

## **Arthur Juksh: Interest in Our Loans is Very High**

*Head of the Lending Department of Rietumu Bank Arthur Juksh talks about significant changes on the financial market of the Baltic countries.*

***- During the year, the credit portfolio of Latvian banks has decreased by more than half a billion euros. Still, at the beginning of this year, the growth of issued loans resumed. What is happening in this regard at Rietumu Bank?***

- Speaking briefly, we aim to increase the share and volume of lending businesses in Latvia, as well as in Lithuania and Estonia. For example, a couple of years ago the Baltic region covered about 30% of our credit portfolio, whereas by the end of this year, we plan to increase this figure to no less than 50%.

Following the well-known events that took place on the Latvian financial market at the start of last year, the bank took a decision to focus on the Baltic countries. Firstly, the political risks related to Russia have increased to unacceptable levels. Secondly, new and interesting customers have appeared for us in Latvia, Lithuania and Estonia.

As a result, we are not starting new projects in the eastern direction while simultaneously expanding in the Baltic countries, as well as continuing our activities in the rest of Europe, for example, in Great Britain and Ireland.

***- Tell us where new credit customers appear from on the strictly determined and structured market of Latvia?***

- As we are a private independent bank and our credit resources a priori cannot be as cheap as those of big western and Nordic banks, during previous years we mostly provided lending for niche segments in Latvia.

Let us remind you that just a year ago the local market of corporate lending was still quite tight and we did not find it expedient to struggle to establish a foothold there at any cost.

However, the situation has changed drastically and continues to change. Today there is a demand for our lending. It comprises hundreds of millions of euros.

It is no longer a secret that the current policies of a number of big banks have ousted a part of their business customers, who have been receiving loans successfully before, some of them for years. As your colleagues wrote repeatedly, it primarily involves companies with foreign capital shares, i.e. those, where some of the shareholders are citizens of other countries, including, by the way, citizens of EU member states - any, except Latvia.

As a result of these reassessments and transformations, big business customers with a good credit history, an acceptable risk level and clear development prospects come to us.

***- Why then are such remarkable customers rejected by the Nordic banks? Perhaps they see risks in such cooperation. Does Rietumu turn a blind eye to such risks?***

- Definitely not. We have been on the Latvian lending market for almost three decades and certainly we see and are aware of everything. The refusal of some banks to work with a part of their customers

is often not related to credit risks at all and can be dictated by their general policy, which is shaped far away, beyond Latvia.

Abrupt changes took place in the operation of Latvian branches of international western banks. Actually, during the last year, shareholders of some of such banks have lost billions of euros of their capitalisation due to the downfall of the value of their stocks on the world markets. This was partially related to the events in the Baltic countries. Consequently, the head offices sent instructions to the countries that had largely been the source of their problems regarding tougher monitoring over the customers. Businesses in Latvia are now looked at using two colours - black and white. When they spot at least light shades of grey, relations with such businesses are terminated immediately.

The position is simple - it is better to lose a part of the good customers than to lose billions of euros of capitalisation. The goal is to regain one's positions on the global market. At the same time, as they say – you can't make an omelette without breaking eggs.

Generally speaking, there is logic in this that proceeds from the model of building business by such banks, and it is absolutely clear. Our business model is neither worse nor better, it is just different. Firstly, we are a local bank and we have an excellent sense of direction on the local market; secondly, we are independent in our decisions and actions; and thirdly, we have always analysed every lending project individually. Therefore, formal criteria are not a priority for us; it is important what actually stands behind them.

**- *What is the potential volume of the new lending market, which has formed in the current situation?***

- I think, the demand for financing in our region is currently estimated at hundreds of millions of euros.

In this respect, by the way, another significant advantage of Rietumu Bank is displayed. When excluding the western banks that step away from local businesses, we turn out to be practically the sole bank in Latvia, which, with account of the capital requirements, is capable of issuing a loan in the amount of 10+ million euros.

Simply put, we are the only big private bank in the country. As a number of serious businesses face difficulties in attracting loans, interest in our financing is high.

**- *Do you have industry priorities? What areas do you prefer to finance?***

- We finance housing, offices, hotels. Both ready objects and development. We see that, in spite of talks about a mass exodus, new modern square metres are very much in demand today.

Firstly, it concerns deferred demand, which collapsed during the last economic crisis of 2008-2010. Construction practically stopped until 2014. Real estate owners gradually sold their 'reserves' and there is again a deficit of residential and commercial areas.

Secondly, many of our emigrants - fellow countrymen, do not wish to cut ties with Latvia completely. Having earned funds abroad, they buy houses and apartments in their motherland either for themselves, in order to meet and spend their older age with dignity here, or for their families, for example, parents.

However, there are some subtle aspects here. We see two contrary tendencies - the growth of new residential construction and a certain decrease in the number of purchase transactions. The construction volumes in Latvia during the last three years were the fastest in the Baltics (by 33%), and the housing prices for the same period increased by 10% on average. Whereas the number of

purchase transactions in Riga started decreasing in 2018. During the year, there was a 3% downfall, and 10% in the new housing segment.

Apartments having a value of up to EUR 100-120 thousand enjoy the current demand. The market is oversaturated with exclusive housing. I think that not all new projects having a value of EUR 2000-2500 per metre and spacious quarters will find buyers here among the locals – they are too expensive. And foreigners do not express a big interest in apartments in new residential districts of Riga. Therefore, each project has to be thoroughly and separately evaluated in this respect.

The same refers to the hotel business that we have close cooperation with. In recent years, a lot of new hotels have appeared in Riga and there will be more shortly. On the one hand, prospects in this business are obvious and generally positive. On the other hand, it is not the case for all. One has to look at competitive advantages, experience of the developers, professionalism and motivation of the hotel operator, location and other things.

We are also lending for the construction of shopping centres. But not standard ones - there is a sufficient number of them in Riga already. We look for projects with new concepts and we have such projects in progress.

***- What can one receive a loan for, apart from real estate?***

- Production. Here, in our opinion, the programme of the state crediting financial institution Altum, which undertakes a part of the loan guarantees for Latvian companies, is operating efficiently.

Projects in woodworking and the production of building materials are interesting and prospective, as well as up-to-date sectors such as the production of biofuel and some others.

There are projects in the field of transit, including the transshipment of bulk, liquid bulk and break-bulk cargo. This is, by the way, the industry that many banks are currently afraid to enter. This is the area that scares western banks due to the possible presence of the ‘eastern risk’.

Besides, we are traditionally interested in both international trade and transport projects. For example, financing of goods in storage or in transit, international factoring or shipping financing.

***- What goals in the field of lending are set by Rietumu Bank for the immediate future?***

- To increase the good quality credit portfolio in the Baltic countries and to be open for new opportunities and new customers.

*Natalia Daine, journalist, exclusively for Dienas bizness*