



## Parex banka presentation

June 2010





**OPERATING ENVIRONMENT**



## Operating Environment

### Latvia: Signs of Stabilization are becoming more convincing

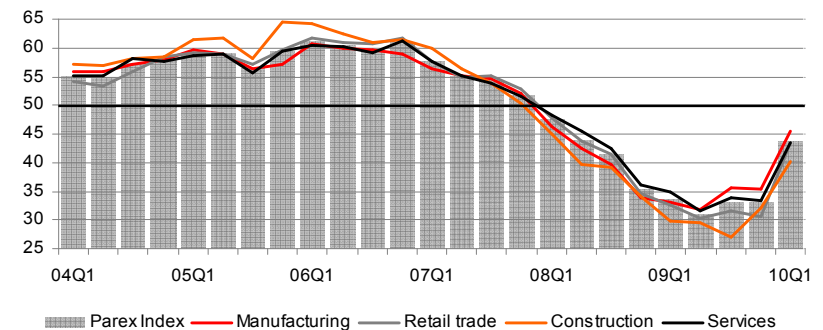
- Both Standard & Poor's and Moody's raised the country's credit rating outlook from negative to stable in the beginning of 2010:

"The outlook revision reflects our view of prospects for economic recovery in light of the shrinkage in external imbalances and the government's progress in stabilizing public finances. A significant decline in wages had resulted in a "meaningful depreciation" of the trade-weighted real effective exchange rate. This should restore competitiveness and enable net exports to drive a return to positive growth. This appraisal is very important to our foreign investors and to the whole of international society because it is an important signal which confirms what Latvia has achieved in overcoming its economic crisis." S&P credit analyst Frank Gill said in a statement.

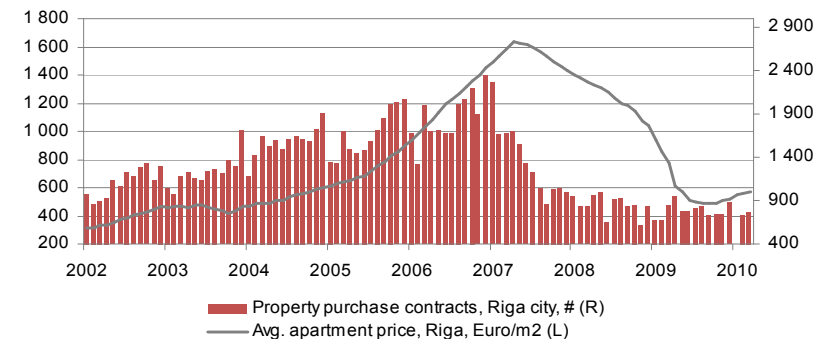
The change in outlook was prompted by the stabilisation of the economy and significant reduction in financial stress over the past six months. "The worst of the recession has passed, and the fledgling recovery should support the government's financial strength and the banking sector in future," says Kenneth Orchard, Vice-President/Senior Credit Officer in Moody's Sovereign Risk Group.

- The manufacturing industry, the real estate market and the banking sector have shown signs of improvement in recent months.
- The balance of trade improved; the current account remained in surplus.
- In 1Q 2010, the economy contracted at the slowest rate (-5.1% y-o-y, flash estimate) since the beginning of the recession and the economic growth is expected to resume in the second half of 2010.

#### Parex index



#### Real estate market indicators



## Operating Environment

### The Current Situation in Latvia: Losing Excesses

- Excesses of boom years has gone:
  - GDP at 2005-2006 level.
  - External position has become more balanced; current account surplus (8.8% of GDP in 2009) due to falling imports and growing exports.
- IMF and EC program - to cover gaps in budget and private external financing:
  - Stabilization of budget revenues makes it easier to project future cash flows.
  - No major disagreements between Latvian government and international lenders.

The consolidated budget deficit reached 6.8% of GDP. The budget deficit in both 2009 and the projected deficit for 2010 are abnormally large by historical standards of course, but seems appropriate considering how large the budget shortfalls of many other countries are around the world. What is even more important - Latvia has made significant progress in reigning in its deficit and it stands out as one of the few countries that aggressively lowered its expenses already in 2009.

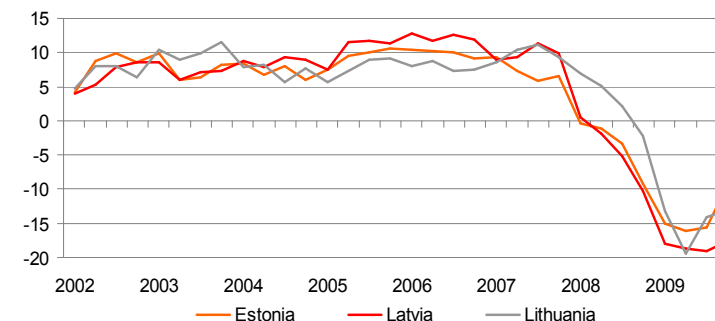
- Devaluation – speculations silenced:
  - Market volatility has been mostly fuelled by mass media.
  - Gradual “internal devaluation” makes an external devaluation less necessary and less likely.

“We don’t see a devaluation as an easy solution to the current problems. Debt would be much more difficult to service and there would be a need for huge recapitalization of the banking sector” said Edward Parker, Fitch head of Emerging Europe Sovereigns.

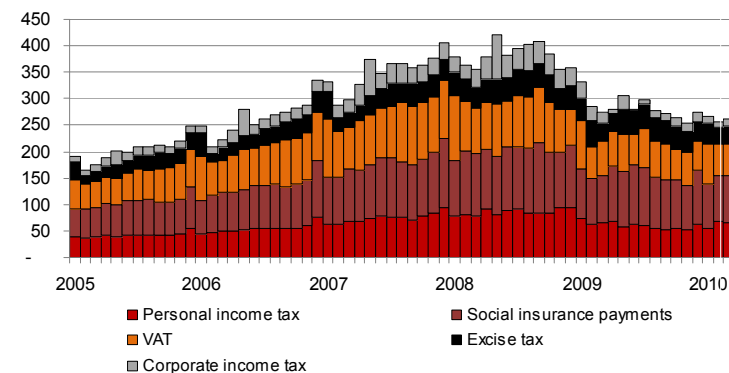
“Prime Minister Valdis Dombrovskis has cut wages and spending to bolster competitiveness and rebalance the economy, rather than achieving those goals by allowing the currency to move freely.” Reported by Bloomberg.

“Various financial market indicators, such as interbank interest rates, show that the potential risk of a disorderly devaluation has declined significantly” stated in the Moody’s Credit opinion in February 2010.

**GDP, % change y-o-y**



**Budget Revenue, from select sources (LVL mio)**



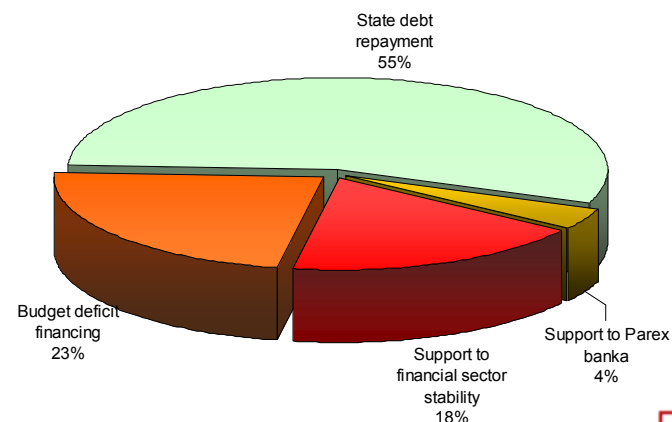
## Operating Environment International Financial Aid for Latvia

- The European Commission, the IMF, the World Bank, the EBRD and a number of European Union member states have agreed to provide a EUR 7.5 billion loan to Latvian state.
- EUR 4.0 billion of EUR 7.5 billion have been already disbursed.
- EUR 2.7 billion or 36% of total EUR 7.5 billion loan will be allocated for the financial sector stabilization.
- Cornerstones of financial aid programme:
  - Strict and stable monetary policy based on fixed exchange rate of the national currency to the euro.
  - Strict fiscal policy based on reduction of the general government consolidated budget deficit and expenditures balance.
  - Stabilization of financial sector.
  - Structural reforms by decreasing and restructuring human resources in public sector, thus making state administration more effective and efficient.

**Schedule for international financial aid, 2008-2011 (EUR mio)**

	2008	2009	2010	2011	Total
EC	-	2 200	700	200	<b>3 100</b>
IMF	600	200	500	400	<b>1 700</b>
Nordic countries	-	-	1 000	900	<b>1 900</b>
World Bank	-	200	200	-	<b>400</b>
EBRD, CZ, PL, EE	-	100	200	100	<b>400</b>
<b>Total</b>	<b>600</b>	<b>2 700</b>	<b>2 600</b>	<b>1 600</b>	<b>7 500</b>

**Expenditure of international financial aid for Latvia, as of 28 Feb 2010**



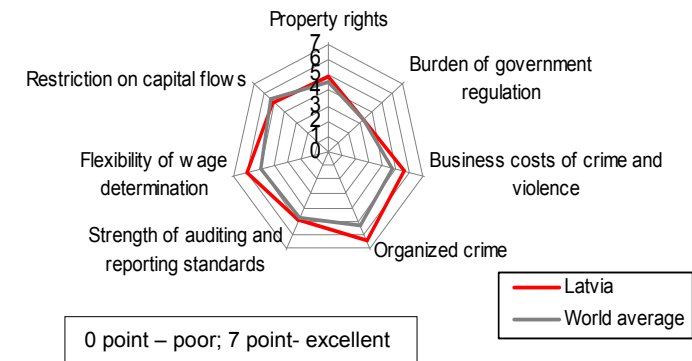
Total utilized: EUR 2 bln



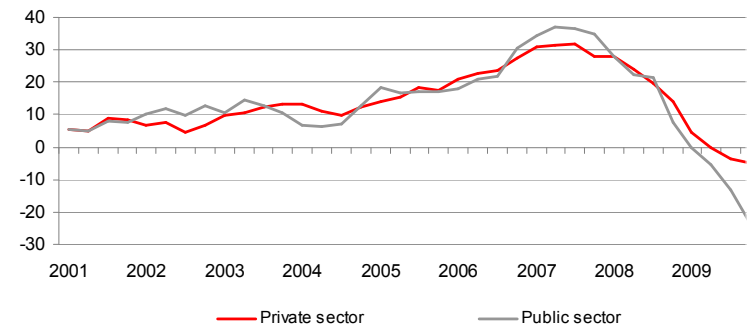
## Operating Environment The Future: Growth Drivers for Latvia

- Structural growth drivers:
  - Highly competitive business environment - well protected property rights, etc.
  - Benefits of the “internal devaluation” by means of lower labour costs and smaller, more efficient public sector.
  - Latvia’s geographic advantages are still intact, despite the crisis.
- Cyclical growth drivers:
  - Recovery of credit markets; future trends depend on Eurozone and the US market developments.
  - Increased activity of foreign investors – “decentralization of liquidity”.
- Latvia maintains its distinction as a financial intermediary:
  - Latvia has carved out a respectable position within Europe.
  - Will continue to benefit from servicing international trade and money flows.

### Selected Global Competitiveness Indices, 2009



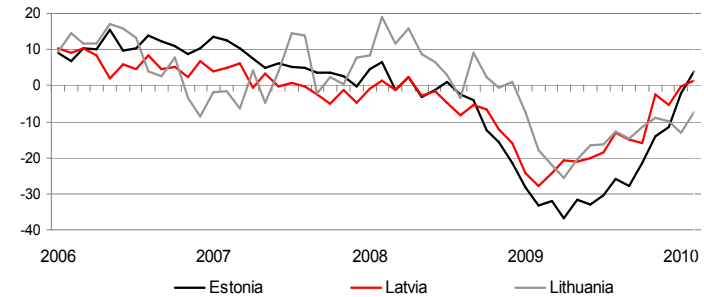
### Wages and Salaries, Gross, % change y-o-y



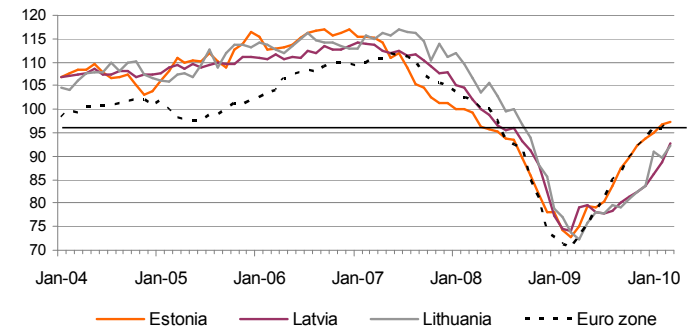
## Operating Environment Macroeconomic Picture - Baltics

- Three Baltic States experienced a sizeable contraction of their economies in 2009; however, GDP performance in 1Q 2010 outlined some distinctions:
  - Estonia: -2.3% y-o-y;
  - Latvia: -5.1% y-o-y;
  - Lithuania: -2.8 y-o-y.
- Industrial production in March 2010 (m-o-m):
  - Estonia: +3.8%;
  - Latvia: +9.9%;
  - Lithuania: -1.5%.
- Latvia continued exhibit deflationary tendencies while Estonia and Lithuania showed inflation trends in April 2010:
  - Estonia: +2.5%;
  - Latvia: -2.8%;
  - Lithuania: +0.2%.
- Economic sentiment continued to improve in March 2010 in all Baltic countries showing Estonia's trend closely to Eurozone.

**Manufacturing, % change y-o-y**



**Economic Sentiment Indicator**



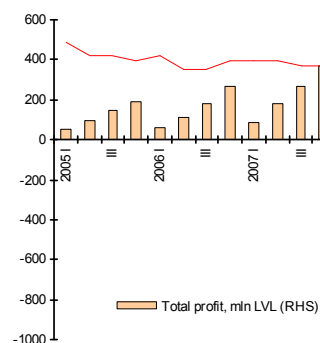
## Operating Environment Banking Sector in Latvia

- 21 banks and 10 branches of foreign banks with clear leadership of Scandinavian financial groups.
- Total banking assets: EUR 30.8 bln or 163% of GDP (31 December 2009).
- High market concentration: Top 3 banks account for 49% of the total assets (31 December 2009).
- High level of foreign ownership: 71% of the total paid-in share capital (31 March 2010).
- Regulatory market supervision by Financial and Capital Market Commission (FCMC) in full compliance with EU directives.

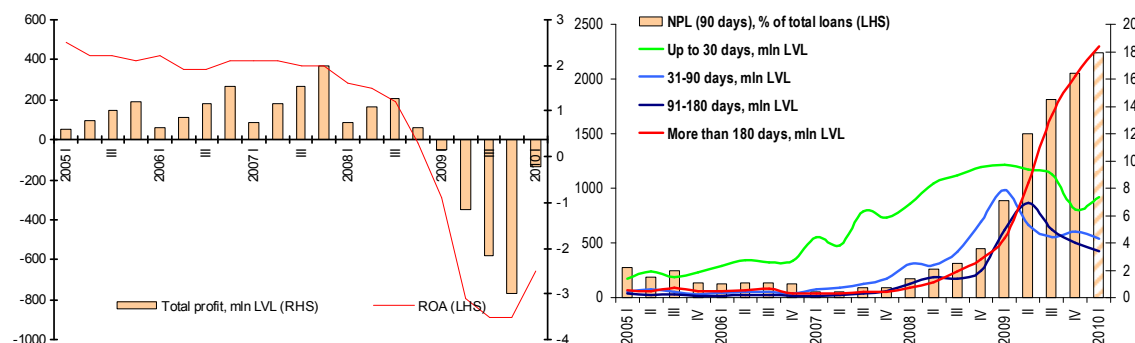
### Developments and forecasts

- 2009 was critical for Latvian banking sector due to the major global and domestic economic slump and financial turmoil.
- Expect to see stabilization in resident deposits in 2010 and moderate growth from 2011 to 2014.
- Stabilization in external (EU and CIS) macro environment and normalization in the Latvian banking sector should improve the dynamics in non-resident deposits.
- Funding from mother banks depends on stability in their home markets.
- Developments in European markets gives hope that situation could stabilize in 2010.
- Slow growth is expected in 2011-2014.

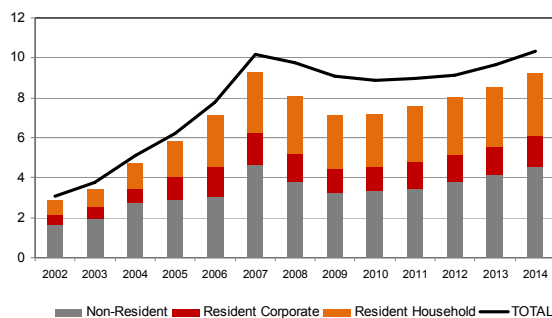
### Banking sector profitability



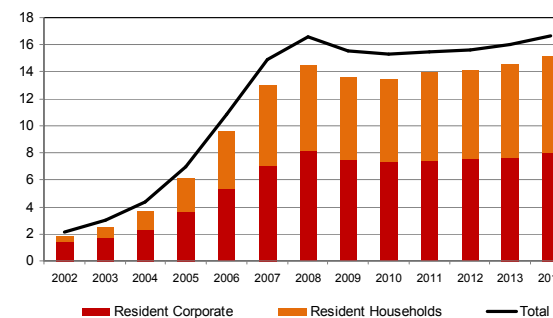
### NPLs



### Deposits, bln LVL



### Loans, bln LVL





**PAREX BANKA TODAY**



# Parex banka Today

## Parex banka – Significant Market Player

### Parex Group at a glance

- Established in 1992, Parex Bank along with its 35 subsidiaries is one of the leading financial services providers in the Baltic region.
- Full service financial organisation offering customers complete portfolio of banking, financial and wealth management services.
- The Group is represented in 12 countries with the strongest market position in its home country – Latvia.
- Around 100 branches in the Baltic Sea region.
- One of the top three players in every retails and corporate segment of banking business in Latvia.
- Solid customer base with more than 400,000 retail clients and over 30,000 corporates.
- Total assets - LVL 2.6 bln, as of 31 March 2010.

31 March 2010: Fitch Ratings - The current 'RD' rating reflects the deposit restrictions imposed on the bank, and may be upgraded on completion of the restructuring and the removal of the deposit restrictions.

31 March 2010: Moody's Investors Service has changed to developing from stable the outlook for Parex Bank's rating of B2. Moody's will reassess the ratings when more detailed financial information is available.

### Parex banka's international presence

	Banking	Leasing	Asset Management	Pension Fund Management	Life Insurance	Rep. office
Latvia						
Lithuania						
Estonia						
Germany						
Sweden						
Switzerland						
Russia						
Ukraine						
Belarus						
Moldova						
Azerbaijan						
Kazakhstan						

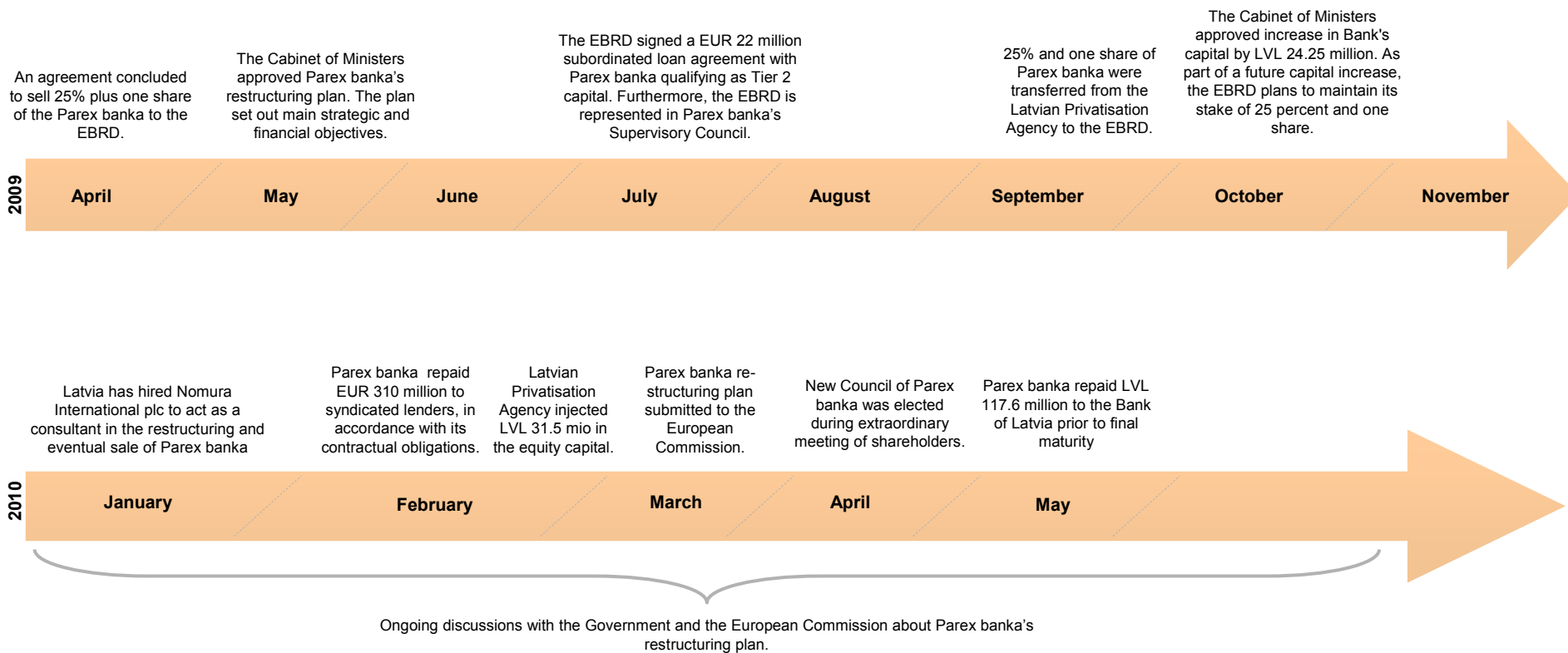
### Parex banka's credit ratings

Rating agencies	Pre – crisis ratings		Current ratings	
	Long – term	Short – term	Long – term	Short – term
Moody's	Baa3	P-3	B2	Not prime
Fitch	BB+	B	RD	RD



# Parex banka Today

## Summary of 2009 – 2010 Milestones



# Parex banka Today

## Management of the Bank

### Nils Melngailis

#### Chairman of the Management Board

- **Riga Capital; *President & Founder*** 2008
- **SIA Lattelecom; *CEO*** 2004-2008
- **IBM Consulting Services; *Partner*** 2002-2004
  - Led the IBM Business Intelligence practice in Europe, Middle East and Africa (EMEA) and had line management responsibility for Financial Management services in the Nordic region
  - Served on the management boards of the IBM Business Consulting services practice in the Nordic region and of the Global Business Intelligence management team
  - Global Strategic Mergers & Acquisitions team member
  - Led several EBRD, World Bank and EU PHARE - funded restructuring projects with a view to privatise or raise funds for future investment in Latvian enterprises
- **PriceWaterhouseCoopers; *Partner*** 1996-2002
- **Coopers & Lybrand; *Managing Partner*** 1992-1996

### Shareholders structure\*

Latvian Privatisation Agency	77%
EBRD	20%
Minority shareholders	3%

\*EBRD holds 25 percent plus one share of voting rights

### Management Board

Nils Melngailis	Chairman of the Management Board
Guntis Belavskis	Member of the Management Board
Valters Abele	Member of the Management Board
Vladimirs Ivanovs	Member of the Management Board

### Supervisory Council (elected 06 April 2010)

Juris Jakobsons	Chairman of the Supervisory Council
Klavs Vasks	Member of the Supervisory Council
Laurence Phillips Adams	Member of the Supervisory Council
Michael J. Bourke	Member of the Supervisory Council
Juris Vaskans	Member of the Supervisory Council



## Parex banka Today Market Share Dynamics

	Total assets	12/2008	12/2009	03/2010
1	Swedbank	19.8%	22.8%	21.3%
2	SEB	11.4%	13.6%	13.9%
<b>3</b>	<b>Parex banka</b>	<b>12.8%</b>	<b>12.7%</b>	<b>12.8%</b>
4	Nordea	8.7%	10.4%	10.3%
5	DnB NORD	7.4%	8.8%	8.8%
<b>Total top 5</b>		<b>60.1%</b>	<b>68.3%</b>	<b>67.1%</b>

	Deposits	12/2008	12/2009	03/2010
<b>1</b>	<b>Parex banka</b>	<b>16.3%</b>	<b>16.1%*</b>	<b>17.5%*</b>
2	Swedbank	13.4%	15.4%	15.4%
3	SEB	10.5%	11.7%	12.0%
4	Aizkraukles banka	6.1%	9.1%	9.8%
5	Rietumu banka	6.9%	7.8%	7.9%
<b>Total top 5</b>		<b>53.2%</b>	<b>60.1%</b>	<b>62.6%</b>

	Loans	12/2008	12/2009	03/2010
1	Swedbank	23.5%	24.9%	24.4%
2	SEB	13.1%	14.8%	14.5%
3	Nordea	11.5%	13.3%	13.5%
<b>4</b>	<b>Parex banka</b>	<b>9.5%</b>	<b>10.7%</b>	<b>10.7%</b>
5	DnB NORD	9.3%	10.5%	10.6%
<b>Total top 5</b>		<b>66.9%</b>	<b>74.2%</b>	<b>73.7%</b>

Since the early 90's Parex banka is one of the top players in the Latvian banking sector and now is

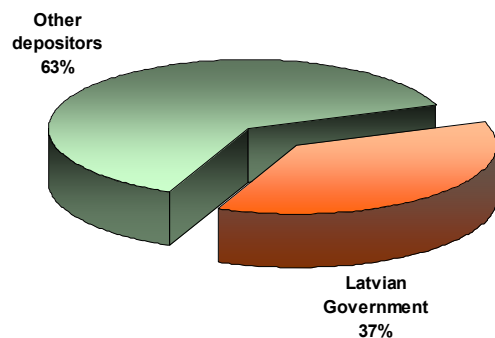
- 1st largest in terms of deposits.
- 3rd largest in terms of assets with 12.8% market share.
- 4th largest in terms of loans with 10.7% market share.

\* Including State Treasury Deposits

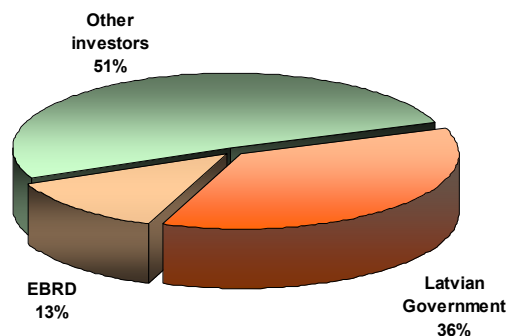


# Parex banka Today Latvian Government Support

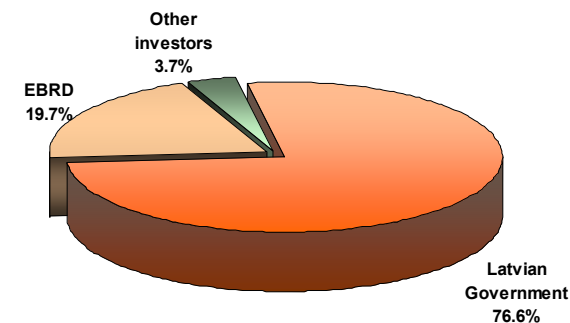
Group's deposit base, 31/03/2010



Group's subordinated liabilities, 31/03/2010



Bank's paid-in share capital, 31/03/2010



Strong commitment from the Government ensuring liquidity and capital level complying with regulatory requirements:

- Liquidity support:
  - Latvian State Treasury deposits (State support) of LVL 627 mio placed with Parex banka, as at 31 December 2009 (rolling over maturing deposits).
  - Additional EUR 145 mio term deposit placed with Parex banka by the State Treasury to repay the second installment of syndicated loans
- Subordinated debt:
  - In May 2009 the Privatisation Agency issued a subordinated loan amounting to EUR 71.5 mio
  - In September 2009, the Bank received a subordinated loan from EBRD amounting to EUR 18.4 mio.
- Recapitalizations:
  - In May 2009, LVL 140.8 mio share capital investment by the Latvian Government.
  - In October 2009, Latvian Government injected additional LVL 24.25 mio in the Bank's paid-in share capital.
  - In February 2010, Latvian Government approved an increase of LVL 31.5 million in the Bank's equity capital.

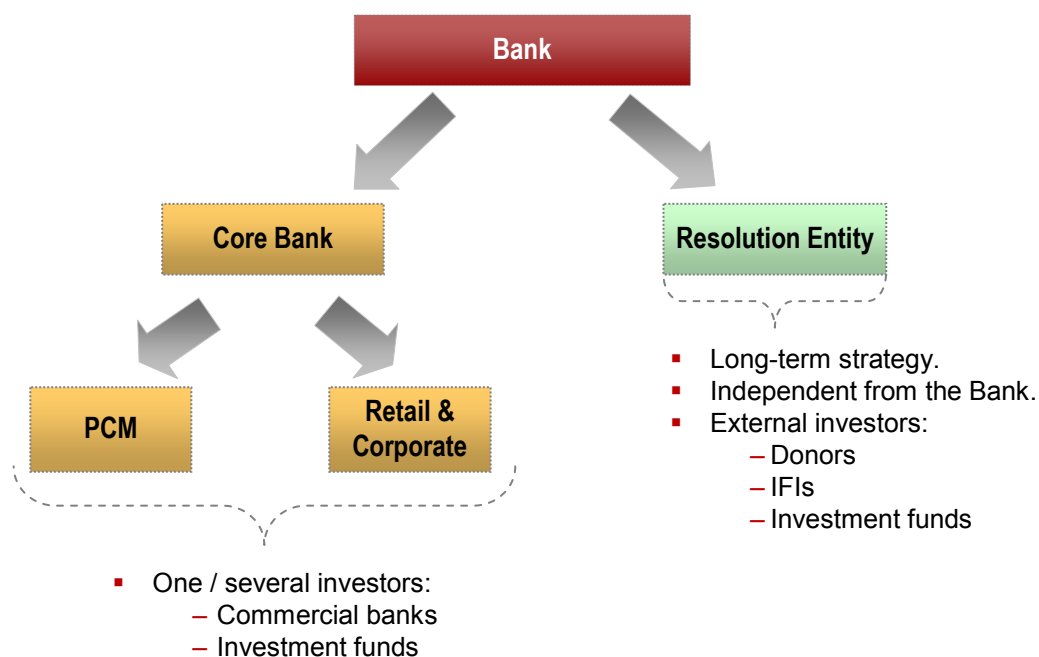


## Parex banka Today Restructuring Process is well underway

Over the past year the fundamentals of our business have been severely tested. To address these challenges, the new management is adjusting the Bank's strategies to focus on the key business priorities and create a sound business model.

### Key restructuring goals\*:

- Primary focus has been redefined: The new strategy which will be based on building strong Baltic operation across the three main business segments: Corporate, Retail and Wealth management.
- Separation of non-core and non-performing asset pool from the core business operations. Downsize the Bank and improve the efficiency of the core business.
- Investors attraction for each part of the restructured Bank.



## Parex banka Today

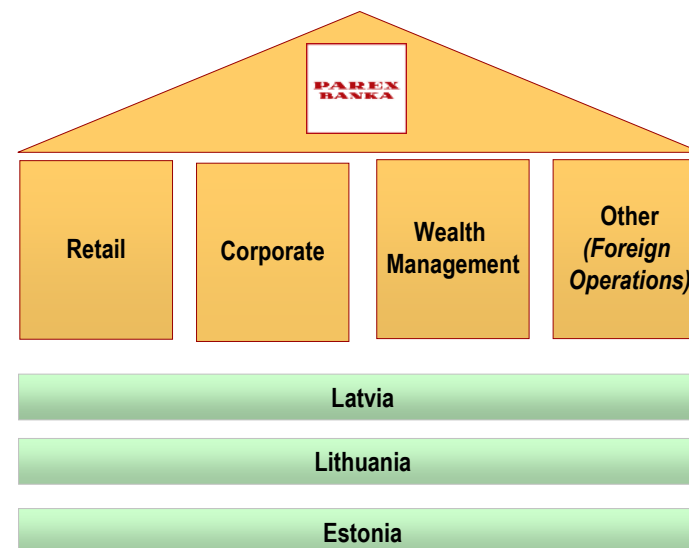
### Summary of the new Business Model

- The new management has initiated a significant restructuring project that involves refocusing on client service through newly defined Retail, Corporate and Private Capital management divisions, as well as centralisation and optimisation of the back – office functions.
- The risk and control environment throughout the Bank is strengthened by means of improved risk organization, capabilities and processes.

#### Core business strengths:

- Substantial market share in the Baltics. Well-established brand and franchise.
- Stable and diversified customer base (both residents and non-residents), including large and well-known companies.
- Professional management team which helped the Bank to regain the reputation of financially sound company, strong sales and credit analysis team.
- Transparent, best international practice risk management & corporate governance structure.
- The largest investment management company in the Baltics with around USD 700 mio assets under management. Focus on servicing HNWI for the Baltics and CIS. Built over the years investment expertise in emerging markets.
- In-house product offering – both traditional asset classes and alternative investments.
- Successful investment solutions in CEE, Baltics and CIS regions.

#### Segmentation of clientele under 3 main business units



## Parex banka Today Summary of the new Business Model: Retail Sector

### Short term goals

- Close control over re-gaining lost customer base.
- Implementation of new product portfolio, customer profile and operational guidelines.
- Close cooperation to maintain relationship with all key international partners (Amex, Mastercard, Visa).
- New risk management and NPL control functions to boost lending portfolio quality.
- Streamline organization to increase cost effectiveness of customer acquisition.



### Long term goals

- Increase commission income by providing best solutions at right price.
- Boost loan portfolio profitability, increase margins, tighten risk procedures. Continue close cooperation to maintain relationship with all key international partners (Amex, Mastercard, Visa).
- Provide banking services to new geographical areas with profitable solution.
- Increase presence in the Baltic States.



# Parex banka Today

## Summary of the new Business Model: Corporate Sector & Wealth Management

### Corporate Sector

### Wealth Management

#### Short term goals

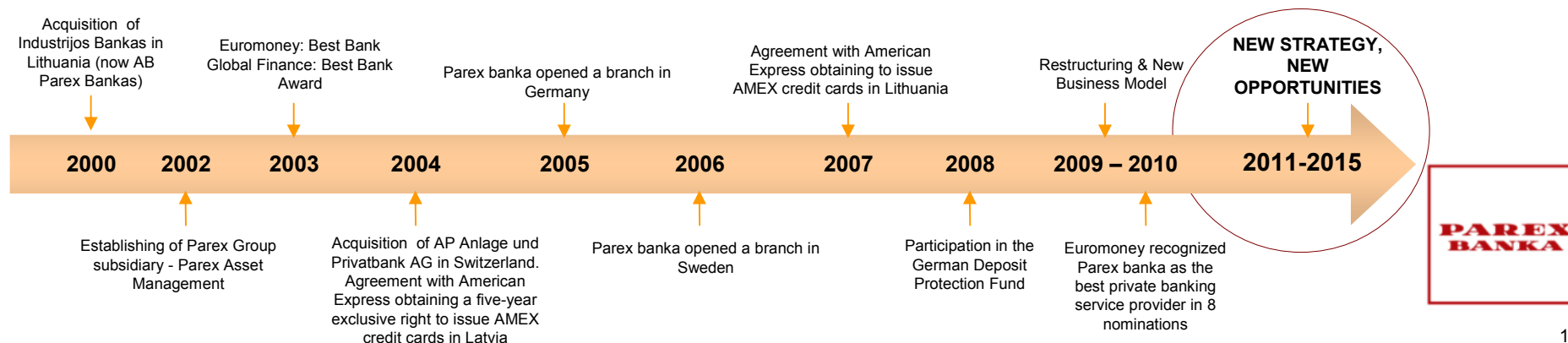
- Rebuild customer trust in Parex through targeted campaigns and regain the lost deposits/turnovers of largest institutional clients.
- Revamp existing suite of products / services to strengthen the fee earning capacity (i.e. Introducing new products – cash management).
- Utilisation of state support programs for SMEs.
- Establishment of the targeted asset recovery strategy and explore opportunities to discharge riskier CIS exposures.

- New organisation structure.
- Team integration & training.
- Re-establish client relationships.
- New product offerings.
- Internal / external motivation schemes.
- Operational efficiency.

#### Long term goals

- To become a TOP 3 bank in Latvia and influential player in Baltics in corporate banking services.
- To support our home customer business abroad in region and in European part of CIS countries keeping balanced risk position.
- To be the best banking choice for medium size customer in Latvia.

- Achieve target market share in each geography and enhance product quality.
- Establish new IT infrastructure.
- Build leadership in deposits collection.
- Maximise profits / optimise fee streams.





**FINANCIAL PERFORMANCE**



## Financial Performance Summary of 1Q 2010 results

<b>Net operating income</b>	<ul style="list-style-type: none"> <li>▪ Fell by <b>84% YoY to LVL 4.2 million</b></li> <li>▪ Decrease in interest income as a result of portfolio repricing and unavailability of cheap funding from parent as compared to Nordic competitors causing pressure on net interest margin</li> <li>▪ Decline in net commission and fee income due to decrease in business volumes</li> <li>▪ Deterioration in asset quality due to the strained macroeconomic conditions both on domestic and global scale</li> </ul>
<b>Administrative expenses</b>	<ul style="list-style-type: none"> <li>▪ Fell by <b>33% YoY to LVL14.5 million</b> due to reorganization of Parex banka and cost cutting programme implementation</li> </ul>
<b>Provisioning</b>	<ul style="list-style-type: none"> <li>▪ Net impairment charges of <b>LVL –20.8 million</b> due to economic downturn in the Baltic States and prudent provisioning policy</li> </ul>
<b>Consolidated net loss</b>	<ul style="list-style-type: none"> <li>▪ Net loss for the reporting period of <b>LVL30.8 million</b></li> </ul>
<b>Capitalization</b>	<ul style="list-style-type: none"> <li>▪ <b>LVL 31.5 million</b> was injected in the Bank's share capital in February 2010</li> </ul>
<b>Deposit base</b>	<ul style="list-style-type: none"> <li>▪ Increase in customer deposits</li> <li>▪ In February 2010, State Treasury placed EUR 145 million term deposit with Parex banka</li> </ul>



## Financial Performance Parex Group Balance Sheet

<b>LVL '000</b>	<b>Unaudited 31.03.2010.</b>	<b>Audited 31.12.2009.</b>	<b>31Mar10 vs 31Dec09 (%)</b>
<b>ASSETS</b>			
Cash and deposits with central banks	240 786	157 502	52.9%
Balances due from credit institutions	190 505	220 836	(13.7%)
Loans to companies and private individuals	1 621 306	1 660 368	(2.4%)
Securities held for trading	5 411	7 535	(28.2%)
Available-for-sale securities	104 441	114 349	(8.7%)
Held-to-maturity securities	287 006	299 371	(4.1%)
Investments in subsidiaries	-	-	
Other assets	137 102	136 936	0.1%
<b>TOTAL ASSETS</b>	<b>2 586 557</b>	<b>2 596 897</b>	<b>(0.4%)</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Due to credit institutions and central banks	304 487	552 466	(44.9%)
Customer deposits	1 908 039	1 687 849	13.0%
Issued debt securities	104 963	90 551	15.9%
Other liabilities	22 787	23 132	(1.5%)
Subordinated liabilities	104 043	103 949	0.1%
Shareholders equity	142 238	138 950	2.4%
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>2 586 557</b>	<b>2 596 897</b>	<b>(0.4%)</b>

### Assets

- Diversified by asset class, geography, customer type, currency, etc.
- Interest earnings from issued loans, fixed income securities, interbank placements.
- Loan portfolio:
  - composed of domestic lending (corporate loans, mortgages, consumes finance, credit cards, auto finance, etc) and international lending for diversification purposes (mostly extended to CIS clients).
  - quality of the loan portfolio is affected by the major economic crisis.
- Securities portfolio:
  - free from subprime and other toxic exposures.

### Liabilities

- Loans from credit institutions include outstanding syndicated loans EUR 232.5 mio after second installment made in February 2010).
- Customer deposits include State Treasury deposits (Latvian government liquidity support).
- Eurobonds due 5 May 2011.
- Includes subordinated debt from Latvian government, EBRD and external investors.

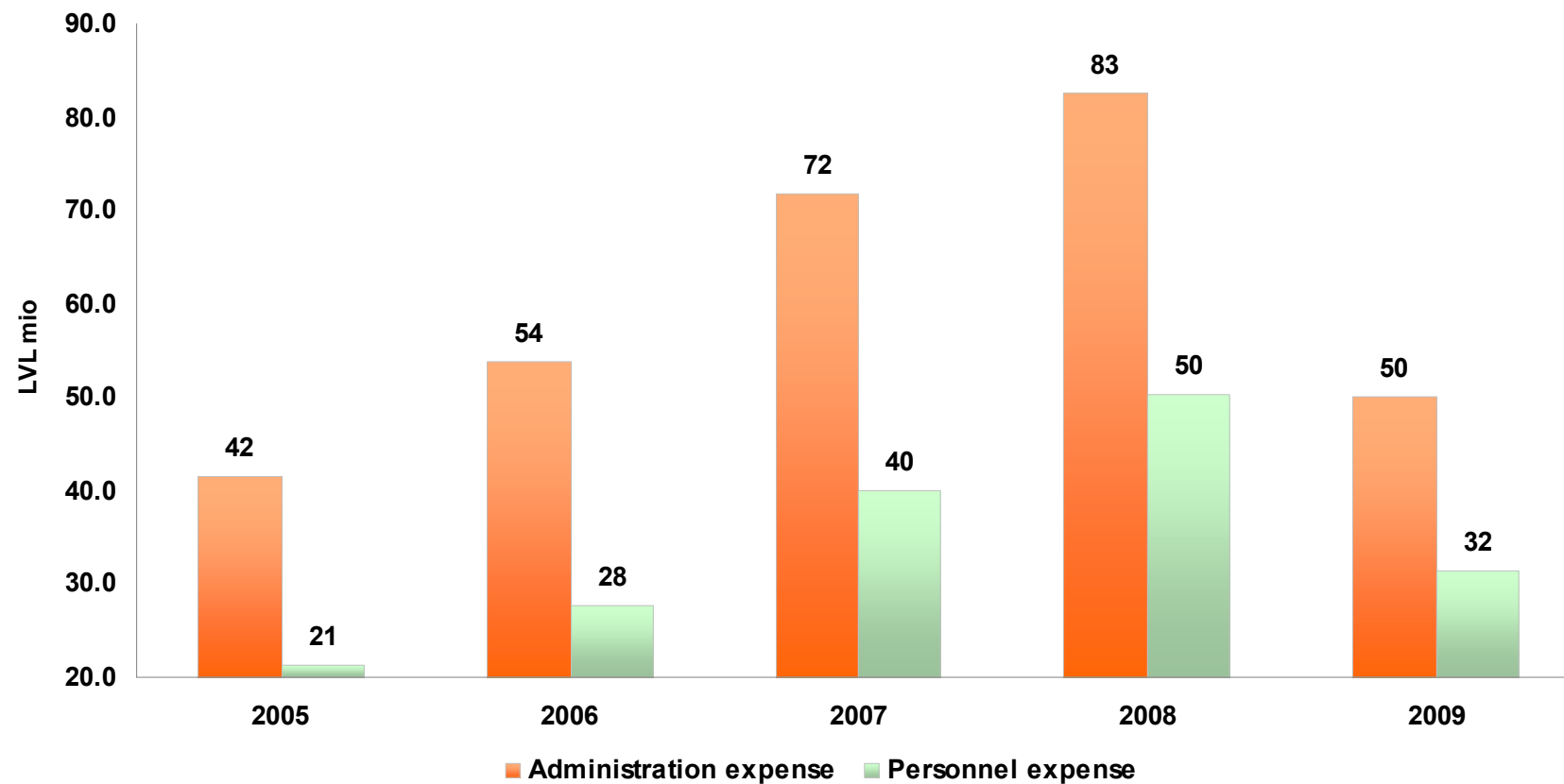


## Financial Performance Parex Group Income Statement

<i>LVL'000</i>	Unaudited 3m 2010	Unaudited 3m 2009	3m 2010 vs. 3m 2009 (%)
Interest income	26 551	56 830	(53.3%)
Interest expense	(30 302)	(41 334)	(26.7%)
<b>Net interest income</b>	<b>(3 751)</b>	<b>15 496</b>	<b>(124.2%)</b>
Commission and fee income	6 423	7 536	(14.8%)
Commission and fee expense	(1 832)	(2 189)	(16.3%)
<b>Net commission and fee income</b>	<b>4 591</b>	<b>5 347</b>	<b>(14.1%)</b>
(Loss)/ gain on transactions with financial instruments, net	629	1 359	(53.7%)
Other operating income	2 698	3 876	(30.4%)
<b>Net operating income</b>	<b>4 167</b>	<b>26 078</b>	<b>(84.0%)</b>
Administrative expense	(14 536)	(21 611)	(32.7%)
Depreciation and amortisation expense	(2 399)	(2 597)	(7.6%)
Other operating expense	(149)	(237)	(37.1%)
Impairment charges and reversals, net	(20 844)	(12 108)	72.2%
<b>Operating (loss)/ profit before taxation</b>	<b>(33 761)</b>	<b>(10 475)</b>	<b>222.3%</b>
Corporate income tax	2 973	(455)	(753.4%)
<b>Net (loss)/ profit for the period</b>	<b>(30 788)</b>	<b>(10 930)</b>	<b>181.7%</b>



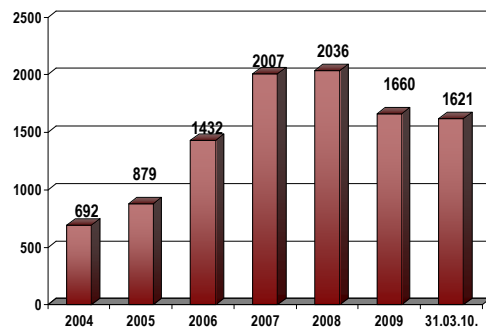
## Financial Performance Parex banka's Administrative Expense Optimisation



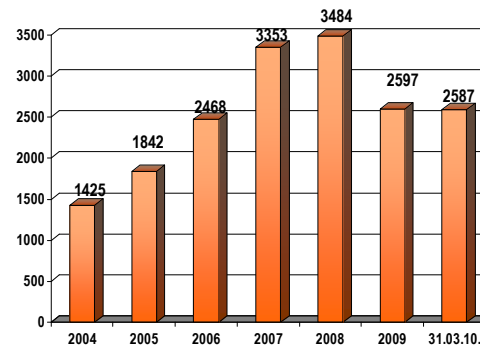
# Financial Performance

## Parex Group Growth Dynamics

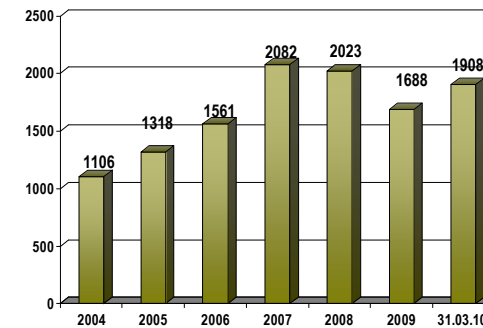
Loans (LVL mio)



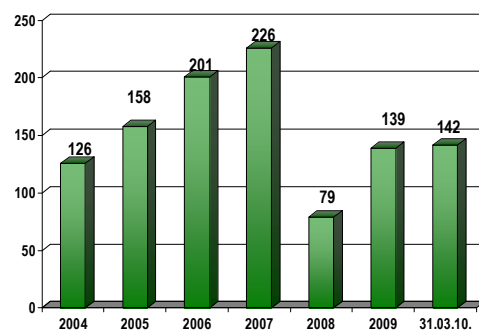
Assets (LVL mio)



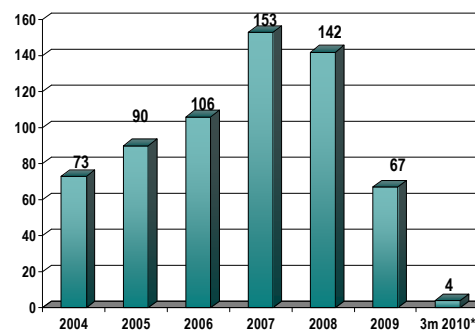
Deposits (LVL mio)



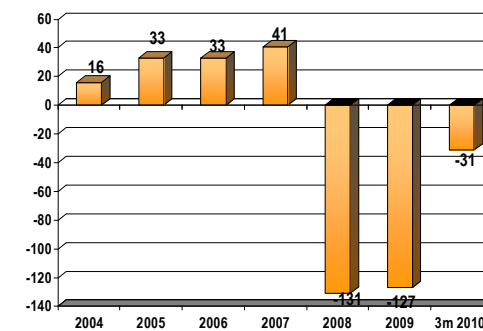
Shareholders' equity (LVL mio)



Net operating income (LVL mio)



Net profit (LVL mio)



**Thank you!**

**PAREX BANKA**

**2a Republikas Square**

**Riga, Latvia LV-1522**

**Phone +371 6 777 8585**

**Fax +371 6 777 8569**

**e-mail: [international.relations@parex.lv](mailto:international.relations@parex.lv)**

**[www.parexgroup.com](http://www.parexgroup.com)**

