

**UPDATE 2-Belgium, Luxembourg to help Iceland's Kaupthing**

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LUXEMBOURG/BRUSSELS, Oct 17 (Reuters) - The Luxembourg and Belgian governments said on Friday they would help keep Icelandic bank Kaupthing in business to guarantee the deposits of Belgian savers and preserve trust in Luxembourg's financial centre. "Together with the Belgian and Icelandic governments, we are looking into to what extent the activity of Kaupthing Bank Luxembourg and its Belgian branch can be put in a situation where a taker could be found," Luxembourg Budget Minister Luc Frieden told reporters. A spokesman for Belgian Prime Minister Yves Leterme also said the Belgian government had agreed in principle to help Iceland's biggest lender. "All scenarios are open ... the government has agreed to ensure continuity in the bank and is interested in becoming engaged," the spokesman said. Possible scenarios include taking a stake in Kaupthing or its Luxembourg subsidiary, as well as providing state guarantees.

Frieden said, however, it was "not the Luxembourg government's intention" to nationalise Kaupthing Bank Luxembourg. Kaupthing was taken over last week by the government of Iceland, where in recent years the main lenders took on huge debts which, amid a global financial crisis, brought down the banking system and made the local currency virtually untradeable. Thousands of account holders have been unable to withdraw their money. In Belgium, thousands of customers of Kaupthing's local branches fear for their savings, but the Belgian government has said it will ensure depositors get their money back. But if a solution is not found, the Luxembourg and Belgian governments will look for ways to ensure that Kaupthing's customers receive more than 20,000 euros, the current level of guaranteed bank deposits, the Luxembourg government said in a statement on Friday. Leterme is currently in Iceland to meet his Icelandic counterpart Geir Haarde to discuss possible solutions for Kaupthing. He is seeking more information on what the Luxembourg and Iceland governments plan to do and look into how the Belgian government could help through an intervention by the International Monetary Fund. In an interview with the Luxembourgish newspaper published on Friday, Luxembourg Prime Minister Jean-Claude Juncker said: "If people in Belgium got the impression that the Luxembourg government only supports banks that manage the savings of Luxembourgers, that would be a death blow to Luxembourg as a financial centre." The Luxembourg branch of Kaupthing was the parent company of its Belgian subsidiaries, and Luxembourg had a duty to help protect Belgian savers, Juncker said. (Reporting by Paul Taylor, Antonia van de Velde, Michele Sinner and Philip Blenkinsop; Editing by Dale Hudson and Jon Loades-Carter) Keywords: FINANCIAL/ICELAND JUNCKER tf.TFN-Europe_newsdesk@thomsonreuters.com ms1

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