



UPDATE 2-Latvia reassures on bank amid fear of new crisis

By Patrick Lannin

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(Adds quotes, background, comments from Lithuania, Estonia)

RIGA, Nov 9 (Reuters) - Latvia is to give second-largest bank Parex a \$361 million injection of funds after the state took it over at the weekend, making it the first victim of the global financial crisis in the Baltic state, officials said on Sunday.

Officials reassured depositors that Parex would continue working and that a key goal was to refinance syndicated credits due next year of 775 million euros (\$991.6 million).

But some feared a repeat of past banking crises in the ex-Soviet state, a European Union and NATO member since 2004.

One bank went bust in 1995 in the early days of post-Soviet capitalism, and one fell in 1998 due to the Russian crisis. However, there were few visible signs of people withdrawing cash or queues at the one or two Parex offices open on a Sunday.

The bank woes further clouded the economic prospects of Latvia, which like its Baltic neighbours Lithuania and Estonia, has entered a sharp economic slowdown after years of double-digit growth, fuelled by cheap credit.

"In this initial period we have agreed on 200 million (lats) (\$361.2 million) to Parex," said Mortgage and Land Bank Chairman Inesis Feiferis, whose state-owned bank is taking 51 percent of Parex. The funds would boost Parex's liquidity and come from the central bank and state treasury and be lent against securities.

Further funding would depend on liquidity needs and depended on whether depositors withdrew large amounts.

The government has said it sees no need to support other banks apart from Parex, which had assets of 3 billion lats.

Latvia announced its sudden decision to take over Parex late on Saturday, saying the bank faced a liquidity crunch during the global financial crisis and could not refinance itself.

Janis Brazovskis, an official at the Financial and Capital Market Commission, told Latvian radio that depositors had withdrawn 60 million lats from Parex over a few days last week.

The government said its moves were similar to the aid given by other countries to banks during the financial crisis.

MEMORIES OF CRISIS

The state is to buy out Parex's two main shareholders, Valery Kargin and Viktor Krasovitsky, for one lat each (\$1.81). They are two of Latvia's top businessmen of Russian origin in a nation where a third of people are native Russian-speakers.

Another 34 percent of the bank would be given over to Mortgage and Land Bank as collateral. Another 15 percent of the shares would remain with minority shareholders.

A search will take place for a strategic investor for **Parex** once the liquidity crisis is over. Kargin and Krasovitsky are not excluded from buying the shares, officials said.

Latvia's second-largest in assets and the leader in deposits, **Parex** is the largest bank owned locally. Swedbank of Sweden is largest in assets, followed by **Parex**, then SEB, also Swedish. Nordic bank Nordea and DNR Nord, half-owned by Norway's DNB NOR, are also present in the market.

Finance Ministry State Secretary Martins Bicevskis told the news conference that **Latvia** hoped to get European Commission approval for its actions on Monday and that the whole agreement for Mortgage and Land Bank would be finalised in two weeks.

Some in **Latvia** remained sceptical.

"Of course it is worrying, we all remember Banka Baltija when money was lost somehow," said Viktorija Kuzina, 60, taking money out of a **Parex** cash machine. She was referring to the bankruptcy of one of the leading banks in **Latvia** in 1995.

"I had relatives and friends who lost money," she said. (Reporting by Patrick Lannin; Editing by Jon Loades-Carter)

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