IP/10/1127

Brussels, 15 September 2010

State aid: Commission clears restructuring of Latvian bank Parex

The European Commission has approved under EU state aid rules a thorough restructuring of Parex that before the crisis was Latvia's second biggest bank. Under the plan submitted by the Latvian authorities the core assets and operations of Parex are transferred into a newly established bank called Citadele, with the remainder of Parex turned into a resolution bank. The Commission is satisfied that the restructuring plan will ensure the long-term viability of Citadele banka, whilst allowing an orderly realisation of the assets remaining in Parex. The plan also includes an adequate contribution of the legacy capital holders to the restructuring costs as well as safeguards to limit the distortive effects of the received aid.

Commission Vice President in charge of competition policy, Joaquín Almunia, said "*The scale of the problems and support received by Parex called for a profound restructuring. The final plan is a well-balanced package that limits the distortions of competition, ensures an adequate contribution of the shareholders and holders of subordinated debt to the restructuring costs and enables the emergence of a new, viable bank*."

Before the crisis Parex was the second largest bank in Latvia in terms of assets with a total balance-sheet, on 31 December 2008, of 3.4 billion lats (€ 4.9 billion) and a market share of 18% in the Latvian deposits market and of 12% in the Latvian lending market.

The bank was partly nationalised in November 2008 as the financial and economic crisis that ensued the fall of Lehman Brothers exposed serious weaknesses in its business model.

The bank benefitted from State guarantees, recapitalisation and liquidity support for a total of around 1.1 billion lats (€ 1.6 billion). The measures were cleared temporarily as emergency aid in 2008 and 2009 (see IP/08/1766 and IP/09/732) pending the submission of a restructuring plan. On 29 July 2009, the Commission opened an in-depth investigation into a first restructuring plan (see IP/09/1203). As an important step towards the restructuring, a new bank named Citadele banka was registered on 30 June 2010 to which core and well-performing assets and operations as well as part of State liquidity measures of Parex were transferred on 1 August 2010. The Latvian State (75%) and the European Bank for Reconstruction and Development (25% plus one voting shares) are the shareholders of this bank.

The remaining impaired and non-strategic assets will be retained by Parex, to be sold over time. The State is also the controlling shareholder in Parex and retains a share of State emergency loans in this bank. The legacy minority shareholders and subordinate capital holders (including former majority shareholders) have a claim only on junior liabilities in Parex compared to State loans. This will ensure that the state support granted to Parex will be repaid to the greatest possible extent, thereby minimising the burden for taxpayers.

Under the restructuring plan, the business model of former Parex banka as resumed by Citadele banka will be changed and will focus on its core business in the Baltic countries, whilst discontinuing more risky lending and leasing in the Commonwealth of Independent States. The bank will also significantly enhance corporate governance and risk management. By refocusing on its core activities and by materially reducing the size of its total assets to around 1.5 billion lats Citadele banka should return to profitability in 2011 and repay the State the liquidity support received.

Until the full repayment of the State liquidity measures, Citadele banka will be subject to market presence caps in deposits and lending markets. Furthermore, Citadele banka is subject to an acquisition ban. These measures aim at limiting competition distortions caused by the aid.

The Commission assessed the restructuring package against its Communications on restructuring aid to banks (IP/09/1180) and on impaired assets treatment (IP/09/322) and concluded that the plan was capable of securing the bank's long-term viability and to adequately address competition distortions and moral hazard issues.

The non-confidential version of the decision will be made available under the case number C 26/2009 in the State Aid Register on the DG Competition website once any confidentiality issues have been resolved. New publications of state aid decisions on the internet and in the Official Journal are listed in the State Aid Weekly e-News.