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EBRD may invest in Latvia's Parex Banka

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The European Bank for Reconstruction and Development will consider investing into Parex Banka, the second largest Latvian bank, whose liquidity crisis forced the government to seek IMF assistance in November.

"We have decided to consider the possibility of an investment," said Axel Reiserer, a spokesman, on Friday. "We will start due diligence in early January."

The EBRD, part of whose mandate is to support the financial sector in eastern Europe, could take up to a 25 per cent stake in Parex. The bank, which had assets of 3.1bn lats (€4.5bn) at the end of the third quarter, was being offered for sale last year for almost €1bn but its value would be much less now.

The Latvian government and Parex's new state-appointed managers have been keen to secure the financial support and technical help from the EBRD to strengthen the bank and prepare for a sales process next year.

Depositors lost confidence in Parex last month because it lacked a strong foreign parent, unlike many of its rivals which are Swedish-owned. Servicing a flight of capital from Russia proved a fatal weakness when non-resident clients - who represent half of its deposits - withdrew funds to alleviate their own liquidity problems once the global credit crisis worsened.

The Latvian government has lent the bank 200m lats and put 154m lats on deposit to keep it afloat. This week, the Latvian central bank also agreed a €500m swap facility with its Swedish and Danish counterparts that will be used to supply the bank's foreign exchange needs.

Nils Melngailis, Parex's new chief executive, has also begun formal talks with a committee of banking syndicates to try to persuade them to roll over €775m of debt due next year.

The government has started to look for an auditor and an investment bank to advise them on selling Parex but it first wants to consolidate the ownership, as well as stabilise the bank's business.

The government has taken over an 85 per cent shareholding from the bank's two founders - Valery Kargin and Viktor Krasovitsky, once Latvia's richest men - for a nominal sum.

It is now trying to ease out the remaining minority shareholders before raising the bank's equity with the IMF loan, possibly in conjunction with the entry of the EBRD. "To reassure the market and get our credit ratings back up, a recapitalisation is needed," said Mr Melngailis.

An EBRD management committee gave the green light to conducting due diligence late on Thursday. Once that is completed, the board of directors will meet - probably in February - to approve any investment.

Comments by government officials over the possibility of forcibly nationalising Parex have worried minority shareholders. On Thursday, two of the largest shareholders complained that they were being treated unfairly and said they would seek a supervisory board seat at Friday's shareholders' general meeting.

East Capital, the Swedish fund manager, and Amber Trust - a vehicle owned by Danske Capital Funds and US Firebird Funds - said they felt they had been given an ultimatum to sell their shares. East Capital has 4.2 per cent and Amber Trust 4.6 per cent.

"We definitely think that **Parex** Banka is worth something," said Aivaras Ambromavicius, a partner at East Capital. "If there were a rights issue we are prepared to consider investing more money."

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