

Privatization Agency: Investor Engagement with Citadele Reaches Its Final Stage

26.06.2014.

NOT FOR DISTRIBUTION IN WHOLE OR IN PART, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES, AUSTRALIA, CANADA OR JAPAN.

On Thursday, June 26, the Cabinet of Ministers was presented with the results achieved in the process of investor engagement for JSC Citadele Banka (Citadele Bank). In the course of the Cabinet meeting representatives of SJSC Privatisation Agency (PA) and international investment bank Société Générale – financial consultant – informed about the assessment process of proposals submitted by the potential investors.

Société Générale (SG) addressed about 100 candidates who had expressed their interest in Citadele Bank. After getting acquainted with the information memo, a number of investors submitted non-binding proposals. For the purpose of ensuring competition among proposals submitted by various investors, today the Cabinet approved continuation of negotiations with several candidates who will have the chance to carry out confirmatory due diligence of the bank. Then proposals revised by investors will be submitted to the Cabinet for a final decision.

Proposals submitted by candidates were assessed for conformity to four groups of criteria – price, conditions of the transaction, investor's quality, and vision of bank's development to ensure the best possible conditions for future development of the state and the bank.

“At the moment investor engagement for Citadele is carried out according to the strategy recommended by consultants, prepared by Privatisation Agency and approved by the Cabinet of Ministers. There are a number of candidates who have presented their proposals and that ensures competition which is good for the state and the bank in this process,” Ansis Spridzans (*Ansis Spridzāns*), Chairman of the Board at PA points out.

In the light of security interests of the state all candidates are additionally assessed by the respective security authorities. Moreover, approval by the Financial and Capital Market Commission (FCMC) will be required for the investor to acquire significant interest in the bank. FCMC will assess the potential investor according to the following criteria: free capital adequacy, financial stability, legality of origin of funds intended for investment, investor's reputation, business plan.

The investors selected will be allowed to carry out confirmatory due diligence of the bank. Then investors will submit revised proposals and the investor of Citadele Bank will be selected based thereon.

Approval of the list of potential investors involved consideration of the assessment criteria approved by the government, compliance with FCMC criteria as well as statements of security authorities.

Restructuring plan for Parex Bank approved by the European Commission lays down requirements for investor engagement including a condition that former shareholders of Parex Banka are not permitted to acquire interest in Citadele Bank.

As reported before, in July 2013 the government passed a decision to resume investor engagement process for Citadele Bank. The report submitted to the government concluded that the aim initially set forth in Parex Bank's restructuring plan – ensuring a stable financial institution – had been achieved. Citadele Bank established according to the objectives of restructuring plan had been operating successfully and its future development requires private capital attraction.

On September 15, 2010 Parex Banka's restructuring plan was harmonized with the EC and stipulated discontinuation of state support as soon as the situation would stabilize. Now is the best time – Latvia introduced euro in January 2014, which is a very important step towards drawing foreign investment and Citadele Bank operates solidly and with profit. Thus, the main aim of restructuring plan – to eliminate crisis situation and stabilize the situation – has been achieved and the bank needs investor or investors to ensure long-term development of the bank and more opportunities for development.

On October 22, 2013 Cabinet of Ministers approved the recommendation of the financial consultant selection commission to sign a contract with the international investment bank Société Générale entrusted with identifying the best investor engagement for Citadele Bank model for the state as well as attracting investors. Applications were assessed by a special selection commission comprised of representatives of the Ministry of Finance, Ministry of Economics, and PA as well as members of the Board of Citadele Bank and European Bank for Reconstruction and Development. International law office Linklaters was selected as a legal advisor.

Société Générale is one of the biggest financial services groups in Europe, it employs over 154,000 people in 76 countries and provides services to 32 million clients around the globe. Société Générale acted as financial consultants in the take-over transaction of Citibank Belgium as well as consulted Sberbank which took over Volksbank International in a 505 million euro deal.

Since its establishment in 2010 Citadele has become a profit-bearing holding company. Citadele Bank closed 2013 with 15.2 million euro profit – nearly double that of 2012. While Citadele Group closed 2013 with 13.7 million euro profit – also a slight year-on-year increase.

In Q1 2014, Citadele Bank reported 5.7 million euro profit – 1.2 million euro year-on-year growth. However, Citadele Group generated 5.9 million euro profit – more than expected.

In 2012, Baltic Institute of Corporate Governance rated Citadele Bank as the best governed state-owned company in the Baltic States.

Citadele Bank continues on its path of successful operation and development as before serving both individuals and companies as well as operating in the private capital management area regardless of the process of investor engagement.

PA owns 75% minus one Citadele Bank's shares, while the European Bank for Reconstruction and Development is the owner of 25% and one share.

Important Information

Société Générale is acting solely for the PA in connection with any arrangements, services or transactions referred to in this document and no one else. Société Générale is not and will not be responsible to anyone other than the PA for providing the protections afforded to the Clients of Société Générale or for providing advice in relation to the arrangements, services or transactions, referred to in these documents.

Société Générale is a French credit institution (bank) authorised and supervised by the Autorité de Contrôle Prudentiel et de Résolution (the French Prudential Control and Resolution Authority). Société Générale is subject to limited regulation in the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of Société Générale's authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from Société Générale on request.

This announcement is not for distribution, directly or indirectly, in or into the United States (including its territories and possessions, any State of the United States and the District of Columbia). This announcement does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States. The Shares mentioned herein have not been, and will not be, registered under the United States Securities Act of 1933 (the "Securities Act").

The shares may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the Securities Act. There will be no public offer of securities in the United States.