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Citadele Bank

INVESTORS FOR CITADELE TO BE SOUGHT BY SOCIETE GENERALE SA

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The Latvian Privatisation Agency has announced that the Cabinet of Ministers voted today to support the recommendations from the financial consultant selection commission in terms of concluding an agreement with the international investment bank Societe Generale SA. Its job will be to identify the best way of attracting an investor for the Citadele Bank and then to find that investor.

The involvement of a consultant will not affect the bank's operations. Citadele will continue to work and develop as it always has done, providing retail and corporate services and also working in the private capital management sector. Initially Societe Generale SA will conduct market analysis to determine the best model for finding an investor for the bank. Then the government will have to take a decision on the model. Once the model to attract private capital is approved by the government, the consultant will take steps to attract investors. It is planned that this will occur in 2014.

Applications were evaluated by a special commission with representatives of the Finance Ministry, Economics Ministry and Privatisation Agency, as well as members of the Citadele Bank's Council and the European Bank for Reconstruction and Development.

The Privatisation Agency explains that internationally recognised and popular investment banks were invited to take part in the competition – ones which have a faultless reputation, have at least five years of experience in selling bank shares at a level above EUR 80 million, as well as experience with support for the banking sector in the European Union. Invitations were sent out to 13 major investment banks, making use of 2012 ratings from financial consultants at Bloomberg and The Financial Times. Two banks made an offer, and the one submitted by Societe Generale SA was chosen as the best and most financially advantageous one.

Societe Generale SA is one of the largest financial services groups in Europe, employing more than 154,000 employees in 76 countries and providing services to 32 million clients all around the world. Societe Generale SA has served as a financial consultant for the takeover of Citibank Belgium, for instance, also providing consultations to Credit Mutuel Nord in the process. The sum of the transaction was EUR 280 million. Societe Generale SA also served as a financial consultant for Sberbank when it took over Volksbank International for a sum of EUR 505 million.

The Privatisation Agency says that Societe Generale SA will be instructed to analyse the market situation and choose the best model for finding an investor for the Citadele Bank. The investment bank will prepare and implement a strategy to attract private capital, dealing with marketing activities, as well as negotiations with potential investors. The agency says that after finding an investor for the bank, the consultant will receive a finder's fee. Depending on the structure of the transaction and the offer made by potential investors, the fee might amount to as much as EUR 2.3 million. The consultant

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will also receive compensation for justified expenditures at a sum of more than EUR 120,000.

As has been reported in the past, there are different possible models for attracting capital for the Citadele Bank. The state's shares in the bank could be sold to a strategic investor or several financial investors. The bank's shares might also be floated publicly on an exchange.

The Privatisation Agency also says that the Cabinet of Ministers approved a recommendation from the legal consultant selection committee to sign an agreement with the international law firm Linklaters. The agency says that the offer from Linklaters was determined to be the best and most financially advantageous one among three offers that were submitted. The legal consultant will be charged with preparing documents in relation to the investor, negotiating with the European Commission on state aid issues, and taking part in negotiations with the involved parties, including the European Commission and the European Bank for Reconstruction and Development in terms of finding an investor for Citadele. The total cost of these services will not exceed EUR 540,000.

Linklaters is a global legal services company with 29 offices in 20 countries in the world, as well as 2,700 qualified attorneys. Linklaters has served as a legal consultant for the initial public offer of Poland's second-largest bank, Bank Pekao, as well as for the takeover of ING Direct by Barclays Bank PLC.

Since launching operations in 2010, Citadele has become a profitable concern in less than three years' time. The Citadele Group concluded the first half of this year with a profit of LVL 5.8 million, which was 27% more than during the first half of last year. The group's operating revenues increased by 12% during the first half of this year in comparison to the same period in 2012. Last year the Baltic Corporate Management Institute declared Citadele to be the best-managed state-owned company in the Baltic States.

As is known, the Privatisation Agency controls 75% of shares in the Citadele Bank, while 25% plus one share belong to the European Bank for Reconstruction and Development.

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