2011/364/EU: Commission Decision of 15 September 2010 on the State aid C 26/09 (ex N 289/09) which Latvia is planning to implement for the restructuring of AS Parex banka (notified under document C(2010) 6202) Text with EEA relevance

OJ L 163, 23.6.2011, p. 28–51 (BG, ES, CS, DA, DE, ET, EL, EN, FR, IT, LV, LT, HU, MT, NL, PL, PT, RO, SK, SL, FI, SV)

In force

ELI: http://data.europa.eu/eli/dec/2011/364(1)/oj

Languages, formats and link to OJ

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23.6.2011 EN Official Journal of the European Union L 163/28

COMMISSION DECISION

of 15 September 2010

on the State aid C 26/09 (ex N 289/09) which Latvia is planning to implement for the restructuring of AS Parex banka

(notified under document C(2010) 6202)

(Only the English text is authentic)

(Text with EEA relevance)

(2011/364/EU)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union, and in particular the first subparagraph of Article 108(2) thereof,

Having regard to the Agreement on the European Economic Area, and in particular Article 62(1)(a) thereof,

Having called on interested parties to submit their comments pursuant to the provisions cited above ([1]),

Whereas:

1. PROCEDURE

(1) On 10 November 2008 Latvia notified to the Commission a package of measures in favour of AS Parex banka (hereinafter 'Parex banka'), designed to support the stability of the financial system, which was approved on 24 November 2008 ([2]) (hereinafter 'first rescue Decision') based on Latvia's commitment to submit a restructuring plan for Parex banka within 6 months. On 26 January 2009, Latvia informed the Commission about several changes to the public support measures to Parex banka. Those changes were approved on 11 February 2009 ([3]) (hereinafter 'second rescue Decision'). On 29 March 2009, Latvia notified to the Commission the need for further changes to the recapitalisation measure. Those changes were approved by Commission Decision of 11 May 2009 ([4]) (hereinafter 'third rescue Decision').

(2) On 11 May 2009, Latvia notified a restructuring plan for Parex banka. On 5 June 2009 a request for information was sent to the Latvian authorities. On 15 June 2009 a meeting was held between the Latvian authorities and the Commission. Latvia replied partially to that request for information by letter of 7 July 2009.

(3) By letter of 29 July 2009, the Commission informed Latvia that it had decided to initiate the procedure under Article 108(2) TFEU ([5]) (hereinafter 'opening Decision') in respect of the restructuring aid measures.

(4) The opening Decision was published in the *Official Journal of the European Union* of 6 October 2009 and interested parties were requested to submit their comments on the proposed restructuring aid measures within 1 month from the date of publication. The Commission received no comments from interested parties. However, after the expiry of the prescribed period, the Commission received letters dated 15 June and 13 July 2010 from Valerijs Kargins and Viktors Krasovickis, the former majority shareholders of Parex banka (hereinafter 'former majority shareholders'). Furthermore, the Commission received letters from members of the Latvian parliament dated 22 June and 1 July 2010.

(5) By letter of 12 August 2009, the Latvian authorities requested that the deadline for the submission of additional information set in the opening Decision be extended until 15 October 2009. On 4 September 2009 they presented a revised restructuring plan for Parex banka along with additional information as a response to the opening Decision. The revised restructuring plan was further updated on 22 September 2009 and additional information was provided. Meetings were held between the Latvian authorities and the Commission on 11 and 17 September 2009.

(6) In addition, Latvia provided further information and clarifications on 11 September, 6 and 26 October, 9 and 23 December 2009, 19 February and 2 March 2010.

(7) On 12 and 26 October 2009 Latvia provided information regarding a potential change of the restructuring strategy for Parex banka. On 22 March 2010 a meeting was held between the Commission and the Latvian authorities. By letter of 31 March 2010 Latvia submitted a new version of Parex banka's restructuring plan dated 31 March 2010, which was later complemented by submissions dated 14 May, 9, 12, 17 and 21 June 2010.

(8) The Commission requested further information on 10 May 2010. Latvia replied by letter of 7 July 2010. With this letter Latvia submitted also an updated version of the restructuring plan of 31 March 2010. The restructuring plan was subsequently amended on 18 and 27 August 2010 (hereinafter 'final restructuring plan').

(9) By letter of 2, 18 and 27 August and 2 September 2010 Latvia provided additional clarifications regarding the commitments to be undertaken. On 3 September 2010, the Commission received a final list of commitments.

(10) On 2 September 2010, the Latvian authorities informed the Commission that they exceptionally accept that this Decision be adopted in the English language.

2. DESCRIPTION

2.1. *THE BENEFICIARY AND ITS DIFFICULTIES*

(11) Parex banka was the second largest bank in Latvia with total assets of LVL 3,4 billion (EUR 4,9 billion) as of 31 December 2008. At the end of 2007, before the crisis, the bank had the largest share (18 %) of the country's deposits market and the third largest share (12 %) of its lending market [6]. Therefore, it was regarded as being of systemic importance for the financial system by the Latvian authorities.

(12) Parex banka offered a wide range of banking products directly and through specialised subsidiaries, including lending, payment card services, leasing, asset management and securities brokerage. In addition to its Latvian banking operations, Parex banka operated a banking subsidiary in Lithuania and Switzerland (AP Anlage & Privatbank AG) and branches in Estonia, Sweden and Germany, a pan-Baltic asset manager and several leasing companies operating in the Commonwealth of Independent States (hereinafter 'CIS').

(13) Parex banka was founded in 1992 and was majority-owned by two individuals who prior to the State intervention held 84,83 % of the bank's share capital. As a result of the problems it faced, Parex banka was partially nationalised through the acquisition of the entire ownership of the former majority shareholders at a symbolic total purchase price of 2 LVL (approx. 3 EUR) [7]. In April 2009, the European Bank for Reconstruction and Development (hereinafter 'EBRD') concluded a share purchase agreement, whereby the EBRD would acquire 25 % of the share capital of Parex banka plus one share [8].

(14) Although Parex banka has historically been a profitable institution with a strong banking franchise in Latvia, the bank's management chose an inadequate business strategy and made some high-risk decisions in the face of intense competition from more sophisticated subsidiaries of foreign banks. In particular, Parex banka became increasingly involved in the CIS markets, relying excessively on large, short-term non-resident deposits. The financial crisis severely affected emerging markets including the CIS countries, and rumours circulated regarding the ability of Parex banka to refinance its syndicated loans maturing in February 2009. A combination of these events resulted in a loss of depositor confidence especially among non-resident clients prompting a run on the bank. The bank run reached a peak daily outflow of up to EUR 100 million and was not halted by the

bank's partial nationalisation. It resulted in a fall in deposits of 36 % compared to the end of 2007, causing severe liquidity crisis. To prevent a further outflow of deposits, restrictions on withdrawals were imposed by the Latvian regulator, the Finance and Capital Markets Commission.

(15)In 2008, consolidated losses were LVL 131 million (EUR 185 million) compared to a profit of LVL 40 million (EUR 58 million) in 2007. By the end of 2008 total shareholders' equity was 65 % lower than the previous year, amounting to LVL 77 million, mainly because of increased loan loss provisions and losses on the securities portfolio. The capital adequacy ratio (hereinafter 'CAR') of Parex banka on solo basis and at group level (9) was only 4,1 % and 3,1 % respectively. Therefore, Parex banka was no longer able to meet regulatory solvency requirements.

2.2. *THE RESCUE MEASURES ALREADY APPROVED*

(16)Parex banka sought State assistance in early November 2008. Following its nationalisation, Latvia decided to implement rescue measures that provisionally stabilised Parex banka. Overall, the European Commission temporarily approved as rescue aid: (i) a liquidity facility up to LVL 1,5 billion; (ii) State guarantees covering existing syndicated loans in the amount of EUR 775 million and new loans issued to refinance a syndicated loan in the amount of EUR 275 million; and (iii) recapitalisation measures, allowing Parex banka to reach a CAR of 11 % during the rescue phase (10).

2.3. *THE RESTRUCTURING PLANS*

2.3.1. THE INITIAL RESTRUCTURING PLAN

(17)On 11 May 2009, Latvia submitted a restructuring plan for Parex banka as a follow-up to the first recapitalisation measures (hereinafter the 'initial restructuring plan'), the contents of which were described in more detail in section 2.4 of the opening Decision.

(18)The plan contained a preliminary analysis of the business of Parex banka, the restructuring aid measures envisaged, its future business strategy and measures to restore viability.

(19)The plan covered a period from 2009 to 2013. Corporate, retail and wealth management business (11) were deemed to be the future core segments of Parex banka. The plan foresaw the implementation of a new strategy with Parex banka aiming to become a leading pan-Baltic bank. All 'non-Baltic' activities were considered as non-core. However, the plan excluded their possible sale in the short- to mid-term.

(20)The envisaged business strategy included attractive rates and an aggressive marketing strategy to support the growth of Parex banka and regain the lost deposit base. The plan assumed that Parex banka would remain dependent on State liquidity measures even beyond the restructuring period.

2.3.2. THE REVISED RESTRUCTURING PLAN

(21)On 4 September 2009, Latvia submitted a revised restructuring plan which was subsequently amended on 22 September 2009. This plan was aimed at addressing doubts raised by the Commission in the opening Decision.

(22)The revised strategy for Parex banka was also based on building a strong Baltics operation across corporate, retail and wealth management business. The revised plan foresaw that

Parex banka would be able to repay all State liquidity measures by the end of the restructuring period.

(23)Unlike the initial restructuring plan, however, the revised plan included a decrease in Parex banka's balance sheet through focusing on core segments. In particular, it envisaged the shrinkage of Parex banka's lending activity.

(24)Furthermore, the plan indicated the possibility to spin off non-core activities. When Latvia later endorsed this strategic change, it was necessary to draw up a new corresponding version of the restructuring plan.

2.3.3. THE FINAL RESTRUCTURING PLAN

(25)According to the final restructuring plan, the primary strategic objective is to return the bank to the private sector through its sale to a strategic investor providing a release of funding arrangements from the State while ensuring the long-term viability of the bank. Latvia has already attracted the EBRD as a strong reputable external investor with sufficient financial resources and a long-term commitment (see recital 13).

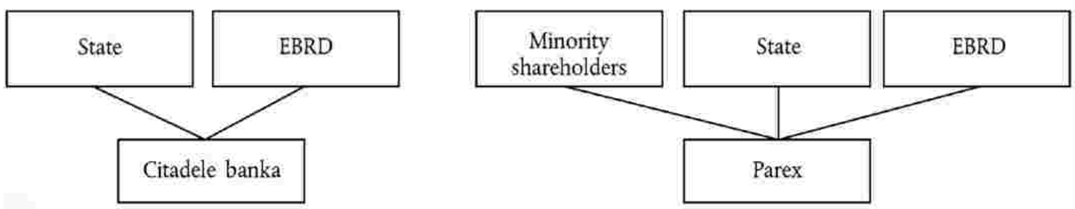
(26)The final restructuring plan assumes the split of Parex banka's assets into a newly established bank named AS Citadele banka (hereinafter 'Citadele banka'), so-called 'good bank', which will focus on the traditional banking operations, and a so-called 'bad bank' (Parex banka), […] (12).

(27)In order to re-establish long-term viability, the core bank will be separated from non-core and non-performing assets. The proposed restructuring is based on a 'good-out' scenario based on the establishment of a bank with a resilient capital base under Latvian regulatory oversight and with a Baltics focus. All core assets and some non-core assets (in particular CIS performing loans) are transferred out of Parex banka into the newly established bank. The remaining non-core and non-performing assets (loans, securities and repossessed real estate) will remain with Parex banka, […].

(28)Table 1 illustrates the structures of Citadele banka and Parex banka after the split.

Table 1

Shareholders structure after the split



(29)Latvia has already taken initial steps to implement the 'good-out' scenario. The new bank, Citadele banka, was registered on 30 June 2010 and most of the assets were transferred on 1 August 2010 (13). In principle, the full operational separation of Citadele banka and Parex banka should be completed within 12 months after the transfer.

(30)In consequence, the following assets and liabilities will be transferred from Parex banka to Citadele banka:

— Baltic performing loans (LVL [between 300 and 800] million),

— CIS performing loans (LVL [between 50 and 350] million),

— Branches in Sweden and Germany,

— Wealth management business-related deposits.

(31)The following assets and liabilities will remain in Parex banka:

— Baltic non-performing loans (LVL [between 200 and 800] million) ([14]),

— Loans to legacy shareholders (LVL […] million),

— CIS leasing subsidiaries,

— CIS non-performing loans (LVL [between 50 and 350] million).

(32)Table 2 illustrates the assets that are transferred to Citadele banka and those left in Parex ban as well as the reduction of the balance sheet as per pre-crisis, as estimated in the fi restructuring plan and amended on 27 August 2010:

Table 2

Split of assets between Citadele banka and Parex banka

(in LVL thousanc					
	Parex banka – 2008	**Parex banka – 2009**	**Parex banka – 31.7.2010 ([15])**	**Citadele banka**	**Parex banka after the split ([16])**
Assets					
Cash and deposits with central banks	79 154	136 769	131 693	119 783	30 876
Balances due from credit Institutions	228 752	189 321	227 741	245 069	5 583
Loans	1 744 871	1 429 466	1 355 831	748 457	627 471
Securities	941 293	405 800	356 439	224 735	130 936
Investment in subsidiaries	51 442	72 725	81 691	5 530	51 962
Other assets	323 797	220 097	75 584	45 604	52 747
Total Assets	**3 369 309**	**2 484 501**	**2 228 978**	**1 389 179**	**899 576**
Liabilities and Equity					

Bank of Latvia	587 183	140 449	—	—	—
Credit Institutions	129 584	50 865	27 295	41 571	51 703
Syndicate	544 673	381 271	163 402	—	163 402
State Treasury	676 398	622 048	692 454	131 000	458 454
Customer Deposits	1 225 488	911 318	1 006 202	928 686	75 314
Eurobond	88 712	87 489	113 136	109 244	—
Subordinated (Legacy)	52 848	52 857	52 863	—	52 878
Subordinated (State)	—	37 338	37 338	50 270	—
Subordinated (EBRD)	—	12 932	12 932		
Other Liabilities	35 556	31 458	34 754	30 280	21 522
Total Liabilities	**3 340 442**	**2 328 025**	**2 140 376**	**1 291 051**	**823 274**
Equity	**28 867**	**156 476**	**88 602**	**98 127** [17]	**76 302**
Total	**3 369 309**	**2 484 501**	**2 228 978**	**1 389 179**	**899 576**
Split Ratio, including the transfer of investments in Lithuanian subsidiary, in AP Anlage & Privatbank AG and				64 %	36 %

deposits in German branch [18]					
In terms of Parex banka – 2008				44 %	

(33)Citadele banka's strategy to ensure long-term viability is based on building a strong Baltics operations, focusing on Latvia across the three main business segments: Corporate, Retail and wealth management business [19]. However, the wealth management business will remain as a core business of Citadele banka only if the bank is sold by […]. If that sale is not achieved, the wealth management business will be sold separately by the same date.

(34)Citadele banka will not engage in CIS lending and the CIS performing loan portfolio is hence deemed non-core. No new lending will be done in this segment and the existing portfolio will be disposed of by […].

(35)Parex banka's presence in Lithuania and Estonia was considerably more limited than in Latvia. Citadele banka also plans to retain a limited presence in these markets in the future.

(36)As regards the two deposit-taking branches in Sweden and Germany transferred to Citadele Banka, Latvia explained that as a result of the run on the bank a significant share of Baltic funding of the bank has been depleted. Further, in the current macroeconomic context of Latvia it is difficult to attract external funding. The total deposits of the residents in the Baltic states are significantly lower than the loan portfolio thereof, whereas Parex banka's main competitors receive funding from their parent companies established in other countries (mostly Sweden). Thus, Citadele banka has to retain some funding base abroad (in Sweden and Germany).

(37)Citadele banka intends to address the issues that forced Parex banka to seek State aid and to restore long-term viability through the key measures as follows.

(38)Changing of management style and corporate governance: Prior to nationalisation, Parex banka's decision-making processes were centralised with the main owners. Citadele banka will adhere to the enhanced corporate governance recently adopted. It will implement a set of procedures of Management Board and Supervisory Board aimed to ensure high corporate governance standards. Key corporate governance principles of Citadele banka are: strict separation of ownership and management; ensuring the rights of shareholders; disclosure and transparency; responsibilities and structure of the board; and promoting ethical and responsible decision-making.

(39)Enhanced risk management: The management of Parex banka has reviewed and strengthened risk management and controls within the bank both at the enterprise and operational level across all major risk categories (market, credit and operational risks). In particular, credit risk controls in Citadele banka will be substantially re-configured, to change the previous approach of Parex banka, namely collateral-based lending with inherently uncertain valuations, to cash flow-based evaluations of the borrower's debt service capacity. Risk management is an essential element of Citadele banka's management process. Risk management within Citadele banka is controlled by independent unit. In addition, the Supervisory Board of Citadele banka takes part in risk management supervision and has elected one of its members to be responsible for the supervision of risk management, internal audit and compliance function. Monthly risk reports are prepared for the Supervisory Board, which include update on credit risk and compliance in the bank.

(40)Smaller balance sheet focused on core segments: The core business of Citadele banka will be in the Baltics and the management's focus will be to return Citadele banka to profitability in this region. The non-core CIS performing loan portfolio will be transferred to Citadele banka, but will be sold by […]. By refocusing on its core activities and by materially reducing the size of its active balance sheet, Citadele banka will be profitable in a sustainable manner.

(41)Stabilisation of liquidity position: The strategy of Citadele banka is to develop a sustainable, low-risk funding model by reducing reliance on wholesale financing, lengthening the maturity profile and diversifying the sources of funding through increasing the proportion of longer-term customer deposits in Citadele banka's funding base. The deposits in Citadele banka are not subject to withdrawal restrictions imposed by the Latvian regulator.

(42)Return to profitability in the core segment by 2011: Citadele banka plans to decrease administrative costs and personnel expenses as well as other administrative costs. Administrative costs of Parex banka have already been decreased by 39 % or LVL 32 million per 2009. Citadele banka's cost/income ratio is expected to decrease even further, and stand at [between 35 and 55] % in 2014. That decrease will be achieved through […] cuts in personnel expenses as well as by reviewing different processes within Citadele banka. In order to reduce its operational costs and become financially stable, Citadele banka will continue steps already initiated by Parex banka to rebuild the cost structure through optimisation of the branch network, […] and other cost-saving measures. Cost-cutting will be supplemented with various income increasing initiatives and focus on asset quality management in order to improve return on equity (hereinafter, 'ROE').

(43)According to the projections included in the final restructuring plan, in the base case Citadele banka would expect to return to profitability already in 2011 and to continuously improve its results until 2015. In 2014 Citadele banka would achieve a ROE of [between 18 and 28] %. Further, Table 3 illustrates the main financial performance indicators of Citadele banka for the years 2010-2014. The effects of the restructuring actions carried out by the bank's management are visible in the 2014 key ratios with a cost/income ratio of [between 35 and 55] % and a ROE of [between 18 and 28] %. A more solid capital structure would be established with equity/total assets ratio of [between 8 and 14] % in 2015.

Table 3

The main financial performance indicators of Citadele banka in the base case for the years 2010-2014

	Aug-Dec 2010e	**2011e**	**2012e**	**2013e**	**2014e**
Cost analysis					
Operating expenses/total income	[…] %	[…] %	[…] %	[…] %	[35-55] %

Impairments/net loans	[…] %	[…] %	[…] %	[…] %	[1-3] %
Profitability					
Net Income (Loss), in LVL million	[loss]	[profit]	[profit]	[profit]	[profit]
ROE	[—] %	[…] %	[…] %	[…] %	[18-28] %
Balance sheet					
Total assets (LVL million)	[…]	[…]	[…]	[…]	[1,400-1,650]
Deposits/total assets	[…] %	[…] %	[…] %	[…] %	[…] %
Loans/customer deposits	[…] %	[…] %	[…] %	[…] %	[50-80] %
Equity/total assets	[…] %	[…] %	[…] %	[…] %	[9-13] %
CAR	[10-14] %	[11-15] %	[12-16] %	[14-19] %	[16-20] %

(44)In a worst case scenario Citadele banka is expected to return to profitability in 2013 and to improve its results further in 2014. In 2014 the bank would achieve a ROE of [> 0] % (20). The plan shows that in the worst case scenario the capital ratios for Citadele banka and for the whole consolidated group remain well above the minimum regulatory requirements. Table 4 illustrates the main financial performance indicators of Citadele banka for the years 2010-2014 in the worst case scenario.

Table 4

The main financial performance indicators of Citadele banka in the worst case scenario for the years 2010-2014

	Aug-Dec 2010e	2011e	2012e	2013e	2014e
Cost analysis					

Operating expenses/total income	[…] %	[…] %	[…] %	[…] %	[45-60] %
Profitability					
Net Income (Loss), in LVL million	[loss]	[loss]	[loss]	[profit]	[profit]
ROE		—		[…] %	[> 0] %
Balance sheet					
Loans/customer deposits	[…] %	[…] %	[…] %	[…] %	[40-60] %
CAR	[> 8] %	[> 8] %	[> 8] %	[> 8] %	[> 8] %

(45) According to the results of a stress testing of Citadele banka (See Table 5) carried out by the Latvian Central Bank, no additional capital would be needed to meet minimum capital requirements by the end of 2015 with the capital adequacy ratio [> 8 %].

Table 5

The stress testing results for Citadele banka

New Bank	**Baseline scenario**		
	Additional provisions needed, million LVL	**Additional capital needed, million LVL**	**CAR, %**
2010	[…]	[…]	[…]
2011	[…]	[…]	[…]
2012	[…]	[…]	[…]
2013	[…]	[…]	[…]
2014	[…]	[…]	[…]

(46) After the split Parex banka (including its subsidiaries) will be in […]. It will sell and run off all of its assets during the 2010-2017 period. The main task of Parex banka will be to recover the maximum amount from the assets assigned to it over its lifetime, which for forecasting purposes is assumed to be 8 years. Parex banka will thus avoid the need for a fire-sale of a portfolio or a time-pressured realisation of collateral. Parex banka will

concentrate on working out non-performing loans together with already repossessed real estate assets. Hence, the main activities of Parex banka are to handle the asset recovery procedures and thereafter manage and sell off assets in an orderly fashion as soon as possible on reasonable terms.

(47)Following the split, neither Parex banka nor its subsidiaries will engage in new economic activities unless required for its primary task to manage transferred assets and to sell them. In particular, Parex banka will stop new loan origination. However, it can unbundle certain assets into separate subsidiaries for management (sale) purposes.

(48)As regards funding of the CIS leasing companies, Parex will attempt to dispose of these businesses. As mentioned above, no new loans, including leasing, are being made and, if no buyers are found, the existing leasing portfolios are expected to be fully run-down by […]. A significant proportion of the leasing portfolios are […].

(49)These actions collectively are expected to result in an inflow of liquidity into Parex banka whereby it will start returning the State deposits. However, the capital invested in the Bank will not be recovered by the State, on the basis of the financial forecasts.

(50)The restructuring plan envisages that Parex banka remains capital compliant only until […].

(51)Parex banka has suffered from a continuous deposit run. As a result, the deposit base presently is significantly lower than prior to the crisis. The lending activities were also significantly constrained due to the lack of funding. The Latvian authorities commit to cap Citadele banka’s lending and deposit-taking operations in the relevant geographical segments (see section 2.5 below). The capped lending and deposit-taking operations will not allow a higher increase than [between 9 and 13] % on a yearly basis from the already reduced market presence.

(52)The restructuring plan envisages the reduction of business activities of Citadele banka compared to Parex banka pre-crisis. That reduction will be partly achieved by divesting certain assets (the performing CIS loans and the wealth management business, if sold separately from Citadele banka). Furthermore, Latvia committed to privatise Citadele banka by 31 December 2014.

(53)As a result of nationalisation, the former majority shareholders in Parex banka were wiped out (see recital 13). Due to the subsequent recapitalisation of Parex banka by the State and the EBRD, the minority shareholders were diluted (from previous 15,2 % to 3,7 % as at 7 July 2010).

2.4. *THE RESTRUCTURING AID MEASURES*

(54)The final restructuring plan indicates that the existing rescue aid will be extended over the restructuring period and split between the newly created bank, Citadele banka, and Parex banka. Some additional State aid is planned in addition to that already received.

(55)The planned liquidity support in the form of State deposits for both Citadele banka and Pare of LVL 1,5 billion, which was approved as maximum rescue aid in the form of liquidity split (21). In the base case and worst case scenarios State deposits in Citadele banka should scenario State deposits should be fully repaid by 2011. The State deposits in Parex banka r restructuring period under the base and worst case scenarios. Unpaid amounts ranges from scenario) to LVL [100-200] million (the worst case scenario). The repayment can take beneficiaries or their assets. The outstanding balances under different scenarios are shown in

Table 6

State liquidity measures (outstanding balances at year e

Citadele banka

	1.8.10	31.12.10	31.12.11	31.12.12	31
Base case	131	143	36	0	—
Best case	131	143	—	—	—
Worst case	131	143	36	0	—

Parex banka

	1.8.10	31.12.10	31.12.11	31.12.12	31.12.13	31.12.14	31.
Base case	[400-550]	[400-550]	[400-550]	[250-400]	[250-400]	[150-400]	[15
Best case	[400-550]	[400-550]	[400-550]	[250-400]	[250-400]	[150-400]	[15
Worst case	[400-550]	[400-550]	[400-550]	[250-400]	[250-400]	[150-400]	[15

(56)The remuneration of the liquidity was fixed in the second rescue Decision on the basis of the European Central Bank Recommendations of 20 October 2008 on government guarantees on bank debt. According to the restructuring plan, pricing for both Citadele banka and Parex banka will be determined as State funding costs ([22]) plus a 50 bps add-on fee. In addition, an incentive fee will be introduced for Citadele banka – starting from April 2011 the fee will be increased by up to 15 bps each quarter as an incentive for the bank to refinance itself on the markets.

(57)The projected cost of State liquidity support as compared to that of customer deposits in Citadele banka is shown in Table 7.

Table 7

Cost of State deposits in Citadele banka as compared to cost of customer deposits

(%)

	2010e	2011e	2012e	2013e
Cost of liquidity support	9,6	5,4	6,5	7,9
Cost of customer deposits	[…]	[…]	[…]	[…]

(58)After the split, the existing guarantees to Parex banka's syndicated lenders, as approved under the first and second rescue Decisions, will remain in Parex banka along with the syndicated loans. The restructuring plan envisages that they will be terminated by 31 December 2011, without requiring the government to honour its guarantee.

(59)In March 2010, Parex banka signed an agreement with the European Investment Bank (hereinafter 'EIB'), which will provide a credit line of up to EUR 100 million to be used to provide finance to small and medium-sized enterprises. The credit line is to be transferred to Citadele banka. The EIB requires a State guarantee for this financing as long as Citadele banka remains below investment grade.

(60)Citadele banka may also need additional State guarantees or liquidity of up to LVL 88 million (EUR 126 million) in respect of the outstanding Eurobonds, which expire in May 2011.

(61)The pricing for State guarantees is that approved in the second rescue Decision ([23]). As regards the pricing of the potential additional State guarantees included in the restructuring plan, it will be benchmarked to the existing State guarantee (1,048 %) plus a step-up add-on fee of 12,5 bps which will be introduced and increased by 12,5 bps at the end of each quarter.

(62)The restructuring plan assumes that the equity capital (Tier 1) already injected into Parex banka during the rescue period will remain in Parex banka.

(63)According to the restructuring plan no additional capital will be required from the State except for:

(a) a capitalisation of LVL 103 million by way of conversion of State deposits into equity in Citadele banka at the time of the split. Remuneration of this capital should be achieved through the sale of Citadele banka that Latvia has undertaken to carry out by end of 2014;

(b) and a capitalisation by way of conversion of some of the State deposits and interest on those deposits in Parex banka in the years 2010-2013 up to an amount of maximum LVL 210,7 million in the base case and LVL 218,7 million in the worst case. Parex banka is envisaged to pay […] % per annum interest on State deposits capitalised after the split until 31 December 2013. From 2014 onwards capitalised State deposits will be charged to the profit/loss account at […] %.

(64)The respective amounts of the Tier 1 capital to be provided by the State to Parex banka ur Tables 8 and 9.

Table 8

Projected capitalisation of State deposits in Parex bar

	31.7.10	31.12.10	31.12.11	31.12.12	31.12.13	31.12.14	3
Base case	—	—	[10-30]	[30-60]	[0-20]	—	—
Best case	—	—	[10-30]	[30-60]	[0-20]	—	—
Worst case	—	—	[10-30]	[30-60]	[0-20]	—	—

Table 9

Deferred/capitalised State Treasury Interest in Parex b

	31.7.10	31.12.10	31.12.11	31.12.12	31.12.13	31.12.14	3
Base case	—	[0-10]	[20-40]	[20-40]	[20-40]	—	—
Best case	—	[0-10]	[20-40]	[20-40]	[20-40]	—	—
Worst case	—	[0-10]	[20-40]	[20-40]	[20-40]	—	—

(65)Latvia committed that the maximum total amount of capital provided to Parex banka must not exceed LVL 218,7 million and that it shall not provide directly or indirectly any further capital in whatever form to Parex banka after the end of […].

(66)The projected repayment of the principal of the State deposits and the interests by Parex banka is shown in Table 10.

Table 10

Projected repayment of the principal of the State deposits and the interest by Parex banka

		(in LVL million)
	Base case	**Worst case**
Principal repayment of the State	[…]	[…]

deposit		
Interest repayment on the State deposit	[…]	[…]
Total	**[…]**	**[…]**

(67)The rescue aid in the form of the subordinated loan (Tier 2 capital) will be transferred to Citadele banka. The remuneration was fixed in the second and third rescue Decisions (24) on the basis of the European Central Bank Recommendations of 20 November 2008 for pricing recapitalisation instruments. As of December 2009 fixed interest for the subordinated loan was […] %, after February 2010 it was increased to […] %.

(68)No Tier 2 capital was or will be provided to Parex banka by the State at or after the split.

(69)As described in recitals 27-32, certain assets will be transferred from Parex banka to Citadele banka, which will continue some Parex banka activities while non-core and non-performing assets will remain in Parex banka. As regards the value of assets remaining in Parex banka, an assessment on a conservative basis based on the worst case scenario would arrive at losses for the State of LVL [200-400] million and LVL [50-300] million in the base case scenario. The losses would correspond to around [20-50] % of the assets' book value (of LVL 814 million) in the worst case scenario and around […] % in the base case scenario. If provisioning figures are taken into account the discount on the nominal value of assets would be even bigger.

(70)The respective estimates of outstanding liabilities and lost State equity after the liquidation of assets in Parex banka are shown in Table 11.

Table 11

The outstanding liabilities and lost State equity after the liquidation of assets in Parex banka

	(LVL million)
Base case	
Outstanding State deposit	[0-100]
Recapitalisation by the State	[…]
Total	**[50-300]**
Worst case	
Outstanding State deposit	[100-200]
Recapitalisation by the State	[…]
Total	**[200-400]**

2.5. *COMMITMENTS OF LATVIA*

(71) In order to enable the Commission to find the restructuring aid to Citadele banka and Parex banka compatible with the internal market, on 3 September 2010 Latvia provided 'Commitments to the European Commission', a document signed by Latvia, Citadele banka and Parex banka containing commitments aiming at ensuring full implementation of the restructuring plan and limiting distortions of competition that result from the restructuring aid (hereinafter 'the commitments'). The main commitments are described hereunder.

2.5.1. COMMITMENTS REGARDING CITADELE BANKA

(72) Commitment to divest the CIS loans. Citadele banka shall divest or procure the divestiture of the CIS loans by […] to a purchaser and on terms of sale approved by the Commission. To carry out the divestiture, Citadele banka shall find a purchaser and enter into a final binding sale and purchase agreement for the sale of the CIS loans by no later than […]. If Citadele banka has not entered into such an agreement by this date, it shall grant the divestiture trustee an exclusive mandate to sell the CIS loans by […].

(73) Commitment to divest the wealth management business. The wealth management business shall be divested by […] as a going concern to a purchaser and on terms of sale approved by the Commission. To this end, by no later than […]:

(a) Latvia must find a purchaser and enter into a final binding sale and purchase agreement for the sale of 100 % of its participation in Citadele banka including the wealth management business; or

(b) Citadele banka must find a purchaser and enter into a final binding sale and purchase agreement for the sale of the wealth management business separately from the rest of Citadele banka.

If the wealth management business is not divested, along with Citadele banka or separately, by […], Citadele banka shall grant the divestiture trustee an exclusive mandate to sell the wealth management business separately from the rest of Citadele banka by […].

(74) Preservation of viability, marketability and competitiveness. Until the closing of the sale of the wealth management business, Citadele banka shall preserve the economic viability, marketability and competitiveness of the wealth management business in accordance with good business practice, and shall minimise as far as possible any risk of loss of its competitive potential.

(75) Hold separate obligation. Until the closing of the sale of the wealth management business, Citadele banka shall keep the wealth management business separately from the businesses it is retaining and ensure that key personnel of the wealth management business have no involvement in any business retained and *vice versa*. Citadele banka shall appoint the hold separate manager who shall be responsible for overseeing the management of the wealth management business under the supervision of the monitoring trustee. The hold separate manager shall manage the wealth management business independently and in the best interest of the business with a view to ensuring its continued economic viability, marketability and competitiveness and its independence from the business retained by Citadele banka.

(76)Commitment to sell Citadele banka. Latvia shall dispose or procure the disposal of Citadele banka by 31 December 2015 to a purchaser and on terms of sale approved by the Commission. To carry out the disposal, Latvia shall find a purchaser and enter into a final binding sale and purchase agreement for the sale of Citadele banka by no later than 31 December 2014. To carry out this commitment, Latvia must sell all the shares held directly or indirectly (including through public undertakings), in Citadele banka. If Latvia has not entered into such an agreement by 31 December 2014, Latvia shall grant the Divestiture Trustee an exclusive mandate to sell Citadele banka by 31 December 2015.

(77)Caps on new lending and deposits in the Baltic countries. In Latvia, Lithuania and Estonia Citadele banka and its Affiliated Undertakings shall cap:

(a) their new gross lending in terms of volume and market shares in lending in terms of total loan portfolio for Citadele banka and AB 'Citadele' bankas (25); and

(b) their deposit balances in terms of both volume and market shares,

to the maximum allowed amounts provided in Tables 12-17.

Latvian market

Table 12

Caps on lending in Latvia

	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Gross new core lending (LVL million)	[28-40]	[115-165]	[120-175]	[130-190]	[145-210]	[160-230]
Market share for core loans (without CIS loans) in terms of share of loan portfolio to total loans in Latvia (%)	[< 5] %	[< 6] %	[< 6] %	[< 6] %	[< 7] %	[< 7] %
Gross new private capital management sector (PCM) (26) lending (LVL million)	[0-4]	[9-13]	[9,5-14]	[10-15]	[11-17]	[12,5-18]

Table 13

Caps on deposit balances in Latvia

	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Core deposit balance (without PCM deposits) (LVL million)	[550-790]	[600-860]	[660-950]	[720-1045]	[795-1150]	[875-1260]
Market share for core deposits (%)	[< 7] %	[< 8] %	[< 8] %	[< 8] %	[< 8] %	[< 8] %
PCM deposit balance (LVL million)	[340-490]	[405-585]	[375-540]	[410-590]	[440-630]	[475-685]
Market shares for PCM deposits (%)	[< 5] %	[< 5] %	[< 5] %	[< 5] %	[< 5] %	[< 5] %

Lithuanian market

Table 14

Caps on lending in Lithuania

	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Gross new lending	[19-27]	[36,5-53]	[40-58]	[44-63]	[48-70]	[53-76]

(LVL million)						
Market share in terms of share of loan portfolio to total loans in Lithuania (%)	[< 2,5] %	[< 2,5] %	[< 2,5] %	[< 3] %	[< 3] %	[< 3] %

Table 15

Caps on total deposit balances in Lithuania

	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Total deposit balance (LVL million)	[115-170]	[130-185]	[140-205]	[155-225]	[170-245]	[190-270]
Market share (%)	[< 3] %	[< 3] %	[< 3] %	[< 4] %	[< 4] %	[< 4] %

Estonian market

Table 16

Caps on lending in Estonia

	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Gross new lending (LVL million)	[3,2-4,6]	[7-10]	[7,6-11]	[8-12]	[9-13]	[10-14]
Market share in terms of share of	[< 1,5] %	[< 1,5] %	[< 1,5] %	[< 1,5] %	[< 1,5] %	[< 1,5] %

loan portfolio to total loans in Estonia (%)						

Table 17

Caps on total deposit balances in Estonia

	2010	2011	2012	2013	2014	2015
Total deposit balance (LVL million)	[85-125]	[95-135]	[105-150]	[115-165]	[125-180]	[135-195]
Market share (%)	[< 1] %	[< 1,5] %	[< 2,5] %	[< 2,5] %	[< 2,5] %	[< 2,5] %

(78) Caps on the deposits for German and Swedish branches. Citadele banka shall cap its deposit balances in the German and Swedish branches in terms of both volume and respective market shares to the maximum allowed amounts provided in Tables 18 and 19.

Table 18

Caps on total deposit balances for the German branch

	2010	2011	2012	2013	2014	2015
Total deposit balance (LVL million)	[47-69]	[50-75]	[60-85]	[65-90]	[70-100]	[80-110]
Market share (%)	[< 0,5] %	[< 0,5] %	[< 0,5] %	[< 0,5] %	[< 0,5] %	[< 0,5] %

Table 19

Caps on total deposit balances for the Swedish branch

	2010	2011	2012	2013	2014	2015

Total deposit balance (LVL million)	[35-50]	[40-55]	[40-60]	[45-70]	[50-75]	[55-80]
Market share (%)	[< 0,5] %	[< 0,5] %	[< 0,5] %	[< 0,5] %	[< 0,5] %	[< 0,5] %

(79) No increase in the number of branches: Citadele banka shall not increase the total number of branches. This, however, does not prevent Citadele banka from reallocating some of its branches.

(80) The Commitments referred to in recitals 77-79 shall apply until both the full repayment of the State aid in the form of liquidity measures provided by Latvia to Citadele banka and the closing of the sale of Citadele banka have taken place, and until […] at least. If the wealth management business is sold separately from the rest of Citadele banka, the caps regarding the PCM (a part of wealth management business) loans and deposits referred to in recital 77 shall cease to apply after the closing of the separate sale of the wealth management business.

(81) Remuneration in respect of the asset relief measure: Citadele banka shall remunerate Latvia for the asset relief up to the amount of estimated losses to Latvia in the worst case scenario being the sum of the liquidity measures provided by Latvia potentially to be lost at the end of assets' realisation (LVL [100-200] million) and the projected total capital to be provided to Parex banka as from the transfer date (LVL […] million). The remuneration shall take the form of costs in the profit and loss account, i.e. before the establishment of the annual net income. That remuneration should be paid every year in which Citadele banka's capital adequacy ratio on solo basis is not lower than 12 % and capital adequacy ratio at group level is not lower than 8 % as long as the relevant amount does not lead to Citadele banka showing losses in the relevant year. This commitment shall apply until the closing of the sale of Citadele banka.

(82) Acquisition ban. Citadele banka shall refrain from acquisitions of both financial and non-financial institutions until both the full repayment of restructuring aid in the form of liquidity measures provided by Latvia to Citadele banka and the closing of the sale of Citadele banka.

(83) No new CIS loans. Until the closing of the sale of the CIS loans, Citadele banka shall not grant any new loans to clients from the CIS countries and clients whose ultimate beneficiaries are from the CIS countries. Citadele banka and its affiliated undertakings will be allowed to disburse funds only when the formal loan contract has been signed before the transfer date. Citadele banka shall cease granting further advances on existing loans save for situations where this is necessary to preserve or increase the probability of Citadele or its affiliated undertakings being repaid on outstanding loans. In addition, such advances shall be limited to a maximum of 2 % of the previous year's loan portfolio.

2.5.2. COMMITMENTS REGARDING PAREX BANKA

(84)No new activities. Parex banka and its affiliated undertakings shall not engage in any new activities that are not necessary for its primary task of managing the assets and sell them thereafter.

(85)Parex banka and its affiliated undertakings shall cease:

(a) granting any new loans to corporate or private customers, including leasing loans. Parex banka and its affiliated undertakings will be allowed to disburse funds only when the formal loan contract has been signed before the transfer date or there is no new money and the loan is made to restructure the borrowing linked to assets for restructuring. Parex banka will be in a position to issue new loans to its affiliated undertakings in order to manage repossessed collaterals;

(b) granting further advances on existing loans except for situations where this is necessary to preserve or increase the probability of Parex banka or its affiliated undertakings being repaid on outstanding loans and where a further advance is required to fund repairs and improvements that are essential to the structural integrity of the secured property. In addition, such advances shall be limited to a maximum of 5 % of the previous year's loan portfolio;

(c) taking any new deposits from the public.

(86)Parex banka and its affiliated undertakings shall wind-down or divest all leasing activities by […].

(87)The maximum total amount of capital provided directly or indirectly to Parex banka by Latvia in whatever form shall not exceed LVL 218,7 million. Latvia shall not provide directly or indirectly any further capital in whatever form to Parex banka after […].

2.5.3. OTHER COMMITMENTS

(88)Dividend and Coupon ban. Citadele banka, Parex banka and their affiliated undertakings shall not pay investors any dividends or coupons on existing capital instruments (including preference shares, B shares, and upper and lower tier-2 instruments) or exercise any call rights in relation to the same, unless there is a legal obligation to do so. This commitment, however, does not apply to the capital held directly or indirectly by Latvia and capital held by Citadele banka and Parex banka in their affiliated undertakings.

(89)No reference to State support in advertising. Citadele banka and Parex banka shall not use the granting of the State aid, State ownership or any competitive advantages arising in any way from that aid or ownership for advertising purposes.

(90)The commitments set out in recitals 88-89 shall apply to Citadele banka until both the full repayment of the State aid in the form of the liquidity measures provided by Latvia to Citadele banka and the closing of the sale of Citadele banka.

(91)Separation between Citadele banka and Parex banka: Citadele banka and Parex banka shall be fully operationally separated by no later than 1 August 2011, except for certain IT activities and management and administration of the CIS loans. The latter service shall be remunerated at a market-oriented fee.

(92)Trustees. monitoring trustee shall be appointed to carry out the functions specified in section F of the commitments.

(93)If Latvia or Citadele banka, as appropriate, have not entered into a binding sales and purchase agreement 1 month before the end of the periods referred to in recitals 72, 73 and

76, a divestiture trustee shall be appointed to carry out the functions specified in section F of the commitments.

(94) The trustees will be independent of Citadele banka, Parex banka and Latvia, possess the necessary qualifications to carry out its mandate, and will neither have nor become exposed to a conflict of interest.

(95) The Commission will have discretion to approve or reject the proposed trustees and to approve the proposed mandate subject to any modifications it deems necessary for the trustees to fulfil their obligations.

(96) The trustee(s) will assume its specified duties in order to ensure compliance with the commitments. The Commission may, on its own initiative or at the request of the trustee, Latvia, Citadele banka or Parex banka, give any orders or instructions to the trustee in order to ensure compliance with the conditions and obligations referred to in this Decision and the commitments.

3. GROUNDS FOR INITIATING THE FORMAL INVESTIGATION PROCEDURE

(97) The Commission opened the formal investigation procedure on the initial restructuring plan submitted on 11 May 2009 in this case because it had, inter alia, doubts that the initial restructuring plan was adequate to ensure the restoration of the bank’s long-term viability without continued State support.

(98) More specifically, it was not clear how and when Parex banka would re-establish compliance with relevant regulatory requirements. The initial plan also did not adequately address the risk factors (including exposure to non-OECD borrowers) identified in the due diligence report submitted with the restructuring plan. Moreover, the initial plan appeared to be based on rather optimistic assumptions as to the future operating conditions. The Commission had doubts on how the bank would have been able to manage the lifting of deposit withdrawal restrictions. Notwithstanding liquidity constraints, the initial plan appeared to be built on an expanding business strategy for all lending segments and did not provide for abandoning or significant reduction of more risky activities, such as lending to high net worth individuals in CIS countries. Regarding the then forecasted expansion of the deposits volumes and deposit-raising activities, there were doubts as to whether that plan was realistic and cost-efficient. Furthermore, the Latvian authorities had not at that stage provided the results of the stress test. In the opening Decision, the Commission invited therefore the Latvian authorities to reconsider the overall proposed business strategy for Parex banka.

(99) The plan envisaged a business expansion strategy which appeared to mainly rely on an aggressive pricing and marketing policy to regain lost market shares using the bank’s competitive advantage due to State aid. However, it did not include adequate measures to limit competition distortions.

(100) As regards the issue of burden-sharing/own contribution, the initial plan did not provide clear information on the whole amount of required State support and Parex banka’s own contribution. The Commission had doubts whether the initial plan was focussed so as to limit the aid to the minimum. Under all scenarios, even by the end of the restructuring period the bank remained dependent on the State liquidity facilities or guarantees. In this context, the Commission also needed to investigate to what extent the funding needs of Parex banka could be reduced by a greater focus on core activities and an overall further reduction of the bank’s size.

4. COMMENTS FROM INTERESTED PARTIES

(101) No comments from interested third parties were received with regard to the opening Decision within the prescribed time limits.

5. COMMENTS FROM LATVIA

(102) In reply to the opening Decision the Latvian authorities submitted a revised restructuring plan dated 4 September 2009 in which they aimed at addressing a number of doubts raised by the Commission by changing the restructuring strategy for Parex banka. The content of the plan is described in section 3.2. However, following the final decision on the split of Parex banka, that plan was replaced by the final restructuring plan, submitted on 7 July 2010.

6. OTHER COMMENTS

(103) After the expiry of the prescribed period, the Commission received letters dated 15 June and 13 July 2010 from the former majority shareholders of Parex banka. Furthermore, the Commission received letters from members of the Latvian parliament dated 22 June and 1 July 2010. The main issue raised in the letters of 15 June and 13 July 2010 related to the choice between the 'good-out' and 'bad-out' scenarios for the bank's restructuring. The letters of 22 and of 1 July concentrated on the implications which the chosen strategy for Parex banka and ongoing legislative initiatives may have in view of the Latvian legal system.

(104) The Commission notes that, where appropriate, it has taken into account the issues raised in those letters in its assessment of the final restructuring plan to the extent that they were relevant and the matter fell within its competence.

7. ASSESSMENT

7.1. *EXISTENCE OF AID*

(105) The Commission must assess whether the measures concerned constitute State aid. Article 107(1) TFEU provides that any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings shall, insofar as it affects trade between Member States, be incompatible with the internal market.

(106) The Commission observes that, with regard to the rescue measures in the form of guarantee, liquidity support and recapitalisation granted to Parex banka, which are maintained after the split of Parex banka during the restructuring phase, it has already established in the first rescue Decision (27) that those measures constitute State aid. The Commission has no reason to change its previous assessment in this respect. Likewise, as these measures benefit a substantial part of the economic activity previously done by Parex banka that is continued by Citadele banka, they also constitute State aid to Citadele banka.

(107) As regards the aid measures described in recitals 63 and 69, Latvia implements them for the restructuring of Parex banka which was and partly remains involved in cross-border and international activities. Also Citadele banka, which takes over economic activities of Parex banka, is and will be active on markets open to international competition. Therefore any advantage from State resources would affect competition in the banking sector and

have an impact on intra-Union trade. Furthermore, the measures concerned are selective as they solely benefit Citadele banka and Parex banka and they are financed through State resources. In the current circumstances of a financial crisis and in view of the Parex banka financial difficulties a market economy investor would not have granted such measures on comparable terms.

(108) In addition, as regards the capitalisation measures, it is considered that a market economy investor expects a return commensurate with the risk perceived for the investment under consideration. This is especially true for Citadele banka which currently is not rated, and has emerged from the bank in difficulty in the context of restructuring.

(109) It is considered that the transfer of assets from Parex banka to Citadele banka implemented under a 'good-out' scenario (see recital 69) as an asset relief measure, because the newly created bank (Citadele banka) is relieved from the burden of potential losses on non-core and non-performing assets left behind in Parex banka. That relief, in turn, allows Citadele banka to avoid the subsequent depletion of its capital. Therefore, the measure at issue confers an advantage on Citadele banka.

(110) The assets relief measure is financed through the State resources given that according to the final restructuring plan Latvia will provide capital to Parex banka up to LVL 218,7 million until […] which, along with the outstanding deposits in the amount of LVL [100-200] million, will potentially not be repaid at the end of the projected […] period (see Table 11 above).

(111) In light of the above, it is considered that further recapitalisation at the time of the split in the form of a capital injection into Citadele banka of LVL 103 million and the conversion of State deposits and interest on those deposits in Parex banka upon the split and thereafter (see above recital 63) and the asset relief measure (see above recital 69) also constitute State aid pursuant to Article 107(1) TFEU.

7.2. *COMPATIBILITY OF THE AID*

7.2.1. LEGAL BASIS FOR THE COMPATIBILITY ASSESSMENT

(112) Article 107(3)(b) TFEU empowers the Commission to find aid compatible with the internal market if it is intended to 'remedy a serious disturbance in the economy of a Member State'. As already indicated in the opening Decision, the Commission considers, that, due to the systemic relevance of Parex banka, Article 107(3)(b) TFEU can be applied in this case and that the notified aid measures should be assessed on this basis.

(113) On the basis of the three Communications (28) adopted in the context of the current financial crisis that were in force at the time the decision was taken, in the opening Decision the case was preliminarily assessed in line with the principles of the Guidelines on State aid for rescuing and restructuring firms in difficulty (29), while taking into consideration the particular features of the crisis in the financial markets.

(114) Although the opening Decision made reference to the Guidelines on State aid for rescuing and restructuring firms in difficulty, the Commission has clarified in recital 49 of the Communication on the return to viability and the assessment of restructuring measures in the financial sector in the current crisis under the State aid rules (hereinafter, 'Restructuring Communication') (30) that all aid relating to financial institutions notified to it before 31 December 2010 will be assessed as restructuring aid to banks pursuant to

the Restructuring Communication instead of the Guidelines on State aid for rescuing and restructuring firms in difficulty.

(115) As regards the asset relief measure, it should also be assessed on the basis of Communication on the treatment of impaired assets in the Community banking sector ([31]) (hereinafter, 'Impaired Assets Communication').

(116) In the context of the first rescue Decision (and later confirmed, inter alia, in the opening Decision), it was already established that Parex banka is an institution in difficulties and hence an in-depth restructuring of the bank was necessary.

7.2.2. COMPLIANCE OF THE MEASURES WITH THE IMPAIRED ASSETS COMMUNICATION

(117) As previously pointed out in recitals 109, 108 and 111, the transaction regarding the transfer of the assets from Parex banka into Citadele banka can be considered an asset relief measure. The State will assume a significant share of losses from non-core and non-performing assets.

(118) The specific conditions applying to asset relief measures are laid down in the Impaired Assets Communication. Pursuant to section 5.2 of that Communication, an asset relief measure should ensure ex-ante transparency and should provide for adequate burden-sharing followed by the correct valuation of the eligible assets and the correct remuneration of the State, so that the asset relief measure ensures shareholders' responsibility and does not unduly distort competition.

(119) Overall, where this case departs from similar transactions ([32]), it does so in a positive manner since Latvia will not cover all losses from the impaired portfolio. Instead, coverage is ensured only up to a maximum amount and to the extent necessary to make Parex banka capital compliant until […]. In asset split scenarios where the 'good-out' method is chosen, as in the current case, the burden of losses on non-core and non-performing assets is also partly borne by the former majority shareholders and the legacy minority shareholders. That method is viewed positively from a State aid point of view as it limits to some degree the necessity for a fully fledged valuation of the extent of the impairments.

(120) Pursuant to the Impaired Assets Communication, the appropriateness of the transfer price and the remuneration should be assessed. In the present case, it is clear that the book value of the assets remaining with Parex banka is higher than their market value and therefore constitutes State aid to Citadele banka, as already established in recitals 109-111.

(121) According to points 23 and 41 of the Impaired Assets Communication, the transfer price in asset purchase measures should be based on their underlying long-term economic value. In a 'good-out' scenario, the good bank should in principle therefore cover the difference between transfer value and real economic value. If this is not possible to avoid technical insolvency, this difference would have to be recovered, for example through a claw-back.

(122) In the present case and as already set out in recital 69, a conservative approach based on the worst case scenario would incur losses for the State of LVL [between 100 and 400] million; there would be losses for the State of LVL […] million in the base case scenario. Given that most of the loans are collateralised, those valuations of assets' long-term economic value in the financial projections do not appear to be too optimistic. Were

Citadele banka able to fully cover these losses, the measure would be equivalent to an asset transfer at real economic value.

(123) In addition, pursuant to section 5.2 of the Impaired Assets Communication, the Commission considers that Citadele banka should pay an appropriate remuneration for the capital relief achieved by the impaired assets measures.

(124) The objective of requiring remuneration (including, where applicable, a claw-back) is two-fold: to ensure burden-sharing and to ensure a level playing field (i.e. minimise competition distortions).

(125) In the light of the estimated effect of the asset relief and the projected net income (see Tables 3 and 4 above) the Commission takes the view that the Citadele banka will not able to pay the required remuneration (including a full claw-back) for the asset relief while still restoring viability. However, the projected net income should allow it to pay at least part of that remuneration after it returns to profitability and its capital base is adequate.

(126) Therefore, the Commission welcomes the commitment provided by Latvia whereby Citadele banka shall remunerate the State for the asset relief up to the amount of estimated losses in the worst case scenario, being the sum of the State deposits to be lost at the end of assets' realisation (LVL [between 100 and 200] million) and the State recapitalisation measures (LVL […] million). The payment of the remuneration will take the form of expenditure in the profit and loss account, i.e. before the establishment of the annual net result, and should be paid every year in which Citadele banka's capital adequacy ratio is not lower than 12 % up to an amount that does not lead to Citadele banka showing losses in the relevant year. This commitment shall apply until the closing of the sale of Citadele banka (see recital 81). Overall, the Commission considers that this mechanism ensures as far as possible a contribution from Citadele banka to costs stemming from […].

(127) However, as the remuneration and claw-back may not reach the level foreseen by the Impaired Assets Communication, a far-reaching restructuring is required by point 41 of the Impaired Assets Communication. That restructuring must include, in particular, a significant limitation of size of the distressed bank, to compensate for the fact that Citadele banka does not fully bear the losses and does not pay a fully adequate remuneration.

(128) To conclude whether the restructuring is sufficient, it has to be assessed against the objectives of the remuneration and the claw-back, i.e. burden-sharing and mitigation of competition distortions. In particular, it needs to be ascertained whether a sufficient burden-sharing has been achieved through other means and whether competition distortions are limited by verifying the market position and the size of Citadele banka. This assessment will have to take into account the other aid measures that have benefitted Parex banka and Citadele banka and is reflected in the part of this Decision that analyses the compliance of the aid measures with the Restructuring Communication (see recitals 144 and following).

(129) After the split, Parex banka will be separate and organisationally independent from Citadele banka, as required by section 5.6 of the Impaired Assets Communication.

(130) In conclusion, the Commission considers that the present case is in compliance with the Impaired Assets Communication.

7.2.3. COMPATIBILITY UNDER THE RESTRUCTURING COMMUNICATION

(131) The Restructuring Communication sets out the State aid rules applicable to the restructuring of financial institutions in the current crisis. In order to be compatible with Article 107(3)(b) TFEU, the restructuring of a financial institution in the context of the current financial crisis has to:

(i) lead to the restoration of the long-term viability of the bank;

(ii) include sufficient own contribution by the beneficiary (burden-sharing);

(iii) contain sufficient measures limiting the distortion of competition.

(132) Section 2 of the Restructuring Communication states that the Member State should submit a coherent, comprehensive and detailed restructuring plan. It should demonstrate how the bank will restore long-term viability without State aid as soon as possible. The plan should also identify the causes of the bank's difficulties and the bank's own weaknesses, and outline how the proposed restructuring measures remedy the bank's underlying problems.

(133) In line with the requirements set out in point 11 of the Restructuring Communication, the final restructuring plan submitted by Latvia is coherent, comprehensive and detailed. It provides detailed information on the business model, underlying assumptions and resulting financial projections. In line with point 10 of that Communication, the plan also identifies the causes of the difficulties faced by Parex banka, in particular the management's choice of an inadequate business strategy and some high-risk decisions (see section 2.1 and recitals 38-42 of this Decision). The restructuring activities presented in the final plan adequately address the bank's weaknesses. In this way, the concerns regarding the originally notified restructuring plan as set out in the opening Decision are addressed in the final restructuring plan.

(134) More specifically, as regards the focus of the business model, one of the major concerns in the opening Decision, Citadele banka will, according to the final restructuring plan, refocus on traditional bank business activities in the Baltics. Accordingly, Citadele banka will concentrate on its core activities, while withdrawing from those areas which aggravated its financial difficulties. In particular, it is viewed positively that all CIS leasing (including subsidiaries) and non-performing CIS loans are left behind in Parex banka. As for performing CIS loans, although they were transferred to Citadele banka, Latvia has committed that they will be divested and in any case no new loans will be originated (see recitals 72 and 83). Furthermore, the wealth management business will be divested either separately from Citadele banka by […] or sold with Citadele bank if an investor for the whole bank is found by that date (see recital 73 of this Decision).

(135) Further, as the Commission indicated in the opening Decision, the emerging Citadele banka will be of much smaller scale than Parex banka was before the crisis. That reduced size is in particular due to the split and the divestitures that will be carried out. The aggressive expansion in lending and deposit markets envisaged in the initial restructuring plan has been conservatively revised downwards in the final restructuring plan and will be capped as committed by Latvia (see recitals 77 and 78) of this Decision).

(136) The changes in management style (major shareholders and members of the boards have already been replaced) and corporate governance of Citadele banka and the strengthened risk management and controls within the bank are viewed positively. Parex banka has already reduced administrative costs by 39 %. Citadele banka's expected cost/income ratio will decrease to [between 35 and 55] % in 2014 mainly thanks to optimisation of the branch network and personnel expenses.

(137) According to the requirements set out in points 12 to 15 of the Restructuring Communication, the final restructuring plan should also demonstrate how the bank will restore its long-term viability without continuous State aid as soon as possible. In particular, the bank should be able to generate an appropriate return on equity, while covering all costs of its normal operations and complying with the relevant regulatory requirements.

(138) First, the restructuring plan provides detailed financial data and projections for the period 2006-2015, giving information on revenues, costs, impairments, profits and capital position of the bank. The Commission considers that the base case projections provided are based on reasonable underlying macroeconomic assumptions (they are less optimistic that those of the 2010 European Economic Spring Forecast).

(139) Citadele banka expects to generate profits again in 2011 and continuously improve its yearly results over the restructuring period. In 2014 the ROE is planned to reach a level of [between 18 and 28] %, which appears to be a sufficient level of remuneration for normal market conditions in Latvia. This would be comparable to the historical ROE of 28 % in 2006 and of 20 % in 2007. The capital ratios of Citadele banka and those of the group remain well above the minimum regulatory requirements. Given the stable business model of the bank and Parex banka's track record in the past with respect to its core operations, the Commission considers, on the basis of the information provided, the projections presented as feasible.

(140) Second, in light of the stress testing exercise by the Central Bank (see recital 45) the Commission is of the view that Citadele banka is able to withstand a stress scenario without needing further aid. The stress scenario demonstrates that the bank meets its regulatory capital requirements. Moreover, the sensitivity analysis used in the stress testing shows that a significantly changing economic environment should not endanger the bank's viability.

(141) Third, deposit withdrawal restrictions will not apply to Citadele banka and all other regulatory requirements will be complied with. As regards deposit withdrawal restrictions, a major part of the main depositors have agreed to keep the deposits in the bank for a certain period of time after the restrictions are lifted. These deposits have been effectively transferred to Citadele banka (as indicated in Table 2). Moreover, the Commission welcomes the proposed low-risk funding model that relies to a greater extent on longer-term funding, thus addressing the previously existing maturity gap between liabilities and assets.

(142) Finally, the plan provides that Citedele banka will repay State liquidity measures by 31 December 2012 even in the worst case scenario. That envisaged repayment addresses the concerns raised in recital 80 of the opening Decision that the bank continued to rely on State liquidity beyond the restructuring period. Furthermore, the Commission notes that the State capital of LVL 103 million placed in Citadele banka at the date of the split will be 'redeemed' in line with the commitment undertaken by Latvia regarding the sale of Citadele banka by 31 December 2014 (see recital 76).

(143) In light of the above, the Commission considers that the new business model of Citadele banka is viable and sustainable in the long-term. Therefore, the restructured bank will be able to compete in the market place on its own merits in compliance with the relevant regulatory requirements and its viability will not be endangered even in a significantly changing environment. Consequently, the Commission is of the opinion that the Parex

banka's restructuring plan fulfils the requirements of the Restructuring Communication with regard to the restoration of the long-term viability.

(144) Section 3 of the Restructuring Communication provides that banks and their stakeholders should contribute to the restructuring as much as possible in order to limit the aid to a minimum and to address distortions of competition and moral hazard. That requirement implies that banks use their own resources to finance the restructuring, for instance by selling assets, while the stakeholders should absorb the losses of the bank where possible. Restructuring aid is limited under point 23 of the Restructuring Communication to those costs which are necessary for the restoration of viability.

(145) The final restructuring plan, unlike the initial plan submitted on 11 May 2009, has a clear focus and abandons the expansive strategy originally envisaged for Parex banka. That targeted approach contributed to limiting the aid required. In this context, the proposed divestments and the scaling down of Citadele banka's balance sheet, as well as putting Parex banka in […] are viewed positively. In particular, the proceeds from materialising the assets will finance part of the restructuring costs and limit the aid required. The Commission highlights that the Latvian authorities have provided a detailed timeline for planned divestments and committed to the appointment of a monitoring trustee as well as a divestment trustee in order to ensure compliance with the commitments. Moreover, in respect of the contribution to restructuring costs through internal resources generated by the bank, the Commission notes that the bank implements far-reaching cost-cutting measures.

(146) It is considered that the measures already implemented and those committed to by Latvia ensure that own resources are used and that private capital holders of Parex banka adequately contribute to the restructuring.

(147) The burden to the former majority shareholders can be demonstrated by the take-over of their entire shareholdings in Parex banka by Latvia for the symbolic price of LVL 2. They have been wiped out and thus can be considered as having borne the consequences of the failure of Parex banka. In addition to the removal of the former majority shareholders, the shareholding of minority shareholders has been significantly diluted as a result of the State and the EBRD recapitalising the Bank. Their ownership has been diluted from the previous level of 15,2 % to 3,7 % currently, and they will remain with Parex banka after the split ([…]). Those measures serve as a valuable signal against moral hazard.

(148) Additionally, subordinated loans by legacy shareholders will be junior liabilities in Parex banka. The liquidation of the assets of Parex banka in the base case scenario does not envisage that sufficient proceeds will be received to cover more than senior liabilities in the bank. As subordinated loans mature in the period 2015-2018 and the State would only support the capital of Parex banka […], while at the same time it receives adequate remuneration for the State deposits, the subordinated debt holders are likely to bear losses on the capital they invested […].

(149) Moral hazard is adequately addressed by the own contribution of past capital holders in the bank. Consequently, the Parex banka's restructuring plan provides for sufficient burden sharing and own contribution to the restructuring. The final restructuring plan complies accordingly with section 3 of the Restructuring Communication.

(150) Section 4 of the Restructuring Communication requires that the restructuring plan includes measures limiting distortions of competition and ensuring a competitive banking sector. Moreover, those measures should ensure that State aid is not used to fund anti-competitive behaviour.

(151) The Commission considers that the package of measures contained in the final restructuring plan represents a significant improvement compared to the initial restructuring plan which addresses the doubts on this issue raised in the opening Decision. In view of significant divestitures and market caps as well as the bank's downsizing (see Table 20) the Commission considers that the plan represents an appropriate package of measures that will contribute to the maintenance of a level playing field and competitive markets. The initial strategy of the notified plan based on expansion of the business, on which the opening Decision raised substantial doubts, has changed and the final restructuring plan is based on a significant reduction of the bank's size, in terms of both balance sheet total and market shares in its core markets.

Table 20

Downsizing and reduction of Citadele banka's presence in the core markets

Assets of Citadele banka as compared to pre-crisis Parex banka	**Citadele banka at the end of restructuring period, YE 2014 (including incremental growth)**	**Market share reduction in the core lending markets at the end of restructuring (including incremental growth)**	**Market share reduction in the deposits (core and wealth management business) markets at the end of restructuring (including incremental growth)**
After the split: 44 % (total assets reduced by EUR 1,9 billion); If the divestment of CIS loans is taken into account (YE […]): [35-50] % (total assets reduced by EUR [1,6-2,3] billion)	[40-55] % (reduced by EUR [1,9-2,3] billion)	Pre-crisis market share of 11,7 % vs. [< 7] % in 2014 (capped): market presence reduced by [50-60] %	Pre-crisis market share of 20 % (33) vs. [< 13] % (decreasing to [< 10] % by 2015): market presence reduced by [55-65] %

(152)The restructuring of the bank includes a substantial reduction of the bank's presence in core market segments. First, as a consequence of the implementation of the restructuring measures, Citadele banka will reduce its total assets by approximately 60 % and its market presence in all core markets by more than 50 % as compared to Parex banka pre-crisis. The reduced market presence of the bank as well as the envisaged divestitures will free respective market segments for the competitors. Second, as already mentioned in the section 2.5, Citadele banka will either be sold by Latvia by 31 December 2014 at the latest or by a divestiture trustee by 31 December 2015, and the wealth management business will be sold by […] (whether within Citadele banka or separately), thereby giving potentially harmed competitors the possibility to bid for those businesses. The sale can be considered as a measure to limit distortions of competition ([34]).

(153)The measures to limit distortions of competition are found to be adequate also due to the relatively limited absolute size of the bank in restructuring (around EUR 2,2 billion). Following the restructuring, only its core activities will remain. The most important of those will be Citadele banka's presence in Latvia, whose market is already rather concentrated and dominated by a number of foreign banks ([35]). The capped market share of Citadele banka of around [4-7] % of loans and [7-10] % of deposits (see recital 77) can be considered as adequate mitigation of potential distortions of competition, when compared to its market share of 12 % of lending and about 20 % in deposits before the crisis.

(154)The bank's presence in other geographical markets is limited and will be capped to further limit potential distortions of competition so as not to exceed market shares of [< 4] % in the Lithuanian lending and deposit markets, [< 1,5] % in the Estonian lending market and [< 2,5] % in the Estonian deposit market, and [< 0,5] % in the Swedish and German deposit markets (see recitals 77 and 78). The caps allow for a limited growth in those markets due to the need for the bank to diversify its funding sources. The current macroeconomic context of Latvia makes it difficult to attract external funding. The deposits of Latvian residents are significantly lower than the total loan portfolio in that Member State. The bank's main competitors receive funding from their parent companies established abroad. Thus, it is accepted that Citadele banka needs to retain some funding base abroad (one branch each in Sweden and Germany) in order to diversify its funding base. Given the small presence of the bank in those markets and the necessity of the diversified funding for the bank's viability, the Commission considers that the agreed caps in those markets are adequate.

(155)The Commission also welcomes a ban on advertising State support, thus preventing Citadele banka from using the aid for anti-competitive market conduct, and an acquisition ban, furthermore ensuring that the State aid will not be used to take over competitors. Furthermore, Citadele banka will not increase the number of its branches.

(156)After the split Parex banka and its subsidiaries will be effectively […] over its lifetime that is assumed to be 8 years. This period is considered to be appropriate in order to conclude asset recovery procedures and disposals of assets while avoiding a fire sale.

(157)Although Parex banka will keep its banking licence, neither it nor its subsidiaries will be allowed to conduct any new activities other than those necessary to manage and sell the assigned assets. In particular, Parex banka will cease any new loan origination and taking of deposits from the public (see recitals 84 and 85). Furthermore, it will wind down or sell its leasing activities by […].

(158)Latvia has committed to limit strictly the additional capital in time ([…]) and scale (up to LVL 218,7 million) (see above recital 87).

(159)In light of the above, it is considered that the aid to Parex banka (after the split) is restricted to the minimum necessary for the […] and, therefore, undue distortions of competition are avoided.

(160)Accordingly, the scale and nature of measures, in particular the significant downsizing and reduction of market presence combined with the sale within a reasonable timeframe proposed with respect to Citadele banka and Parex banka, are sufficient and adequate to avoid undue distortions of competition. In addition, the depth of the restructuring combined with the sale of the Citadele banka would suffice to compensate for any distortions of competition that may result from a potentially inadequate remuneration and claw-back.

(161)Point 46 of the Restructuring Communication lays down the requirement that, in order to verify that the restructuring plan is being implemented properly, detailed regular reports from the Member State are necessary. Accordingly, the Latvian authorities committed to provide the Commission every 6 months starting from the date of this Decision with such reports for both Citadele banka and Parex banka.

(162)Latvia has committed to appoint a monitoring trustee who will monitor compliance with the commitments and provide reports to the Commission.

(163)The Commission finds that the restructuring plan of Parex banka set out in section 2 of this Decision is compatible with Article 107(3)(b) TFEU and fulfils the requirements of the Restructuring Communication in terms of viability, burden sharing and measures to mitigate the distortions of competition.

(164)Latvia has exceptionally accepted that this Decision be adopted in the English language,

HAS ADOPTED THIS DECISION:

Article 1

Having regard to the restructuring plan and commitments undertaken by the Republic of Latvia, the restructuring aid which Latvia implements for AS Parex banka and AS Citadele banka is found to be compatible with the internal market within the meaning of Article 107(3)(b) of the Treaty on the Functioning of the European Union.

Article 2

This Decision is addressed to the Republic of Latvia.

Done at Brussels, 15 September 2010.

For the Commission

Joaquín ALMUNIA

Vice-President

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(1) OJ C 239, 6.10.2009, p. 11.

(2) Commission Decision of 24 November 2008 in case NN68/08 *Public Support Measures to JSC Parex Banka*, OJ C 147, 27.6.2009, p. 1.

(3) Commission Decision of 11 February 2009 in case NN 3/09 *Amendments to the Public support measures to JSC Parex Banka*, OJ C 147, 27.6.2009, p. 2.

(4) Commission Decision of 11 May 2009 in case N 189/09 *Amendments to the Public support measures to JSC Parex Banka*, OJ C 176, 29.7.2009, p. 3.

(5) Commission Decision of 29 July 2009 in case C 26/09 (ex N 289/09) – *Restructuring aid to JSC Parex Banka*, OJ C 239, 6.10.2009, p. 11.

(6) According to the Association of Latvian Commercial Banks (ranking based on YE 2009 data), the top banks in Latvia in terms of market shares are the following: 1. Swedbank 23,0 %; 2. SEB banka 13,7 %; 3. Parex banka n/a; 4. Nordea Bank Finland Latvia branch 10,7 %; 5. DnB NORD Banka 8,7 %; 6. Latvian Mortgage and Land Bank 4,8 %; 7. Rietumu Banka 4,6 %; 8. Aizkraukles banka 4,5 %; 9. UniCredit Bank 3,7 %; 10. Latvijas Krājbanka 2,4 %. (According to the Latvian Banking Association, Parex banka did not submit any data. Its ranking is based on YE 2009 data).

(7) After the recapitalisation approved as rescue aid, Latvia further increased its participation in Parex banka to about 95 %.

(8) As of 28 February 2010, Latvia, through the Privatisation Agency, held 76,63 % of paid-in capital with 71,74 % of voting rights.

(9) At group level means for Parex banka corporate group, consisting of a parent company, Parex banka, and its subsidiaries.

(10) See the first, second and third rescue Decisions.

(11) In the opening Decision, similarly as in some of the submissions of the Latvian authorities, 'wealth management business' is referred to as 'private capital management' (see also footnote 14).

(12) Parts of this text have been deleted so as not to divulge confidential information; they are indicated by a series of dots between square brackets or a range providing for a non-confidential approximation of the figure.

(13) The investment in Lithuania was transferred at the end of the day of 1 August 2010, whereas the investment in AP Anlage & Privatbank AG and deposits in the German branch are to be transferred from Parex banka to Citadele banka before 31 December 2010.

(14) Except for the loan to SIA Rigas Pirma Garaza subsidiary of Parex banka (owner of Parex banka's headquarter building) amounting to LVL […] million.

(15) As provided in the restructuring plan of 31 March as amended on 7 July 2010.

(16) The indicated figures for Citadele banka and Parex banka after the split derive from the submission of the Latvian authorities of 18 August 2010 and do not incorporate the transfer of the investment in Lithuania, in AP Anlage & Privatbank AG and deposits in the German branch from Parex banka to Citadele banka.

The difference between the total balance sheet value of Parex banka before and after the split is explained by the partial write-down of the deferred tax asset as well as lower obligatory reserves that are needed for capitalisation of State Treasury deposit.

(17) As provided in the submission dated 27 August 2010, the equity of Citadele banka has decreased by LVL 4,9 million from the issued share capital of LVL 103 million due to the transfer of negative revaluation reserve for available-for-sale financial assets.

(18) See also footnote 2 of this table and footnote 12.

(19) The wealth management business consists of the private capital management sector of Citadele banka, assets management subsidiaries and AP Anlage & Privatbank AG, Switzerland.

(20) The reason for a relatively high ROE in the worst case scenario is that the equity base in the worst case is lower due to losses reducing the capital base in the preceding years.

(21) See the first and second rescue Decisions.

(22) The State funding cost for EUR deposits will be set as a sum of short-term floating base rate that corresponds to respective term EURIBOR/EUR mid-SWAP rate and fixed spread is calculated as average weighted credit risk spread over benchmark EURIBOR/mid-swap rate for the Treasury's borrowings over the previous calendar half-year that represents the central government's actual funding costs; and for LVL deposits it will be set as a yield of the most recently issued domestic Treasury bills or bonds. In any case the fixed spread should not be less than for the most recent public borrowing of the bank: debt issues and/or syndicated loans carried out by the bank in the money and capital markets (currently 3,5 % based on the initial spread over 2-year EUR mid SWAP rate for the notes issued by the bank).

(23) See the second rescue Decision, recital 15.

([24]) See the second rescue Decision, recital 38 and the third rescue Decision, recital 13.

([25]) The Lithuanian subsidiary of Citadele banka.

([26]) See footnote 14.

([27]) As amended by the second rescue Decision and the third rescue Decision.

([28]) See Communication from the Commission – Application of the State Aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis, OJ C 270, 25.10.2008, p. 8; Communication from the Commission – Recapitalisation of financial institutions in the current financial crisis: limitation of aid to the minimum necessary and safeguards against undue distortions of competition, OJ C 10, 15.1.2009, p. 2, and Communication from the Commission on the Treatment of Impaired Assets in the Community banking sector, OJ C 72, 26.3.2009, p. 1.

([29]) OJ C 244, 1.10.2004, p. 2.

([30]) OJ C 195, 19.8.2009, p. 9.

([31]) OJ C 72, 26.3.2009, p. 1.

([32]) See, for example, Commission Decision of 28 October 2009 on the State aid C 14/08 (ex NN 1/08) implemented by the United Kingdom for Northern Rock, OJ L 112, 5.5.2010, p. 38.

([33]) As of 30 April 2008.

([34]) See Commission Decision of 21 October 2008 in case C 10/08, *IKB*, OJ L 278, 23.10.2009, p. 32, at recital 113, Commission Decision of 3 December 2008 in case NN 42/08, NN 46/08 and NN/53/A/08, *Fortis Banque & Fortis Banque Luxembourg*, at recital 95, Commission Decision of 9 July 2009 in case N 344/09 and N 380/09 *Kaupthing Luxembourg*, at recital 79, Commission Decision of 25 January 2010 in case NN 19/09 *Dunfermline*, at recitals 126 and 130 and Commission Decision of 28 October 2009 in case C 14/08 (ex No NN 1/08) *Restructuring aid to Northern Rock*, OJ L 112, 5.5.2010, at recital 162.

([35]) Swedbank and SEB alone account for 36 % of the market. Together with Nordea and DnB Nord they make up for 56 % of bank assets and 63 % of loans. Only the deposit market seems less concentrated, with these four banks accounting for 37 %. See also footnote 6.

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