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EBRD Board approves finance package for Parex Bank

European Bank for Reconstruction and Development (EBRD)

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The EBRD Board of Directors has approved a financial package for Parex Bank, the second largest bank in Latvia, which has been severely affected by the economic downturn and is currently almost 85 percent state-owned.

Subject to the conclusion of legal documentation, the EBRD package would include the acquisition of 25 percent plus 1 of ordinary shares of Parex Bank for LVL 59.5 million (€84.2 million) and a subordinated loan of €22 million qualifying as Tier 2 capital. Following its capital injection the EBRD will be represented at Parex Bank's supervisory board with a nominee director.

The Bank's investment would be an opportunity for the EBRD to contribute to the restructuring of Parex Bank and through this support the real economy in Latvia.

The EBRD supports the future return of Parex bank to the private sector as a sound and strong financial institution.

After years of rapid expansion during which Parex Bank became the largest Latvian bank without a strong foreign parent and the second largest bank in the country, the outbreak of the financial and economic crisis resulted in a serious loss of depositors' confidence. This forced the bank to seek the help of the Latvian government, which today holds just under 85 percent of Parex Bank. A new, experienced management has been appointed which enjoys the confidence of the market.

Because of its size and systemic importance, the Government of Latvia, the IMF and the EU all regard the recovery of Parex Bank as crucial for Latvia's economy. The EBRD shares this view and has therefore decided to become a shareholder of the bank. The investment comes under the crisis response package

which the EBRD has drawn up to support the banking sectors in its countries of operations to ensure that financing flows continue, in particular to small and medium sized enterprises.

EBRD First Vice President Varel Freeman said: “The EBRD intends to make this investment which would see Parex Bank through the most difficult time in its history. Our involvement would contribute to a return in confidence in the bank and in Latvia’s financial sector generally. As a shareholder the EBRD would be able to participate in the development and implementation of a strategic plan for the restructuring and refocusing of Parex’ business activities.”