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## **REUTERS: INTERNATIONAL BONDHOLDERS WARN BULGARIA OVER COST OF CORPBANK FAILURE**

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Source: Reuters

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In a letter to the government seen by Reuters, a group of Corpbank's bondholders urged authorities to reconsider a rescue offer put forward by a consortium last week that was rejected by parliament and criticised by the central bank.

The letter also accuses the central bank, which took control of Corpbank and shut down its operations after a bank run in June, of actions that were either "negligent or wilfully deceptive" about the extent of Corpbank's problems.

Corpbank's closure sparked the eastern European state's worst financial crisis since the 1990s and, more than four months after its doors closed, the fate of Bulgaria's fourth-largest lender, known locally as "KTB", is still in limbo.

Corpbank's main owner has been charged with embezzlement, furious depositors have not been able to access their accounts and an international audit into the lender pointed to major failings in how Corpbank was run.

Tuesday's letter underscored the potentially messy fallout if the central bank, also known as the Bulgarian National Bank (BNB), decides to strip Corpbank of its licence. The BNB is expected to announce a decision within days.

"Simply put, the cost of bankrupting KTB will far outstrip even the highest assumptions as to the

amount of state assistance required to rescue the bank and its depositors," the letter said.

The letter also argued stripping Corpbank of its licence would force hundreds of businesses to close, result in thousands of job losses and tip the country into recession. "This decision will haunt the Republic of Bulgaria for years to come," it said.

## BLIND EYE

Reuters reported in July that a group of bondholders, including U.S. and European hedge funds and financial institutions, had formed a creditors' committee and hired legal representation in Bulgaria in the event authorities tip Corpbank into insolvency. Corpbank failed to make the final payment on a dollar-denominated bond that matured in August, whose original issue was \$150 million.

A key complaint from the bondholders is the central bank's "contradictory" statements about Corpbank's health. The audit commissioned by the central bank into Corpbank's books reported in October the bank would have to write off nearly two thirds of its assets, and that only 13 percent of its loans were properly backed by collateral.

Such statements, the bondholders say, contradict the central bank's earlier assurances both to the public and to investors.

"The purported problems at KTB did not occur overnight and would have taken several years to materialize," said the letter, which was shown to Reuters with the names of the individual bondholders blacked out.

"One might easily conclude that the BNB intentionally turned a blind eye and wilfully neglected its duties," it said, adding that "the BNB has failed spectacularly in discharging its core function: to provide for the stability and safety of the Bulgarian banking system."

"These, and other claims, will form the basis of lawsuits by depositors and creditors for years to come."

Central bank Governor Ivan Iskrov said last week he would step down as soon as a solution to Corpbank was found. Iskrov had offered to resign in July, saying he would not let the central bank be used as a political "toy." While defending his decisions as governor, he said his resignation

would restore trust in the institution.

Political squabbles had derailed earlier efforts to find a solution for Corpbank. Bulgaria is still without a permanent government nearly a month after an Oct 5 general election, but the man tipped to become the next prime minister said last week Corpbank could not be saved.

A consortium of investors submitted a letter to Bulgarian authorities, proposing a vehicle jointly held with the state to acquire Corpbank and seeking 2.3 billion leva (\$1.5 billion) in capital support from the government.

The consortium includes Vienna-based consultancy EPIC, an Omani sovereign wealth fund which owns a 30 percent stake in Corpbank and London-based emerging market fund Gemcorp.

Source: Reuters / Копирано от standartnews.com

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