

Sale of Citadele Shares Completed, Share Price: EUR 74.7 Million

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The Latvian Privatisation Agency (PA) has completed the sale of shares in the Citadele Bank. The Ripplewood company and a group of twelve international investors have become shareholders in the bank, paying EUR 74.7 million for their shares – a sum higher than had initially been planned. The European Bank for Reconstruction and Development (EBRD) is retaining its 25% of shares. The new shareholders have also increased the Citadele Bank's equity capital by EUR 10 million.

PA board chairman Vladimirs Loginovs: "I welcome the successful completion of this important deal. The sale of Citadele shares allows us to complete a fundamental part of the restructuring of the Parex Bank. A successful bank has been established, and we have found stable investors who are focused on the future for it. New and high-quality capital has entered the Latvian banking sector, and this will provide the overall sector with an additional impulse for development, also diversifying the sector."

New investors for Latvia's banking sector

The conclusion of the sale of Citadele shares means that there are now investors with long-term plans for the bank's development. Ripplewood Advisors LLC founder and executive director Tim Collins has said that the shareholders plan to turn the Citadele Bank into a national leader in terms of quality and diversity of products in Latvia's banking sector. American investments in Latvia's financial system balance foreign investments, increase security, and send positive signals to other potential investors.

Apart from Ripplewood, the shareholders include well-known investors such as the former chairman of the US Federal Reserve, Paul Volcker, and former World Bank president James D. Wolfensohn. Also among the shareholders is one of the world's leading hedge funds, the Baupost Group. It manages respectable capital from institutional and private investors. As has been reported in the past, Ripplewood will own 22.4% of the bank's shares, while the other investors will control 52.6% of the shares. All of them have confirmed that they have long-range developmental plans.

European Commission limitations lifted, Citadele can develop more swiftly

Now that the Citadele Bank has found private investors, limitations based on the fact that the bank had state support have now been lifted. The European Commission (EC) has strict rules on exceptional cases in which governments can provide support to commercial enterprises and become involved in their operations. In Latvia's case, the EC set out a series of rules and limitations on co-operation with the Citadele Bank, including a strict schedule for finding the investors. The point was to reduce the influence of state aid in terms of the competitiveness of the banking and financial sector, and this is a mandatory EC requirement when states offer support to banks. Now that the Citadele shares have been sold, the limitations have been lifted, and Latvia has satisfied its international obligations.

State will recoup more than investment in Citadele Bank

All told, the Citadele Bank received state aid of EUR 377.9 million, and as of April 20, 2015, the state has recovered EUR 308 million of that money. The bank has also paid EUR 49.14 million in interest and other payments as of the aforementioned date, and the plan is to repay the rest of the state aid by the end of 2017 – a subordinated PA loan of EUR 34.7 million, as well as interest on the loan. This means that by the end of 2017, the state will have received more money from the sale of the shares and the payments that have been made by Citadele than it invested in the bank in the first place.

Transaction satisfies international requirements

The process of finding investors for the Citadele Bank was a carefully and purposefully targeted one so that the state could receive as much money as possible for the sale of the shares and so that the overall development of the Citadele Bank and the financial sector could be facilitated. The process of selling the shares began on July 16, 2013. On December 17 of that year, the government approved a strategy for finding investors for the Citadele Bank. With

the help of the international investment bank Société Générale and the international Linklaters law firm, the Privatisation Agency organised the process. Nearly 100 investors were approached, and 14 demonstrated interest in the Citadele Bank. After signing confidentiality agreements and examining an information memorandum, eight investors submitted non-binding offers. Later, five investors conducted in-depth due diligence at the bank before updating their offers. The government approved further negotiations with three of the applicants, who could then conduct confirmatory due diligence. After looking at the results, the government chose to continue final negotiations only with Ripplewood, which best satisfied the criteria (price, terms of the transaction, quality of the investor and views about the bank's development). The goal was to find a stable and predictable investor that would be able to ensure the bank's successful and ongoing development. The government's decision was in part based on geopolitical and economic aspects, as well as the views of Latvia's security institutions.