

## Parex banka takeover agreement signed



Alla Petrova, BC, Riga, 11.11.2008.

**Finance Minister Atis Slakteris (People's Party), Latvian Mortgage and Land Bank (Latvijas Hipoteku un zemes banka, Mortgage Bank) President Inesis Feiferis and Parex banka co-owners Valerijs Kargins and Viktors Krasovickis yesterday evening signed an agreement on the acquisition of a 51% interest in Parex banka by the Mortgage Bank.**



Kargins and Krasovickis will be each paid LVL 1 for the 51% of *Parex banka* shares, informs *LETA*.

The takeover agreement is 77 pages in length. The Finance Ministry vows to publish part of the agreement that contains no classified information. The entire agreement cannot be made public under the European Union rules.

After the agreement was signed, Kargins and Krasovickis refused to comment, they left the press briefing room leaving Slakteris to answer reporters' questions.

Slakteris also did not have much time, and he did not comment the agreement in detail.

Slakteris said that one of the most important conditions of the agreement is that Krasovickis and Kargins are personally responsible for each figure included in *Parex banka* reports.

As the Finance Ministry informed *LETA*, under the agreement, *Parex banka* shareholders will have to compensate the state all losses of the bank that were not duly included in the bank's reports, if such losses are ascertained by the execution of the deal.

As a guarantee, the shareholders will put up their *Parex banka* shares and properties as collateral, and each will have to hold at least LVL 14 million in savings at *Parex banka*, the ministry said.

The Finance Ministry emphasizes that, in exchange for the *Parex banka* shares, the government will provide support for the bank, not the shareholders. First of all, the government will underwrite the refinancing of *Parex banka* syndicated loans.

Second, the bank will be able to borrow up to LVL 200 million, which it will be able to use for creating subordinated capital.

Slakteris said that the Financial and Capital Market Commission and the Bank of Latvia will carry out a thorough audit at *Parex banka*.

Asked whether Kargins and Krasovickis would have the right to buy the bank out, the minister said that they would have no say on the decisions made by the bank as long as the state remains the

owner of the bank. If the state is unable to find a strategic investor for *Parex banka* in one year, Kargins and Krasovickis will be able to bid for the *Parex banka* shares, paying the same price they were paid by the state for the shares: LVL 1 each, but they will also have to compensate the state all the losses that the state will have sustained as a result of taking *Parex banka* over.

According to the Finance Ministry, Kargins, the previous *Parex banka* board chairman, will be succeeded by a person nominated by the government and appointed by the Financial and Capital Market Commission. Slakteris said that Feiferis is a likely candidate. The Finance Ministry's State Secretary **Martins Bicevskis** will be nominated as chairman of the *Parex banka* council.

Both Kargins and Krasovickis will continue as *Parex banka* board members.

The Finance Ministry emphasizes that Kargins and Krasovickis, as *Parex banka* board members, will have to observe and carry out all the decisions of *Parex banka* shareholders and council. The *Mortgage Bank* may demand, at any time, that Kargins and Krasovickis step down from the *Parex banka* board.

Slakteris said that the European Commission will most likely be informed about the takeover deal on Tuesday already. The Commission will give an official reply in one-two days, after which *Parex banka* shareholders structure will be changed accordingly.

Slakteris stressed that the takeover of *Parex banka* is hoped to strengthen residents' trust in the bank, and it proves that the government is able to make hard decisions when it has to.

Slakteris also stressed on several occasions that no parallels can be drawn between *Parex banka* and the infamous *Banka Baltija* bankruptcy.

*Parex banka* will be twice as safe after the state acquires controlling interest in the bank, Slakteris emphasized.

Feiferis gave no comment after the agreement signing ceremony. However, before the agreement was signed, Feiferis said in a telephone interview to the Latvian State Television that the situation at *Parex banka* is stable. It is apparent that the bank's customers are not in a panic and they trust the government.

Feiferis said that Kargins and Krasovickis will remain part of *Parex banka* management and use their knowledge and connections to help improve the situation at the bank, so eventually the bank could either be sold to a strategic investor or bought out by Kargins and Krasovickis, albeit at a market price already.

Feiferis said that if he is appointed to run the bank, there will be certain changes in the bank's staffing policy. However, bank workers will not be simply made redundant – individual talks will be held with bank employees, Feiferis said.

As for *Parex bank* sponsorship programs, they will continue for some time but eventually they will be cut drastically, Feiferis said.

As reported, the government on November 8 decided to take over 51% controlling interest in *Parex banka*.

As a result, *Parex banka* will become a subsidiary of the state-owned *Mortgage Bank* and the 51% of shares will now be under the latter's ownership. Another 34% of *Parex banka* shares with voting rights will be put up as collateral with the *Mortgage Bank*. 15% of *Parex banka* shares will be left to the bank's minority shareholders.

The agreement signed yesterday will come into force after permission is received from the European Commission as well the Competition Council and the Finance and Capital Market Commission.

Up until yesterday, Kargins and Krasovickis were the largest *Parex banka* shareholders with 42.42% interest each.

Foreign institutional shareholders of *Parex banka* are *East Capital Funds* with 4.17% stake, *Danske Capital Funds* with 2.74%, *Julius Baer International Equity Fund* – 2.19%, *Firebird Funds* – 1.82%, *Svenska Handelsbanken AB* – 0.31%. Other institutional shareholders hold a total of 1.30% of *Parex banka* shares, and other private shareholders – 2.64%.

The European Commission has agreed in principle to the takeover of 51% of *Parex Banka* shares by the Latvian government.

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