

BBC MONITORING**New president of bailed out Latvian bank discusses situation, future**

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Text of report by Latvian newspaper Dienas Bizness on 13 November

[Interview with Inesis Feiferis, the new president of the government-rescued **Parex Bank**, by Andrejs Vaivars: "Feiferis: At Least Another 200 Million Will Be Needed"]

In addition to the 200 million lats which have been pumped into the **Parex Bank** by the National Treasury so far, at least the same sum will be needed to endure the bank's operations, Dienas Bizness was told in an interview by the board chairman of the Latvian Mortgage and Land Bank, Inesis Feiferis. He is also the most realistic candidate to become president of the **Parex Bank**.

[Vaivars] What would you say is your primary task in becoming the president of this bank?

[Feiferis] First of all, there is work with clients. We have to calm them down somehow. No one is preparing a revolution, we will continue to work and ensure the necessary operations. Of course, everything will be done in the context of the law, we will not do anything unlawful. Second, it is clear that **Parex Bank** employees are nervous and upset. We must calm them down, we must ensure their consolidated work. There will be no revolution in this area, either, but logically this will all depend on the extent to which each of them is prepared to work on ensuring that the system in the bank is in good shape. Third, we must deal with financial issues related to the support from the government, and we must make sure that internal resources are used effectively. This is an issue which we are handling together with the Finance Ministry, the central bank, the National Treasury and the FKTK [Finance and Capital Markets Commission]. The prime minister is also involved.

[Vaivars] In taking over 51 per cent of shares in the **Parex Bank**, you have also taken control over a series of the bank's subsidiaries. What will you do with them?

[Feiferis] We will take a look at those companies, decide on whether we need them, consider how effective they are, and then decide on what to do.

[Vaivars] IF we take a look at the officials at those companies, we see that some of them are former politicians, government officials, or children of the bank's previous owners. Are there plans for changes in this area?

[Feiferis] If those officials are there just because they have a good surname or a relationship with someone, but do not have the necessary professional level, then they will certainly be replaced.

State Aid for Bank

[Vaivars] The National Treasury has already transferred 200 million lats to the **Parex Bank**. Do you think that this sum will be enough to ensure the bank's operations from here on in?

[Feiferis] That is just the first phase, the first step.

[Vaivars] What will be the next step?

[Feiferis] We are discussing them at this time. I cannot tell you about specific financial numbers. We are now discussing these with the government, the central bank and the National Treasury. We are preparing more specific calculations at this time, and I do not want to speak to any number that has not been finalized.

[Vaivars] And yet, could you perhaps at least say approximately how much money is being discussed?

[Feiferis] No less than the previous sum.

[Vaivars] In other words, at least another 200 million lats.

[Feiferis] Yes. We are working on that right now. The government will ensure this together with other institutions that are involved.

History of Problem

[Vaivars] Why do you think the situation emerged in which the state basically had to take control over the **Parex Bank**?

[Feiferis] A few months ago, the Latvian Association of Commercial Banks (LKA) wrote to the central bank and the FKTK to ask that the issue be reviewed far more swiftly and radically, creating a plan for creating a certain stabilization fund for the financial sector. Both Valerijs Kargins [one of the former owners of the **Parex Bank**] and I called for special meetings at the prime minister's office, although we ourselves did not take part in those, where the issue could be discussed. There have been other sufficiently high-level discussions about the matter, too. All of that was done because we understood the situation, not because Kargins stole something or that we were all trying to do something bad. We certainly are not waiving the responsibility which managers of financial institutions have for what has happened. But the situation that emerged with the **Parex Bank** would not have occurred if there were not the global crisis. Management at the **Parex Bank** did what they could to deal with the issue in a timely way.

[Vaivars] Does that suggest that there were already concerns about the future of the **Parex Bank** several months ago?

[Feiferis] We as bankers, as members of the LKA, talked about whether the financial crisis might affect us. Lots of people told us that we were an oasis of calm, everything was fine, we could sleep at night. We knew that we would not escape the range of problems altogether, and that is why we called for the stabilization plan. Despite the fact that the government has taken certain decisions, there is still a certain amount of effort needed to bring together all of the involved parties and to take a unified decision.

Why Parex?

[Vaivars] Why do you think the situation hit this bank, not, for instance, Swedbank, about which there were more extensive negative rumours?

[Feiferis] Rumours travel. I cannot say that anyone spread them purposefully, but there were rumours. Someone released a little rumour, and the snowball effect then started.

It is also true that the Swedish government a while back announced support for its banks, and that was exactly the moment when the **Parex Bank** started to face problems. Everyone understood that no aid was being given here, and it was unknown whether there would be aid. Even more, if there was going to be aid, was it going to be moral or material aid? If there had been an immediate reaction on the part of government institutions, I do not think that the **Parex Bank** would have found itself in such a difficult situation, the same amount of money would not have flowed out of it. Instead, the situation was one ... well, just imagine what you would do if you had money in the **Parex Bank**, but right next door is Swedbank or SEB, both of which have support from the Swedish government. It is clear that in such a situation people are happier to withdraw their money from the **Parex Bank** and take it elsewhere.

[Vaivars] Do you think that the situation of the **Parex Bank** might be visited upon any other bank in Latvia?

[Feiferis] I have no information to that effect, no.

Status of Former Owners

[Vaivars] It has often been said that the properties of the two major owners of the bank, Valerijs Kargins and Viktors Krasovickis, have been mortgaged, but we are not told what kinds of properties they are.

[Feiferis] That is a confidential procedure, and I do not have the right to tell you anything. I can only tell you that we mortgaged everything that could be mortgaged to satisfy the requirements, and they themselves agreed to that.

[Vaivars] How much had to be mortgaged?

[Feiferis] I cannot tell you the terms of the agreement. I don't want to tell you about something and then find that the Security Police or SAB [Bureau to Protect the Constitution] start asking me questions about that. Sorry, but that is the truth. Please remember one thing, however. There are sums that are listed in the contracts, but there is also national law which states what happens when bad things occur - nothing will rescue these people from their responsibilities.

[Vaivars] What do you mean by "bad things"?

[Feiferis] If it turns out that anything has been hidden, then we will not have the true picture, and it will not matter whether it will be purposefully hidden or accidentally hidden. Under criminal law, bank managers are responsible for what happens at their bank. Even if they have not hidden any data, they will be fully responsible if they have not ensured qualified preparation and presentation of the relevant information. That will be true independently of when that happened. Of course, there is also another norm in evaluating the activities of a bank - board members can be exempted from responsibility for the results of work in previous years. That norm does not mean, however, that there is no liability for anyone in relation to anything. If we find something even years from now, the issue will nevertheless be addressed.

I can be fairly certain, however, that the information that has been given to us and that is reflected in documents is correct. I have known Kargins and Krasovickis for a long time, no matter what people say about them, no matter how much they are denounced. I know that they are sufficiently professional people. Yes, every person has problems from time to time, but I see no reason for big doubts as to what they have done. Otherwise I would not have become involved in this process.

Feiferis' Status

[Vaivars] Your involvement is on the basis of a government decision.

[Feiferis] I had a choice. I could have resigned. I am strong and old enough to take such a decision. I sought consultations on the matter in a timely way to know how to handle this whole procedure.

[Vaivars] In other words, you were expecting the government decision?

[Feiferis] To be sure. I have been working on this issue for quite some time. It is clear that I was expecting it.

[Vaivars] Could this be a case in which Kargins and Krasovickis are granted a waiver of their liability, as you mentioned?

[Feiferis] The agreement says that they will remain liable until the expiration of the term of the agreement. If a strategic investor is found in the next 12 months, the bank will be sold. If it all takes longer than 12 months, and we do not manage to find an investor, then certainly the right of first purchase of Kargins and Krasovickis will take effect, provided that they compensate the state for all of the investments that were made in the bank's stabilization.

[Vaivars] Is there concern that they might have tried to withdraw some of the bank's equity resources?

[Feiferis] No, I have no such concerns, not at this time. We have agreed that an auditing company will come to work for us in the near future to help us to come to certain conclusions about what the status quo is, what the situation is.

Future of the Bank

[Vaivars] Is their right of first purchase to the 51 per cent of shares still in place if an interested and solvent investor is found before the 12 months are up?

[Feiferis] They have no right to first purchase until the expiration of that term. It will take effect only 12 months from now.

[Vaivars] So if an investor shows up tomorrow, then there is nothing to block the sale of these shares?

[Feiferis] That is right. In that case, an agreement will be concluded, and the bank will be sold.

[Vaivars] For what price?

[Feiferis] For the market price. That will be defined by two of the four largest auditing companies which operate in Latvia at this time - two will be selected.

[Vaivars] The European Commission had certain objections about the terms under which the **Parex Bank** was taken over.

[Feiferis] The issue had to do with how the market price would be determined when selling the bank. The government said that the **Parex Bank** could be sold for any price, even one that is below the market price. The European Commission objected and insisted that the bank must be sold for the market price.

[Vaivars] About the **Parex Bank**'s syndicated loans - are you going to try to refinance them, or will you repay them?

[Feiferis] First we will try to refinance them, that is more advantageous, but if the providers of the loan do not agree, then we will have no choice but to repay the money when it comes due.

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