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In the published version of this decision, some information has been omitted, pursuant to articles 24 and 25 of Council Regulation (EC) No 659/1999 of 22 March 1999 laying down detailed rules for the application of Article 93 of the EC Treaty, concerning non-disclosure of information covered by professional secrecy. The omissions are shown thus […].		PUBLIC VERSION This document is made available for information purposes only.

Subject: State aid No SA.34208 (2012/NN) – Lithuania
Rescue and restructuring of the Lithuanian Central Credit Union

Sir,

1 PROCEDURE

(1) On 12 January 2012, Lithuania notified rescue aid for the Lithuanian Central Credit Union ("the LCCU") in the form of recapitalisation to the amount of LTL 6 million (EUR 1.74 million). The measure was implemented before its notification, on 19 December 2011. On 24 January 2012, Lithuania provided the Commission with further information. On 4 April, Lithuania submitted a restructuring plan for the LCCU. On 18 April and 1 June 2012, the Commission requested further information, to which Lithuania responded on 10 May 2012 and 21 June 2012, respectively. On 11 and 18 July 2012, the Commission requested additional information and clarifications. Lithuania provided the requested information on 11, 16 and 27 July 2012.

(2) Lithuania exceptionally accepts that the decision will be adopted in the English language.

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2 DESCRIPTION

2.1 The Beneficiary

(3) The LCCU was registered with the Lithuanian Register of Enterprises on 22 April 2002. On 28 November 2002, the Bank of Lithuania issued a license to LCCU to perform all operations provided for in the Lithuanian Law on the Central Credit Union. The LCCU started its principal activities on 2 December 2002.

(4) The LCCU, a credit institution organised on co-operative basis, is a small or medium-sized enterprise (SME) within the meaning of the Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises[1] (based on the criteria of turnover and the number of employees). It is funded by capital contributed by its members. Currently, the LCCU unifies 62 credit unions out of the 72 credit unions operating in Lithuania. The LCCU's market share in terms of assets is 0.45% (LTL 355 million, EUR 103 million) of the Lithuanian banking sector, whilst that of its member credit unions is 1.77%. The branches of the member credit unions are located throughout Lithuania, notably in remote rural areas, where branches of banks are few or not available.

(5) The LCCU provides financial services, liquidity and solvency support as well as other services (organization of training, methodological assistance) to its member credit unions. It also operates as a supervisor, a clearing house and an issuer of payment cards for its member credit unions.

(6) According to Lithuania, the direct market for the LCCU's services is mainly the services provided to its member credit unions and to some extent (indirect market) services related to payment cards and internet banking provided to members of member credit unions. The LCCU is the only institution of such type in Lithuania's market.

(7) According to the Law on Credit Unions, save for a few limited exceptions, credit unions may provide financial services only to their members, other credit unions, associations of credit unions and the central credit union. Their membership base is also territorially constrained.

2.2 The difficulties and the aid measure

(8) The support to the LCCU in the form of Tier 1 capital was urgently needed before the closure of the financial year 2011, because of a LTL [10-20][*] million loss in 2011. The loss was caused by the fact that the LCCU held a LTL [10-20] million deposit (of which LTL [5-10] million held in term deposits and maturing by end February 2012 and LTL [10-20] million in an overnight deposit) in AB Snoras bank ("Snoras bank"), which was put in bankruptcy proceedings, allegedly due to fraud[2].

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1 OJ L 124, 20.05.2003, p. 36. According to Annex of the Recommendation, an enterprise is qualified a SME based on the following criteria: it employs fewer than 250 persons and has either an annual turnover not exceeding EUR 50 million or an annual balance sheet total not exceeding EUR 43 million and conforms to the criterion of being an autonomous enterprise.

* 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.

2 On 24 November 2011 the Board of the Bank of Lithuania by its Resolution recognised Snoras bank, the fifth-largest bank in Lithuania in terms of assets, as insolvent and on 7 December 2011 bankruptcy

The whole amount of deposit was deemed to be unrecoverable. Snoras bank was favoured by the credit unions due to its wide network in Lithuania and fast money delivery and collection services in remote areas. As a result, without strengthening of the capital base of the LCCU the losses would have exceeded Tier 1 capital of the LCCU. Its capital would have turned negative.

(9) Prior to that, the LCCU had had no due loans, generated profits (ranging between LTL […] and LTL […] in 2006-2010) and its capital adequacy ratio of […] % had been well above the regulatory minimum. It also complied with the applicable regulatory and internal requirements limiting large exposures to a single financial institution, although an inspection, conducted by the Credit Institutions Supervision Department of the Bank of Lithuania in 2011 revealed concentration risks and other shortcomings, leading it to instruct the LCCU to reduce single borrower exposures and address a number of operational shortcomings by 30 September 2011[3]. According to the Bank of Lithuania requirements, maximum exposure to a single borrower should not exceed 25% of a credit institution's capital. However, the overnight deposits are not taken into account when calculating that ratio. For the purpose of concentration risk management, LCCU has established internal ratios in respect of individual positions. The internal ratio for the overnight deposits was of no more than 100% of LCCU capital (Tier I + Tier II).

(10) The resulting capital gap was estimated taking into account not only the minimum regulatory requirements (capital adequacy ratio of not lower than 10%), but also the regulatory ratio limiting exposure to one borrower.

(11) To the extent permitted by their solvency and liquidity situations, 58 out of 62 member credit unions contributed to the capital increase of the LCCU in the total amount of LTL to rage between 10 and 15 million. In view of its size, its cooperative status and its specific activities, the LCCU had limited access to capital markets.

(12) Due to the LCCU's distinct role and importance to its member credit unions, in spite of its limited size, it was judged systemically important by the Lithuanian authorities. […], on 19 December 2011 the Lithuanian State provided the remaining capital of LTL 6 million (EUR 1.7 million).

(13) In that way, the LCCU achieved a capital adequacy ratio of [10-20]% ([50-60]% of total capital base consisted of Tier 1 capital) comparable to the level the LCCU achieved before the bankruptcy of Snoras bank, and complied with all other regulatory requirements at the end of 2011[4].

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proceedings were commenced. Insurance compensations to depositors of Snoras bank were paid from the Deposit Insurance Fund. For those purposes the government provided it with a loan facility of up to LTL 3.265 billion, of which LTL 3.098 billion were used. [...]. Furthermore, that fund is obliged to pay back the loan to the State.

[3] Source: http://www.lb.lt/central_credit_union_of_lithuania_was_instructed_to_eliminate_shortcomings_in_its_operation

[4] According to Lithuania, the capital adequacy ratio is higher than it was estimated initially due to recognition of deferred tax of LTL 2.7 million as an income on 31 December 2011. As a consequence of recognition of deferred tax as an income the LCCU loss decreased and resulted in increase of Tier 1

2.3 The Restructuring plan

(14) Under the restructuring plan, the new business focus mainly involves strengthening of risk supervision within the LCCU and repayment of the capital contributed by the State.

(15) In terms of strengthened risk control, the LCCU has undertaken to address the main difficulty it encountered and limit its exposure to a single financial institution or group to 25% of its capital regardless the type of the exposure (thus including the overnight deposits) during the entire restructuring period and, in any case, until the State is repaid. Also, the LCCU will introduce an ethics commission, and risk management and audit committees, so as to strengthen risk supervision in the institution.

(16) By means of a recapitalisation by both the member credit unions and the State, the capital base of the LCCU was strengthened. It is anticipated that the member credit unions will continue to provide capital to the LCCU in the future, if necessary, provided it does not jeopardize their own solvency.

(17) An agreement between the LCCU and the Ministry of Finance determines the terms of redemption of the State shares and their remuneration. According to the draft agreement, the LCCU would repay State capital by 31 October 2014 (i.e. within three years of the State intervention) by means of quarterly instalments starting from the last quarter of 2012.

(18) Lithuania undertook that the LCCU would pay a remuneration of 3.95% on the outstanding amount. That rate was determined as an annually weighted average interest rate on 3-year Lithuanian government bonds denominated in LTL in 2011 (3.45%) + 50 basis points, totalling 3.95%. If the amounts are not repaid when due, the LCCU pays a fine at a rate of 0.02% for each past due date.

(19) In the unexpected event of delayed repayment of the State capital, an additional incentive for the LCCU to repay the State takes the form of remuneration step-ups in fourth and fifth years and thereafter. In particular, for the capital still outstanding in the fourth and fifth years the LCCU will pay an interest of 5.70%. As from sixth year (as of end of 2016), if the capital is still outstanding, the interest rate will be increased to 7.95%.

(20) Lithuania confirmed that the LCCU would not to pay dividends before the State is repaid and would treat the State as a preferential shareholder so as to ensure that the State shares are redeemed as soon as possible.

(21) Further, the Lithuanian authorities confirmed that LCCU had no hybrid instruments with discretionary coupons. In addition, Lithuania confirmed that it would seek prior approval from the Commission before the LCCU repays any subordinated debt earlier than contractually envisaged. That commitment will apply until the LCCU fully repays the State capital.

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capital (until 31 December 2011 it was not possible to assess as to whether recognition of such income would materialise since even the continuation of the LCCU activity was at risk).

(22) Despite the fact that the system of credit unions has managed to overcome the financial crisis successfully thus far, continuing to ensure the financial stability of its member credit unions remains a key strategic objective of the LCCU. It can be achieved through strengthening of the capital base of credit unions in need, participation in various projects on loan databases, monitoring and assessment of credit unions' activities and improving accounting and risk management systems, all of which contribute to the reliability, transparency and good reputation of credit unions.

(23) The restructuring plan envisages that every year in 2012-2017 the LCCU will generate profits, reaching LTL […] in 2017. The generated profits coupled with the contributions of the member credit unions to the capital of the LCCU should enable the repayment of the State capital within three years as envisaged in the repayment schedule.

(24) According to Policy of Remuneration in the LCCU, the chief executive officer and his or her deputies, and internal auditor may not receive any bonuses. It is noteworthy that members of all elected managing bodies (Board, Supervisory Board, and Stabilisation Fund Commission[5]) are not paid and work on voluntary basis. Moreover, payment of bonuses from LCCU's profit will be suspended to the LCCU staff, executives and members of the Stabilisation Commission until the State shares are redeemed. Further, the LCCU confirmed that it has no hybrid instruments with discretionary coupons.

(25) Lithuania also undertook that the LCCU would not to acquire any stake in any undertaking. That commitment covers both undertaking which have the legal form of a company and package of assets which form a business. That commitment will apply for a period of three years starting from the date of the Commission decision and, in any case, until the State capital is repaid.

(26) Lithuania commits that the LCCU will acquire businesses only if that is in exceptional circumstances necessary to restore financial stability or to ensure effective competition after obtaining the Commission's approval. Lithuania also commits that the LCCU will only acquire stakes in undertakings provided that the purchase price paid by the LCCU for any acquisition is less than 0.01% of the balance sheet size of the LCCU at the date of the Commission decision and that the cumulative purchase prices paid by the LCCU for all such acquisitions over the whole restructuring period is less than 0.025% of the balance sheet size of the LCCU at the date of the Commission decision. Lithuania took the view that acquisitions that take place in the ordinary course of the banking business in the management of existing claims towards ailing firms do not fall under the acquisition ban.

[5] "Stabilisation Fund of Credit Unions" (referred to as the Stabilisation Fund) is a fund formed in the manner prescribed by Article 26 of the Law on Central Credit Union, designated to ensure the stability and continuity of activities of credit unions, and functioning as the lender of last resort in order to restore the impaired solvency of credit unions. According to the Law on Central Credit Union, the Stabilisation Fund may be used to restore credit unions solvency only, but not the LCCU itself. However, it counts as Tier 2 capital of the LCCU. Member credit unions are obliged to contribute to the Stabilisation Fund. The Stabilisation Fund is formed in the LCCU. The Stabilisation Fund Commission has the exclusive rights to manage it. The resources of the Stabilisation Fund are calculated and kept in a separate account, but it does not have a separate financial statement.

(27) No advertising of State aid initiated by the LCCU or any member credit union will be made.

3 POSITION OF LITHUANIA

(28) The Lithuanian authorities consider that the LCCU plays an important role in the cooperative finance management system in Lithuania, which notably serves remote areas of the country that otherwise would not have access to financial services.

(29) Lithuania argued that in the event of the LCCU's default, its member credit unions would have immediately lost the connection to the clearing centre of the Central Bank of Lithuania, the LCCU's internet banking system, MasterCard payment cards system (since the issuer of the payment cards is the LCCU) and utilities' payment system. Those consequences would have caused mistrust by the members of the credit unions, as they would not have been able to access their current and payment cards accounts. Credit unions would not have been able to use their banking software, which is maintained and supported by the LCCU, or get other services from the LCCU. Further, the credit unions would not have been able to use the financial support facilities offered by the LCCU, in the form of liquidity and capitalisation measures. It might have led to a systemic mistrust in credit unions and may have had an influence on other market players, especially smaller banks.

(30) It further submitted that, as of 30 October 2011, deposits of natural and legal persons held in member credit unions were LTL [1-5] billion (average deposit amount of a natural person was LTL [0-50 000]. Deposits in credit unions and in the LCCU are covered by the Deposit Insurance Fund […].

(31) Lithuania submits that the LCCU is an institution of such unique type in Lithuania's market that it has no competitors. The functions of the LCCU resemble those of a supervisory institution and a central bank. Further, Lithuania emphasised that the LCCU provides solvency and liquidity support to its member credit unions. Based on the market presence of the LCCU in terms of share of assets in the Lithuanian banking system, Lithuania argues that the measure will not distort competition. Lithuania further submitted that, in any case, the measure is compatible with the internal market, as the aid aims to enhance the stability and confidence in the credit union system in Lithuania and complies with Article 107 (3) (b) of the TFEU.

(32) Finally, Lithuania submits that a higher remuneration would largely exceed the margins that the LCCU is able to generate in view of its particular role. In particular, its operations are not purely profit-driven, but rather aimed at supporting credit unions and, more generally, the cooperative finance management system in Lithuania, which includes the provision of banking services in remote areas of the country.

4 ASSESSMENT OF THE MEASURE

4.1 Existence of State aid

(33) The Commission has to assess whether the recapitalisation constitutes State aid within the meaning of Article 107(1) TFEU. According to that provision, State aid is 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, in so far as it affects trade between Member States.

(34) The Commission observes that the recapitalisation involves State resources as the measure is financed by the Lithuanian State. The State has subscribed to LTL 6 million (1.7 million EUR) of capital.

(35) That measure is selective as it solely benefits the LCCU.

(36) The measure contains a clear advantage to the LCCU, as it allows it to absorb losses on unrecoverable deposits in Snoras bank, hence allowing it to meet the regulatory capital requirements and as such avoid insolvency. In addition, the conditions at which the capital was injected are not in line with what a normal market investor would require.

(37) The Commission also finds that the measure is also able to affect trade between Member States and to distort competition as the LCCU facilitates through its members retail and small corporate savings and loans in the Lithuanian banking market, thus potentially affecting subsidiaries of foreign banks.

(38) In conclusion, the Commission considers that the measure fulfils the conditions laid down in Article 107(1) TFEU and, therefore, the measure qualifies as State aid to the LCCU.

4.2 Legal basis for the compatibility of the aid

(39) Article 107(3)(b) TFEU provides for the possibility that aid falling within the scope of Article 107(1) TFEU can be regarded as compatible with the internal market, if it intends to "remedy a serious disturbance in the economy of a Member State".

(40) The Commission notes that, although the LCCU is not a large entity, it does provide services to 80% of all cooperative credit institutions in the country. As such, a failure of the LCCU might have led to a potential bank run on each of the member credit unions whose subsequent failure might have put a further strain on the […] deposit guarantee scheme and worsened the sentiment in an already nervous banking system in the aftermath of Snoras bank bankruptcy.

(41) In the context of various uncertainties surrounding the current recovery from the global financial and economic crisis, the failure of the LCCU would have therefore created a serious disturbance for the Lithuanian economy and hence the measure can be assessed under Article 107(3)(b) TFEU.

4.3 Assessment of the compatibility of the aid

(42) As regards compatibility of the aid measures with the internal market, based on the submission of the restructuring plan for the LCCU, the Commission has to assess

whether the measures at issue are in line with the conditions set out in the Commission's Communications on the application of Article 107(3)(b) TFEU, notably its 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 "the Restructuring Communication")[6]. The Restructuring Communication refers in particular to the Banking Communication[7] which sets the general framework for the application of State aid to financial institutions in the context of the financial crisis. Given that the aid instrument is a recapitalisation, the Communication from the Commission on the recapitalisation of financial institutions in the current financial crisis (hereinafter "the Recapitalisation Communication")[8] also bears relevance on this case, notably in respect of the remuneration of the measure (see recital **Error! Reference source not found.** below).

(43) The Restructuring Communication sets out the State aid rules applicable to the restructuring of financial institutions in the current crisis. According to the Restructuring Communication, 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 a restoration of the viability of the credit institution;

(ii) Include sufficient own contribution by the former shareholders and capital holders of the bank (burden-sharing);

(iii) Contain sufficient measures limiting distortions of competition.

Restoration of viability

(44) The Restructuring Communication provides in points 9 and 10 that the Member State should provide a comprehensive and detailed restructuring plan which should include a comparison with alternative options. The plan should furthermore also identify the causes of the difficulties faced by a financial institution.

(45) In the present case the Commission observes that the Lithuanian authorities have chosen to recapitalise the institution after having considered three scenarios in terms of amount of capital to be provided to it, with and without State support, based on the information available at the time. The Lithuanian authorities also took into consideration that the LCCU has a distinct and important role to play to support the credit unions system in the country as provided for in the Law on Central Credit Union and the reasons for its difficulties. On that basis, they discarded the option of not providing the needed capital.

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6 Restructuring Communication, OJ C 195, 19.08.2009, p. 9.

7 Communication on the application of 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.

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.

(46) The Commission further observes that the modus operandi of the LCCU in its function alike to a central bank to the credit unions is extremely transparent and simple, and that the main cause of its failure is an excessive amount of overnight deposits in a single institution. Notably, the LCCU prior to the State intervention was generating profits and is projected to do so in each year of the restructuring period (2012-2017). All of its loans, i.e. the loans granted to the credit unions, were performing. In the first quarter of 2012, it also generated profits in line with the projected return for 2012[9].

(47) Therefore the main pillar of restructuring needed to restore long-term viability is the elimination of deficiencies related to risk management and internal control systems.

(48) In view of the fact that the LCCU undertook to limit its exposure to a single financial institution or group to 25% of its capital independently of the type of exposure during the entire restructuring period and, in any case, until the State is repaid, as well the strengthening of the risk supervision within the LCCU and by the Bank of Lithuania, the Commission finds that adequate restructuring is being implemented.

(49) Further, the capital base of the LCCU was strengthened and it is now adequately capitalised, with the capital adequacy ratio well above minimum requirements. The recapitalisation level will allow it to withstand future adverse shocks, if any, in the Lithuanian banking sector.

(50) The financial projections for the LCCU in 2012-2017[10] further confirm the likelihood that the LCCU will remain viable in the long-term perspective.

(51) On the basis of the above, the Commission is satisfied that the restructuring plan of the LCCU is capable of ensuring its long-term viability and that the requirements in the Restructuring Communication are met in that respect.

Own contribution/burden-sharing

(52) The Restructuring Communication sets out that an appropriate contribution by the beneficiary of the aid is necessary in order to limit the aid to the minimum and to address distortions of competition and moral hazard. To that end, first, the restructuring costs should be minimized while, second, the aid amount should be limited and a significant own contribution is necessary. As regards the limitation of the restructuring costs, the Restructuring Communication sets out (in point 23) that the restructuring aid must be limited to cover the costs which are necessary for the restoration of viability. In that regard, the Commission observes that the amount of the measure has ensured that the LCCU can continue to operate, despite its members not being able to raise sufficient capital on their own. Further, even if they could not contribute more in 2011, they may do so in later years so as to enable the repayment of the State capital within three years of granting of the measure.

9 See at http://lku.lt/wp-content/uploads/2011/12/fa_2012-03-31.pdf.

10 As contained in Annex 2 of the restructuring plan submitted on 4 April 2012.

(53) As regards burden-sharing of the costs of restructuring, the Restructuring Communication requires that the restructuring costs are not only borne by the State but also by a bank's past investors and former shareholders. In that regard, the Commission observes that the member credit unions provided capital covering 68% of the capital needs of the LCCU which was the maximum amount they could contribute in 2011 without jeopardizing their own existence (see recital (10)). Moreover, given the dividend ban, preferential treatment of the State and the envisaged repayment of the State capital within three years, the Commission finds that any risk of moral hazard can be excluded and that the member credit unions have contributed to the restructuring of the LCCU to the maximum extent.

(54) As regards the own contribution by the beneficiary itself, the Restructuring Communication requires an adequate remuneration being paid for the State intervention in view of its form (point 24 therein).

(55) 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).

(56) The remuneration paid by the LCCU to the State for its intervention envisages significant step-ups after the first three years. Those step-ups will incentivise the LCCU to conduct an early repayment of the State capital. However, the overall remuneration will not reach the level foreseen by the Recapitalisation Communication. In such circumstance, a degree of restructuring that ensures a sufficient burden-sharing through other means than the remuneration and limitation of competition distortions is required. The Recapitalisation Communication also states that the distortion of competition caused by a remuneration of aid below market level may be reduced by a mechanism favouring the early redemption of State aid.[11]

(57) Taking into consideration (a) the limited amount of aid granted and the very limited impact of the State aid on the competition in the market (see recitals **Error! Reference source not found.-Error! Reference source not found.** below); (b) the envisaged repayment of the State capital within three years from the intervention and the step-ups in remuneration incentivising the LCCU to repay it within that period; (c) the maximised contribution to the capital injection by the member credit unions of the LCCU; and (d) the central bank-like functions (limited to granting liquidity and other services to the member credit unions), the Commission finds that the restructuring process is adequate.

(58) Further, the LCCU will observe a dividend ban and will treat the State as a preferential shareholder so as to ensure that the State capital is redeemed as soon as possible and within three years from granting the measure. Also, payment of bonuses from LCCU's profit will be suspended to the LCCU staff, executives and members of the Stabilisation Commission until the State shares are redeemed. That policy will further incentivise the staff of the LCCU to enable repayment of the State capital as soon as possible. On that basis, the Commission finds that the future profitability of the LCCU and any excessive capital will primarily be used to repay the aid as soon as possible.

[11] See points (14) and (34) thereof.

(59) Overall, the Commission considers that the remuneration ensures the maximum possible own contribution to its restructuring costs. In view of the foregoing assessment, the Commission finds that the measures provide for an adequate burden-sharing and own contribution.

Measures limiting distortions of competition

(60) As regards the measures limiting the distortion of competition, the Restructuring Communication stipulates (in point 30) that the Commission has to take into account the amount of aid, the conditions and circumstances under which that aid was granted and the effects of the position the financial institution will have on the market after the restructuring. On the basis of that analysis, the Commission should verify that the potential distortion of competition arising from the aid is not disproportionate.

(61) In this case, the Commission observes that the amount of the aid is solely EUR 1.74 million and that the beneficiary of the aid, the LCCU, is small in both the absolute and relative terms. Its assets of LTL 355 million (EUR 103 million) amounted to less than 0.5 % of the Lithuanian banking sector. Hence, its market presence can be considered very limited. Its operations are limited to the extent that it may provide loan facilities solely to the member credit unions similarly to a central bank. Hence, its market position after the restructuring is not expected to differ significantly.

(62) The Commission also observes that the LCCU facilitates cooperative banking services of its members, and that the total assets of the LCCU member credit unions amounted to 1.77% of the banking sector.

(63) Moreover, the measure is aimed at restoring the capital base of a central credit institution to regulatory levels, and will not allow for any undue expansion of its members.

(64) As a result, the Commission considers that any impact of the aid on competition is likely to be small[12].

(65) In addition, the Restructuring Communication (in point 31) sets out that when assessing the need for measures limiting competition distortions, account should also be taken of the extent of the beneficiary's own contribution and burden-sharing over the restructuring period.

(66) As explained above, the own contribution by the LCCU and its member credit unions in the context of the restructuring is maximized within their own solvency profitability and liquidity limits, consequently mitigating the concerns for distortion of competition at both the levels of the LCCU and of its member credit unions. In

[12] In the past cases regarding resolution of small-sized banks, the Commission found that it is not necessary to impose measures to limit distortions of competition for the State aid granted to the economic activity continued after the resolution. See Commission decisions of 16.05.2012 in case SA.34115 *Resolution of T Bank, not yet published,* at recital 56, of 25.01.2010 in case NN19/2009 *Rescue and restructuring of Dunfermline Building Society*, OJ C 101, 20.04.2010, p. 7, at recitals 128-129, of 25.10.2010 in case N560/2009 *Aid for the liquidation of Fionia Bank*, OJ C 76, 10.03.2011, p. 3, at recital 85, and of 29.06.2010 in case NN61/2009 *Rescue and restructuring of Caja Castilla-La Mancha*, OJ C 289, 26.10.2010, p. 1, at recitals 201-202.

addition, incentives to repay the State within three years, including step-ups in remuneration and a freeze on employee bonuses will stimulate earlier repayment of the State and will further mitigate competition distortions in the market.

(67) In the present case, the level playing field between State-supported and market-based recapitalisation measures will be re-established within a medium period of time (of three years) through repayment of the State capital. It can be considered as a sufficient condition to ensure a level playing field and prevent crowding-out effects of the public recapitalisation measures.

(68) According to points 40 and 44 of the Restructuring Communication, banks which are subject to restructuring should not use State aid for the acquisition of competing businesses and should not invoke State support as a competitive advantage when marketing their services. The commitments provided by the LCCU in that respect (see recitals (25)-(27)) ensure that those conditions are met in the present case.

(69) In the light of foregoing and in accordance with point 32 of the Restructuring Communication, the Commission considers that any competitive impact of the restructuring aid is very limited and does not necessitate additional structural measures to mitigate distortions of competition.

(70) In consequence, the Commission considers that the restructuring of the LCCU as described above sufficiently limits the distortions of competition caused by the aid.

Conclusion

(71) In view of the above, the Commission concludes that the recapitalisation of the LCCU by the State, constitutes State aid that can be considered as compatible with Article 107(3)(b) TFEU, in light of the Restructuring Communication.

5 DECISION

The Commission notes that Lithuania put the aid in question into effect, in breach of Article 108(3) TFEU.

However, on the basis of the foregoing assessment, the aid measure is found compatible with the internal market pursuant to Article 107(3)(b) TFEU. The Commission therefore does not raise any objection against the State aid.

The Commission notes that Lithuania exceptionally accepts that the adoption of the Decision be in the English language.

Lithuania is requested to forward a copy of this letter to the recipient of the aid, the LCCU, immediately.

If this letter contains confidential information which should not be disclosed to third parties, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site: http://ec.europa.eu/competition/elojade/isef/index.cfm

Your request should be sent by registered letter or fax to:

European Commission
Directorate-General for Competition
State Aid Greffe
B-1049 Brussels
Fax No: +32-2-296 12 42

Yours faithfully,

For the Commission

Joaquín ALMUNIA
Vice-President