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OCTOBER 17, 2008 / 2:21 AM / UPDATED 13 YEARS AGO

UPDATE 2-Austrian banks, c.bank bail out troubled Constantia

By Eva Komarek, Boris Groendahl



(Adds central bank governor comment, detail throughout)

VIENNA, Oct 17 (Reuters) - Five Austrian banks have taken over Constantia Privatbank after a liquidity squeeze at the closely held bank in Austria's first such bailout for two years, financial authorities said on Friday.

Central bank governor Ewald Nowotny told Reuters the bank was relevant to Austria's financial health because it had a fund business managing 10 billion euros (\$13.5 billion) in client assets.

"Constantia is managing 300 funds and is from this aspect relevant for the stability of Austria's financial system," Nowotny said in a telephone interview. The bank itself has a balance sheet total of only 1.2 billion euros.

The bank had suffered deposit withdrawals recently which brought it into a liquidity squeeze despite a sound capital basis, he said.

Nowotny said Constantia's problems were not directly caused by the financial market turmoil, but by internal issues involving the bank's management that also made the ownership change necessary. He declined to elaborate.

"The problems were linked to the specific situation of this bank, and an ownership change was the only way to restore trust in a sustainable manner," he said.

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Sources familiar with the situation said that Bank Austria, Erste and RZB were injecting 100 million euros each, with Volksbanken and BAWAG sharing the remaining 100 million euros. The liquidity is backed by a government guarantee.

The central bank is topping up the amount with another 50 million euros.

The five banks are also taking over ownership of Constantia via a special purpose vehicle, according to a statement by the central bank and watchdog FMA.

PROSECUTOR PROBE

Austrian prosecutors said earlier this week they were investigating a report by financial watchdog FMA which could lead to charges of false accounting against Constantia.

The allegations are linked to two property firms, Immofinanz [IMFI.VI](#) and Immoeast [IMEA.VI](#), which were started by Constantia in the 1990s and were both managed by Karl Petrikovics, a manager who was also on Constantia's board.

Petrikovics stepped down last week and the property firms subsequently disclosed investments with off-balance sheet vehicles in Liechtenstein. Austrian media also reported Constantia had owned a stake in Immofinanz it had not reported.

Two sources familiar with the situation said media reports about the investigations had caused deposit withdrawals at Constantia which then led to a short-term liquidity shortfall of 100 million euros, triggering the intervention.

"This shortfall emerged because of media reports regarding the bank's trouble relating to Immofinanz," one of the sources said. "This made it difficult to get fresh liquidity."

Nowotny confirmed there had been withdrawals but declined to go into details.

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