected and which therefore did not enable GAN to offset the losses and conveyancing costs on the property side. Moreover, the suspension of the privatisation of CIC undoubtedly precipitated the failure of the first restructuring plan, depriving GAN of the liquid resources it needed to restructure.

The privatisation of CIC had been decided on in 1996 so as to strengthen the plan drawn up in 1995 and judged over-ambitious by the merchant bank Morgan Stanley, in that it would not help to resolve the problem of intra-group financing. The suspension of CIC's privatisation, which constitutes a failure to comply with a Commission decision, is all the more serious as it was decided on, not for unavoidable technical reasons, but — according to the French authorities — for reasons of political opposition at a time when a firm offer had already been made and found acceptable by the French Privatisation Commission.

Inasmuch as the failure of the first recovery plan was due, not to outside factors, but *inter alia* to the fall in the value of the property assets, less favourable results than expected for the GAN group's core businesses and the failure of CIC's privatisation, it may be concluded that the analysis of the reasons for the GAN group's weaknesses was neither sufficiently thorough nor carried out in good time. Since the State did not act like a private investor in a market economy, its support for GAN must accordingly be considered State aid.

As regards the estimate of the amount of the aid, it must first of all be considered that the capital increase is intended to cover losses and satisfy the capital base requirements for compliance with the rules on banking and insurance. Consequently, the full amount of the FRF 11 billion capital increase must be considered to be the amount of the State aid.

As regards the guarantee, the problem arises of evaluating the aid it involves, the figure of FRF 9 billion being only an estimate of the cost the State will ultimately have to bear. In principle, the FRF 9 billion estimate resulting from the recent audits should not be exceeded given that the approach used to assess the amount of the guarantee is based on the assumption of a rapid disposal of assets and the taking into account of all other expenses including conveyancing costs. Since the assets to be managed are particularly substantial, numerous and complex, however, it is reasonable to be particularly prudent, all the more so since the audits carried out in the past have consistently underestimated the amount of provision actually needed. This prudence is justified by the scale of the assets, which remain potentially outside the ambit of the guarantee: although the rate of provisioning of the assets was increased to 77,5 % in 1996, the hive-off vehicles retain an unprovisioned exposure of FRF 3,6 billion as at 31 March 1997. It is also justified by the considerable extent to which assets which other institutions have recently placed on the market have been written down compared with what has been considered for GAN, and by the fact that an unscheduled delay in the sale of the assets might give rise to additional conveyancing costs. It should be pointed out in this connection that the plan provides for the disposal of all the assets over a maximum period of two years and that until that time provision has been made for the conveyancing costs. However, an additional disposal period might prove very costly given that the net conveyancing costs in 1996 came to some FRF 1,4 billion. Moreover, the availability of potential buyers for certain properties remains to be proven: in this respect a one-off provision of FRF 500 million has been decided on, but it has not been certified by the accountancy firm KPMG, who consider that such an estimate needs to be analysed in greater depth.

In the course of the proceedings, it has also transpired that the State's commitment towards GAN also covers the possible future capital requirements of UIC with a view to complying with prudential rules. The arrangements governing the State's intervention in this respect have yet to be spelled out and the intervention itself remains in abeyance. On the basis of information furnished by the French authorities, the Commission considers that this intervention will not necessarily increase the net amount of State aid for GAN, but at the same time it justifies its prudent approach.

To conclude, the Commission is of the opinion that, if the average value of the State's commitments towards GAN may be estimated at FRF 9 billion, a number of major imponderables remain which justify the adoption of a margin of error of ± 10 % of the amount of that estimate. The Commission accordingly fixes the maximum amount of State aid arising from the State's commitments towards the GAN group at FRF 9,9 billion.

3.3. **The cost of alternative solutions**

Before examining GAN's restructuring plan in detail in order to verify the compatibility of the aid in question by reference to the firm's return to viability, the question of the cost of State intervention compared with other solutions must be dealt with. There are two aspects to this question. First, it must be assessed whether the solution chosen by the State is, both in absolute terms and compared with any other solution including that of non-intervention, the least costly, which would lead, if that were the case, to the conclusion that the State has acted like a private investor. Secondly, it must be established whether the solution chosen is the least costly compared with any other recovery solution so as to assess whether the aid is limited to the strict minimum necessary for the restructuring. The first aspect concerns the nature of the operation as State aid, and the second aspect concerns its compatibility.

Despite their having notified them as State aid, the French authorities have argued that these measures represent on the whole the least costly solution as far as the French State is concerned. Consequently, it is necessary to examine here the first aspect of the question, namely that of the cost of alternative solutions. The second aspect will be analysed as part of the examination as to compatibility.

According to the French authorities, the choice lies between reorganising the financial structures of the GAN group, calling for the announced recapitalisation and guarantee but enabling a rapid sale, and letting matters slide, leading inevitably to a liquidation which would be costly to the State in that it would have to pay for the whole operation. Liquidating UIC was out of the question because it would have affected the rest of the group, thereby giving rise to a financial and social cost which would be much higher than that brought about by the restructuring plan and which the State could not avoid. The French authorities have argued that UIC is still financed to the tune of FRF 23 billion, of which FRF 1,5 billion in the form of deposits taken from the public, FRF 15 million in the form of funds raised on the markets and FRF 6,25 billion obtained from CIC. In its capacity as reference shareholder of UIC, GAN would have been obliged under Article 52 of the French Banking Act to provide such support to UIC as might prove necessary, even going beyond its share in UIC's capital. GAN would therefore have had to bear UIC's entire loss

estimated at FRF 12 billion, of which FRF 6,5 billion in the form of an assets shortfall, FRF 4,2 billion in the form of additional depreciation, and FRF 1,3 billion in the form of penalties for the early collectability of debts. This would have led to GAN becoming insolvent.

According to the French authorities, with an eye to GAN's insolvency CIC had to make provision for all its claims on the GAN group, amounting to FRF 12,5 billion. Moreover, CIC could be considered by other creditors of UIC and by the courts as having given undue support to that company. This would have led to CIC's liquidation, which, in view of the scale of customer deposits (more than FRF 287 billion at the end of 1996) and inter-bank refinancing lines (FRF 193 billion), would have caused a serious shockwave throughout the French financial market. That being so, the State, as main shareholder of the reference shareholder of UIC, would undoubtedly have been called upon by the Governor of the Bank of France to perform its duty as shareholder in accordance with Article 52 of the Banking Act.

The State could not ignore that call, as otherwise its liability might have been incurred under two instruments frequently interpreted widely by the courts, namely Article 180 of the Act concerning reorganisation and winding-up by the courts, which makes it possible to order *de jure* or *de facto* managers or directors who have been found guilty of mismanagement to pay all or part of the company's debts, and Article 1382 of the Civil Code, according to which a person may be held liable for any loss or injury caused to another by his wrongdoing. In these circumstances, the State would probably have had to bear all of UIC's uncovered liabilities, namely FRF 12 billion instead of the FRF 7 billion provided for in the recapitalisation scenario.

A scenario involving an 'amicable' liquidation would not, in the French authorities' view, have cost less than the solution adopted. Ultimately, the hypothesis of liquidation after recapitalisation would, according to the investment bank Lazard Frères, have cost an extra FRF 2,6 billion or so.

The Commission is of the opinion that the French authorities' position can be endorsed only partially. First, the Commission would stress, as it has already done in point 3.2 above, that the cost to the State of the reorganisation operation would have been lower if a detailed analysis, like the one recently carried out, had been made earlier. A private investor would normally have acted much sooner and would have insisted on a less risky financial and business strategy which did not involve an ill-considered conquest of customers and highly speculative investments. The State has, by its passivity, created the need for the aid which is now being granted.

As the Morgan Stanley report of late 1995 has already shown, the intra-group financing of the hive-off vehicles, although defensible from an accounting point of view, left GAN with hardly any room for manoeuvre in the event that the results achieved were worse than expected. According to the 1995 plan as revised in 1996, the group's liquidity position was to have improved following the sale of the majority stake in CIC. This would then have made it possible to make a start on undoing the capital, financing and guarantee links which are paralysing the group. The suspension of the procedure for the privatisation of CIC was a major factor in the decision by the State to intervene in 1997.

Secondly, in order to determine whether the government operation is in the nature of State aid, a distinction must be drawn between the costs to be borne by the State as shareholder and those which the State might have to bear for other reasons, such as in its capacity as authority responsible for monetary and financial stability. The Commission and the Court of Justice have already rejected the argument extending the responsibility of the State as shareholder for the liabilities arising from a liquidation beyond its share in a company's capital, on the ground that such an extension of responsibility is tantamount to confusing the State's roles as shareholder and as the body responsible for social policy [7]. It is only the costs to the State as shareholder that are relevant when it comes to comparing the costs of the solution adopted with those of alternative solutions, as the aid character of the operation stems from the behaviour of the State compared with that of a private investor. In this connection, it is clear that unsuitable costs such as social costs or tax costs should not be included in the comparison, because these are costs which, in normal circumstances, the company or its shareholders would have to bear out of their own resources and for which, in a liquidation situation, the shareholders may not be held liable beyond the value of the capital and guarantees provided by them [8]. Nor did the French authorities furnish proof that the State shareholder could be equated with a *de jure* or *de facto* manager of the company or that it had committed errors of management, or that it had engaged in any wrongdoing causing loss or injury to others. The French authorities have likewise not proven that the financial consequences of any responsibility for mismanagement or wrongdoing would come to the amounts envisaged by them. Even if all these unproven elements were established, this would not enable the French State to side-step the application of Article 92 of

[7] See, for example, Commission Decisions 94/1073/EC concerning Bull (OJ L 386, 31.12.1994, p. 1), 95/547/EC concerning Crédit Lyonnais (OJ L 308, 21.12.1995, p. 92) and the Notice regarding Efim (OJ C 349, 29.12.1993, p. 2), and the judgment of the Court of Justice in Joined Cases C-278/92, C-279/92 and C-280/92 Hytasa [1994] ECR I-4103.

[8] Subject to there being guarantees given on commercial terms which do not constitute State aid.

the Treaty without contradicting the legal principle that a person may not found an argument on his own mistakes (*nemo auditur propriam turpitudinem allegans*).

Thirdly, GAN's responsibility towards UIC under Article 52 of the Banking Act remains to be proven. Article 52 contains an invitation and not an obligation [9]. Such a presumed obligation to make good any liabilities could *de facto* be considered a violation of the principle of the limitation of the liability of shareholders in proportion to their holdings in a limited liability company. Moreover, if such a principle were valid, it would constitute from the point of view of the competition rules discrimination between private banks and public banks inasmuch as a private investor does not have access to the same unlimited resources as the State.

The reason why, in other cases, the reference shareholders decided to give their support was either that they wished to safeguard their financial interest in other activities or that they wished to ward off more serious legal consequences. But neither of these situations obtains here. Neither the first, because the estimated State intervention covers the whole group and is greater than the estimated value of the shares held by the State in the holding company, the central GAN company, after State intervention. Nor the second, because a cost would be involved which stemmed from the State shareholder's own mistakes.

Consequently, the State support cannot be equated with that of a private investor and therefore constitutes State aid.

4. DISTORTION OF TRADE BETWEEN MEMBER STATES

The liberalisation of financial services and the integration of financial markets have the effect of making intra-Community trade increasingly sensitive to distortions of competition. This trend is growing in the context of economic and monetary union. With the creation of the single currency, trade within the Community will be able to develop without any exchange risk or cost. Although in principle financial and insurance institutions can operate on a cross-frontier basis, they encounter obstacles to expanding their business abroad. Such obstacles are often due to the fact that domestic institutions are shielded against the effects of competition, making it less attractive for foreign competitors to enter the market. Aid intended to allow financial and insurance institutions to survive even though they are less profitable and less able to face up to competition, such as the aid granted to GAN, may thus distort competition at Community level, since it makes it more difficult for foreign financial and insurance institutions to gain access to domestic markets.

Without the aid in question, GAN would have had to be liquidated or more probably sold to another, more financially sound institution as part of a judicial winding-up procedure. In that event, the institution or its undertaking could have been purchased by a foreign competitor wishing to set up in business or expand its commercial presence in France. Such a procedure would have facilitated the dispersal of GAN's assets and market shares among a large number of potential purchasers. It should be noted that the current plan provides, not for the separate disposal of each French and foreign subsidiary of GAN, but for the breaking-up of the group into three businesses which remain financially linked.

In addition, aid to an international institution such as GAN which provides banking and insurance products to firms which are in competition on international markets and which provides financial services in competition with other European financial institutions, while at the same time expanding its foreign business through its network of agencies outside France, is certainly liable to have a distortionary effect on intra-Community trade. In particular, the aid enables GAN *inter alia* to restructure a number of its foreign subsidiaries, particularly in the United Kingdom, Italy and Spain, which are in competition with other Community financial institutions.

It should be noted that GAN's foreign insurance business achieved a total turnover of FRF 14,6 billion in 1995, representing some 30 % of its total insurance turnover. The share of Community business in GAN's consolidated international insurance turnover was some 78 %, or more than FRF 11 billion.

Consequently, it must be concluded that the public support measures in question are caught by Article 92(1) of the EC Treaty, since they constitute State aid that distorts competition to an extent that is liable to affect intra-Community trade.

5. ASSESSMENT OF THE COMPATIBILITY OF THE AID

Having determined that the measures under consideration are in the nature of State aid falling within the scope of Article 92(1), the Commission must now examine whether the measures are compatible with the common market pursuant to Article 92(2) and (3).

[9] As can be seen from the recent withholding of support by private shareholders of a number of French banks.

First of all, the aid in this case is neither aid having a social character, granted to individual consumers, nor aid likely to (and granted in order to) promote the development of certain French regions. Nor is it aid to remedy a serious disturbance in the economy inasmuch as it seeks to remedy the difficulties of a single recipient, GAN, and not difficulties experienced by all operators in the industry. Consequently, the aid granted cannot be said to be in the common European interest. Only the exception provided for in Article 92(3)(c) is potentially applicable. By virtue of this, the Commission has the power to authorise 'aid to facilitate the development of certain economic activities ... where such aid does not adversely affect trading conditions to an extent contrary to the common interest'.

The compatibility of such measures must be assessed in the light of the specific rules on restructuring aid ([10]). The Commission considers that aid for restructuring may contribute to the development of economic activities without affecting trade to an extent contrary to the common interest where the following conditions are met:

1. comprehensive implementation of a restructuring plan based on realistic assumptions making it possible to restore within a reasonable timescale the requisite minimum return on capital invested and thus to ensure the long-term viability of the business;

2. the existence of adequate *quid pro quos* to offset the distortive effect of the aid on competition and thus to make it possible to conclude that the aid is not contrary to the common interest;

3. the proportionality of the aid to the objectives sought and limitation of the amount of the aid to the strict minimum necessary for the restructuring in order that the recovery effort might be borne as much as possible by the firm itself;

4. the carrying-out in full of the restructuring plan and of any other obligations provided for in the final Commission decision;

5. the setting-up of a system for monitoring compliance with the preceding condition.

In order to assess the extent to which the above conditions are met and Article 92(3)(c) is complied with, account must also be taken in this case of the particular sensitivity of the financial sector to the difficulties of an all-purpose finance group like GAN.

According to the restructuring aid guidelines, such aid should normally be necessary only once. In view of the supplementary nature of the aid in question, coming as it does on top of that approved in 1996, its scale and its distortive effect, the examination as to whether the above conditions are met must be particularly rigorous and detailed.

Compliance with such principles must be verified for all the aid granted to GAN. Despite the fact that on 18 September 1996 the Commission came out in favour of the FRF 2,86 billion capital increase decided in 1995, it must check whether its assessment was based on erroneous or inaccurate information.

The Commission notes that, according to the French authorities, the deterioration in GAN's situation was already evident in mid-1996 and that this trend, together with the decision to carry out specialised audits of the property business, was not communicated to the Commission until after it took its decision to approve the FRF 2,86 billion in aid in September 1996. It notes further that, during the talks held between Commission representatives and the French authorities in 1996, notably for the purpose of discussing the assessment report drawn up in 1995 by Morgan Stanley, the French authorities informed the Commission more than once that the group's situation was going to improve markedly, even though they were going to ask GAN to carry out specific audits on the property business in order to establish the additional provisioning requirements and even though they knew of the deterioration in the results in the insurance business as compared with the forecasts. In this connection, the French authorities have stated that the Treasury's decision to request specialised audits of the property business was taken after the Commission's decision. It has been established, however, that GAN had informed the Treasury of the worsening situation well before the date of the Commission's decision. The Commission therefore has reason to believe that the French authorities did not provide it with all the essential background information, and in particular that mentioned above, which could have prompted it to take a different decision from the one it did take in September 1996.

The details in the Commission's possession indicate that the information furnished at the time was incomplete, notably as regards the position of UIC and of the hive-off vehicles, and therefore was not sufficient to enable it to examine the group's viability properly, and that the new State support measures are partially attributable to the fact that the plan communicated in 1996 has not been implemented in full, particularly as regards the sale of UIC, which should have provided GAN with substantial resources for its recovery.

The Commission accordingly considers that the old decision approving the FRF 2,86 billion capital increase

([10]) OJ C 368, 23.12.1994, p. 12.

must be revoked. That aid operation is re-examined as part of the present proceeding on the basis of all the information now available. Moreover, the fact that the restructuring plan failed and that fresh aid seven times larger than the initial aid has been found necessary to GAN's survival makes it all the more essential to re-examine the compatibility of the initial aid as part of this proceeding. Consequently, the compatibility of the old and the new aid is hereinafter examined jointly.

5.1. Examination of the restructuring plan and of the group's viability

In order to analyse in detail the documents handed over by the French authorities as regards the position of the GAN group, its restructuring plan and its viability, the Commission enlisted the help of an international investment bank with a solid reputation as a consultant. The Commission's analysis set out below has therefore benefited from the consultant's technical expertise in this particularly complex field.

In order to determine whether the proposed restructuring plan is likely to resolve the company's difficulties, eliminates the causes of its failure, guarantees a return to viability and avoids future recourse to State support, the first step is to understand the reasons for GAN's failure. Unless the causes of GAN's failure are properly understood, suitable, lasting solutions cannot be found.

As indicated above, the State aid for GAN stems from a number of factors: an excessive, uncontrolled exposure to the property sector, an imprudent policy of expansion in non-life insurance, and an ineffective system of checks on the part of its shareholder [. . .](*). In other words, the overall system of checks on the way the group was run, consisting of the rules and institutions which are relevant to the financing of, and exercise of control over, a company ('corporate governance'), proved inadequate.

In view of, first, GAN's slowness in reacting to the cyclical downturn and to the onset of its difficulties (rents and property prices have been falling steadily since 1990) and, secondly, the slowness of the recovery process (it has taken GAN four years, from 1993 to 1997, to deal definitively with the property problem), it is clear that the colossal amount of aid granted in 1997 reflected the confidence which GAN's top management placed in the State as shareholder inasmuch as they felt that it would in any event have been obliged to erase their past mistakes, as witnessed by the arguments put forward by the French authorities concerning the cost of alternative solutions. GAN was, of course, not the only group to have pursued a highly speculative policy, other publicly owned institutions such as Crédit Lyonnais or private ones such as Suez or Banque Pallas having followed the market, but only the public institutions could count on State aid, the private ones being forced by the markets to restructure drastically or enter into some sort of composition arrangement. There is reason to believe that, if GAN had not had the implicit or explicit support of the State, it would not have embarked upon the hazardous policy it did embark upon, or that at all events it would have restructured earlier and with greater determination.

Such State support, which is ultimately tantamount to 'survival insurance' for failing institutions, as Information Report No 52 of the French Senate remarks[11], also has the effect of protecting their creditors. But such protection removes the incentive for creditors to monitor the behaviour of their debtors. Institutions are no longer subject to control by, and punishment at the hands of, the markets. Not only is such protection unwarranted and excessive, but it also has the effect of 'encouraging the unsound management of credit institutions' — as the European Parliament and the Council of the European Union state in Directive 94/19/EC of 30 May 1994 on deposit-guarantee schemes[12]. This is borne out by the fact that UIC continues to be financed by the markets to the tune of more than FRF 15 billion despite its catastrophic situation. The support of the shareholder, which in turn has permitted the support of the markets, has had the effect of delaying the necessary corrective action and increasing the final amount of State aid. Consequently, and in keeping with the statements made by the Council and the European Parliament, the Commission fully endorses this argument, which was developed scientifically and in the light of banking crises in a number of countries, stressing as it does the importance of this moral hazard as a means of explaining the GAN crisis.

It is clear that any lasting solution for GAN must therefore include a reform of the corporate governance of

(*) In the published version of this Decision, some information has been omitted for reasons of confidentiality.

(11) See Senate of the French Republic, *Banques: votre santé nous intéresse,* Information Report by Mr Alain Lambert (Senator, General Rapporteur), on behalf of the Committee on financial affairs, budgetary control and the economic accounts of the nation, on the situation in and prospects for the French banking system, No 52, 1996—97.

(12) OJ L 135, 31.5.1994, p. 5.

the group and of its subsidiaries, coupled with a solution to the moral hazard problem. There are a number of possible solutions. The solution proposed by the French authorities involves obtaining backing for the two core businesses, banking and insurance, from independent partners more directly subject to market forces. The Commission considers this solution to be appropriate as it makes it possible to reconstitute a more effective system of checks based on the undistorted action of the markets.

The following table compares the old and the new plan concerning the development of GAN's results and the return on its capital between 1995 and 1998, as presented by the French authorities in 1996 and 1997 (Table 2).

Table 2

GAN's business plan as presented by the French authorities

(million FRF)

Results	1995 actual	1996		1997		1998 97 plan
		96 plan	actual	96 plan	97 plan	
Insurance France (1)	632	906	603	1 160	[. . .]	[. . .]
of which GAN IA	– 612		– 196		[. . .]	[. . .]
of which GAN Vie	785		312		[. . .]	[. . .]
Insurance International	496	399	121	505	[. . .]	[. . .]
Subtotal insurance	*1 128*	*1 305*	*724*	*1 665*	*[. . .]*	*[. . .]*
CF-CIC-UE	732	683	700	868	[. . .]	[. . .]
Other banking subsidiaries (excluding UIC)	– 145	155	– 642	171	[. . .]	[. . .]
Subtotal all banking	*587*	*838*	*58*	*1 039*	*[. . .]*	*[. . .]*
Total GAN (excluding UIC and restructuring plan)	**1 715**	**2 143**	**782**	**2 704**	**[. . .]**	**[. . .]**
UIC	– 1 848	– 873	– 7 985	– 183	[. . .]	[. . .]
Restructuring plan (GAN SA)	– 1 652	– 1 150	1 520	– 950	[. . .]	[. . .]
Subtotal UIC and restructuring plan	*– 3 500*	*– 2 023*	*– 6 465*	*– 1 133*	*[. . .]*	*[. . .]*
Total consolidated result group share	**– 1 785**	**120**	**– 5 683**	**1 574**	**1 068**	**1 874**

(1) Including GAN's holding company, Société Centrale.

The plan presented is based primarily on restructuring measures which have already been in place for a number of years and which are now starting to bear fruit. These include measures to reorganise the non-life insurance portfolio which have already helped reduce significantly the gap between GAN and its competitors. To these must be added other measures to reduce operating costs, such as the announcement of a thousand redundancies (670 in insurance and 330 in banking) in 1995. In 1996 there were more job losses, totalling some 400 in insurance and 300 in banking. GAN has also sold a number of subsidiaries and withdrawn from certain non-strategic businesses (CFJPE, CTR, SCOR, GAN Belgium, HNL, etc.).

The new plan presented in the spring of 1997 introduces additional measures. It provides *inter alia* for the reorganisation of the group into three separate units under the central GAN company, the holding company at the head of the group: an insurance unit, under the holding company GAN SA, a banking unit, represented by the CIC group, and a property unit, consisting of UIC and the two hive-off vehicles, Parixel and Bâticrédit. The

new French Government recently confirmed the thrust and content of the plan presented in April.

A number of pieces of information have been sent to the Commission, including the conclusions of the audit reports by Arthur Andersen and the cross-check by KPMG, various documents drawn up by experts working independently of GAN and the Treasury (namely a memorandum by SBC Warburg on the restructuring plan, two memoranda by JP Morgan and Goldman Sachs on the viability of CIC and of GAN's insurance unit, and a memorandum by Lazard Frères on UIC), and correspondence between UIC and the Banking Commission and between the Insurance Supervision Commission and GAN.

In insurance, it is envisaged that GAN will withdraw from credit insurance (by selling Sacren) and from insurance broking; operating costs should diminish as a result of the implementation of a workforce adjustment plan which should generate a saving of FRF 400 million in a full year (– FRF 153 million in operating costs, – FRF 105 million in production costs and – FRF 142 million in personnel costs). As regards production costs, some [. . .] in-house producer posts will be cut between 1997 and 1998, representing [. . .] of total staff as at 31 January 1996. Personnel costs will be cut as a result of 431 job losses over 12 months, representing 8 % of the staff concerned. A provision of FRF 100 million has been made at the level of GAN SA to cover the costs of the adjustment plan. Local branches will also be downsized.

In order to resolve the intra-group financing problem, the restructuring plan presented by the French authorities provides for the — probably separate — sale of the insurance business (GAN SA), the banking business (CIC) and the property financing business (UIC). The immovable property assets (claims and buildings) which have been placed in the two hive-off vehicles (Bâticrédit and Parixel) are to be managed on a liquidation basis by the group holding company (GAN SC), which will remain in the hands of the State but whose size is to be reduced as and when the disposals take place. Since the GAN group is particularly complex and the consolidated accounts do not make it possible to examine the viability question properly, each main area of activity must be examined separately.

5.1.1. *The two hive-off vehicles*

The hive-off vehicles do not pose any problems in terms of viability given that they will be managed on a liquidation basis. The problem of quantifying the aid has already been dealt with in point 3. The question of *quid pro quos* must be examined at the level of the structures which have transferred the poorly performing assets to the hive-off vehicles. It is important, however, that the management of the assets of the hive-off vehicles should be transparent and that the transfers should be sufficiently rapid. The Commission also considers that the hive-off vehicles and GAN's banking and insurance arms should be clearly separated. It will thus have to be ensured that, until such time as CIC and GAN SA are disposed of, they cannot repurchase assets placed in the hive-off vehicles.

In this connection, the Commission takes note of the French authorities' undertaking that they will confirm the current process of disposing of the assets of Bâticrédit and Parixel, a process which should be largely completed by the end of 1998, without there being any possibility of these assets being acquired by CIC or by GAN up until the time of their disposal.

5.1.2. *The bank specialising in the property sector: UIC*

The French authorities plan to maintain this bank specialised in the property sector as a going concern pending its sale to a potential buyer who might be interested in taking over its goodwill and/or its controlling interest in the leasing subsidiary UIS. As the French authorities acknowledge, however, a number of problems connected with the institution's viability need to be resolved.

The French authorities have stated that they seriously considered liquidating UIC in view of the gravity of its condition, but that in the end they decided not to do so because it would have cost more than the option chosen owing to the knock-on effect on the other entities of the group (primarily CIC, which had provided it with FRF 6 billion of financing) and on the market (FRF 15 billion of refinancing). According to Lazard Frères, the solution of controlled liquidation spread over five years, although possible, would likewise have cost more than the solution adopted — approximately FRF 2,6 billion more than the recapitalisation solution (which works out at FRF 7,1 billion).

The recapitalisation comes on top of restructuring measures which theoretically should make UIC attractive to a buyer. In particular, a social plan is being implemented involving a 50 % reduction in staff numbers to 280 within the space of a year. The plan should include a reduction in overheads from FRF 361 million to FRF 222 million. Once it levels off, the new production of the banking arm should be worth some FRF 1,6 billion a year. The poorly performing property assets should be disposed of within two years and doubtful assets should be reduced by half. As is acknowledged by the French authorities, however, a big

question mark hangs over the liquidation of these assets as regards both timescale and value. Receipts and sales may have to be further discounted.

Two scenarios have been presented, that of UIC's management and that revised [. . .] on the basis of more pessimistic assumptions.

Table 3

UIC's business plan as presented by the French authorities

(million FRF)

	Scenario 1		Scenario 2	
	1997	1998	1997	1998
Net banking income	[. . .]	[. . .]	[. . .]	[. . .]
Operating costs	[. . .]	[. . .]	[. . .]	[. . .]
Appropriations to provisions	[. . .]	[. . .]	[. . .]	[. . .]
Net result	[. . .]	[. . .]	[. . .]	[. . .]
Cumulative result 1997-2001	[. . .]		[. . .]	
Cumulative result on doubtful assets 1997-2001	[. . .]		[. . .]	
Recapitalisation period	[. . .]		[. . .]	
Cumulative total 1997-2001	[. . .]		[. . .]	

Following analysis of the information furnished by the French authorities, the following comments can be made. First of all, although the provisioning ratio was raised to 71 % in 1996, a sufficient level in theory, UIC still has on its books more than FRF 7 billion of property assets subject to considerable price fluctuations. The auditors acknowledged that additional provisions might be necessary in the event of the asset selling prices being lower than estimated or if the disposals are delayed. It should be noted in this connection that a three-month delay in the disposal programme coupled with a 15 % fall in the selling price would result in a loss of FRF 400 million. According to KPMG, who revised the work of auditors Arthur Andersen, certain major risks should be more precisely evaluated in order to determine the validity of the provisions (failure of partners in SNC and SCI, calls to make good deficiencies in the assets, rate risk due to the imbalance between assets and liabilities).

More generally, when a credit institution shows a ratio between doubtful assets and total assets of around 80 %, it is questionable whether it can carry on its core business and hence survive. At such ratio levels, it is not only the cyclical downturn or the taking of excessive risks or some bad lending that causes the institution to fail, but it is the whole process of selecting and monitoring risks that has gone wrong. In order to gain a better understanding of this aspect, it must be remembered that nearly half of all UIC's assets had already formed the subject matter of cantonment in the two hive-off vehicles. If these items are included as well, almost all of UIC's assets can be qualified as doubtful. In other words, the new estimates of those of UIC's assets which had not formed the subject matter of cantonment have shown that those assets were of no better quality than those transferred to the two hive-off vehicles. This being so, the few good-quality assets remaining on the books are due more to good luck than to good management.

The business plan presented stops far short of showing a return to viability for UIC without any backing. According to scenario two, which the Commission considers to be more valid than scenario one given the plan's many imponderables, UIC will continue to record losses up until the end of 1998. At the same time, after deduction of the minority interests of the leasing subsidiary UIS, the capitalisation of UIC as a separate entity is particularly weak in view of the risks on the books, and below the average for banks specialised in the property sector. The group's liquidity also poses problems as any stretching of liquidity is likely to generate substantial losses for UIC.

In short, UIC's situation is critical. The bank cannot even reach break-even point. Since the bank is not viable, it is

highly likely that the Treasury will have to recapitalise it prior to disposal if it is not to be sold at a loss. The State has already given the financial markets an undertaking to this effect. According to the French authorities, such State support should not exceed the losses under scenario two, namely FRF [. . .] million.

In conclusion, on the basis of the above analysis and owing to the fact that profitability is negative, capitalisation weak and the imponderables linked to the risks remaining on the books too numerous, the Commission is of the opinion that UIC's viability may be ensured only by securing for the institution the backing of a stronger, more highly capitalised banking group capable of carrying out with its own administrative staff a thorough restructuring of the institution. In view of the fact that any delay in restructuring gives rise to additional costs, this disposal will have to occur as soon as possible and in any event before the end of 1998.

In this connection, the Commission takes note of the undertaking given by the French Government to the effect that it will continue the process now under way of disposing of UIC and its subsidiary UIS, including the shares in UIS held by GAN SA, a process which should be completed by the end of 1998 [. . .].

5.1.3. *The network bank: CIC*

CIC is a banking group composed of 10 regional banks with a balance-sheet total of some FRF 600 billion at the end of 1996, making it the fifth largest of the banks belonging to the French Association of Banks. The group manages deposits of some FRF 215 billion and assets of nearly FRF 240 billion. Well-established as it is in France with the resulting possibility of maintaining close contact with its customers, CIC enjoys a good net interest margin (4,67 % in 1996 for the regional banks) and regular, stable income. The worsening of margins linked to the fall in interest rates and the competitive environment affects CIC less than the large network banks. The reduction in interest income has been offset by the increase in commissions, which in 1996 accounted for almost 31 % of net banking income. Through Socapi, which it holds jointly with GAN, CIC occupies a choice position in the all-purpose finance market in France. As was confirmed by investment bankers JP Morgan, consultant to GAN, after the transfer to GAN of UIC, CIC will have a healthy balance-sheet structure, good-quality assets and a high level of provisioning.

The following table shows the main results of CIC according to the business plan presented by the French authorities.

Table 4

CIC's business plan as presented by the French authorities

(million FRF)

	1995	1996	1997 est.	1998 est.
Net operating receipts	16 561	17 131	17 229	17 539
Operating costs	– 12 896	– 13 109	[. . .]	[. . .]
Provisions	– 2 520	– 2 249	[. . .]	[. . .]
Ordinary result before tax and FGBR	1 145	1 773	1 847	2 009
Other charges and FGBR	– 157	– 574	[. . .]	[. . .]
Tax	– 275	– 275	[. . .]	[. . .]
Minority interests	– 88	– 77	[. . .]	[. . .]
Company result	**625**	**847**	**1 110**	**1 220**
Capital at end of period	13 682	14 358	15 257	16 199
Return on average capital	4,7 %	6,0 %	7,5 %	7,8 %

The plan is based on the following assumptions:

— annual growth of approximately 5 % in the number of target customers (private individuals, professional people, SMEs) and average annual increase in assets and income of 6 % a year at regional bank level and of 4 % and 5 % respectively at overall group level,

— the interest margin is expected to fall from 4,93 % in 1996 to 4,09 % in 1998,

— continuation at regional level of the growth of the share of net bank output accounted for by commissions from 32,9 % in 1996 to 36,9 % in 1998; this growth will then slow down as a result of commissions on banking transactions diminishing due to the introduction of the euro,

— overheads are slightly up, owing to the higher costs associated with the introduction of the euro (FRF 100 million a year for 1997 and 1998); more specifically, staff costs will remain fairly stable despite cuts in the workforce of 1,4 % in 1997 and 1,2 % in 1998,

— the rate of net allocation to the provisions for the regional banks' lendings should fall from 0,91 % in 1996 to 0,86 % in 1998, the 1996 level being due to an increase in the provisions for non-recurring items.

Those assumptions appear realistic. However, the group suffers from a few weaknesses, such as particularly high operating costs, sizeable exposure to other companies in the GAN group, and a meagre level of profitability as regards both the current level and future prospects.

On the issue of operating costs, the ratio between overheads and net banking income is still too high (75,5 % at the end of 1998), being above the current average for French banks and the targeted level for Crédit Lyonnais (70 %). In the long term, in a context of free competition at European level and of technological innovation, the reduction in the interest margin can be offset only by a reduction in overheads, in particular staff costs. British banks, which are nowadays the most efficient in Europe with rates of return of up to 36 %, have much lower operating ratios (measured in terms of the ratio between overheads and net banking income). In a context of increasing competitive pressure due to the integration of markets and the single currency, it is clear that banks with excessively high operating ratios will be unable to survive.

With regard to the second weakness, CIC has on its books more than FRF 12 billion of commitments vis-à-vis other entities in the GAN group, including FRF 6 billion vis-à-vis UIC, FRF 3 billion vis-à-vis GAN SA, and approximately FRF 3 billion vis-à-vis the hive-off vehicle Bâticrédit. The plan provides for the conversion of half of the loan to UIC into a loan to Bâticrédit, which will therefore be exposed to CIC to the tune of FRF 6 billion, a loan the nominal value of which is covered by the explicit guarantee of the State to make good any losses incurred by the two hive-off vehicles. The loan to GAN SA will have to be repaid out of the proceeds from CIC's privatisation. The loan to UIC is covered by the State's undertaking to meet the property subsidiary's capital requirements. However, following the recapitalisation and sale of UIC, CIC's loan will no longer be covered by the guarantee. CIC therefore retains a substantial exposure towards the GAN group, whose coverage of the risk remains subject to the disposal of CIC and to the recapitalisation and disposal of UIC. The successful conclusion of these transactions is vital to CIC's solvency [. . .].

Lastly, the CIC banking group enjoys a positive but low level of profitability compared with the average for European banks. The plan provides, through a strategy of sustained expansion, for a return on capital of 7,8 % by the end of 1998 (at company level), which is below the minimum level laid down by the Commission in other banking cases and adopted by the CIC even at the time of the Commission's 1996 decision (10 %). The main difficulty is the scale of the overheads, in particular staff costs. In the context of the sell-off, however, it may be presumed that a prudent private investor will be prepared to pay a price compatible with a return on capital of between 10 and 12 %. That is to say, after allowing for any synergies and such additional restructuring costs as may be necessary, the buyer will be prepared to pay a price which will include a discount on the capital so as to obtain a profitability ratio of at least 10 %, to which may be added a strategic premium.

Faced with very severe competition in the banking field, where margins are becoming increasingly narrow even in regional markets, CIC would probably need to carry out further restructuring in order to improve its profitability. However, the proposal to dispose of CIC, which already formed part of the conditions of the old Commission decision and which was recently confirmed by the undertaking given by the new Government to sell, either together or separately, CIC and GAN to buyers in a position to ensure their future viability and long-term development, leading to the majority involvement of private investors, may secure the provision of additional funds and expertise and bring new pressure to bear in order that the restructuring drive might be stepped up, notably in the area of the reduction of overheads. The French Government has also undertaken to ensure that the operations aimed at finding potential buyers and transferring ownership start as soon as possible and in any event no later than 30 June 1998, and they are carried out in accordance with the principles of openness and equal treatment of candidates.

5.1.4. *Insurance: GAN*

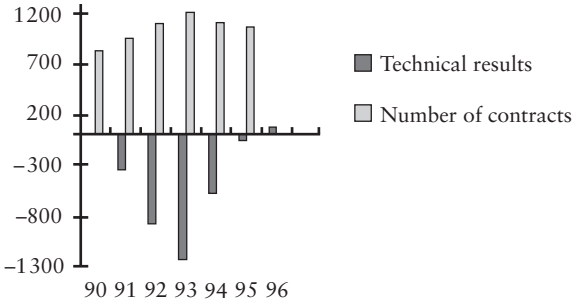
The restructuring plan provides that the insurance business is to be separated from the rest of the group,

notably the hive-off vehicles and UIC, which remain under the control of the central GAN company (GAN SC). The holding company GAN SA will retain control of GAN IA (Incendie Accidents), GAN Vie, Gan Capitalisation and Socapi. The viability of the insurance business may be analysed in terms of these various entities.

(a) Non-life insurance

GAN IA carries on the business of non-life insurance mainly through a general agents network composed of 1 400 agencies. In the early 1990s GAN IA pursued a policy of growth and of conquering market shares, as a result of which it became the fourth largest non-life insurer in terms of direct gross premiums. However, this policy of growth at any cost has been pursued at too fast a rate compared with the company's capacity to select risks, as can be seen from the following table for the motor vehicle class. As a result, GAN IA has run up increasingly heavy losses which have exhausted its capital.

Number of contracts and technical results (million) in motor insurance



Attempts have been made since 1994 to achieve a turnaround by increasing premiums and excesses and terminating a number of contracts. Agents are being more closely supervised to induce them to increase their productivity with a view to reducing overheads and reorganising distribution; the system for paying agents has been remodelled along the lines of the one used by AXA, involving a gradual replacement of commission based on turnover, the conventional payment method, by a share in the technical result of business brought in. Agents' numbers are to be cut.

The business plan presented by the French authorities provides for a significant reduction in turnover (9 %) between 1995 and 1997, followed by its stabilisation around FRF 12,8 billion. The claims/premiums ratio in France should continue to improve from 79,8 % in 1995 to 71,3 % in 1998. Operating costs should fall from FRF 4 148 million in 1995 to FRF 3 748 million in 1998, a 9,6 % reduction over three years. Lastly, income is set to fall owing *inter alia* to the reduction in capital gains from FRF 1 340 million to FRF 1 160 million.

Out of premiums received insurance companies form technical reserves to cover their commitments towards policyholders. The amount of these technical reserves gives an idea of the size of an insurance company's indebtedness towards policyholders or insured persons. The improvement in the results of GAN IA is also based on the assumption that the company has now made up for lost time in creating technical provisions and that it has sufficient reserves to meet any increase in claims outstanding.

Table 5

GAN IA's business plan as presented by the French authorities

(million FRF)

	1995	1996	1997 est.	1998 est.
Premiums	14 010	13 546	[. . .]	[. . .]
Claims paid	– 12 054	– 10 940	[. . .]	[. . .]
Income from disposals	– 17	– 221	[. . .]	[. . .]
Net technical margin	2 326	2 543	2 891	2 886
Operating costs:	– 4 148	– 3 955	[. . .]	[. . .]
of which commissions	– 2 131	– 1 935	[. . .]	[. . .]
of which overheads	– 2 017	– 2 020	[. . .]	[. . .]
Investment income:	1 340	1 803	[. . .]	[. . .]
of which financial revenue	877	844	[. . .]	[. . .]
of which realised capital gains	463	959 (1)	[. . .]	[. . .]
Exceptional result	38	– 32	[. . .]	[. . .]
Net result	**– 444**	**359** (2)	**236** (4)	**278**
Technical provisions	26 023	27 369	27 099	27 043
Capital	2 949	3 418	5 954	6 173
Return on capital	– 17,3 %	11,3 % (3)	5 % (5)	4,6 %

(1) Of which FRF 591 million on the exchange of CIC securities.
(2) Without the CIC capital gain, the net result comes to FRF – 232 million.
(3) Without the CIC capital gain, the return comes to – 7,3 %.
(4) FRF 102 million without the share of the exceptional dividend of GAN International (FRF 134 million out of a total of FRF 420 million).
(5) 2,9 % without the effect of the exceptional dividend of GAN International and the increase in capital.

Despite the return to profit, the plan presented remains subject to a number of imponderables as a result of which it is not possible to conclude that there will be a return to solid viability without any backing. There are two problems: a first problem of ability to maintain a technical margin which is stable and high enough to limit the negative result after operating costs, having regard to the level of capitalisation; and a second problem of liquidity and performance of the assets portfolio.

With regard to the first problem, a number of aspects must be underscored. First of all, the return to profit was speeded up by the release of FRF 386 million of reserves in 1995 and 1996 and by the exceptional income of FRF 591 million from the transfer of CIC securities to GAN SA. For 1997 and 1998, GAN IA considers that it will achieve substantial surpluses which will enable it to release FRF 769 million of reserves, which corresponds to 150 % of the aggregate company result. Even if the level of the surpluses achieved in 1995 and 1996 were to confirm GAN's ability to continue to release reserves in the years ahead, only time will tell whether the current level of reserves is adequate. In other words, the fact that the return to profit depends to a large extent on the releasing of provisions made in the past casts doubt on the strength of the prospect of recovery.

Secondly, GAN IA is still far behind its competitors in terms of technical factors. Although the company has made very significant progress in reducing the number of claims, the overall ratio between operating costs and claims on the one hand and premiums on the other will at the end of 1998 still be too high (105,6 %), especially when compared with the ratio of GAN's main competitors, who, on average now have lower ratios.

It would appear that the reduction in the number of claims is not accompanied by a sufficient reduction in operating costs. Even if the comparison must be made with care owing to the considerable fluctuation in premiums throughout the period, the change in accounting method and the different cost allocation policies pursued by the various competitors, it may be observed that, compared with premiums, operating costs have throughout the restructuring period remained almost unchanged at a level in excess of 29 %, which is particularly high.

Table 6

Projected trend in technical ratios in non-life insurance

(%)

GAN IA (non-life insurance)	1995	1996	1997	1998
Claims/premiums	86,0	80,8	76,9	76,2
Operating costs/premiums	29,6	29,2	30,1	29,3
(Claims + Costs)/premiums	115,6	110,0	107,0	105,6

GAN intends to deal with this problem by launching a new system for distributing non-life insurance products via CIC's banking network, as it has already done in the case of life assurance products; GAN is not, however, alone in doing so, other competitors being in the process of implementing the same policy. Moreover, according to the business plan, the new subsidiary with responsibility in this area (Progress) will not be in a position to return a profit for a number of years. If one also takes into account the other non-life insurance subsidiaries, the income from this business in France for 1998 should be reduced from FRF 278 million to FRF 261 million.

With the low level of capitalisation, these uncertainties, which may affect GAN IA's technical results, invite caution about the company's ability to return to viability.

As regards the second problem, GAN IA's portfolio of investments suffers from illiquidity and an inadequate return compared with its competitors. Out of a total portfolio worth approximately FRF 20 billion, almost FRF 3 billion is accounted for by immovable assets (14 %), more than FRF 5 billion is accounted for by shareholdings in other entities of the group (26 %) and approximately FRF 1 billion is in the form of intra-group debt (5 %). On the other hand, the proportion of high-yield and long-term securities in the portfolio is relatively modest. It can therefore be said that approximately 45 % of the portfolio is composed of illiquid assets. The profitability of this portfolio is, moreover, very modest. In particular, the portfolio has generated a profitability well below that of the French stock and bond markets. In 1996 the rate of return on assets was 3,4 % excluding capital gains and 8,3 % including capital gains, whereas the French stock and bond markets gained approximately 25 % (with dividends reinvested) and 12 % respectively. In 1998 it is expected that the portfolio will have a yield of 4,2 % excluding capital gains and 4,9 % including capital gains. Lastly, unrealised gains account for only 9 % of the portfolio, which is particularly low, in view of the fact that more than a quarter of the unrealised gains derives from immovable assets. It should also be noted that the strategic assets are entered in the books with high, notably international, values, which exposes GAN IA to losses in the event of their being sold at less than book value. Lastly, the sensitivity analysis, which makes it possible to assess the trend of the company's results in the event of variations in the basic assumptions made, shows that GAN IA remains exposed to certain risks of a less favourable development of the business cycle. With competitors recording a much better performance, GAN will inevitably be faced with very competitive rates, which will have the effect of reducing its margin of manoeuvre.

GAN intends to tackle this problem by reducing the strategic assets in its portfolio, notably UIS and BIF, and by paying part of the intra-group debts, which will be made possible by the disposal of CIC. However, these measures, though necessary, do not seem sufficient because they account for only some 10 % of the portfolio.

In conclusion, in view of the increasingly low level of projected profitability (4,6 %) and of capitalisation and having regard to the problems described above, the Commission considers that the viability of GAN IA remains particularly fragile.

(b) Life assurance

The life assurance activity of the GAN group is carried on by three main companies: Gan Vie, Gan Capitalisation and Socapi. These are examined separately below.

Gan Vie sells mainly pension products through a network of 450 special assistants and 200 exclusive agents for 'collective' insurance and through a network of 1 800 salaried salespersons for individual cover.

The business plan presented by the French authorities for GAN Vie forecasts a 6 % reduction in turnover between 1995 and 1997 followed by a levelling-off at around FRF 10 billion. Technical expenses should fall from FRF 8,4 billion to FRF 7,7 billion, which would enable the gross technical margin to improve slightly. Operating costs are falling slowly, while investment income is set to increase by about 5 % in 1997 and to stabilise thereafter at around FRF 4,4 billion. However, the increase in

appropriations to profit-sharing funds for insured persons will help to reduce the financial margin to FRF 386 million in 1998. Consequently the new result, after the 1996 increase due to substantial realised capital gains, is FRF 260 million in 1998, which corresponds to a return on capital of 5,8 %.

Table 7

GAN Vie's business plan as presented by the French authorities

(million FRF)

	1995	1996	1997 est.	1998 est.
Turnover	10 628	10 566	[. . .]	[. . .]
Technical charges	– 8 379	– 8 359	[. . .]	[. . .]
Result of disposals	– 311	– 262	[. . .]	[. . .]
Net technical margin	1 938	1 946	2 022	2 074
Operating costs:	– 2 231	– 2 153	[. . .]	[. . .]
of which production expenses	– 1 617	– 1 522	[. . .]	[. . .]
of which overheads	– 614	– 631	[. . .]	[. . .]
Investment income:	4 117	4 246	[. . .]	[. . .]
of which financial revenue	3 068	3 180	[. . .]	[. . .]
of which realised capital gains	1 049	1 066	[. . .]	[. . .]
Interest credited	– 1 496	– 1 464	[. . .]	[. . .]
Profit-sharing appropriation	– 2 137	– 2 155	[. . .]	[. . .]
Financial margin	484	627	[. . .]	[. . .]
Exceptional result and corporation tax	– 182	– 28	[. . .]	[. . .]
Net result	**10**	**392**	**418** [1]	**260**
Technical provisions	68 274	70 890	73 884	77 100
Capital	3 728	4 118	4 438	4 593
Return on capital	0,2 %	10,0 %	9,8 % [2]	5,8 %

[1] FRF 214 million without the share of the exceptional dividend of GAN International (FRF 240 million out of a total of FRF 420 million).
[2] 5,1 % without the effect of the exceptional dividend of GAN International.

The following comments may be made regarding the plan presented. First, the gradual reduction in turnover bears witness to the loss of market share by GAN Vie, especially in the 'individual' and 'collective' classes, which account for most of the turnover, whereas the family welfare class should maintain its market share (10 %) and its high technical margin. However, the extent to which the latter class will be able to offset the fall in the relative level of activity of the other classes remains the toughest challenge facing GAN Vie.

Secondly, the improvement in the technical margin compared with turnover depends to a large extent on the contract termination rate, which according to GAN should fall in 1997, notably for the 'individual' class. However, contracts in the latter class still produce modest technical results compared with other products, which leaves them exposed to a high surrender risk. If this were to materialise, the improvement in the technical margin would have to be revised downwards.

Thirdly, operating costs are particularly high at almost 21 % of turnover. This level is unsustainable in the long run compared with the much lower levels of the market (approximately 10 %) and in particular of the all-purpose finance institutions (approximately 5 %). From this point of view, the ability of GAN Vie to face up to the competitive pressure from all-purpose financiers and other competitors is uncertain.

Moreover, the distribution of insurance products by financial institutions, the Post Office and the Treasury is continuing to develop. Their market share has grown steadily, increasing in ten years from 25 % in 1985 to 56 % in 1995. That of the insurance networks fell to

38 % in 1995, whereas direct selling and other means of distribution rose to 6 % that year.

The problem is made worse by the fact that, like GAN IA, GAN Vie suffers from a problem of an insufficient return on assets held compared with that which policyholders were promised. This problem induced GAN SA to repurchase part of the portfolio of GAN Vie, which reportedly asked for substantial additional provisions for current liabilities and for financial contingencies. Despite this operation, GAN Vie still has a large number of illiquid assets, of the order to 40 % of the portfolio. In particular, of a total portfolio worth approximately FRF 72 billion, almost FRF 13 billion are immovable assets (18 %), more than FRF 10 billion is accounted for by shareholdings in other entities of the group (14 %) and intra-group debts come to approximately FRF 5 billion (7 %). Moreover, the profitability of this portfolio is very modest. In particular, the portfolio has yielded a profit well below that of the French stock and bond markets. In 1996 the rate of return on assets was 4,2 % excluding capital gains and 5,6 % including capital gains, whereas the French stock and bond markets gained approximately 25 % (with dividends reinvested) and 12 % respectively. In 1998 the portfolio should have a yield of 4,3 % excluding capital gains and 5,7 % including capital gains. Lastly, unrealised gains account for only 11 % of the portfolio, which is particularly low, in view of the fact that more than a quarter of the unrealised gains derives from shareholdings in other group entities and that the property portfolio has negative unrealised gains. Consequently, without a restructuring of the assets portfolio, which is something that only a sufficiently strong buyer could ensure, there is a risk that its low profitability will lead to insufficiently competitive rates on the part of GAN and hence to a loss of interest by GAN's customers in its products and ultimately to loss of market share.

Lastly, GAN Vie, like the rest of the group, suffers from a problem of balance between assets and liabilities which lays it open to a major interest rate risk. The 'duration' of the capital, which measures the variation in the value of the capital compared with the variation in the interest rate, having regard to the maturity of the assets held [13], seems to be particularly high and well above that of the main competitors.

To conclude, in view of the increasingly low level of projected profitability (5,8 %) and of capitalisation and having regard to the problems described above, the Commission considers that the viability of GAN Vie will remain particularly fragile without any backing.

Gan Capitalisation (Gan Capi) sells mainly individual retirement savings products through a network of 1 700 agents. The business plan for this company submitted to the Commission includes a capital injection of FRF 200 million which the State will make at the end of 1997 at the request of the supervisory authorities. Given the contraction of the market for capitalisation products, the aim is to increase production by almost 15 % compared with 1995 by developing life assurance products and thus balancing the two activities Capitalisation and Vie, the present breakdown being weighted heavily in favour of Capitalisation. Technical expenses are rising from FRF 2,9 billion to almost FRF 3,4 billion and the technical margin remains below 6 %. Operating costs are up in absolute terms but down compared with turnover owing, among other things, to the development of single-premium products as opposed to those involving the payment of a periodic premium. However, the reduction in the financial margin is contributing to the contraction in results from FRF 100 million in 1995 to FRF 60 million in 1998. Consequently, the return on capital will be 5,6 % in 1998, a fall of more than half compared with 1995.

[13] 'Duration' is a mathematical concept of the risk of an investment which describes the number of years needed to receive the present value of future flows of income from that investment (capital plus interest).

Table 8

GAN Capitalisation's business plan as presented by the French authorities

(million FRF)

	1995	1996	1997 est.	1998 est.
Turnover	3 136	3 280	[. . .]	[. . .]
Technical charges	– 2 908	– 3 100	[. . .]	[. . .]
Technical margin	228	180	189	206
Operating costs	– 445	– 423	[. . .]	[. . .]
Investment income:	1 688	1 767	[. . .]	[. . .]
of which financial revenue	1 471	1 519	[. . .]	[. . .]
of which realized capital gains	217	248	[. . .]	[. . .]
Interest credited	– 1 143	– 1 180	[. . .]	[. . .]
Profit-sharing appropriation	– 184	– 249	[. . .]	[. . .]
Financial margin	361	338	[. . .]	[. . .]
Exceptional result and corporation tax	– 40	– 29	[. . .]	[. . .]
Net result	**104**	**67**	**64**	**60**
Mathematical provisions	19 883	21 646	23 297	24 571
Capital	758	795	1 058	1 103
Return on capital	13,0 %	8,6 %	6,9 % [1]	5,6 %

[1] After injection by the State of FRF 200 million of new capital on 31 December 1997; without this element, the return comes to 7,7 %.

GAN Capitalisation suffers from two main problems: the collapse of the market for capitalisation products and the insufficient return on the assets it holds. With regard to the first problem, as noted by the report of the French Conseil National du Crédit, the fall in demand for capitalisation bonds (– 2 % in 1995) is a continuation of the trend which started in 1991 owing to the arrival on the market of more flexible and more profitable products, the marketing of contracts expressed in units of account and competition from unit trusts. GAN Capi proposes to redeploy itself in the life assurance sector. Such a redeployment might, however, prove difficult. In a market such as that for life assurance where the growth rate is falling, competition is constantly increasing and it remains to be seen whether GAN Capi can compete head-on with the all-purpose finance institutions or the mutuals without a 'franchise' network as profitable as that in the family welfare class.

The problem of the inadequate return on assets must be assessed in the light of the minimum rates policyholders are guaranteed to receive. Without any capital appreciation, GAN Capi is unable to cover the guaranteed rates. Although the portfolio of assets, being composed largely of bonds, is much more liquid than those of the other insurance entities, as in the case of the other group entities the return on the bonds and shares is lower than that of the market. Equally, unrealised gains account for only 11 % of the portfolio. Consequently, GAN Capi's prospects are not good. Lastly, the exposure to the risk of interest rate movements is substantial in view of the company's low capitalisation.

To conclude, in view of the increasingly low level of projected profitability (5,6 %) and of capitalisation and having regard to the problems described above, the Commission considers that the viability of GAN Capitalisation will remain particularly fragile without any backing.

Socapi is a 50/50 joint venture between CIC and GAN SA which sells savings products through CIC's banking network. With a market share of 3,5 % it is the sixth

largest French all-purpose finance institution. The objective is to have a rate of turnover growth broadly the same as that estimated for all-purpose finance companies as a whole, i.e. 4 % in 1997 and 5 % in 1998. The assets stock should grow by 15 % a year to FRF 70 billion by the end of 1998. Overheads should increase more slowly and hence make it possible to reduce slightly the operating ratio. The plan also provides for an increase in the percentage of products with periodic premiums compared with single-premium products, which nowadays account for more than 90 % of premium income.

Table 9

Socapi's business plan as presented by the French authorities

(million FRF)

	1995	1996	1997 est.	1998 est.
Turnover	8 622	10 614	[. . .]	[. . .]
Technical margin		32	6	8
Overheads		– 559	[. . .]	[. . .]
Operating result		– 140	[. . .]	[. . .]
Financial margin		462	[. . .]	[. . .]
Net result	**110**	**230**	**228**	**241**
Capital	1 444	1 761	2 210	2 448
Return on capital	7,6 %	13,0 %	10,3 %	9,8 %

Socapi does not have the same difficulties as GAN's other insurance companies. It is an efficient, profitable company. The only problem is the prolongation of the all-purpose finance agreements in the context of CIC's privatisation and the level of the commissions which Socapi must pay to CIC under those agreements inasmuch as this might affect its profitability.

Against the background of the separate disposal of GAN and CIC, the question arises of the commercial and capital links between the two entities. GAN has stated that all-purpose finance is essential to its viability and that it therefore wishes to maintain strong commercial agreements with CIC. The all-purpose finance agreement in force between CIC and GAN provides that CIC is to receive (. . .) of the loadings in respect of net cancellation premiums on new business and (. . .) of the loadings applicable to the mathematical provisions on amounts outstanding. The contract, which has a duration of eight years and is renewable, permits termination upon payment of a penalty of some FRF 700 million coupled with an obligation on the part of CIC to buy back the 50 % stake held by GAN Vie in Socapi. As part of a disposal which might be separated from CIC and GAN, this agreement is under review. According to the information transmitted by the French authorities, CIC will have to increase its stake in Socapi to 55 %, while commissions on amounts outstanding will have to be increased to approximately [. . .] and the penalty for early withdrawal should be abolished. In view of the maintenance of a holding by GAN in CIC of 20 % or more, GAN will be able to consolidate, using the equity method, CIC's results and at the same time, thanks to the holding in CIC, retain control over Socapi [14] and thus consolidate it fully into its accounts. GAN would accordingly like the all-purpose finance agreements to cover non-life assurance as well, via the creation of a new company (Progress) of which GAN would be the majority shareholder.

It should be pointed out in this connection that the all-purpose finance agreements are important in three respects: for GAN's viability, for CIC's selling price, and for Socapi's profitability. A balanced solution should enable GAN to count on a substantial, stable source of revenue and at the same time not induce CIC's buyer,

[14] GAN would hold directly 45 % of the capital of Socapi and indirectly, via its 20 % holding in CIC, another percentage of approximately 10 %, which would give it control.

deprived of the possibility of using freely the banking network to distribute its own insurance products, to seek a *quid pro quo* in the form of a discount on CIC's price. It is in Socapi's interests that it should not be obliged to pay too much in the way of commission to CIC as this would reduce its profitability. In view of the fact that these agreements might affect the viability of GAN and Socapi and the net cost of the State aid operation, the Commission must ensure that the agreements satisfy the dual requirement of minimising the net cost to the State and ensuring viability. In this respect, the Commission is of the opinion that the courses of action proposed meet this dual requirement.

(c) GAN International

GAN SA still maintains a significant presence abroad through the subsidiaries grouped together under the holding company GAN International. GAN International's turnover at the end of 1996 came to more than FRF 14 billion, or approximately 25 % of the GAN group's insurance turnover. The predominant activity is in non-life insurance (62 % of turnover). Almost 46 % of GAN International's turnover is achieved in the United Kingdom; Italy accounts for 13 %, Spain 6 %, and Canada and Morocco approximately 5 % each. Other companies are present in the United States, Germany, Switzerland, Portugal and Luxembourg. All the subsidiaries are profitable apart from GAN Canada, albeit with a low level of return on capital, save in Morocco which is the only case where GAN's market share abroad is significantly greater than 1 %.

The plan presented initially provides for a reduction in GAN International's turnover from FRF 14 billion to FRF 12 billion in 1997, *inter alia* as a result of the sale in 1996 of GAN Belgium and CTR, which still appeared in the accounts for the first half of 1996 [15], followed by its recovery to almost FRF 13 billion. GAN International's net result should be negative to the tune of approximately FRF [. . .] million in 1997 and become positive again in 1998. The rate of return on capital at consolidated level remains, even for 1998, below 1 %. In view of this, GAN International constitutes a group of subsidiaries some of which are profitable and viable as in Morocco, whereas others have a negative impact on the viability of GAN International as a whole.

(d) Conclusions concerning the viability of GAN's insurance activities

To conclude, in the light of the considerations set out above, the recovery measures and the projected profitability of GAN for 1998 leave precarious the viability of the various insurance companies as independent entities. In particular, for the subsidiaries GAN Vie and GAN Capitalisation there is a problem of insufficiency of the income from the assets held compared with the minimum returns guaranteed to policyholders. share following the termination of contracts in the years ahead by policyholders. What is more, a substantial part of the assets consists of commitments towards subsidiaries of the group the value of which is uncertain. Lastly, the sensitivity analysis shows a very heavy exposure to interest rate changes. In the case of non-life insurance, a major restructuring drive has been carried out in the past, but the business is still loss-making owing, among other things, to excessively high operating costs. The profitability expected in 1998 is of the order of 5 % for the three areas of insurance activity (non-life: 4,6 %, life: 5,8 %, capitalisation: 5,6 %) [. . .]. Given their weaknesses in terms of competitive position, capitalisation and investment portfolio, these companies' viability would be particularly fragile without a sufficiently strong and capitalised partner. Socapi alone is more profitable, although it will be less so in the years ahead. However, in 1998 Socapi will account for only some 20 % of GAN's total premiums and as a result will be unable to offset the other companies' poor profitability.

The Commission's analysis of GAN is also based on the consideration that the French insurance market is on the whole a mature market, the expansion of which in an unfavourable economic environment should be limited by the poor growth recorded by potential purchasers of non-life insurance, while the calling into question of tax breaks, the reduction in households' propensity to save and sharpening competition mean that it will no longer be possible to make the strong advances observed in the insurance of persons during the past decade. Moreover, competition from the networks of mutuals and all-purpose finance institutions, whose operating costs are lower owing to the low cost of distributing insurance products, will affect the traditional networks of agents and brokers. The brand new channel of distributing insurance products by telephone will probably have the effect of further reducing margins for standard products. From this point of view, GAN is in an intermediate position because, on the one hand, it has already been able to profit from its links with CIC's banking network for the distribution of life assurance products, while, on the other, it continues to bear, like other conventional insurers, operating costs that are on average higher for the distribution of other insurance products. Looked at from this angle, GAN's objective of maintaining the partnership with CIC, even in the event of a transfer of control over the latter, is understandable because it is the group's best trump card.

Consequently, in view of the context in which GAN's insurance entities operate, the Commission considers that

[15] According to the annexes to the 1996 balance sheet, the turnover of GAN Belgium and CTR was FRF 550 million and FRF 1 880 million respectively.

the viability of these entities may be assured only as part of a transfer to partners having the economic and human resources to complete in-depth the necessary restructuring of GAN's various insurance businesses.

In particular, the Commission considers that one or more financially stronger and more capitalised investors will be able to enhance the viability of the GAN group companies by providing them with additional capital, and will thus be able to meet the regulatory obligations with a wider safety margin. Such backing is, moreover, likely to generate synergies at several levels. Economies of scale may be achieved, notably by increasing the productivity of employees and reducing both their unit cost and per capita overheads. Given the concentration of GAN's activities compared with those of other leading insurance groups, a financially strong buyer may be able to diversify more GAN's sources of profit. In view of the concentration of the assets portfolio in the property sector and in intra-group shareholdings and of its low profitability, a buyer with a sufficiently broad and liquid portfolio of assets will be able to increase its diversification and profitability. The backing process will also enable a start to be made on undoing the capital, financing and guarantee links that are affecting the group's liquidity and profitability. The Commission considers lastly that the planned disposals will reduce the moral hazard which has been at the root of such a major collapse and will strengthen the group's corporate governance by stepping up monitoring without distorting the market.

The Commission takes note in this respect of the French authorities' undertakings to sell, either together or separately, CIC and GAN to buyers in a position to ensure their future viability and long-term development, and to conduct the operations aimed at finding potential buyers and transferring ownership, which will start officially as soon as possible and no later than 30 June 1998, in accordance with the Act of 6 August 1986 and the principles of openness and equal treatment of candidates.

5.2. The *quid pro quos*

A number of factors suggest that the question of *quid pro quos* should be examined by the Commission with increased vigilance. First, the scale of the aid in question, totalling as it does almost FRF 24 billion. Secondly, the supplementary nature of the new aid compared with that approved by the Commission in 1996, something which is not normally provided for by the guidelines on rescue and restructuring aid. In this context, it should be noted that the new aid was notified just a few months after the Commission's 1996 decision as part of a restructuring plan which has not been carried out, a fact which raises serious doubts as to whether all the factors the Commission needed to take into account in reaching its decision in the autumn of 1996 were communicated to it. Thirdly, the fact that the obligation to dispose of the majority stake in CIC, the main concession in return for the old decision, has not yet been complied with. And lastly, the sizeable distortions of competition caused by the aid.

It should be noted in this connection that, with the explicit or implicit support of the State, the GAN group has engaged in the past in price and rate competition with a view to increasing its market share, expecially in property financing and non-life insurance, and that this subsequently resulted in its incurring particularly substantial losses. This conduct is particularly unfortunate, for two reasons.

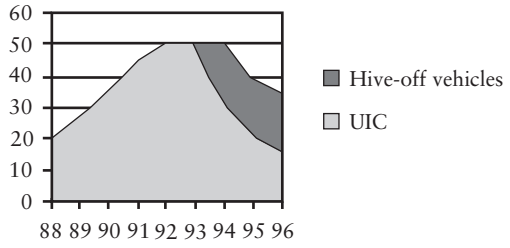
First, because the breakdown of the corporate governance system has had the effect of increasing considerably the final amount of aid now necessary, given the passivity of the State, and this in turn has had the effect of creating a moral hazard problem.

And, second, because in the banking and insurance sectors the consequences of mistaken or imprudent conduct show up only after a while given the greater length of time it takes for the running of inordinate risks to translate into financial losses, which makes it possible to pursue risky policies for longer and thus has the effect of creating greater distortions.

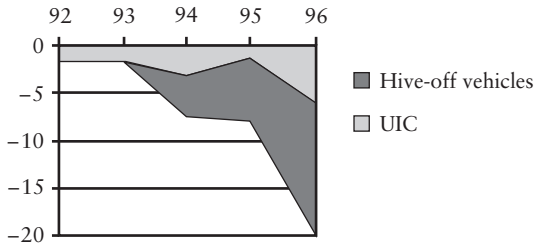
As regards the property sector, suffice it to say that GAN's banking subsidiary specialised in this sector more than doubled its assets between 1988 and 1992 from FRF 19 billion to more than FRF 50 billion, on which it has already incurred losses of almost FRF 27 billion. In particular UIC has become one of the leading players in the property market. Although UIC and the other GAN group entities active in the property market are not the only ones to have indulged in speculation, GAN, together with Crédit Lyonnais, is the group for which the bill for the period 1992 to 1996 is the steepest [16] owing notably to an excessive, uncontrolled exposure.

[16] According to a study which recently appeared in 'Les Echos', cited by the French authorities.

Total assets of UIC and of the hive-off vehicles (billions)



Cost of the provisions of the UIC and of the hive-off vehicles (billions)



As indicated above, in non-life insurance growth was also sustained at too fast a rate compared with the capacity to select risks. In view of the size of the GAN group in the areas of insurance, banking and property financing, its conduct in terms of business expansion and pricing policy has had the effect of harming competitors, including more prudent operators who have decided to remain more aloof from speculation, the price war and the untrammelled conquest of market shares. Being designed to offset losses stemming from the ill-controlled expansion of past years, the aid in question accordingly results in substantial distortions of competition in that it precludes the normal consequence of such conduct in a free, competitive market, namely the disappearance of the ailing firm from the market. Without aid, GAN should have been liquidated and its dispersed assets could have been bought by its competitors.

In view of this, GAN's contribution to minimising the distortive effects of the aid on competition must be directed at the overall competitive situation of the group in its various banking and insurance activities in France and abroad. Given the GAN group's integrated activity of all-purpose finance, the *quid pro quos* must concern both the banking and the insurance business.

With regard to the old aid, the French authorities have first of all undertaken to comply with the obligation stemming from the 1996 decision, namely the reduction of GAN's commercial presence by disposing of the majority stake in the CIC group. Such a disposal must take place within a short space of time given that it also constitutes a precondition for the viability of the other group entities inasmuch as it enables a start to be made on the process of undoing the capital, financing and guarantee links between the different entities, affording them greater flexibility. This disposal, which may be carried out together with or separately from that of GAN, will start as soon as possible and by 30 June 1998 at the latest.

With regard to the new aid, the French authorities have stated that the disposal of CIC comes on top of a number of disposals which GAN has carried out during the last two years with a view to restructuring itself and withdrawing from activities which are not essential to the group's core business and which include both subsidiaries — such as GAN Belgium, GAN Canada (Elite), CFJPE, HNL and CTR — and industrial and financial holdings — in, for example, Total and Société Générale, together with Gan Avenir holdings. These disposals totalled more than FRF 5 billion in terms of net book value to GAN and approximately FRF 4,6 billion in terms of selling price. In the international sphere, the disposals carried out during the last two years account for approximately 19 % of all business abroad. The French authorities have also pointed out that, as a result of the restructuring embarked upon, GAN is set to lose significant market shares, returning to the early-1990 level. Its overall share of the life and non-life insurance market in France should fall to 4,6 % by the end of 1998. In particular, GAN IA should see its market share fall from 5,4 % in 1993 to 4,3 % in 1998. They argue, lastly, that the separate sale of GAN SA, CIC and UIC, which constitutes a controlled dismantling of the GAN group, should be considered a *quid pro quo* in itself.

These disposals, albeit necessary to the group's restructuring and hence to its viability, cannot, however, be considered veritable *quid pro quos* for the new aid, which is seven times greater than the old aid, given that they already formed part of the first plan and that new *quid pro quos* may be offered without calling into question GAN's viability, having instead the potential even to strengthen it. The mere reduction of market shares cannot be considered sufficient in view of the volume of the aid and its repetitive nature, all the more so since such reductions are simply the effect of a voluntary reduction of non-performing contracts aimed at reducing losses and increasing productivity. Because, firstly, the group and its various component parts have not been liquidated and their assets and market shares broken up, and, secondly, the main entities within the group are still almost intact and continue to operate, maintaining substantial links with one another, the separate disposal of GAN, CIC and UIC likewise cannot be considered an adequate *quid pro quo*, especially since such disposals are essential to the group's viability.

Moreover, the disposal of an entity cannot be considered a *quid pro quo* when it is made possible by State aid.

Consequently, the Commission is of the opinion that the disposal of the insurance activities abroad, which account for approximately 25 % of GAN's turnover, may be taken into consideration as it is not likely to pose any problems as far as GAN's viability is concerned.

In this connection, the French authorities have stated that GAN International constitutes an important resource for GAN owing to three main factors: first, because it enables GAN to serve customers abroad; second, because it constitutes a source of countercyclical profits compared with the French market; third, because the disposal of GAN International might delay, or even render more difficult, the sale of GAN SA.

The Commission is of the opinion that, in the light of the considerations set out above, these arguments are not sufficiently compelling for it to be concluded that GAN's international network must necessarily be maintained in its present form. The Commission considers that serving GAN's customers abroad does not necessarily require the presence of a subsidiary on the spot, but that this can also be achieved through partnership agreements with other French or international institutions. Secondly, the proportion of the group's turnover accounted for by each of GAN's international businesses being small, the countercyclical function which these subsidiaries can perform is very limited. Thirdly, inasmuch as, with one or two exceptions, it has small market shares, GAN is not a leader in the various international insurance markets, and hence does not have any strong strategic positions in those foreign markets. Fourthly, the international side of its business is not essential to GAN's viability; on the contrary, GAN must refocus itself by disposing of everything that is not absolutely necessary to the reconstitution of its core business, namely insurance in France. Being peripheral to GAN's viability, the international side of its business may constitute a *quid pro quo* for the distortive effects of the aid. In this respect, the Commission considers that a 50 % reduction in the international network in terms of turnover measured at the end of 1996 constitutes a valid *quid pro quo*. So as not to hinder the process of GAN's sale, the choice as to which of these disposals should be carried out with a view to attaining the objective set by the Commission may be left to the buyer.

In this connection, the Commission takes note of the French Government's undertaking, contained in a letter dated 18 July 1997 from the Minister for Economic Affairs and Finance, to the effect that, by disposing of assets to third parties, GAN or, after its sale, its buyer, will reduce, no later than 12 months after GAN is sold off, the turnover of GAN's international insurance business by 50 % as compared with the level entered in the accounts for 31 December 1996 (FRF 14 billion).

As regards more particularly the group's banking activities, the Commission considers that *quid pro quos* are also necessary given that UIC (the source of the main problems) was a subsidiary of CIC before being transferred to GAN and that the aid to UIC is of direct benefit to CIC inasmuch as it is a creditor of UIC. In this respect, account must be taken of the fact that major disposals are already planned, namely CIC, in accordance with the Commission's 1996 decision, UIC and UIS, UIC's leasing subsidiary. It should be noted in particular that UIS is a profitable establishment with an average rate of return on capital of approximately 12 % over the last six years and a market capitalisation of approximately FRF 3 billion, and therefore constitutes a substantial *quid pro quo*. In this respect, the Commission takes note of the French Government's undertaking to the effect that it will dispose, by the end of 1998, of UIC and all holdings in UIS held by the various GAN group companies.

No other significant *quid pro quos* can be identified in the more specifically banking field in view of the fact that CIC is a banking group without any significant international presence and that a reduction in its national network might put its viability more at risk. Moreover, owing to its residual exposure to other GAN group structures, CIC's solvency ratio, although higher than the regulatory minimum level, is not especially strong (9 % with a hard-core of 5 %) compared with other European credit institutions. It can therefore be concluded that the aid is limited to the strict minimum for CIC as well. This is also important from a *quid pro quo* point of view as it does not enable CIC to pursue an aggressive strategy without the injection of fresh capital by a new private shareholder. Thus, in the event of new risks arising, CIC will be obliged to find in the restructuring of its balance sheet the elements of flexibility needed to absorb the shock.

On the other hand, in view of the shareholding lines held by GAN, the Commission considers that it is possible and appropriate that other assets might be furnished as a *quid pro quo*. In this respect, it takes note of the French Government's undertaking to the effect that GAN will also dispose of certain strategic shareholdings worth a total of some FRF 2,4 billion. These assets may be regarded as no longer forming part, in the new business plan, of GAN's core business and may be disposed of without affecting GAN's viability. The Commission considers that such disposals will have to be carried out by the end of 1998, and that in order to evaluate compliance with this undertaking reference will have to be made to the net book value as entered in the accounts for 31 December 1996.

5.3. **Other conditions**

The Commission also considers it necessary that other conditions be adhered to in accordance with the restructuring aid guidelines.

In order to ensure that the action of the aid does not have the effect of restoring to the market excessively strong companies which might lead once more to unduly aggressive policies, the aided company must finance out of its own resources a significant part of the costs of its restructuring and accept in markets suffering from overcapacity reductions in its market shares. Attention should be drawn in this connection to the principle contained in the restructuring aid guidelines to the effect that the aided company must not simply dispose of subsidiaries and businesses which affect its bottom line, such as the property businesses in the case of GAN, but that it should instead dispose also of good-quality assets and businesses so as to provide the company with the resources it needs in order to finance its restructuring and minimise recourse to public resources, thereby reducing the amount of the new aid to a strict minimum and obliging the company to contribute significantly to the costs of its restructuring.

In view of the considerations set out above as part of the assessment of the viability of the companies of the group and of the *quid pro quos* required, the Commission is of the opinion that this condition laid down in the restructuring aid guidelines is met.

The principle of the limitation of aid to the strict minimum means that it must be ensured, on the one hand, that GAN has a sufficient amount of capital to fulfil its regulatory obligations and prepare the ground for its sale and, on the other, that it does not have a level of capital which goes beyond that which is strictly necessary. Generally speaking, in the event of a rapid disposal, it might be imagined, as has already been the case in other comparable situations, that the satisfaction of regulatory obligations will be ensured by the buyer. In this connection, the Commission would point out first of all that, following the State aid operation, the level of capitalisation of the group is barely above the regulatory limit and is therefore not liable to strengthen GAN beyond that which is strictly necessary for its restructuring. The Commission also considers that the amount of the aid is not excessively high bearing in mind both the possible consequences in terms of cost and distortion of competition which a liquidation of the group might have for GAN's competitors and the other possible restructuring options.

The Commission considers that the remaining doubts about the viability of the various companies of the group do not call into question its evaluation of their capacity to do business up until the date of their disposal.

In accordance with the restructuring aid guidelines, the possibility for the GAN group companies in receipt of the State aid in question to benefit from a carry-over of tax losses in respect of the tax losses covered by the capital increases should be abolished.

As already indicated in point 5.1.1, it is likewise inadmissible from a competition point of view that GAN or CIC should be able to buy back assets transferred to the hive-off vehicles. This possibility will therefore have to be ruled out pending the sale of GAN and CIC.

The Commission considers that GAN, CIC, UIC and UIS should be offered for sale to any potential French or foreign buyer by transparent, open procedures; the conditions will not have to include any clauses which might impose unacceptable limitations on the number of potential buyers or target any particular potential buyer; buyers will have to be selected with a view both to maximising receipts from the sales and to guaranteeing that the new shareholders are indeed in a position to ensure the future viability and long-term development of the companies sold. To this end, the conditions will have to be submitted to the Commission in advance.

It goes without saying that, in accordance with the restructuring aid guidelines, the companies of the GAN group will have to use the proceeds from the sales to restructure their intra-group relationships so as to reduce the capital, financing and guarantee links between the different group entities.

Lastly, the proper implementation of the restructuring plan and of the conditions imposed by the Commission will have to be monitored. To this end, regular reports by the French authorities will have to be submitted to the Commission every six months from the date of the Commission's decision until the date of fulfilment of the undertakings and conditions set forth in Articles 2 and 3 of this Decision. Moreover, the annual and half-yearly reports of the principal companies will have to be submitted immediately after their approval by the boards of directors up until the date of their privatisation. The details of this obligation are set forth in Article 4 of this Decision.

6. **CONCLUSIONS**

In conclusion, both the FRF 2,86 billion capital increase carried out in 1995, those totalling FRF 11 billion planned for 1997, and the commitment entered into by the State to cover the losses up to an amount estimated at FRF 9 billion which GAN will determine when the

guarantees on the hive-off vehicles are invoked contain substantial State aid components within the meaning of Article 92(1) of the Treaty. In view of the uncertainty surrounding certain elements of the plan, a margin of error of ±10 % needs to be incorporated in the value of the State's commitment towards the GAN group. The maximum amount of the aid can therefore be put at FRF 23,76 billion.

These measures have been carefully examined in the light of Article 92(3)(c) of the Treaty to establish whether they can be considered compatible with the common market. In the light of the considerations set out above, the aid granted to the GAN group would seem to meet the conditions laid down in the guidelines on aid for rescuing and restructuring firms in difficulty provided that a number of conditions are complied with, some of which constitute essential preconditions for viability while others are necessary *quid pro quos* in return for concluding that such substantial aid is in the common interest. In particular, the Commission is of the opinion that backing for GAN and UIC is a *sine qua non* as far as their viability is concerned. Under such conditions, the aid in question can therefore be exempted from the prohibition in Article 92(1) of the EC Treaty and in Article 61(1) of the EEA Agreement inasmuch as it may be considered compatible with the common market in accordance with Article 92(3)(c) of the EC Treaty and Article 61(3)(c) of the EEA Agreement,

HAS ADOPTED THIS DECISION:

Article 1

The measures contained in GAN's restructuring plan in the form of a FRF 2,86 billion capital increase carried out in 1995, other capital increases planned for 1997 totalling FRF 11 billion, and the commitment entered into by the State to cover the losses up to an amount estimated at FRF 9 billion which GAN will determine when the guarantees on the hive-off vehicles are invoked, are State aid within the meaning of Article 92(1), but they are hereby declared compatible with the common market and with the EEA Agreement pursuant to Article 92(3)(c) of the EC Treaty and Article 61(3)(c) of the EEA Agreement. In view of the uncertainty surrounding certain elements of the plan, a margin of error of ±10 % is to be incorporated in the value of the State's commitment towards the GAN group and the aid shall be limited to FRF 23,76 billion.

Article 2

The aid referred to in Article 1 is authorised subject to France's complying with the following undertakings:

(a) it shall sell, either together or separately, CIC and GAN to buyers in a position to ensure their future viability and long-term development;

(b) it shall ensure that the operations aimed at finding potential buyers and selling the companies start as soon as possible and in any event no later than 30 June 1998 and that they are carried out in accordance with the principles of openness and equal treatment of candidates;

(c) it shall, by the end of 1998, dispose of UIC and all holdings in UIS held by the various companies in the GAN group;

(d) it shall ensure that GAN sells other strategic shareholdings worth a total of some FRF 2,4 billion;

(e) it shall underwrite the current process of the disposal of the assets of Bâticrédit and Parixel, a process which for the most part shall have been completed by the end of 1998, without its being possible for these assets to be acquired by CIC or GAN up until the time of their sale;

(f) it must ensure, by disposing of assets to third parties, that GAN or, after its sale, its buyer, reduces, no later than 12 months after GAN is sold off, the turnover of GAN's international insurance business by 50 % as compared with the level entered in the accounts for 31 December 1996.

Article 3

The authorisation of the aid referred to in Article 1 is also subject to France's observance of the following conditions:

(a) it shall ensure that all the recovery measures and all the arrangements provided for under the scheme described in Article 1 and contained in the restructuring plan presented to the Commission are implemented;

(b) it shall not amend the conditions laid down in the restructuring plan, after taking into account the conditions imposed by this Decision, without the Commission's prior consent;

(c) it shall prevent the companies of the GAN group in receipt of the State aid in question from benefiting from a carry-over of tax losses in respect of the tax losses covered by the capital increases;

(d) it shall earmark the proceeds of sales to restructure intra-group relationships so as to reduce the capital, financing and guarantee links between the different entities of the group;

(e) it shall ensure that the conditions of the sell-offs of GAN, CIC, UIC and UIS do not include any clauses

which might impose unacceptable limitations on the number of potential candidates or target any particular potential candidate, and shall further ensure that buyers are selected with a view both to maximising receipts from the sales and to guaranteeing that the new shareholders are indeed in a position to ensure the future viability and long-term development of the companies sold;

(f) it shall ensure that the sales of other strategic shareholdings as referred to in point (d) of Article 2 take place by the end of 1998 and are evaluated on the basis of net book value as entered in the accounts for 31 December 1996.

Article 4

The French authorities shall cooperate fully in monitoring compliance with this Decision and shall submit to the Commission the following documents:

(a) a detailed report by the French authorities on the implementation of the Commission Decision and of the restructuring plan. This report shall:

— examine the viability of the various entities of the group remaining under State control by presenting detailed results compared with the estimates contained in the plan,

— detail any State intervention in favour of those same entities (in the form of recapitalisation, financing, guarantees, waiver of debts, etc.),

— analyse in detail the undoing of the capital, financing and guarantee links between the different entities of the group,

— describe the extent to which the undertakings and conditions set forth in Articles 2 and 3 have been complied with.

Such a document shall be submitted every six months from the date of the Commission Decision until the date of fulfilment of the undertakings and conditions set forth in Articles 2 and 3;

(b) the balance sheets, accounts and reports (both annual and half-yearly) drawn up by the management of the companies forming part of the GAN group (namely GAN, SC, GAN SA, GAN Vie, GAN IA, GAN Capitalisation, SOCAPI, Progress, CIC, UIC, UIS and BIF) and of the hive-off vehicles until the date of their privatisation. These documents shall be submitted to the Commission as soon as they are approved by the boards of directors of the entities in question.

Submission of the documents provided for in point (b) shall not exempt the French authorities from having to include in the report provided for in point (a) detailed and even provisional accounts and balance sheets of the various entities of the group;

(c) the conditions of the planned sell-offs of UIC, UIS, CIC and GAN.

These documents shall be submitted to the Commission in advance.

The Commission may ask for these documents and the implementation of the plan to be assessed by means of special audits.

Article 5

The Commission Decision of 18 September 1996 approving FRF 2,86 billion of State aid for GAN, notified to France on 3 October 1996, is hereby revoked.

Article 6

This Decision is addressed to the French Republic.

Done at Brussels, 30 July 1997.

For the Commission

Karel VAN MIERT

Member of the Commission