



EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR COMPETITION

Markets and cases III: Financial services
State aid - Financial Institutions

Brussels, 24 November 2025
COMP.D.3/BS/RFL/MP/LS*
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Cc.:
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Subject: Case SA.117532 (2025/N) – Estonia – Non-aid Loan Guarantee for Enterprises

Dear Madam/Sir,

By letter dated 14 January 2025, your authorities notified to the Commission the above-mentioned measure. The Commission services requested further information on 7 February and on 15 July. Your authorities provided the latest response on 7 November 2025. After reviewing the response, the Commission services have found the notification to be incomplete in that the following information is missing:

- (1) The notification does not foresee an end date to the validity of the proposed methodology. Please confirm that you agree that the approved methodology will be valid for four years from the date of the Commission Decision or the date when the revised version of the Guarantee Notice enters into force, whichever is earlier.
- (2) Please confirm that the methodology will only be applied under the De minimis regulation ⁽¹⁾.
- (3) In your notification, you make reference to an application scope of the methodology for two existing measures: “Loan Guarantees for Small and Midsize Enterprises” and “Loan Guarantees for Large Companies”. Please confirm that this is the case and provide a reference to the legal bases of these schemes.

⁽¹⁾ Commission Regulation (EU) 2023/2831 of 13 December 2023 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid. OJ L, 2023/2831, 15.12.2023.

- (4) Please confirm our understanding that the proposed methodology will only be applicable to cover guarantees on new loans or on newly issued guarantees rather than to existing ones.
- (5) Please confirm that eligible guarantees and counter guarantees will be granted for loans provided by financial intermediaries with a valid banking licence and authorised to grant loans or banking short term guarantees in Estonia. These financial intermediaries must comply with all applicable EU and national legislation on the prevention of money laundering, anti-terrorism, and tax fraud. An entity established in the territory of a state whose jurisdiction does not cooperate with the EU in the application of internationally agreed tax standards will be excluded.
- (6) Methodological Scope:
 - (a) From previous submissions we have understood that the methodology would be limited exclusively to guarantees covering loans of up to EUR 25 million which could be consistent with historical exposures from Enterprise Estonia. In your submission of 7 November in the “additional information” section you highlight that loan guarantee conditions *could change*. A notified methodology, to be approved by the Commission, should be limited to a known scope. In addition, guarantees with loan notional amounts that significantly deviate from historical data are difficult to gauge in our overall assessment of the methodology. We therefore suggest to limit the methodology to guarantees with a fixed maximum amount and to notify those that deviate from these conditions as individual measures, thus leaving them out of scope of the notified methodology.
 - (b) The methodological scope also needs to be supported by historical statistical information. We therefore suggest to limit the maturity of loan guarantees to 10 years and guarantees on bank guarantees to 63 months.

Please confirm that Enterprise Estonia agrees to these limitations to the methodological scope.

- (7) We have a number of remaining concerns regarding the applicability of the methodology to guarantees that do not cover loans.. Point 1.4 of the Guarantee Notice states that where certain forms of guarantees involve a transfer of risk to the guarantor that do not display one or more of the specific features referred to in point 1.3, a case-by-case analysis as to their eligibility for inclusion within the application scope of the methodology will have to be made. Therefore, we need to obtain a clear definition and delineation of the scope for each type of guarantee that does not cover a loan.
 - (a) We need to have a clear and limited scope of the guarantees that could be covered by the methodology. Please confirm whether the guarantees not covering loans to which the methodology will be applicable are exhaustively listed in your submission of 7 November. For the avoidance of doubt, in your answer you mentioned the following: Payment guarantee; Tender guarantee; Advance payment guarantee; Performance guarantee; Warranty guarantee; Rental guarantee.

- (b) Please provide a comprehensive legal definition for each type of such non-loan guarantee.
- (c) Please describe the procedural steps involved in granting a guarantee by Enterprise Estonia and the claims of such guarantee, as well as the enforcement of any legal recourse each of the contracting parties has. Please indicate for each step whether it is optional or a legal obligation. Include information on specific guarantee claim trigger conditions and the steps involved in the enforcement.
- (d) For each type of guarantees not covering a loan that is proposed to be used in the methodology, please explain why the default probability of the firm company would represent a conservative approach with regard to consider into its valuation (it is important that the Commission understand why the Pd in the model which applies to GN on bank loans is sufficiently conservative when applied to each of the banking guarantees, for example a rental guarantee which guarantees payments on a rental contract may show earlier signs of default than that of loan commitments).
- (e) Please confirm for each type of non-loan guarantee that it will have a fixed initial maximum monetary amount and a fixed maximum duration.
- (f) Please confirm that all guarantees not covering loans covered by the methodology will be in the form of counter guarantees to guarantees issued by private financial institutions to a firm and that there will not be any direct guarantees of instruments other than loans.
- (g) Does Enterprise Estonia as counter-guarantor have a direct legal recourse against the primary obligor (i.e. the firm whose obligations are being guaranteed)?
 - If that is the case, are the claims of the private financial guarantor and Enterprise Estonia in pari-passu terms as explained in Guarantee Notice section 3.2(c)?
 - Do these claims (both from Enterprise Estonia and from the private financial guarantor) have the same credit hierarchy ranking or better as senior unsecured credit exposures?
 - Please confirm that the private financial institution benefitting from the counter guarantee will retain at least a 20% of the exposure to the non-loan guarantees at any point in time.
- (8) Please confirm that the methodology will not be applied to guarantees on export credit.
- (9) Please confirm that the administrative costs as proposed cover at least the initial risk assessment as well as risk monitoring and risk management of the methodology.
- (10) From earlier written and oral exchanges we understood that the risk based methodology used a sufficiently conservative approach to calculate the risk costs as expected losses, by taking a fixed Loss Given Default factor of 80%. This

assumption seemed necessary considering the fact that insufficient data on actual losses was available for large undertakings.

In your 7 November submission (under “additional information”), you seem to revert to using the historical data average recovery rate of 42% (resulting in a Loss Given Default factor of 58%).

In addition, we note that the PDs used as inputs for the expected loss categories for each credit quality step are based on the mid-point of applicable PD boundaries plus one basis point. This implies that the expected loss of a number of exposures per credit quality step might be underestimated.

Finally, it is unclear whether PD’s exceeding the ranges used by Enterprise Estonia can still be submitted by banks. In particular, we asked whether exposures with a PD exceeding 8% could still be considered by Enterprise Estonia (as this would fall below credit quality step G).

As a result, the overall risk cost contribution to the risk-based premium appears to be insufficiently conservative.

We propose the following approach to mitigate these concerns:

- a) To ask each bank to submit not only a Rating Category but also an annualized PD for each exposure, and to accept only exposures with an annualized default probability of 8% and lower.
- b) To revert to using an LGD of 80% for all risk categories.
- c) To use the mid-point of each of the PD ranges as input for the risk cost calculation.

This would result in the following table:

	PD	EL	CR	AC	Total Risk Cost
B	0,03%	0,02%	0,42%	0,60%	1,04%
C	0,07%	0,06%	0,42%	0,60%	1,08%
D	0,30%	0,24%	0,63%	0,60%	1,47%
E	1,25%	1,00%	0,63%	0,60%	2,23%
F	3,50%	2,80%	0,84%	0,60%	4,24%
G	6,50%	5,20%	0,84%	0,60%	6,64%

Alternatively, your authorities could provide an in-depth statistical analysis justifying a lower LGD for large undertakings. In particular, the analysis should take into account whether the underlying exposure has a certain level of collateralization. In any event, your authorities should also convincingly argue that the resulting risk cost is sufficiently conservative for all exposures in each credit quality step.

Moreover, your authorities need to confirm that exposures with an annual PD exceeding 8% are not covered by the methodology.

- (11) Please confirm that you commit to revise risk based premium at least on an annual basis and will adjust the parameters in case that they no longer suffice to cover the sum of administrative costs, realized losses and adequate capital remuneration.
- (12) When establishing the CDS benchmark parameters such as the 5Y CDS rate of Estonia or the 5Y Itraxx indices, which fixing method will your authorities implement as a basis for the calculations?

We suggest taking the closing prices of the previous month to be valid for guarantees granted for the entire current month. However, we would be open to other fixing methods, such as the daily average of the respective credit indices over the previous month or a similar methodology. Please confirm which fixing methodology your authorities intend to implement.

- (13) In our Request for information of 15 July we suggested to include additional floors linked to Itraxx and Itraxx Crossover for credit quality steps D, E and F. In your reply, you suggested an additional floor to cover credit quality step G, which we find acceptable. However, in order to accommodate for unusual fluctuations in the credit derivative markets, it would be advisable to also include a floor for the higher credit quality steps B and C. We suggest to use Itraxx – 25 basis point for credit quality step B and Itraxx flat for credit quality step C. Would your authorities agree to include those in the benchmarking table?
- (14) Please confirm that the aid element will be calculated in accordance with points 4.1 and 4.4 of the Guarantee Notice. Thus, the aid element will correspond to the difference between the theoretical annual market premiums for each guarantee and the annual guarantee premiums that are actually paid, discounted to the present values. The resulting yearly cash grant equivalents should thus be discounted to their present value using the appropriate reference rate as described in the Reference Rate Communication, i.e. the base rate plus 100 basis points, then added up to obtain the total grant equivalent.
- (15) Please confirm that, in line with point 6 of the Guarantee Notice, your authorities commit to submitting an annual report to the Commission providing, for each scheme using the methodology, (i) the number and amount of guarantees issued within the reporting period; (ii) the number and amount of guarantees outstanding at the end of the reporting period; (iii) the number and amount of loans that defaulted within the reporting period; (iv) total income within the reporting period, distinguishing between guarantee premiums, recoveries on defaulted loans and other sources; (v) total costs within the reporting period, distinguishing between administrative costs and guarantee indemnifications; (vi) surplus/shortfall position at the end of the reporting period, taking into consideration the required remuneration of capital..

Without this information, the Commission is unable to define its position on the proposed measure. Consequently, the period of two months within which it is required to do so will only start after the additional information is received. This should reach the Commission services within 20 working days from the date of this letter, i.e. no later than 22 December 2025.

Please do let us know if you would like more clarifications or would like to discuss in detail some elements in a call in the upcoming days.

In your reply you are kindly requested to inform the Commission services whether or not any of the information is confidential ⁽²⁾. Otherwise, the Commission services will consider that none of the information provided in your reply contains professional or business secrets.

Yours sincerely,

Electronically signed

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⁽²⁾ Commission communication on Professional secrecy 4582 of 1 December 2003 – Official Journal C 297, 9 December 2003 p. 6-9